



Agenda Item 6

September 11, 2012

ITEM NAME: Proposed Regulations: Risk Adjustment for Healthcare Premiums

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Subject to Assembly Bill (AB) 2142 being enacted into law, approve staff's recommendation to pursue proposed regulations that permit the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) to implement risk adjustment procedures in order to adjust health plan payments in relation to risk adjustment.

EXECUTIVE SUMMARY

Staff is recommending approval to pursue proposed regulations that authorize the Board to implement risk adjustment procedures across plans. Risk adjustment is an actuarial tool used to calibrate payments to health plans based on the relative health of members. Risk adjustment has proven to be effective in many programs including Medicare Advantage (MA) and Medicare prescription drug programs, Medicaid programs, University of California, other governmental programs, and some private plans.

CalPERS research indicates that investing in more active management of chronic conditions will improve member health. A plan with effective programs to manage high-risk enrollees would attract more ailing members. Implementing risk adjustment would help CalPERS compensate plans more fairly for effective programs that treat these members.

BACKGROUND

In January 2011, the Board endorsed the Health Benefits Purchasing Review (HBPR) project to develop three to five year strategies and initiatives to ensure the continuation of program sustainability. In January 2012, CalPERS staff presented to the Board a list of strategies and 21 initiatives which included risk adjustment. The Board supported each of these initiatives and directed staff to move forward with further exploration.

In March 2012, staff obtained Board approval to develop legislative options for two strategic bundles to improve health outcomes and deliver sustainable programs.

Staff worked with Assembly Member Furutani, following the Board's direction, and AB 2142 was amended on March 29, 2012, to authorize CalPERS to pursue legislative changes to allow the Board to implement risk adjustment across plans and to calibrate payments. The Assembly concurred with Senate amendments and the bill was enrolled on August 29, 2012.

ANALYSIS

The Board administers the Public Employees' Medical and Hospital Care Act (PEMHCA), which provides health benefits for the State of California and for more than 1,100 local and governmental agency and school employers. With over 1.3 million participants at an annual cost of nearly \$7 billion, risk adjustment is an advantageous tool that could be utilized by CalPERS. Risk adjustment also encourages CalPERS health plan providers to compete on the basis of medical and administrative efficiency and quality of care rather than on their ability to select risk.

Risk adjustment is the process of calibrating health plan payments to reflect the health status of members. Risk adjustment is a two-step process:

- Risk assessment- measuring the risk (represented by predicted overall claim dollars) of each person in a group relative to the risk.
- Premium/payment adjustment- modifying premiums/payments to reflect differences in risk.

This actuarial tool has the potential to contain costs as it encourages members to select the most cost-efficient and effective plans. Risk adjustment also helps maintain member choice from among multiple health plans based on premiums that reflect plan design differences and relative efficiencies. Since payments to plans are based on the relative differences in the health risk characteristics of people enrolled in each plan, plans are paid fairly for the relative risks they assume.

Pending State Statutes

As of August 31, 2012, AB 2142 was in Enrollment and is expected to be sent to the Governor for his consideration. This bill would amend Government Code (GC) § 22850 by adding a new paragraph (3) to subdivision (f). This provision would grant the Board the authority to implement and administer risk adjustment procedures consistent with GC § 22864 requiring health benefit plans to calibrate payments and authorize the system to redistribute premiums based on rules and regulations established by the Board for this purpose.

Current State Statutes

GC § 22794 states the Board shall have all powers reasonably necessary to carry out the authority and responsibilities expressly granted or imposed upon it under PEMHCA.

GC § 22796, subdivision (a), paragraph (2), states that among other things, the Board, pursuant to the Administrative Procedure Act, shall adopt all necessary rules and regulations to carry out the provisions of PEMHCA.

Current State Regulations

California Code of Regulations (CCR) Title 2, § 599.500, provides the “Definitions” of terms defined by PEMHCA. This section defines terms pertinent to health benefits plans.

CCR, Title 2, § 599.508, provides the “Minimum Standards for Health Benefit Plans.” This section outlines the minimum requirements a health benefits plan must meet in order to be approved or adopted by the Board.

