



Agenda Item 6

June 16, 2015

ITEM NAME: Approval of 2016 Health Maintenance Organization Plans Benefits and Rates

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Staff recommend the Pension & Health Benefits Committee approve the proposed 2016 Health Maintenance Organization (HMO) risk adjusted premium rates for Anthem Blue Cross, Blue Shield of California, Health Net, Kaiser Permanente, Sharp, and UnitedHealthcare, either as Alternative 1, inclusive of UnitedHealthcare as the single Medicare carrier as contained in this agenda item; or as Alternative 2, keeping the Medicare program as it is today.

EXECUTIVE SUMMARY

Staff recommended proposed HMO benefits and premium rates for 2016 are provided in Attachment 1 as Alternative 1, with UnitedHealthcare as the single carrier for Medicare; and, as Alternative 2 leaving the Medicare program status quo.

BACKGROUND

Anthem Blue Cross, Blue Shield of California, Health Net, Kaiser Permanente, Sharp, and UnitedHealthcare submitted initial 2016 health plan rates in April 2015. California Public Employees' Retirement System (CalPERS) staff conducted an analysis of each rate proposal and met numerous times with each health plan to review its rate development methodology and underwriting documentation.

CalPERS also employs Mercer Human Resource Consulting to provide independent health actuarial consultation and to conduct an independent assessment of each health plan's rate proposal, provide input on market trends, and assist staff in rate negotiations.

One aspect of the analysis and assessment used for setting rates for the upcoming 2016 plan year includes the review of prior year medical and pharmacy trends. This review provides insight into the potential costs for future years. For context, pharmacy accounts for about 20 percent of health care costs in our HMO Basic plans, but accounts for a significant percentage of the overall rate increases as discussed in the Budget and Fiscal Impact section below.

The final proposed health plan rates submitted by the health plans include benefit design changes, program and expansion efforts, as well as additional costs attributed to the Affordable Care Act.

ANALYSIS

Health Plan Proposed Rates

Alternative 1

The health plan rates include the following for each carrier for Alternative 1:

Anthem Blue Cross

- Welvie, an online tool that helps educate the member and place more power in their hands when it comes to minimizing unnecessary and inappropriate surgeries (Basic plan)
- PERS Select expansion into San Diego county (Basic plan)

Blue Shield of California

- Welvie, an online tool that helps educate the member and place more power in their hands when it comes to minimizing unnecessary and inappropriate surgeries (Basic plan)
- Enhancing the Prescription (Rx) benefit with a 90-day supply option, giving members the option to fill their prescriptions at select retail pharmacies when mail service by PrimeMail is not feasible or desired (Basic plan)

Health Net

- SmartCare expansion into Alameda, Contra Costa, Fresno, Kern, Kings, Napa, Sacramento, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Tulare and Yolo; totaling 21 counties serviced (Basic plan)

Kaiser

- Standardization of acupuncture/chiropractic benefits, \$15.00 co-pay with a combined 20 visits per year (Medicare plan)

UnitedHealthcare

- United Alliance HMO expansion into Kings, Marin, and San Diego counties (Basic plan)
- UnitedHealthcare Medicare Advantage (MA) Preferred Provider Organization (PPO) offered in all 58 counties and out-of-state
- Rx benefit of 90-day supply option at select participating retail pharmacies at the mail order price

Alternative 2

The health plan rates include the following for each carrier for Alternative 2:

Anthem Blue Cross

- Welvie, an online tool that helps educate the member and place more power in their hands when it comes to minimizing unnecessary and inappropriate surgeries (Basic plan)
- PERS Select expansion into San Diego county (Basic plan)
- Senior Secure expansion into Sacramento, San Diego, San Francisco, San Joaquin, Santa Clara and Yolo counties, eliminating the Medicare Preferred plan in these expansion counties (Medicare plan)

Blue Shield of California

- Welvie, an online tool that helps educate the member and place more power in their hands when it comes to minimizing unnecessary and inappropriate surgeries (Basic plan)
- Enhancing the Rx benefit with a 90-day supply option, giving members the option to fill their prescriptions at select retail pharmacies when mail service by PrimeMail is not feasible or desired (Basic plan)
- Group MA Prescription Drug expansion into Yolo county

Health Net

- SmartCare expansion into Alameda, Contra Costa, Fresno, Kern, Kings, Napa, Sacramento, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Tulare and Yolo; totaling 21 counties serviced (Basic plan)
- Seniority Plus MA expansion into Alameda, Contra Costa, Fresno, Kern, Sacramento, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma, Tulare and Yolo (Medicare plan)
- Seniority Plus Medicare Supplement expansion into Kings and Napa (Medicare plan)

Kaiser

- Standardization of acupuncture/chiropractic benefits, \$15.00 co-pay with a combined 20 visits per year (Medicare plan)

Sharp

- Offering of an MA plan in lieu of the existing coordinated care plan in San Diego

UnitedHealthcare

- United Alliance HMO and United Group MA expansion into San Diego county (Basic and Medicare plans)

BUDGET AND FISCAL IMPACT

For the 2016 plan year, the proposed rates will increase the amount employees and employers contribute. For the State of California, the increase will be determined in accordance with Government Code section 22871 et seq, of The Public Employees' Medical and Hospital Care Act.

For contracting agencies, the increase will be determined based on each agency's negotiated contribution amount.

