



Agenda Item 7

December 16, 2014

ITEM NAME: Findings from the Public Agency Health Benefit Design Needs Assessment

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

This informational item provides an update on two of the 21 initiatives resulting from the Health Benefits Purchasing Review (HBPR): Regulatory Flexibility for Public Agencies and Wellness Platform.

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

At the direction of the California Public Employees' Retirement System (CalPERS) Board of Administration, staff launched the HBPR project in March 2011 to evaluate health plan benefit design and purchasing strategies to ensure that CalPERS Health Benefits Program meets the future needs of members and employers. This project identified 21 specific initiatives designed, in combination, to reduce cost increases over time. These initiatives are identified in Attachment 1.

Initiative #21, "Regulatory Flexibility for Public Agencies," identified the potential for CalPERS to improve its ability to attract and retain public agencies and schools. This finding noted some expressed need by contracting agencies for changes to CalPERS benefit design.

In the spring of 2014, Regulatory Flexibility for Public Agencies was renamed the Public Agency Health Benefits Design Needs Assessment project, and the scope was expanded to include a review of health plan regions for contracting agencies, and to gather input regarding development of a statewide wellness/health management platform.

ANALYSIS

Public Agency Health Benefit Design Needs Assessment Project

The primary objective of this project is to better understand the views and experiences of CalPERS employers and member organizations relative to our Health Benefits Program. To facilitate these discussions, the Health Policy Research Division (HPRD) surveyed 1,713 Public Employees Medical and Hospital Care Act (PEMHCA) Employers, Pension-Only Employers, and Member Organizations between January and February of 2014. In addition, from March through October of 2014 HPRD facilitated 14 focus group discussions for PEMHCA Employers and Member Organizations, and participated in 12 additional stakeholder meetings and conferences, including 1 event with non-PEMHCA organizations. Altogether, HPRD engaged more than 400 employer, member organization, and non-PEMHCA representatives during these face-to-face meetings. Additional information regarding the dates and locations of these focus group and stakeholder meetings is included in Attachment 2.

HPRD received positive feedback regarding our outreach efforts, and employers appreciated the opportunity to discuss important health care issues with CalPERS leadership. HPRD's commitment was to report employer and member organization feedback to the Board as collected during the focus groups.

The feedback from the focus groups and stakeholder meetings is consistent with survey responses, as summarized in Attachment 3. Common discussion topics from all outreach methods tended towards three major areas:

- Flexibility
- Regions
- Wellness

Flexibility

Employer and member organization feedback related to flexibility focused on the following:

Vesting

PEMHCA Employers want CalPERS to sponsor legislation to provide employers the ability to customize vesting schedules and/or choose from alternative vesting schedule options. The current vesting schedule under California Government Code (GC) section 22893 requires public agencies to adhere to the same vesting schedule and contribution formula as State retired employees. Several public agencies have sponsored and adopted legislation which allows them to set their own vesting criteria based on years of credited service and employer/employees' representative agreements. For school employers, GC section 22895 allows school

employers, employees, and representatives to bargain for post-retirement health coverage within their own specific bargaining groups.

Public agencies expressed the desire for CalPERS to sponsor legislation which provides employers with the flexibility to bargain for post-retirement health coverage similar to school vesting, or sponsor legislation that provides multiple vesting schedules and contribution options for employers to choose from versus the current single option.

Plan Design

Most PEMHCA Employers are interested in CalPERS offering a wider selection of packages and benefit plans, such as a High Deductible Health Plan (HDHP) option. Several employers expressed that their desire for an HDHP is driven by some of their employees who want to participate in a lower premium plan with higher deductibles. Larger employers want an HDHP to ensure compliance with the Affordable Care Act (ACA) Employer Responsibility regulation which requires employers to provide affordable health plans for employees. Employers also want an HDHP as a plan option for their employees who only qualify for health through the ACA.

Conversely, no Member Organizations expressed support for HDHPs, as they are concerned HDHPs will shift costs to members. They also expressed concerns that the addition of an HDHP may negatively impact the 100/90 contribution formula for those contracting agencies that use the State vesting schedule. This formula is adjusted annually based on the weighted average of the health benefit plan premiums for an employee or annuitant based on the four health benefit plans that have the largest State enrollment. A large migration to an HDHP would be necessary to impact the 100/90 formula.

PEMHCA Employers are also concerned about the ACA-imposed Excise Tax (also known as the "Cadillac Tax"). Effective in 2018, the Excise Tax may impose a 40 percent penalty on health insurance premiums that exceed an annual threshold of \$10,200 for self-only coverage and \$27,500 for other than self-only coverage. (These thresholds may be subject to change once final guidance is issued.) As this penalty could impose considerable financial responsibilities, employers are asking what mitigation strategies CalPERS is implementing to avoid the penalty.

Regions

PEMHCA Employers have various ideas about how regions should be configured.

- Cost vs. geography.
- Two regions – North and South.
- No change to current configuration.

An employer's feeling about regions is dictated by how regions are configured and the potential impact that any reconfiguration would have on cost. For instance, employers in high-cost regions want to move to low-cost regions; those in low-cost regions want status quo. Employers also want CalPERS to consider access to quality care and cost for members when considering any regional boundary reconfiguration.

Wellness

In contrast to benefit design and regions, we found significant consensus and enthusiasm for robust wellness programs. PEMHCA Employers and Member Organizations would like to see the implementation of a customizable CalPERS-sponsored wellness plan that provides incentives for employer and employee participation. Employers also want to see aggregated health plan data/statistics for their employees to substantiate health outcomes and return on investment for participation in a wellness program.

SUMMARY

Based on the project, no compelling case was presented that would lead staff to conclude that benefit plan changes would impact our ability to attract and retain contracting agencies; however, there is a tremendous opportunity that needs to be explored related to wellness. Any future reconfiguration of regional boundaries would benefit from ongoing discussions with contracting agencies.

BUDGET AND FISCAL IMPACTS

Further exploration of wellness strategies is needed to fully identify the potential budget and fiscal impacts of developing a wellness platform.

BENEFITS/RISKS

There is opportunity for building stronger relationships with PEMHCA Employers and Member Organizations if stakeholder needs and concerns are considered. There is potential risk for losing existing Contracting Agencies if their concerns are not addressed.

ATTACHMENTS

Attachment 1 – Health Benefits Purchasing Strategies & Initiatives

Attachment 2 – Stakeholder Engagement Timeline

Attachment 3 – Public Agency Health Benefit Design Needs Assessment Project

DOUG MCKEEVER, Chief
Health Policy Research Division

ANN BOYNTON
Deputy Executive Officer
Benefit Programs Policy and Planning