April 19, 2016

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 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 December 31, 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 CalPERS PPO plans and the eight 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 $597.0 million, which is a decrease of $102.2 million from the assets at the end of 2014. Required reserves for the PPO plans are $525.8 million, which is an increase of $58.0 million over the required reserves at the end of 2014. Actual reserves above the actuarial reserve requirements are $71.2 million. Overall, the Self-Funded PPO health plans have a ratio of assets to reserves of 114 percent.

For calendar year 2015, there was an overall loss of $160.2 million for all six 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, especially in the Medicare plans.

Medical claims costs are currently exhibiting higher than expected trends for Care basic, at 11.8 percent, and Select basic, at 14.8 percent. The remaining plans showed favorable trends, with Choice basic at 4.0 percent, Choice Medicare at 4.9 percent, Care Medicare at 0.2 percent, and Select Medicare at -1.3 percent.

Pharmacy claims costs for the basic plans are currently favorable, with Care basic at 1.4 percent, Choice basic at 4.1 percent, and Select basic 4.0 percent. The Medicare plans continue to show high trends, although not quite as high as the previous year. Care Medicare is at 9.4 percent, Choice Medicare at 11.7 percent, and Select Medicare at 8.8 percent. Specialty drugs continue to fuel the large increases.

Total enrollment in 2015 has increased by one and a half (1.5) percent over 2014 enrollment. Enrollment in Care basic continues to increase, from 20,000 to almost 26,000, while enrollment in Choice basic remains stable and Select basic decreased by 10 percent. 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 December 31, 2015, the assets for the HMO plans totaled $70.0 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 2015.

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. In addition, the plans are experiencing significant enrollment changes, which make analysis of claims costs difficult to interpret.

Enrollments for each plan are shown on pages 7 and 8. The new plans tripled their enrollment from 2014 to 2015.

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 provides key graphical analyses of financial and historical data for the PPO plans.
Attachment 2 provides key graphical analysis for the HMO plans.

Gary McCollum
Senior Life Actuary
Actuarial Office

Doug P. McKeever
Deputy Executive Officer
Benefit Programs Policy and Planning