



Agenda Item 7

April 14, 2015

ITEM NAME: CalPERS Health Care Cost Trends

PROGRAM: Health Benefits

ITEM TYPE: Information

EXECUTIVE SUMMARY

Analysis of trends allows a better understanding of the factors that impact healthcare premiums. Trend is the pattern of cost and utilization metrics over time. In Fiscal Year (FY) 13/14 (July 1, 2013, to June 30, 2014), higher premium plans and plans with large premium increases lost members; conversely, plans with lower premiums and plans with reductions in premium gained members. During FY 13/14 the overall cost trend increased.

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 healthcare cost trend reports provide cost 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 FY 13/14.

Overview (Attachment 1)

- Lower cost plans continue to gain members and higher cost plans continue to lose members.
- The overall cost trend for FY 13/14 rose 7.7 percent over FY 12/13.
- Cost trends for most service categories were generally driven by changes in both utilization and unit cost. Notable increases were observed in hospital admissions ("Inpatient") and Prescription Drugs ("Rx").

Basic Plan Membership (Attachment 2)

- Basic plan membership decreased 0.5 percent (approximately 6,000 members) during FY 13/14.
- Lower cost plans continue to gain and higher cost plans continue to lose members.

- Blue Shield NetValue and PERSCare (lower cost plans) gained about 34,000 members.
- Plans introduced in 2014 (HealthNet, United, Sharp, and Anthem HMO) attracted about 24,000 members.
- Blue Shield Access+, PERS Choice, Kaiser, and PERS Select (higher cost plans) lost about 63,000 members.

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

- Overall (“Total”) PMPM costs rose 7.7 percent in FY 13/14. Between FY 09/10 and FY 13/14 costs increased an average of 4.8 percent per year.
- Rx PMPM costs increased by 9.7 percent over FY 12/13.

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) increased 0.5 percent from FY 12/13, and associated cost increased 4.9 percent.
- Rx utilization (per 1,000) decreased 0.1 percent, and associated cost increased 9.6 percent.

Analysis Notes

This report includes only basic health plan data 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 allows for easier 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, and Peace Officers Research Association of California) are consolidated into “Assocs” for this analysis.

BENEFITS AND RISKS

1. Benefits

- While the most recent FY shows a higher trend than prior years, it should be noted that the FY 12/13 trend was exceptionally low (2.5 percent) and

that the average annual trend over the past five years (FY 09/10 to FY 13/14) is 4.8 percent.

- 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

2. Risks

- The recent introduction of costly specialty drugs may have a significant financial impact. 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 – Health Plans Trend Report FY 13-14/Basic Plans

Attachment 2 – Basic Plan Membership

Attachment 3 – Change in Allowed Per Member per Month (PMPM) by Major Service Categories

Attachment 4 – Utilization and Unit Price Trends by Service Category

Attachment 5 – Change in Utilization and Unit Price by Key Service Categories

Attachment 6 – Glossary of Terms

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