



Date: August 17, 2009

Memorandum

California Public Employees' Retirement System

To: California Congressional Delegation

From: ROB FECKNER
President
Board of Administration

ANNE STAUSBOLL
Chief Executive Officer

Subject: NATIONAL HEALTH CARE REFORM

We are writing to you on behalf of the California Public Employees' Retirement System (CalPERS) and our more than 1.6 million public employees and their families.

CalPERS is staunchly committed to supporting health care reforms that will provide high quality, affordable, sustainable health coverage for all Americans. We believe there are systemic health care issues that require national attention and there will be a huge cost to inaction at this critical point in our nation. The status quo is an untenable policy choice. Without reform this year, we will not be able to sustain our health care system.

CalPERS, the second largest public purchaser of health benefits in the nation after the federal government, will spend more than \$5.8 billion this year on health benefits for more than 1.3 million active and retired state and local government employees and their family members. Like other large purchasers, we have experienced the crush of soaring health care costs, which have had an amplified impact on our members because of the current economic recession. Since 2003, CalPERS members have seen premiums rise over 60% in part due to the growing number of uninsured, which results in cost-shifts to all health care purchasers.

CalPERS applauds the historic effort that has already seen legislation endorsed by committees in both the House and Senate. We support provisions in *America's Affordable Health Choices Act of 2009* (H.R. 3200) which would improve value, constrain costs and ensure access to affordable coverage for all Americans. These are provisions that align with our own Federal Health Policy Priorities and issues that we have tackled in recent years in our own health care program. Our priorities, outlined below along with some of our initiatives, are based on our commitment to supporting reforms that will guarantee affordable, high-quality, health care services to all citizens.

National health care reform should make health care more affordable for all Americans.

CalPERS supports continuing traditional employer-based health coverage and expanding coverage for every American; stabilizing health premiums by preventing and managing catastrophic illnesses and subsidizing their costs; protecting Americans from medical bankruptcies; and creating affordable and accessible long-term care coverage.

National health care reform should include innovative proposals to constrain costs, increase value and improve quality and efficiency in the health care system.

CalPERS supports building on the current investment in Health Information Technology to improve care, prevent medical errors and eliminate duplication of services; developing health and medical information based on comparative research which consumers can use to make informed decisions; promoting transparency regarding the financing and operation of health care plans and service providers; implementing an evidence-based health care delivery system; and prevention and wellness.

National health care reform should contain the growth of prescription drug costs.

CalPERS supports creating sustainable e-Prescribing systems; limiting misleading pharmaceutical marketing practices while allowing for a competitive marketplace; allowing the Centers for Medicare & Medicaid Services to negotiate directly with pharmaceutical manufacturers for prescription drug discounts; and continuing Medicare Part D funding which recognizes the employers' commitment to provide prescription coverage for retirees.

CalPERS also strongly supports a federal approval process of biogeneric prescription-drugs. Our members' prescription costs are more than \$1.15 billion annually, which constitutes over 17 percent of the \$5.8 billion spent on health benefits for CalPERS members. At least 10 percent of our prescription costs are for specialty drugs. As of 2008, the CalPERS average daily cost of a specialty drug was over 17 times the cost of a brand drug, and 112 times the cost of a generic drug. The high cost of specialty drugs – primarily biopharmaceuticals – coupled with a lack of competition in today's marketplace presents an unsustainable challenge to CalPERS and our entire health care system.

We can attest to the potential for savings and efficiency that will be realized nationally from our own work towards controlling costs while maintaining quality of care. For example, in 2008, CalPERS partnered with Blue Shield of California and Anthem Blue Cross to develop provider networks featuring higher-efficiency physicians. This resulted in two new CalPERS health plans - PERS Select (Anthem Blue Cross) and Blue Shield Net Value (Blue Shield). Participating physicians are selected based on efficient practice patterns which achieve cost savings. Practice patterns are reviewed using broadly accepted standards to assure there is no reduction in quality. The health premiums for these plans are lower than those of other health plans offered by CalPERS.

In June 2007, CalPERS waived copayments for preventive care office visits in order to encourage regular health screenings and immunizations. CalPERS monitors screening rates to identify where we fall short compared to national standards, so we know which rates merit improvement as well as increased member awareness. CalPERS health plan benefits also include chronic-disease management, and a recent analysis showed that

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many CalPERS members with asthma and coronary artery disease are managing their disease effectively and cost-efficiently through this initiative. These strategic decisions have resulted in better care for our members at reduced cost.

We thank you for your leadership on this critical matter, and look forward to continuing to share our expertise during the coming months. If we may be helpful, please feel free to contact either of us directly or by contacting Tom Lussier (tlussier@lqva.net) or Sharon Pollard (spollard@lqva.net) of Lussier, Gregor, Vienna & Associates, our Washington representatives at (703) 684-5236.

cc: CalPERS Board of Administration