Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 11

April 16, 2013

ITEM NAME: Selection of the Health Maintenance Organization Plans

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Staff recommends that the Pension and Health Benefits Committee (PHBC) recommend to the Board of Administration the Intent to Award to one plan that serves 33 or more counties, and at least one other plan for Northern California and at least two other plans in Southern California.

EXECUTIVE SUMMARY

This agenda item provides information to the PHBC on the 2014 HMO RFP Final Proposal evaluation results. CalPERS solicited proposals for a 5-year agreement beginning January 1, 2014, and ending December 31, 2018. The solicitation process resulted in submission of seven Final Proposals from the following health plans: Aetna, Anthem Blue Cross, Blue Shield of California, GEMCare, Health Net, Sharp, and United Health Care. The evaluation review process determined that all proposals contained strengths and weaknesses. Overall, most proposers offer high-quality, health benefit plans and demonstrate the ability to meet CalPERS needs.

STRATEGIC PLAN

This agenda item supports the objective "Ensure high-quality, accessible and affordable health benefits" in Strategic Goal A, "Improve long-term pension and health benefit sustainability."

BACKGROUND

To improve its ability to deal with California's complicated and challenging health care marketplace and begin to lower costs and improve member health outcomes, CalPERS examined its benefit design and care delivery system. In order to maintain program sustainability and continue to provide quality affordable health care, in 2011 CalPERS initiated a comprehensive Health Benefits Purchasing Review (HBPR) to develop strategies and initiatives to implement over the next 3-5 years. This project was guided by the following principles:

- Maximize quality and value for the dollars spent
- Influence the marketplace in a positive direction in cost, quality and coverage
- Provide our members with choices of benefits and providers
- Improve patient safety
- Focus on wellness and prevention

- Deliver affordable quality care
- Protect our active employees' and retirees' coverage
- Lead with innovative delivery methods and promote technology advancements

This 11 month effort included an environmental scan of the healthcare marketplace, member and employer surveys to determine preferences and better understand priorities, and stakeholder engagement to evaluate and develop health purchasing strategies. The project culminated with CalPERS Board of Administration's endorsement, in January 2012, of a set of strategies and health benefits purchasing initiatives to pursue over three to five years aimed at influencing healthcare delivery through innovation, improving health outcomes, and delivering sustainable programs. A core element of implementation of the strategies was to embed them into the contracts that resulted from the HMO and Preferred Provider Organization (PPO) RFPs.

Through this RFP, CalPERS focus is on strategies and services that emphasize the following:

- Integrated Healthcare Model (IHM)
- Intensive Case Management
- Reduction in inappropriate health care, including readmissions and avoidable complications
- Risk adjustment across all plans
- Shared decision-making between patient and physician
- Incentives for chronic disease management
- Strong health information technology infrastructure
- Leverage the existing Pharmacy Benefits Manager (PBM) for pharmacy services
- Financial risk sharing arrangements between plans and providers

Key elements of this approach include full capitation or a hybrid capitated/self-funded financial payment arrangement, risk adjusting premiums, and implementation of multiple service coverage areas.

ANALYSIS

The HMO RFP was released in a two phased approach. Phase I was released on August 24, 2012, and Phase II on October 26, 2012. The procurement included the submission of written questions and responses, submission of Draft Proposals followed by Confidential Discussions with each Proposer, and the submission of Final Proposals.

Draft proposals were received on December 12, 2012 from Aetna, Anthem Blue Cross, Blue Shield of California, Cigna, GEMCare, Health Net, Sharp and United Health Care. These proposals were reviewed by Program staff and discussion topics were prepared for the HMO RFP Confidential Discussions. Confidential Discussions

to address both Proposers submitted topics/questions and items identified by the review team for feedback to the Proposers on their draft proposals were conducted with each Proposer separately and were held January 28-31, 2013.

On February 22, 2013, HMO Final Proposals were received from Aetna, Anthem Blue Cross, Blue Shield of California, GEMCare, Health Net, Sharp, and United Health Care. Cigna did not submit a Final Proposal.

Proposers bidding for more than 33 counties include Anthem Blue Cross and Blue Shield of California. United Health Care bid for 21 counties, and Aetna, GEMCare, Health Net, and Sharp are proposing services for one to six Southern California counties.

All of the proposals included multiple primary medical groups and hospital providers collaborating as IHMs. IHMs are described in more detail below.

One of the most important aspects of this procurement and the PPO procurement is to improve our ability to mitigate rate increases over the long term. The strategies we are employing should support this goal. The Financial Questionnaire asked each Proposer to submit HMO regional cost of health care trend and to project provider cost trends into 2014. However, it is important to note that it is not possible to develop a single overall cost factor at this point. We have not had the opportunity to test and validate the proposer's assumptions concerning potentially significant cost drivers. Rates for the HMOs will be developed in conjunction with the PPO rates, with the implementation of risk adjustment as previously directed by the PHBC.

