



## Agenda Item 5

November 17, 2015

**ITEM NAME:** Health and Wellness Strategy Report

**PROGRAM:** Health Benefits

**ITEM TYPE:** Action

### **RECOMMENDATION**

Approve staff's recommendation to defer further development of a statewide wellness platform due to risks associated with exceeding excise tax thresholds, and instead, endorse the continuation of the California Public Employees' Retirement System (CalPERS) Population Health Management (PHM) initiative.

### **EXECUTIVE SUMMARY**

Staff is recommending deferring the development of a statewide wellness platform due to uncertainty regarding the Excise Tax on High Cost Employer-Sponsored Health Coverage (excise tax) and the risks associated with adding new benefits. Every health premium dollar exceeding the excise tax threshold will increase CalPERS' health benefits spend by an additional 40 cents.

As an alternative approach, staff recommends endorsing the continuation of the CalPERS PHM initiative, which takes a holistic approach to wellness and leverages CalPERS health plan contract relationships to coordinate and communicate the availability of existing wellness benefits and promote their utilization.

### **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 January 2015, CalPERS Board of Administration (Board) and Executive Offsite, the Board heard an overview of wellness program research findings, approaches and challenges, and also Optum's presentation of possible wellness vendor solutions.

This past summer, at the August 2015, Pension and Health Benefits Committee (PHBC) meeting, the PHBC was given an update of the CalPERS health and wellness Request for Information (RFI), which included a wide range of options to offer employers loosely categorized as "lean, moderate, and deluxe."

As a result of the August presentation, the PHBC asked staff to return with an analysis of carving out wellness as a potential excise tax avoidance strategy, a full analysis of all three options, and a clarification of CalPERS' role as a wellness purchaser or facilitator.

### **ANALYSIS**

In March 2011, at the direction of the CalPERS Board, staff launched the Health Benefits Purchasing Review (HBPR) project 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 influence healthcare delivery, improve health outcomes, and deliver sustainable programs. Initiative number 11, "Wellness Platform," identified the potential for CalPERS to develop a wellness platform with flexible options that engage and align employers, members, health plans, and providers.

On June 1, 2015, CalPERS staff released an RFI to solicit information from health and wellness vendors about the services they could provide active employees, retirees, and adult dependents while addressing CalPERS' unique position as a purchaser of health benefits for the State of California and more than 1,200 contracting agency employers.

Since releasing the RFI, staff presented an analysis of the Affordable Care Act (ACA) Excise Tax on High Cost Employer-Sponsored Health Coverage to the PHBC and began analyzing the effect of wellness programs on excise tax thresholds. When staff developed the Wellness Platform initiative in 2011, it was unforeseeable that wellness benefits could be included in the calculation of the excise tax.

### Excise Tax Impact

The excise tax is a 40 percent tax that applies to all applicable employer-sponsored health coverage and each coverage provider must pay its pro-rata share based on the total cost of applicable coverage. CalPERS health plans will be liable for their proportionate share of the excise tax, regardless of whether the health plan's premiums are below the excise tax thresholds.

Proposed excise tax regulations are still pending, but currently the Internal Revenue Service (IRS) regulations state that wellness benefits cannot be treated as excepted benefits and therefore it is possible that such benefits will be included in the aggregate cost of employer-sponsored health benefits subject to the excise tax regardless of how they are purchased or administered. Please note that this interpretation of the regulations should not impact CalPERS' future ability to conduct wellness pilots or an employers' ability to utilize wellness benefits offered by CalPERS health plans, whose costs are already included in the health premiums.

For a complete analysis of the IRS regulatory language and excise tax impact, please see Attachment 2.

RFI Responses and Wellness Product Pricing

Below is a summary of product offerings, categorized as Lean, Moderate, and Deluxe for comparison purposes. See Attachment 3 for a detailed analysis.

Lean solutions are limited to mobile or web-based solutions to engage members and track participation. However, few vendors offer these products as a standalone solution as they are not designed to be de-coupled from other wellness products and services, and the majority of vendors recommend a more comprehensive approach to ensure optimal wellness results. Moderate solutions provide more of a “platform” which integrates various products and services, such as Health Risk Assessments (HRAs), educational communication, and reporting. Deluxe solutions bundle all available vendor products and services itemized in the lean and moderate offerings, and in many cases also add biometric screening, disease management programs, coaching and case management.

Note: The wellness platform options described in the RFI must be considered in the current environment of uncertainty regarding the excise tax and the risks associated with adding new benefits. Every dollar exceeding the threshold will increase CalPERS’ health benefits spend by an additional 40 cents.

Estimated pricing is listed in the table below. These estimates show the maximum amount to purchase each type of solution.

Estimated Wellness Solution Costs*			
	Lean	Moderate	Deluxe
Total Annual Cost	\$60 million	\$67 million	\$419 million

\*This table represents an estimate of costs. These figures do not represent any statement by any responding vendor as to the actual cost of implementing a specific solution.

