



Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 9

March 17, 2015

ITEM NAME: Health Maintenance Organization Broad and Narrow Networks

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

The California Public Employees' Retirement System (CalPERS) is committed to achieving the highest level of performance in administering pension and health benefits. By reviewing the services we offer our members we are able to identify opportunities to improve efficiency. This item describes the benefits of reducing duplicative coverage at higher prices when lower cost health plans are available. The agenda item focuses on the following regions: Los Angeles, Sacramento, and Bay Area.

STRATEGIC PLAN

This item supports the CalPERS 2012-17 Strategic Plan Goal A: "improve long-term pension and health benefit sustainability" by removing broad networks in specific regions where narrow networks are widely available and less expensive.

BACKGROUND

During the Public Agency Health Benefits Design Needs Assessment Project (PAHBDNA), employee and employer organizations communicated two common themes:

1. CalPERS must undertake all efforts to lower the cost of health care; and,
2. CalPERS must undertake all efforts to avoid the pending Affordable Care Act (ACA) excise tax on high-cost employer-sponsored health coverage, better known as the Cadillac Tax.

To address lowering the cost of health care, the Board of Administration (Board) approved the Health Benefits Purchasing Strategies and Initiatives to influence healthcare delivery, improve health outcomes, and deliver sustainable programs. Over the past several years, CalPERS has completed many of the 21 Initiatives resulting in increased competition and lower health care costs. As part of the focus groups conducted with employee and employer organizations during the PAHBDNA project and as part of the discussion on the breakout of regions for contracting agencies, staff shared cost factors highlighting the variances in costs between

northern and southern regions, and by county. These costs are primarily driven by providers, and may be exacerbated in the north where there tends to be less competition. The two regions with the largest cost impacts are the Bay Area and Sacramento.

The second item raised, and one that impacts all purchasers, employers, and members, is the excise tax on high-cost employer-sponsored health coverage which begins in 2018. In general, the ACA imposes a 40 percent excise tax on the aggregate cost of health benefits that exceed \$10,200 for individual coverage and \$27,500 for family coverage, indexed to inflation.

Contracting agencies that offer health benefits through CalPERS are very concerned about cost impacts of the 40 percent excise tax. The tax applies to the total premium (both employer and employee share) for fully-insured and self-insured employer coverage exceeding the annual thresholds, as well as, other health benefits including some contributions to health Flexible Spending Accounts (FSA), Health Savings Accounts (HSA), and Archer Medical Savings Accounts (MSA).

Employers are responsible for determining the excess benefit and for notifying each coverage provider and the Internal Revenue Service (IRS). For fully-insured plans, the health insurance issuer is the coverage provider and for self-insured plans, the employer or other responsible party (i.e., CalPERS) is the coverage provider. Although the coverage provider is responsible for paying the tax to the IRS, employers and members will see any applicable increase reflected in rates.

For example, if this tax were in place today, the Blue Shield Access+ Bay Area 2015 annual premium of \$11,146.44 for a single member would be \$946.44 above the self-only limit of \$10,200. The excess benefit (\$946.44) for each self-only member in this plan would be subject to the excise tax.

The chart below summarizes current enrollment in plans whose 2015 premiums exceed the excise tax threshold. The estimated \$3.9 million cost is based solely on excess premium benefits. Employers would bear additional costs for excess benefits related to FSA, HSA, and MSA accounts. Of course, CalPERS awaits additional detailed federal guidance on calculating the tax.

Region	Plan		Enrollment	Excess Benefits	Excise Tax
Bay Area	Blue Shield Access+	Single-only	4,886	\$946	\$1,849,722
Bay Area	Blue Shield Access+	Family	3,437	\$1,481	\$2,035,694
Sacramento	Anthem Traditional HMO	Single-only	42	\$1,082	\$18,176
Sacramento	Anthem Traditional HMO	Family	20	\$1,833	\$14,664
Total estimated excise tax due to excess premium					\$3,918,257*

* Calculations may not be exact due to rounding.

