



## Finance and Administration Committee

# Agenda Item 5d

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**April 19, 2021**

**Item Name:** Semi-Annual Health Plan Financial Report

**Program:** Health Policy and Benefits Branch

**Item Type:** Information-Consent

### **Executive Summary**

This report provides the Committee with an update on the financial status for the six California Public Employees' Retirement System (CalPERS) self-funded Preferred Provider Organization (PPO) health plans and the nine flex-funded Health Maintenance Organization (HMO) health plans as of December 31, 2020.

### **Strategic Plan**

This agenda item supports the CalPERS 2017-2022 Strategic Goal: "High Quality Affordable Health Care; Improve health care quality, cost and affordability."

### **Background**

CalPERS has been self-funding PPO Basic and Medicare Supplemental plans since 1987. Each self-funded PPO plan is managed in a separate subaccount under the Health Care Fund (HCF) to deposit premiums, pay claims and other expenses, and maintain prudent levels of reserves.

Starting in 2014, CalPERS began flex-funding most of its HMO Basic plans. Flex-funding is an arrangement with a health plan wherein the contracted health plan pays the capitated portion of the health care services and CalPERS pays the fee-for-service portion of the health care services. These arrangements reduce the tax liability on the health plan product and allow CalPERS to retain in its accounts a portion of the funding allocated for health care services. If fee-for-service expenses come in lower than anticipated, CalPERS retains that funding in its Health Care Fund. The flex-funded HMO plans also have subaccounts within the Health Care Fund to deposit the fee-for-service portion of premiums and pay claims and other expenses.

In September 2018, CalPERS implemented a revised HCF reserve policy. This policy provides the CalPERS Team with a framework with which to review the appropriateness of the PPO reserve level and with a methodology for managing surpluses or deficits in the PPO

subaccounts. The policy also addresses any surpluses or deficits that may accumulate in the HMO subaccounts.

As part of the monitoring and reporting process, CalPERS reports the Health Care Fund's account balances, the PPO plans' actuarial reserve amounts, and any surpluses or deficits for each health plan's subaccount to the Finance and Administration Committee semi-annually. The three plans that are fully insured, Kaiser Basic, Kaiser Medicare Advantage, and UnitedHealthcare Medicare Advantage, as well as the three Association plans, California Association of Highway Patrolmen (CAHP), California Correctional Peace Officers Association (CCPOA), and Peace Officer Research Association of California (PORAC) are not included in this report.

## **Analysis**

### PPO Plans

Attachment 1 summarizes the PPO financial status for calendar years 2018, 2019 and 2020:

- The "Total Revenues vs. Total Expenses" graphs illustrate the financial performance of the total PPO program and for each PPO plan subaccount by showing fund inflows and outflows. Total revenues include premiums, outpatient prescription drug (Rx) rebates, Federal Employer Group Waiver Plan (EGWP) subsidies, and investment income. Total expenses include medical and Rx fee-for-service claims payments, third-party administrator fees, and other administrative expenses. PPO plan medical costs are paid entirely on a fee-for-service basis.

Incurred fee-for-service claims for calendar year 2020 came in lower-than-expected for the PPO Basic and Medicare plans mainly due to care deferral caused by the COVID-19 pandemic. The PPO Basic plans realized a small savings on medical claims, but pharmacy claims came in higher-than-expected and nearly negated these savings. The PPO Medicare plans saw notable savings on both medical and pharmacy costs.

- The "Fund Balance vs. Actuarial Reserves" graphs represent the subaccount balances and the actuarially prudent levels of reserves at the end of each period. The actuarial reserves for the PPO plans consist of Medical and Rx Incurred-But-Not-Reported (IBNR) Claim Liability, Continuity of Care Liability, Administrative Liability, and Risk-Based Capital (RBC) components.

The total PPO projected fund balance was \$590.9 million as of December 31, 2020 and the actuarial reserves were \$554.3 million. Overall, the self-funded PPO program has a surplus of \$36.6 million, or a fund balance-to-actuarial reserves ratio of 106.6 percent. These are estimated figures that account for funds encumbered for spend-downs to reduce 2021 premiums for all Basic and Medicare PPO plans.

### HMO Plans

CalPERS flex-funds most of its HMO health plans. As of December 31, 2020, there were nine flex-funded HMO basic plans including Anthem Select and Traditional HMO, Blue Shield Access

Plus and Trio, Health Net Salud y Más and SmartCare, Sharp, UnitedHealthcare, and Western Health Advantage.

Flex-funded HMO plan medical costs are paid on both capitation<sup>1</sup> and fee-for-service bases. CalPERS reimburses the flex-funded HMO plans for the actual capitation amounts that the plans pay to their contracted capitated health care providers. Once CalPERS remits the capitation amounts to the plans from the Contingency Reserve Fund (CRF), the remainder of the premium is deposited into the HCF. These funds are used to pay third-party administrative service fees, CalPERS internal administrative expenses, and medical and Rx fee-for-service claims, as well as Affordable Care Act Taxes and Fees when the plan submits an invoice to CalPERS for reimbursement.

Attachment 2 summarizes the financial status for the flex-funded HMO plans for calendar years 2018, 2019 and 2020:

- The “Total Revenues vs. Total Expenses” graphs represent the financial performance of the total HMO program and for each HMO subaccount by showing fund inflows and outflows. Total revenues include premiums, Rx rebates, and investment income. Total expenses include medical and Rx fee-for-service claims payments, medical capitation payments, third party administrator fees and other administrative expenses. Although capitation payments are handled and remitted through the CRF, the capitation figures are included in both revenues and expenses of the HCF to more accurately reflect the total costs of the HMO plans.

Incurred fee-for-service medical claims for calendar year 2020 came in lower-than-expected for the HMO Basic plans mainly due to care deferral caused by the COVID-19 pandemic, but pharmacy claims came in higher-than-expected and negated some of these savings. COVID-19 had a negligible impact on capitation payments.

The “Fund Balance vs. Estimated Claims Liabilities graphs show the account balances and any surpluses or deficits as of the end of 2018, 2019 and 2020. The total flex-funded HMO projected fund balance was \$215.7 million as of December 31, 2020, and the projected claims liabilities were \$137.9 million, leaving a surplus of \$77.8 million. These are estimated figures that account for expenses related to the closures of the 2014-2018 contracts, as well as spend-downs to reduce 2021 premiums for Anthem Traditional HMO, Blue Shield Access Plus, Health Net SmartCare, and UnitedHealthcare.

## **Budget and Fiscal Impacts**

This item serves as a preliminary analysis. Any budget or fiscal impact this item may have on future health plan premiums will be addressed during CalPERS annual Rate Development Process (RDP) that generally occurs from January through July and is overseen by the Pension and Health Benefits Committee.

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<sup>1</sup> Capitation is a payment arrangement with health care service providers such as physicians or medical groups, etc., and is a set amount per person per month that is paid to cover the risk for a defined set of health care services, whether those services are provided or not.

## **Benefits and Risks**

### **Benefits**

- These semi-annual reports provide better insight of the financial performance and status of the CalPERS PPO and HMO health program.

### **Risks**

- The projected dollar amounts may change due to other factors like account adjustments, timing issues and the change in overall members' health experience.

## **Attachments**

Attachment 1 – Key graphical analyses of financial and historical data for the PPO plans.

Attachment 2 – Key graphical analyses of financial and historical data for the HMO plans.

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