CalPERS’ Role

CalPERS has a long history of responsible, efficient purchasing of health benefits and contracting with health plans in order to provide quality care for members and their beneficiaries. As a purchaser of health benefits, CalPERS has a duty to monitor contracted health plans’ performance, check actual fees charged, ensure records are properly maintained, and follow up on member complaints. Any health benefit product or service CalPERS considers purchasing should complement, not compete with or distract from, benefits CalPERS already purchases, such as wellness benefits already provided by CalPERS’ contracted health plans. Although it is true that CalPERS’ stated mission is, among other things, to promote wellness for members and

beneficiaries, this wellness promotion does not necessarily require purchasing or administering additional wellness products.

Our participating employers have a different and perhaps more vital role in promoting wellness. It is widely accepted, and also proven through various CalPERS worksite wellness pilots, that employer and labor collaboration is essential for any health and wellness strategy to be successful. The geographic dispersion and diversity of work sites throughout the state, as well as the unique communication needs of wellness program participants, positions employers in the ideal role to engage and sustain employee and dependent participation in a wellness program. That said, CalPERS can play a complimentary role and is uniquely positioned to partner with employers to promote the wellness benefits already available to all members, including retirees. In this partnership role CalPERS can be successful.

Ultimately, as a purchaser, CalPERS is not qualified to rate or evaluate the efficacy of wellness solutions or providers, nor should CalPERS attempt to facilitate or manage the implementation of wellness programs at work sites. The endorsement of specific solutions or products could be perceived as an exercise of improper influence, or a conflict of interest, if those solutions were shown to focus on cost savings rather than quality of care or health outcomes. Additionally, as a purchaser, CalPERS should not attempt to endorse or promote wellness solutions that add to benefit costs. Promoting the implementation of a wellness platform outside of our current health plan contracts could accelerate plan cost increases toward excise tax thresholds.

#### CalPERS PHM Initiative

In 2013, CalPERS staff launched an initiative to standardize health plans' approach to PHM across the continuum of care for active and retired members. The concept of PHM, which focuses on the health outcomes of groups of individuals as opposed to the treatment of individuals, has existed for over a decade and is embedded in industry-wide health care best practices aimed at improving quality and reducing costs.

During CalPERS' two-year effort to develop a PHM model, CalPERS staff and its health plan partners collaborated to compare and contrast CalPERS' PHM model with health plan PHM models and to identify conceptual differences. The goal was to put in place a holistic approach to PHM that aligned population health approaches consistent with Triple Aim (high quality, affordable, accessible care). Ultimately, CalPERS staff produced a PHM model concept that emphasizes maintaining wellness and preventing disease, detecting disease if present, and treating detected diseases.

Future CalPERS PHM stated strategic objectives are to:

- Incorporate a PHM approach into health plan 2014-2018 contracts
- Align health and wellness benefits to encourage members to live a healthy lifestyle and use benefits wisely
- Review health plan adherence to best practices through clinical performance measures and finalize a PHM dashboard.

CalPERS staff will present an update of the PHM initiative at the December 2015, PHBC meeting and will provide additional details at that time.

#### Path Forward

At the direction of the PHBC, staff is prepared to:

- Defer implementation of a wellness platform, monitor federal rulemaking and tax provisions, then reassess feasibility of implementing new wellness benefits.
- Refrain from adding health and wellness benefits that could potentially be subject to future excise taxes.
- Advise employers who obtain CalPERS health coverage for their employees (contracting agencies and the State) to:
  - Avoid independently embarking on wellness benefit implementations whose costs could be subject to the excise tax.
  - Review any wellness incentives currently offered to ensure they comply with ACA regulations regarding wellness nondiscrimination.
- Utilize the PHM initiative, health plan contracting, and partnerships with employers and stakeholder groups to communicate the availability of existing wellness benefits and promote their utilization.

#### **BUDGET AND FISCAL IMPACTS**

Adoption of a CalPERS health and wellness platform, outside of current health plan contracting, will impact health premiums and also impact future excise tax liabilities.

Any impact to CalPERS budget will depend on the type and cost of the health and wellness strategy adopted.

#### **BENEFITS/RISKS**

The primary benefit of offering a health and wellness platform is to positively impact the health of our members. Investing in a health and wellness program is one strategy that may help reduce disability claims, improve employee job satisfaction, impact employee productivity, reduce the number of sick days used, or decrease presenteeism.

A major risk of adding a health and wellness platform to CalPERS benefit design is that the increased costs associated with the platform may cause health premiums to

exceed excise tax thresholds sooner and by a greater degree. Other potential risks include the following:

- There is no guarantee that CalPERS, as a health insurance purchaser, can successfully encourage participation in an offered wellness platform.
- CalPERS may incur staffing costs in addition to the vendor fee in order to successfully implement and manage a health and wellness platform.
- Employers could utilize engagement and participation strategies that do not align with federal and State laws and could create a legal risk to CalPERS.

**ATTACHMENTS**

Attachment 1 – Health and Wellness Strategy Report Presentation

Attachment 2 – Excise Tax Impact of Adding Wellness Benefits

Attachment 3 – Wellness Solution Feature and Cost Analysis

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JAN FALZARANO, Acting Chief  
Health Policy Research Division

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DOUG P. McKEEVER  
Deputy Executive Officer  
Benefit Programs Policy and Planning