



Agenda Item 6

February 19, 2014

ITEM NAME: Health Plan Regions for Contracting Agencies Effective 2015

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Approve the proposed regions and county region assignments for 2015 to better reflect variation in healthcare costs for contracting agencies.

EXECUTIVE SUMMARY

Staff analyzed relative healthcare costs by county to determine if changes to the regions for contracting agency premiums should occur. Staff recommend a re-alignment of regions for 2015 to better reflect current variation in healthcare costs. The proposed regions are: Northern, Central Coast, Southern, and Southern Coast (Attachment 3). A fifth Out-of-State "region" allows pricing of non-California premiums.

STRATEGIC PLAN

This agenda item supports Goal A, Improve long-term pension and health benefit sustainability by ensuring high quality, accessible and affordable health benefits.

BACKGROUND

Beginning in 2005, the California Public Employees' Retirement System (CalPERS) directed its health plans to regionally price contracting agency Basic plan premiums, allowing them to better compete in areas of the state with lower than average healthcare costs. Counties with similar costs were grouped into regions, taking into account historic cost variation, enrollment, coverage areas, and geography. Each carrier then priced premiums for those regions according to its experience.

The current regions are Sacramento, Bay Area, Los Angeles Area, Other Northern, and Other Southern (see Attachment 1), with an additional Out-of-State "region" to allow pricing of non-California premiums. With the conclusion of the Health Maintenance Organization Request for Proposal process, staff examined the regions and their compositions to determine if changes should occur. This item presents findings and recommendations from that analysis.

ANALYSIS

The following criteria were used in the analysis of county healthcare costs and region composition.

County relative cost factors

County relative costs were calculated from each county's healthcare costs, adjusted for risk (health status) to reflect the actual cost of healthcare. This adjustment maintains the relative cost patterns that exist due to geographic competition and service delivery efficiencies but without cost patterns due to health risk. Without risk adjusting county level plan costs, high cost claimants requiring higher levels of services would skew aggregated county level costs, especially in the counties with smaller populations.

Variation in costs over the past five years

To capture historic variation in county healthcare costs, staff calculated a five-year average cost factor for each county, with recent years weighted more heavily than older years. Attachments 1 and 2 show levels of five-year weighted average relative costs.

Attachment 1 shows ranges of relative costs, from low to high in the current regions. Attachment 2 shows ranges of relative costs for the proposed regions.

Enrollment

Counties with low membership can experience significant variation in relative cost factors because even a single catastrophic health event can temporarily skew costs. In larger populations, such events are distributed over more members, so have less impact on overall cost factors. Therefore, in determining region composition, less emphasis should be given to the cost experience of low-membership counties. Attachment 3 shows counties with more than .5 percent of total analyzed membership to remove the visual influence of counties with a potential for high variability in computed costs.

Geography

People generally prefer regions composed of geographically contiguous counties for ease of administration and communication.

In analyzing these criteria, staff determined that changes to regions and their compositions should occur to better reflect the current geographic variation in healthcare costs, and that counties should be grouped into the following regions: Northern, Central Coast, Southern, and Southern Coast (Attachment 3), with a fifth Out-of-State "region" to allow pricing of non-California premiums.

Staff presented the analytic methodology and proposed regions to the health carriers and CalPERS actuarial consultant for comment. They were in favor of the new regions and county assignments.

Constituent feedback focused on premium impacts from the proposed region changes. Attachment 4 shows the potential premium impact to each county, given the proposed changes. Note that carriers price region premiums according to their own individual cost experience not CalPERS weighted average cost experience, so there is no guarantee that the indicated impacts will occur for any given health plan/region combination.

Some contracting agencies use the names of the regions in their labor contracts and some reflect these names in their contract with us. For example, a collective bargaining agreement may include that the employer will contribute a fixed percent of the lowest premium in "Bay Area Region." In these circumstances, the contracting agencies may need to update their contract with CalPERS and/or their collective bargaining agreements.

BENEFITS/RISKS

1. Benefits

- The proposed regions and county compositions better reflect recent geographic variance in healthcare costs throughout the state compared to the current regions.
- Region premiums will more accurately reflect actual costs, and carriers will be better able to compete in regional markets.
- Being more competitive, CalPERS health benefits could be more attractive to potential contracting agencies, possibly leading to increased enrollment and an improved risk pool.
- Members in the many counties being re-aligned to proposed regions with lower relative costs could see lower percentage premium increases than if no changes to regions were made.

2. Risks

- Members in the few counties being re-aligned to proposed regions with higher relative costs could see higher percentage premium increases than if no changes to regions were made.
- There are some CalPERS contracting agencies that may require modifications to existing labor contracts due to changes in region names.
- Potential increase in contracting agency calls to Contact Center.

BUDGET AND FISCAL IMPACTS

Minimal (absorbed by existing staff/budget).

ATTACHMENTS

- Attachment 1 – Current Contracting Agency Regions
- Attachment 2 – Proposed Contracting Agency Regions
- Attachment 3 – Proposed Contracting Agency Regions: Counties with at Least .5% of Member Population
- Attachment 4 – Proposed Contracting Agency Regions: Potential Premium Impact
- Attachment 5 – Number of Contracting Agency Members per County

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