Finally, for the 2016 plan year, pharmacy trends and projected costs contributed significantly to the overall rates. As a percentage of the overall rate increases for both the HMO and PPO, about 45 percent is attributed to pharmacy. The balance is attributed to medical expenses, Affordable Care Act fees, and administrative fees. As an example of the pharmacy costs driving our health plan costs to date, the following provides a list of the top 10 drugs and how much CalPERS paid for these drugs in 2014 for CVS, Blue Shield of California and Kaiser:

CVS Administered Plans - Total Spend \$704,774,972 (of which \$129,545,116, or 18 percent, was attributable to top 10 drugs)

Product Name	Paid
Nexium	\$26,027,501
Sovaldi	\$16,124,786
Crestor	\$14,613,891
Humira Pen	\$12,085,623
Advair Diskus	\$11,681,946
Abilify	\$11,348,309
Duloxetine HCL	\$9,808,941
Revlimid	\$9,803,880
Enbrel Sureclick	\$9,357,852
Januvia	\$8,692,387

Blue Shield - Total Spend \$411,388,207 (of which \$84,150,226, or 20 percent, was attributable to top 10 drugs)

Product Name	Paid
Sovaldi	\$16,777,928
Humira Pen	\$10,370,735
Abilify	\$9,312,581
Advair Diskus	\$8,564,852
Januvia	\$7,608,806
Enbrel Sureclick	\$7,536,293
Copaxone	\$6,682,184
Lantus Solostar	\$5,986,622
Duloxetine HCL	\$5,678,285
Oxycontin	\$5,631,940

Kaiser - Total Spend \$241,390,207 (of which \$45,761,153, or 19 percent, was attributable to top 10 drugs)

Product Name	Paid
Copaxone	\$6,734,038
Solvaldi	\$6,592,138
Atripla	\$5,612,284
Enbrel Sureclick	\$4,811,528
Humira Kit	\$4,559,771
Enbrel	\$4,313,398
Lantus	\$3,510,435
Humira Pen	\$3,458,595
Truvada	\$3,344,473
Gleevac	\$2,824,493

BENEFITS/RISKS

Staff recommend approval of the proposed HMO benefit and premiums for either Alternative 1 or Alternative 2 so that work can begin on system changes and member communications for the 2016 Open Enrollment period, and 2016 premiums can be communicated on a timely basis to the state's Department of Finance and our contracting agencies.

Moving forward with United as the single Medicare provider will result in savings projected to be \$24 million annually assuming 40,000 Medicare members joining the UnitedHealthcare single Medicare carrier plan. In addition, UnitedHealthcare's plan will allow all plan members to receive care from any willing Medicare provider in California and across the country. It covers all of the care covered by Medicare Parts A, B and D and includes a comprehensive national network of contracted health care providers. If a non contracting provider seeks money up-front from the member, UnitedHealthcare will reimburse the member, minus the co-pay. According to UnitedHealthcare, in their experience nationally, the request of a member to pay up-front occurs less than 1 percent of the time.

In addition, this plan includes benefits which may not be provided today, such as the SilverSneakers and HouseCalls programs. These programs are expected to contribute to long-term cost moderation. UnitedHealthcare also was responsive to the requests of our retiree stakeholders and will offer a 90-day supply option at select participating retail pharmacies at the mail order price for maintenance medications only.

Finally, for Medicare retirees from contracting agencies who are not currently offered vision and dental as part of their retiree benefits, this proposal provides them the ability to purchase a vision and dental benefit. This benefit will not result in any employer cost as the Medicare retiree is fully responsible for the amount of the benefit. A Medicare retiree desiring to add this benefit will work directly with UnitedHealthcare who will set up a direct payment between the Medicare retiree and UnitedHealthcare.

The staff presented information about the United Medicare proposal to stakeholders in several venues over the past two months. While many questions were raised, no major risks or disadvantages were identified aside from the very important concern that a significant communication effort would be necessary to inform members of the change.

A modest risk in this proposal is that for a small group of health enrollees, the single carrier Medicare plan will impact family members that are currently enrolled in a Basic plan, as they may need to change their doctors if the Medicare-eligible member enrolls in the UnitedHealthcare Medicare plan. Approximately 15,000 individuals are enrolled in a non-Kaiser Medicare/Basic split-combo HMO plan where either the subscriber or a dependent is a Medicare-eligible enrollee while the other enrollee(s) are in a Basic plan. Approximately 8,200 of the 15,000 enrollees in the split-combo plans are Basic members, and may potentially be impacted by needing to change providers; however, many of these Basic plan enrollees may be in a UnitedHealthcare overlap service area which would allow them to keep their doctors.

Although the current 126,000 Medicare PPO members and 1,900 out-of-state Kaiser Medicare members are not impacted by this new product, this offering may be attractive to them as the UnitedHealthcare footprint is available in all 58 counties and out-of-state.

ATTACHMENTS

Attachment 1 – **Alternative 1**: with UnitedHealthcare as the single carrier for Medicare 2016 State and Contracting Agencies Health Premiums

Attachment 2 – **Alternative 2**: Status Quo
2016 State and Contracting Agencies Health Premiums

Attachment 3 - The Value of Medicare Advantage for CalPERS Medicare Eligible Retirees – UnitedHealthcare’s presentation to the Retiree Stakeholders on May 1, 2015

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