



Agenda Item 6

October 16, 2012

ITEM NAME: Adoption of Regulations: Dependent Eligibility Verification Amnesty

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Approve staff's recommendation to adopt proposed regulations permitting the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) to provide amnesty from retroactive cancellation and collection of an employer's paid portion of a dependent's premium, and/or claims paid fraudulently on behalf of an ineligible dependent to employees and annuitants who voluntarily terminate their ineligible dependent(s) enrollment in a CalPERS health benefits plan on or before June 30, 2013.

EXECUTIVE SUMMARY

Staff is recommending the CalPERS Board adopt the proposed regulations authorizing the Board to provide the above-described amnesty to employees and annuitants who voluntarily terminate their ineligible dependent(s) enrollment in a CalPERS health benefits plan on or before June 30, 2013. Amnesty is proven to encourage voluntary disenrollments because employees and annuitants could otherwise be liable for prior health claims and employer contributions for premiums during the period of ineligibility.

BACKGROUND

At the May 16, 2012 meeting, the CalPERS Board approved, for publication and public comment, proposed regulations to adopt Title 2, California Code of Regulations (CCR) §599.506, subdivision (d), to provide amnesty from retroactive cancellation and collection of an employer's paid portion of a dependent's premium, and/or claims paid fraudulently on behalf of an ineligible dependent to employees and annuitants who voluntarily terminate their ineligible dependent(s) enrollment in a CalPERS health benefits plan on or before June 30, 2013.

Based on published statistics, staff estimate that there may be approximately 29,000 enrolled dependents (including dependents in association plans) that may be ineligible for CalPERS health benefits. Disenrollment of these dependents could lead to a one-time cost avoidance of approximately \$40 million. Approval of a policy to grant amnesty would help expedite these disenrollments.

CalPERS has a responsibility to audit enrollment to ensure program integrity, reduce unnecessary spending, and ensure program sustainability. Other states' experience indicates that one percent to five percent of dependents are voluntarily dropped when amnesty is granted. This package proposes to add regulations to permit CalPERS to provide amnesty to employees and annuitants who voluntarily terminate their ineligible dependent's enrollment. Following the results of a Request for Proposal, and hiring a consultant/contractor, audits will be conducted beginning Fiscal Year 2013-14.

CalPERS staff submitted the Board-approved regulations package to the Office of Administrative Law (OAL) on July 24, 2012. A Notice of Proposed Regulatory Action was published in the California Regulatory Notice Register 2012, No. Z-2012-0724-07 (see attachment A), on August 3, 2012. CalPERS also posted the regulations package on its website on August 3, 2012.

Public Comment Period

The 45-day written comment period for the proposed regulatory action began on August 3, 2012 and ended on September 17, 2012. CalPERS did not receive any written comments.

Public Hearing

Pursuant to Government Code §11346.8, subdivision (a), CalPERS provided notice in the regulations package that any interested person could submit a written request for a public hearing, to the CalPERS Regulations Coordinator, no later than 15 days prior to the close of the written comment period, or by September 3, 2012. CalPERS did not receive any requests for a public hearing; therefore, one was not scheduled.

Next Steps

Should the Board adopt the proposed regulations, the CalPERS Regulations Coordinator will forward the final rulemaking file to OAL for review and approval. If OAL approves the proposed regulations, they will be forwarded to the Secretary of State (SOS) for filing and publication in the CCR. Traditionally, the regulations become effective 30 calendar days after filing with SOS, CalPERS staff, however, plan to request that the regulations become effective immediately upon filing with the SOS.

BENEFITS/RISKS

Potential benefits associated with Board approval of staff's recommendation to submit regulations to provide amnesty are as follows:

- Decreases in medical claims once enrollment of ineligible dependents is terminated.

- Saves approximately \$40 million in one-time cost avoidance because of the reductions in medical claims.
- Encourages voluntary action on the part of employees and annuitants.
- Decreases the number of dependent eligibility verifications that will need to be conducted.

Potential negative impacts include:

- Generates negative media exposure relating to amnesty.

ATTACHMENTS

Notice of Proposed Regulatory Action

DOUG P. McKEEVER, Chief
Health Policy Research Division

ANN BOYNTON
Deputy Executive Officer
Benefit Programs Policy and Planning