



Agenda Item 11

March 18, 2014

ITEM NAME: Health Care Cost Trends

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

Analysis of trends allows a better understanding of the factors that impact health care premiums. Trend is the pattern of cost and utilization metrics over time. Between 2011 and 2012, higher premium plans lost members and lower premium plans gained members. Most cost trends for key service categories are declining, most notably for inpatient admissions and prescription drugs. Utilization is flat or declining, with admissions and prescription drugs again driving the trend. These cost and utilization changes for 2012 resulted in a nearly flat overall cost trend (Per Member per Month (PMPM)) for the year.

STRATEGIC PLAN

These reports improve long-term health benefit sustainability by informing Committee members of the cost of healthcare and ways to impact those trends.

BACKGROUND

The health care cost trend reports provide cost and utilization information to inform Committee members on where changes in premiums, benefits, plan and provider contracting, or other areas may be required in the future.

ANALYSIS

This Health Care Cost Trend analysis reports findings for 2008 to 2012.

Overview (Attachment 1)

- Lower cost plans continue to gain members and higher cost plans continue to lose members.
- The overall cost trend for 2012 is flat to declining.
- Cost trends for most service categories were generally driven by changes in both utilization and unit cost. Notable decreases were observed in hospital admissions ("Inpatient") and Prescription Drugs ("Rx").

Basic Plan Membership (Attachment 2)

- Basic plan membership grew 0.5 percent (approximately 6,000 members) during 2012.

- Lower cost plans continue to gain and higher cost plans continue to lose members.
 - Blue Shield NetValue, Kaiser, and PERS Select (lower cost plans) combined gained about 32,000 members.
 - Blue Shield Access+, PERS Choice, and PERSCare (higher cost plans) combined lost about 29,000 members.

Per Member per Month Cost Change by Service Category (Attachment 3)

- Overall ("Total"), PMPM costs rose 1.9 percent from 2011 to 2012, compared to 5.4 percent between 2010 and 2011. Between 2008 and 2012 costs increased an average of 5.2 percent per year.
- Prescription drug costs continue to moderate the overall trend. Drug costs are 16 percent of the overall PMPM cost, and decreased 1.7 percent from 2011 to 2012.
- The 30 percent increase in "All Other" was due to a change in one plan's cost allocation method.

Utilization and Unit Cost Changes by Service Category (Attachments 4 and 5)

PMPM costs are a result of the relationship between utilization (number of admissions, office visits, services, etc.) and unit cost (cost per admission, office visit, service, etc.). Utilization and Unit Cost changes are shown independently in Attachment 4. The relationship between these two components is shown in Attachment 5.

- Inpatient utilization (per 1,000) decreased 7.9 percent from 2011 to 2012, which combined with a modest 3.5 percent increase in cost (per admission) resulted in an overall cost decrease for this category of 3.2 percent.
- Unit prices rose for the largest key service categories, while utilization increased only for Emergency Room ("ER") (2.9 percent).

Analysis Notes

Only basic health plan data is provided because payment schedules and operational rules in the Medicare plans are typically established by the federal government rather than CalPERS or its health plans.

The cost changes shown are based on the contractual "allowed" amounts due to healthcare providers for each claim rather than the "net" amounts paid by each plan. This is to allow easy comparisons between Health Maintenance Organization and Preferred Provider Organization healthcare costs, because the portion of the allowed amount paid by the health plan versus the member can vary significantly due to differences in benefit design (copays vs. deductibles, coinsurance, etc.).

The three association plans (California Association of Highway Patrolmen, California Correctional Peace Officers' Association, Peace Officers Research Association of California) are consolidated into "Assocs" for this analysis.

BENEFITS/RISKS

1. Benefits

- The trend of membership movement from higher-premium to lower-premium plans reduces the ultimate cost of healthcare for all participants; both members and employers.
- The low overall (PMPM) cost trend indicates the low premium increases in recent years are truly warranted, and not a result of underpricing, or pricing premiums below the actual cost of health care.

2. Risks

- Hospital admissions (“Inpatient”) represent the highest proportion of costs. Though hospital admissions have declined significantly, there is no guarantee this pattern will continue in the future. CalPERS must continue to develop innovative approaches to moderate and control health care costs while ensuring quality care to members.
- Emergency room utilization and unit costs both increased, resulting in one of the few service categories with an overall (PMPM) cost increase. CalPERS will work with its plan partners to understand the causes of this trend and develop strategies to mitigate it.

BUDGET AND FISCAL IMPACTS

Not Applicable.

ATTACHMENTS

Attachment 1 – Overview of Health Care Cost Trends for Calendar Year 2012

Attachment 2 – Basic Plan Membership

Attachment 3 – Per Member per Month (PMPM) Cost Change by Service Category

Attachment 4 – Utilization and Unit Cost Changes by Service Category

Attachment 5 – Relationship of Utilization and Unit Cost Trends by Service Category

Attachment 6 – Glossary of Terms

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