Evaluation Process
After a Preliminary Review to determine completeness of required documentation, each Final Technical and Financial Proposal was evaluated based on the structure described in the table below:

Dimension	Points	Harvey Ball
Technical Proposal:		
• Business Requirements Questionnaire	**250**	Yes
• Technical Requirements Questionnaire	**225**	Yes
• Technical Requirements Questionnaire Supplement	**350**	Yes
• On-Site Visit	**25**	Yes
Background and Reference Checks	Satisfactory/Unsatisfactory	None
Financial Proposal:		
• Administrative Service Fees	**100**	Yes
• Performance Guarantees	**50**	Yes
Total Points	**1,000**	Yes

CalPERS evaluation team members independently evaluated the Final Technical and Financial Proposals using a numerical scoring mechanism with a maximum of 1,000 total points. A single overall score for each dimension within the Final Technical and Financial Proposals was reached by consensus of the evaluation team.

Point totals and composited scores for the Final Technical and Financial Proposals are reflected as Harvey Balls which are provided in Attachment 1. The sections are described below.

Technical Proposal
Business Requirements and Technical Requirements
The Business Requirements Questionnaire and Technical Requirements Questionnaire Sections were worth a maximum of 250 and 225 points respectively and included the Sections listed below. In the Business Requirements, a Proposer confirms it can and will meet services specified by CalPERS or specifies any contemplated deviation(s) to a CalPERS specified service requirement with an accompanying explanation. In the Technical Requirements Questionnaire, the Proposer describes its ability to meet the services specified by CalPERS in the

Business Requirements Questionnaire. Thus, a Proposer may score well in the Business Requirements Questionnaire in a particular Section, but less well in the Technical Requirements Questionnaire for that same Section.

As described in the RFP, the five bolded areas within the table below were weighted more heavily in points than other areas based on relative importance.

Business and Technical Requirement Sections	
A.	Administrative and Account Management. Support
B.	Eligibility and Enrollment
C.	Member Services
D.	**Pricing, Performance Guarantees, and Adjustments**
E.	Fraud, Waste, and Abuse Detection/Prevention
F.	Encounter Data and Provider Claims Administration
G.	Rate Changes
H.	Systems and Data Reporting Management
I.	Plan Marketing and Communication Services
J.	**Provider Network**
K.	**Medical Management Services**
L.	**Health and Disease Mgmt.**
M.	Pharmacy Benefit Services
N.	**Integrated Healthcare Model (IHM)**
O.	Medicare Plans
P.	Innovations
Q.	Implementation Performance

Pricing, Performance Guarantees and Adjustments: This section examines the requirements associated with a health plans provision of services for the 5-year contract period and establishes criteria for competitive pricing, transparency, changes in administrative service fees, and participating provider savings, etc. This section also establishes requirements for health plan performance goals, hybrid funding, and risk adjustments.

Provider Network: CalPERS has an objective to provide members with health plan choices and expand HMO geographic coverage across the State. This Section assesses the ability of health plans to develop programs that increase quality, reduce costs and increase member choice, through provider networks and value-based purchasing.

Medical Management Services: This Section explores new ways for health plans to integrate care and advance cost reduction strategies through utilization management, case management, use of evidence-based medicine protocols, patient-centered medical homes and improved clinical practice. Improving wellness, preventing

disease, and enhancing patient safety through robust programs have the potential to significantly reduce costs and increase the quality of care.

Health and Disease Management: This Section examines health plan core strategies in implementing population health management programs. Assessing and managing the care of the CalPERS population through health risk appraisals and effective disease management are critical for the CalPERS health program.

Integrated Healthcare Model: This Section describes how a health plan directs its resources toward an integrated care delivery model. Key to the IHM approach are three fundamental components: hospital/provider risk sharing arrangements and shared savings models with the plan and purchaser, patient management across the continuum of care, and electronic data interchange that includes electronic health records.

Technical Requirements Supplement Questionnaire
The Technical Requirements Questionnaire Supplement (350 points possible) focused on the Proposer's provider network discounts, geographic coverage expansion, member disruption, health information technology meaningful use, and provider quality metrics. For purposes of the provider quality metrics, rankings are based on publicly available data. No numerical score was associated with this dimension.

On-Site Visits and Background and Reference Checks
The On-Site Visits were worth a maximum of 25 points. Evaluation included an analysis of the below listed areas/processes of each Proposer's identified location(s):

- Member Services
- Call Center Staff (call management, member website, correspondence)
- Claims Processing
- Appeals and Grievances
- Clinical Support (staffing)
- General Processes (building security, systems access/client separation, fraud and abuse, audits)

Background and Reference checks were rated satisfactory/unsatisfactory.