To address the two cost drivers facing our employers and members, and as part of exploring options for containing costs while maintaining high quality, the Board's Pension & Health Benefits Committee directed staff to research the option of removing the broad networks in areas where narrow networks are widely available.

Currently, Anthem and Blue Shield of California offer both broad and narrow network Health Maintenance Organization (HMO) plans. Broad networks generally cost more than more restricted, narrower networks. The differences in costs are attributed to the broad network having more options for the members to choose primary care physicians (PCP), specialists, and hospitals. However, this option comes with a higher price as not all of these providers meet the financial thresholds established by the health plans to be part of the narrow networks. Anthem's broad network is Anthem Traditional HMO, and their narrow network is Anthem Select HMO. Blue Shield of California's broad network is Access+ and their narrow network is NetValue. As a matter of practice, CalPERS has offered both broad and narrow networks. It is important to note that the plan design does not vary between the plans; only the provider choice varies. Narrow networks offer a smaller, more efficient network of selected medical groups, physicians, and hospitals at lower monthly rates.

In cases where physicians are part of both the narrow and broad networks, members in the broad network pay more in premiums even if they are seeing a physician who qualifies for the narrow network. In areas where many narrow network alternatives are available, members and employers would save money if members were required to use the narrow network.

ANALYSIS

To examine the potential impact of eliminating these broad networks, CalPERS requested data from Anthem and Blue Shield of California to identify physician overlap between their broad and narrow networks.

An analysis was done identifying the areas covered by the broad and narrow networks. This was accomplished by identifying by zip code, the PCPs available in both the broad and narrow networks. The maps in Attachment 1 display the coverage areas for the broad and narrow networks for Anthem and Blue Shield of California. Please note that when the broad network overlaps completely with the narrow network, all of the zip codes covered by the narrow network are also covered by the broad network.

In addition, staff examined the other carriers who offer coverage in each of the proposed three regions by county to determine if alternative coverage is available. Attachment 2 represents the coverage areas of our health plans and shows where there is overlap. While it is possible that some members might be required to change PCPs if this change is implemented, we believe the vast majority would be able to

retain their PCP if they change to another carrier and are confident all members will have access to appropriate care.

If the Committee recommends moving forward with this approach, staff will review the number of CalPERS total covered lives who potentially may be affected, by region, for Anthem and Blue Shield of California. These would be the members whose PCP is not currently available in the narrow network associated with that specific carrier. In addition, where other health plan coverage is available, as noted above, we will identify those that also contract with physicians in Anthem Tradition and Blue Shield of California Access+. Finally, as we embark on the rate setting process for the 2016 health plan year, several health carriers have expressed a desire to expand coverage into the Sacramento and Bay Area regions, among others. Once these expansion requests are formally made, staff will include this information in our access analysis.

CalPERS also requested from Anthem and Blue Shield of California their provider selection criteria and the potential disruption and implications of removing the broad network health plans. Attachment 3 reflects their feedback.

BUDGET AND FISCAL IMPACTS

The removal of broad networks may save our members and employers money by directing CalPERS members to lower cost narrow networks. In addition, this approach will help to proactively address the pending implementation of the Cadillac Tax.

BENEFITS/RISKS

CalPERS contracting agencies, the State of California, and the California State University system cannot afford to pay the excise tax. While the tax does not take effect until 2018, we believe that immediate action is necessary to convey that CalPERS will do everything possible to help ensure that our plans are not subject to the tax. Removing broad networks where reasonably priced, alternative networks with adequate and appropriate access to physicians, specialists, and hospitals are available is an important step.

The risk of eliminating broad networks is that some members might need to change their plan or physician. Members may also lose access to certain specialists that are not part of the narrow network. There is also a risk that members may not have access to an HMO option if other health plans in the areas in which the broad networks are removed do not provide coverage. However, we believe the actual impact of this potential is less significant than the risk of the impact of the excise tax in 2018.

ATTACHMENTS

Attachment 1 – Coverage Maps for Anthem and Blue Shield of California Broad and Narrow Networks

Attachment 2 – Coverage By Plan By Region

Attachment 3 – Anthem Blue Cross/Blue Shield of California Responses

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