Proposed Regulations

Addition of Proposed Title 2, CCR § 599.500, Subdivision (x)

The proposed regulation would add § 599.500, subdivision (x), to the CCR to define the meaning of “Risk Adjustment” as an actuarial tool used to calibrate premiums paid to health benefits plans or carriers based on geographical cost differences and health risk characteristics of all members. The subdivision would also clarify how risk adjustment establishes premiums for all members.

Addition of Proposed Title 2 CCR § 599.500, Subdivision (y)

The proposed regulation would add § 599.500, subdivision (y), to the CCR to define the meaning of “Risk Assessment” as an objective determination of whether a member or group of members’ health risk represents a health risk reasonably close to the population average, and if not, quantifies how far apart the member’s or members’ health risk is from the population average.

Addition of Proposed Title 2 CCR § 599.500, Subdivision (z)

The proposed regulation would add § 599.500, subdivision (z), to the CCR to define the meaning of “Risk Adjusted Premium” as the actuarially calculated premium utilizing risk adjustment.

Amendment to Title 2 CCR § 599.508, Subdivision (a), Paragraph (7)

The proposed amendment would amend § 599.508, subdivision (a), paragraph (7), of the CCR to describe CalPERS risk adjustment procedures.

This subdivision would require all CalPERS health benefits plans to participate in the risk adjustment procedures. CalPERS would notify plans annually of what risk assessment method will be used and provide summary information upon which, the risk assessment will be based. This subdivision would allow each plan to validate

what it receives from CalPERS regarding enrollment counts, geographic distribution, and risk scores pursuant to the annual risk assessment method used. These regulations would require the annual premiums adopted by the Board for the next plan year to be risk adjusted using the risk assessment method selected.

The risk adjusted premiums approved by the Board for the next plan year will be subject to a calculation prior to the beginning of the plan year. This calculation could result in requiring plans to reimburse CalPERS at the beginning of the plan year and each month thereafter. Any reimbursements would be deposited into an account established pursuant to GC § 22911, within specified timeframes. It is also possible that this calculation could result in CalPERS having to reimburse a plan after the beginning of the plan year and each month thereafter. These reimbursements would be paid from the funds of plans required to reimburse CalPERS, within specified timeframes.

During the plan year, a plan's enrollment and risk scores of members would be measured to see if its risk adjusted premium needs to be re-calculated. This provision would also specify re-calculation could result in plan reimbursements to CalPERS or reimbursements from CalPERS to health care plans. In the event that a plan has to reimburse CalPERS, any reimbursements would be deposited into an account established pursuant to GC § 22911, within specified timeframes. In the event that CalPERS has to reimburse a plan, the reimbursements would be paid from the funds of plans required to reimburse CalPERS, within specified timeframes.

Once all re-calculations are completed, a final reconciliation would be performed in the subsequent plan year and could result in additional reimbursements, which would be subject to the aforementioned reimbursement processes.

This regulation would specify risk adjustment of premiums would begin in 2013 for the 2014 plan year.

Amendments to Title 2 CCR § 599.508, Subdivision (a), Paragraphs (8) through (10)
These are technical amendments for renumbering purposes to move current paragraph (7) through (9) to paragraphs (8) through (10).

BENEFITS/RISKS

Potential benefits associated with the implementation of risk adjustment:

- Stabilize premiums and provide CalPERS the ability to offer a variety of plans to meet the needs of a diverse population.
- Maintain choice of plan types for employees by improving plan sustainability.
- Contain costs as it encourages members to select the most cost-efficient and effective plans.

- Encourage CalPERS health plan providers to compete on the basis of medical and administrative efficiency and quality of care rather than on their ability to select risk.
- Allow employee contributions to be set so that cost differences across options reflect differences in plan design, networks, and health plan efficiency.

Potential risks associated with the implementation of risk adjustment:

- Due to the complexity of the actuarial calculations, there may be mistakes in the calculations.

ATTACHMENT

Risk Adjustment proposed regulatory language

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