Financial Proposal
The Financial Proposal evaluation included an analysis of the Proposer's Administrative Service Fees and Performance Guarantees. All plans were given the opportunity to submit multiple administrative fees and performance guarantees based on CalPERS provided membership ranges. Point totals and composited scores reflected as Harvey Balls for the Financial Proposal are provided in Attachment 1.

Proposal Observations
The following provides summary information regarding each Proposer's proposal and the California service areas in which each Proposer expects to offer HMO services (Attachment 2).

The following observations reflect the Harvey Balls assigned in those items carrying the most weight:

Aetna
Aetna proposes a fully insured product in Riverside and San Bernardino Counties and a Medicare Advantage Plan as a complement to its proposed Basic Plan.

On the HMO Evaluation Summary, Aetna rated Inferior overall in the Technical Requirements Questionnaire Supplement, Administrative Service Fees and Performance Guarantees. Aetna did score Superior in a number of areas within the Business and Technical Requirements.

Due to the scores in the Technical Requirements, the Technical Requirements Questionnaire Supplement and the Financial Proposal, we have concerns about Aetna's preparedness to contract with CalPERS. Aetna's composite score was rated "Inferior."

Anthem Blue Cross
Anthem Blue Cross (Anthem) proposes flex-funded HMO services in 34 Northern and Southern California counties that include broad and narrow provider networks in each of the counties. The provider network Anthem has proposed is extensive, and the proposal includes multiple IHMs with plans to expand within the 5-year term of the contract. HMO Medicare coverage is proposed through both Medicare Supplement and Medicare Advantage Plans.

On the HMO Evaluation Summary, Anthem rated an overall Superior in the Technical Requirements Questionnaire Supplement in the areas of Member Disruption and Coverage Expansion. In addition, Anthem rated Superior in the Financial Proposal for Administrative Service Fees. These results are supported by Superior ratings in the Business and Technical Requirements, especially in the Sections for Pricing, Performance Guarantees and Adjustments, Provider Networks, and Health and Disease Management. Less than comprehensive answers were provided in the Technical Requirements Questionnaire for Integrated Health Models, which resulted in a Below Average rating and in the Technical Requirements Questionnaire Supplement for Meaningful Use, which resulted in an Inferior rating. Anthem's composite score was rated "Above Average."

Blue Shield of California

Blue Shield of California (BSC) proposes flex-funded HMO services in 42 Northern and Southern California counties and includes both broad and narrow network providers (42 and 27 counties respectively). The Provider network proposed by BSC is comprehensive with proposed geographic expansion to four new counties for CalPERS HMO coverage areas (Monterey, Monterey, Napa, Shasta, and Tuolumne). In addition, the proposal includes multiple IHMs with plans to expand within the 5-year term of the contract. HMO Medicare coverage is proposed through both Medicare Supplement and Medicare Advantage Plans.

On the HMO Evaluation Summary, BSC rated Superior in the Business and Technical Requirements for the Pricing, Performance Guarantees and Adjustments, Provider Networks, Medical Management Services, Health and Disease Management, and Integrated Health Model Sections. BSC rated an overall Superior in the areas of Member Disruption and Geographic Coverage Expansion in the Technical Requirements Questionnaire Supplement. For the Financial Proposal, Blue Shield did not receive any Superior or Inferior Harvey Balls. The BSC composite score was rated “Above Average.”

In addition, the RFP provided a Pharmacy Supplement for both the Business and Technical Requirements Questionnaires, with pharmacy-specific performance guarantees in the Financial Proposal, which Proposers could complete should they wish to retain pharmacy benefits rather than carving out. BSC proposed to retain the pharmacy benefit, which featured a robust integration of medical and pharmacy services and an innovative clinical program.

BSC also proposed an alternative Financial Proposal where they placed a significant amount of their administrative fees at risk in the first year, and reduced their administrative fees, under specific conditions, including that they be the only non-Kaiser HMO offered by CalPERS for the next five years. For this alternative Financial Proposal, there was improvement in the Performance Guarantees, but Blue Shield did not receive any Superior or Inferior Harvey Balls for this alternative proposal. The BSC composite score for the alternative proposal was rated “Above Average.”

GEMCare Health Plan

GEMCare Health Plan (GEMCare) proposes a global capitation HMO plan providing coverage in three Southern California counties (Kern, San Luis Obispo, and Santa Barbara). HMO Medicare coverage is proposed through a Medicare Advantage Plan.

On the HMO Evaluation Summary, GEMCare rated an overall Superior in meeting the Business Requirements and Technical Requirements Questionnaire Supplement for Geographic Coverage Expansion. These results are supported by Superior ratings in Medical Management Services, Health and Disease Management and Integrated Healthcare Model Sections in the Technical Requirements. The Financial

Proposal did not receive any Superior or Inferior Harvey Balls. GEMCare's composite score was rated "Average."

