Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 8

November 14, 2012

ITEM NAME: Contracting Agencies' Risk Pool Analysis

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY
The risk analysis of new contracting agencies shows that while their average health risk is 3.6% higher than the CalPERS average, the impact to the entire CalPERS risk pool is small (0.3%).

STRATEGIC PLAN
This item supports the CalPERS Strategic Goal to improve long-term health benefits sustainability by using risk assessment to actively manage business risks.

BACKGROUND
At the February 2009 Health Benefits Committee (HBC) meeting, staff presented a risk pool analysis in response to the Committee's questions about the added risk of new contracting agency participation in the Public Employees Medical and Hospital Care Act (PEMHCA) program. This agenda item updates that analysis.

ANALYSIS
Using the Health Care Decision Support System (HCDSS), staff analyzed the impact of new contracting agencies on the CalPERS risk pool, incorporating Diagnostic Cost Group (DCG) modeling tools.

DCG tools are a set of mathematical models that estimate an individual's expected health care costs based on age, gender, and medical diagnosis data from a 12-month period.

Staff identified new contracting agencies joining PEMHCA since 2003, grouped them into cohorts based on their first complete year in the program, and calculated each cohort's risk factor using DCG modeling tools.

Between 2004 and 2011, CalPERS added 149 new contracting agencies with a combined basic plan membership of 82,334 members, which equates to 7.5% of CalPERS basic health plan membership. These agencies have an average health risk score that is 3.6% higher than the CalPERS average, resulting in a 0.3% increase in CalPERS average health risk.

ATTACHMENT

Attachment 1 – Relative Risk Score, shows new agency risk scores by year.

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