



Agenda Item 9a

November 17, 2015

ITEM NAME: Semi-Annual Self-Funded Health Plans Report

PROGRAM: Health Policy Research Division

ITEM TYPE: Information

EXECUTIVE SUMMARY

Starting in 2014, California Public Employees' Retirement System (CalPERS) members had several new Health Maintenance Organization (HMO) health plan options. They include Anthem Blue Cross and Health Net, each with 2 HMO offerings; Sharp Health Plan, in San Diego County only; and United Healthcare. These plans provided coverage for over 22,000 Total Covered Lives (TCL) in 2014, and in 2015 enrollment in these plans has increased to almost 66,000.

In addition, Blue Shield with 2 plans, Kaiser, and the Self-Funded Preferred Provider Organization (PPO) health plans are also available. A new funding arrangement, called flex-funding, for all HMO plans except Kaiser was initiated starting in 2014. This report summarizes, as of June 30, 2015, the financial results for the HMO plans and for the PPO plans.

STRATEGIC PLAN

This agenda item supports Goal A, Improve long-term health benefit sustainability by ensuring high quality, accessible and affordable health benefits.

BACKGROUND

This report is to provide the Committee with an update on the financial status for the six (6) CalPERS PPO plans and the eight (8) flex-funded HMO health plans.

ANALYSIS

PPO Plans

Attachment 1 summarizes the results for the PPO plans. Actual Reserves, or assets, for the PPO plans are currently \$673.3 million, which is a decrease of \$25.9 million from the assets at the end of 2014. Required reserves for the PPO plans are \$503.6 million, which is an increase of \$10.0 million over the required reserves at the end of 2014. Actual reserves above the actuarial reserve requirements are \$169.7 million. Overall, the Self-Funded PPO health plans have a ratio of assets to reserves of 134 percent.

For the first six months of 2015, there was an overall loss of \$54.9 million for all six (6) self-funded PPO health plans. The gain or loss evaluates revenue against claims and expenses. Revenue includes premiums, drug rebates, subsidies from the EGWP program, and investment income. The loss is being driven by continuing high pharmacy claims costs.

Medical claims costs are currently exhibiting favorable trends. On a year over year basis, for PERSCare, the basic plan is trending at -2.5% and the Medicare plan is trending at 2.5%. The trend in PERS Choice basic is currently favorable at 3.2%. The trend for PERS Choice and PERS Select Medicare is also favorable at 2.0%. The medical trend for PERS Select basic is currently at 3.3%.

Pharmacy claims costs continue to experience double-digit trends, except for PERSCare basic, which has a trend of 5.5%. PERS Choice basic and PERS Select basic have trends of 13.5% and 17.6%, respectively, while the Medicare plans are increasing in the 11% range. Specialty drugs continue to fuel the large increases.

Total enrollment in 2015 has increased by one (1) percent over 2014 enrollment. Enrollment in PERSCare basic continues to increase, from 20,000 to 25,000, while enrollment in PERS Choice basic remains stable and PERS Select basic decreased by 10%. This is primarily due to risk adjustment, which was implemented in 2014.

HMO Plans

In the funding arrangement that started in 2014 for the HMO plans, excluding Kaiser, the premium that is received for each plan is retained by CalPERS. An amount equal to the capitation payments is passed along to the plan for payment to their providers. Capitation is a payment arrangement for health care service providers such as physicians or medical groups. A capitation payment is a set amount per person per month that is paid by the health insurance company to their providers to cover the risk for a defined set of health care services, whether those services are provided or not. The remainder of the premium is deposited into the Health Care Fund and is used to pay the administrative expenses and fee-for-service claims when the plan submits an invoice.

Attachment 2 summarizes the results for the HMO plans. The asset value for each HMO plan is shown on the first 2 pages. The basic plans are shown on the first page and the Medicare plans are shown on the following page. Blue Shield and Sharp are the only Medicare plans that are flex-funded. Anthem, Health Net, and United operate Medicare Advantage plans which have no flex-funded component. As of June 30, 2015, the assets for the HMO plans totaled \$23.1 million. This is an improvement from the negative asset position that existed at the end of 2014, but the 2 Blue Shield basic plans are still experiencing unfavorable claims experience. The other plans are all showing positive results for this six month period.

Medical and pharmacy claims costs are shown on pages 3 through 6 of the attachment. The variation in claims costs reflect the demographics of the population covered and the regions they live in.

Enrollments for each plan are shown on pages 7 and 8.

BUDGET AND FISCAL IMPACTS

This item is for information purposes only, and has no impact on the CalPERS budget. Any impact this may have on future health plan premiums will be addressed during the rate development process that generally occurs from April through June in the Pension and Health Benefits Committee.

BENEFITS AND RISKS

Benefits

- The current financial status of the PPO plans is stable, with adequate premiums and reserves to fund benefits
- The flex-funding arrangement provides better insight into medical fee-for-service and pharmacy claims in an HMO population

Risks

- The high costs in pharmacy could lead to larger than expected premium increases

ATTACHMENTS

Attachment 1 - CalPERS Self-Funded PPO Health Plans

Attachment 2 - CalPERS Flex-Funded HMO Health Plans

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