Due to the composite scores in the HMO Evaluation Summary, we have some concerns about GEMCare's preparedness to contract with CalPERS.

Health Net

Health Net proposes flex-funded HMO services in six Southern California counties (Kern, San Bernardino, Los Angeles, Orange, Riverside, San Diego) and includes two networks: SmartCare and Salud y Mas. The SmartCare and Salud y Mas networks proposed by Health Net expand HMO coverage areas for CalPERS in Southern California. Health Net's network includes multiple IHMs The Salud y Mas network also provides a cross-border option using the SIMNSA[1] network. HMO Medicare coverage is provided through both Medicare Supplement and Medicare Advantage Plans.

On the HMO Evaluation Summary, Health Net rated an overall Superior in meeting the Business Requirements and received Superior ratings for Pricing, Performance Guarantees and Adjustments and Health and Disease Management in the Technical Requirements. For the Technical Requirements Questionnaire Supplement and the Financial Proposal, Health Net did not receive any Superior or Inferior Harvey Balls. Health Net's composite score was rated "Above Average."

Sharp Health Plan

Sharp Health Plan (Sharp) proposes global capitation HMO services in San Diego County. Sharp proposes a fully integrated health care delivery system with multiple IHMs and a high-degree of electronic health records integration. HMO Medicare coverage is provided through a Medicare Supplement Plan.

On the HMO Evaluation Summary, Sharp rated an overall Superior in meeting the Business and Technical Requirements. This result is supported by Superior ratings for Pricing, Performance Guarantees and Adjustments, Health and Disease Management and Integrated Health Model Sections within the Technical Requirements. For the Technical Requirements Questionnaire Supplement, Sharp received a Superior rating for Meaningful Use. Sharp did not receive any Superior or Inferior Harvey Balls for its Financial Proposal. Sharp's composite score was rated "Above Average."

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[1] **Sistemas Medicos Nacionales, S.A. de C.V. (SIMNSA)** is a comprehensive health care service plan that was designed to provide quality healthcare for the growing U.S. workforce whose preference is to receive their healthcare coverage in Mexico. Source: http://www.simnsa.com/simnsa/about_us.html, April 2013

United Healthcare

United Healthcare (UHC) proposes flex-funded HMO services in 21 Northern and Southern California counties. The provider network proposed is extensive across the 21 counties in Northern and Southern California, and its network includes multiple IHMs. HMO Medicare coverage is provided through a Medicare Advantage Plan.

On the HMO Evaluation Summary, UHC rated an overall Superior in meeting the Business Requirements and scored Superior in the Integrated Healthcare Model Section of the Technical Requirements Questionnaire. For the Technical Requirements Questionnaire Supplement, UHC received a Superior rating for Provider Network Discounts and Geographic Coverage Expansion. UHC did not receive any Superior or Inferior Harvey Balls for its Financial Proposal. UHC's composite score was rated "Above Average."

Also of note, the Financial Proposal included variations in administrative fees based on the ability to enroll up to 5,000 or 20,000 members resulting in improvements for Administrative Service Fees and Performance Guarantees. For this alternate Financial Proposal, UHC did not receive any Superior or Inferior Harvey Balls. UHC's composite score for the alternate proposal was rated "Above Average."

Additional Information

The level of facility discounts (for fee-for-service claims), administrative fees, and the percentage of administrative fees Proposers were willing to place at risk for performance varied across Proposers.

BENEFITS/RISKS

There are a number of benefits and risks for the Committee to weigh in this selection process. The risks are not trivial, but staff believes that they can be successfully managed and that proposers have demonstrated willingness to work cooperatively throughout the rate development and risk adjustment periods.

Risks

- Increasing to more than one non-Kaiser HMO increases the administrative complexity and workload associated with health program administration.
- Health Plans not currently contracting with us will need to make a rapid transition to ensure that they are ready for open enrollment.
- Challenging timelines for premium development, system changes, enrollment materials, and member communications that need to be produced.
- Potential inability to satisfactorily conclude contract negotiations.

Benefits

- With competition and risk adjustment, plans should become more price competitive.

- Expansion of provider networks and geographic coverage allows for the acceleration of integrated health care delivery models and greater access to integrated care delivery for our members.
- Greater geographic coverage for HMO plans is possible.
- Increasing provider networks and plan choice may make us more appealing to members and employers.
- Improved attractiveness for local agencies and school districts may increase number of contracting agencies.
- Risk adjustment eliminates prior issues with adverse selection that have impacted the program in the past.

ATTACHMENTS
Attachment 1 – Health Plan Procurement Strategy – HMO Procurement Results
Attachment 2 – Coverage Area Maps

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