



## Pension and Health Benefits Committee Agenda Item 5

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May 17, 2016

**Item Name:** Preliminary 2017 Health Plan Rates

**Program:** Health Benefits

**Item Type:** Information

### **Executive Summary**

Preliminary unadjusted and risk adjusted health benefit plan rates for 2017 will be distributed just prior to the Pension and Health Benefits Committee (PHBC) Open Session, as Attachments 1 and 2.

The below provides background to these preliminary rates, and information regarding the closure of the Blue Shield NetValue Plan. California Public Employees' Retirement System (CalPERS) staff will continue to analyze these preliminary rates to ensure accuracy and affordability as it prepares final risk adjusted rates to the PHBC in June for review and approval.

### **Background**

Unadjusted initial rates were provided to the PHBC in April 2016 for the following carriers: Anthem Blue Cross, Blue Shield of California, Health Net, Kaiser Permanente, Sharp and UnitedHealthcare. Since then, staff has continued to analyze and verify carrier submitted data against actual plan data available to CalPERS.

Unadjusted rates are rates that have not sufficiently accounted for the overall health risk of a particular plan. In an effort to encourage its plans to compete based on the best value to CalPERS members rather than by trying to avoid sicker members, CalPERS risk adjusts its rates by reallocating funds from plans with lower-risk members to plans with higher-risk members. It is these risk adjusted rates that will ultimately be published by the Board next month. Accordingly, Attachments 1 and 2 provide both the preliminary unadjusted and adjusted rates.

Staff also employs Mercer Human Resource Consulting to provide independent health actuarial consultation, individual assessments of each proposal from the carriers, and market trend analysis.

CalPERS has successfully moderated trend increases over the past thirteen years as a direct result of cost and quality conscious Board actions. Board actions have mitigated medical trend increases through strategies such as promoting efficient hospital and plan networks, value based purchasing, integrated health models, competition, flex funding, and risk adjustment.

### Medical Trend

Initial medical trends for 2017 continue in the low single digits due to an overall inpatient hospital trend of 3.5 percent, a flat utilization trend, and declining inpatient average length of stay.

### Pharmacy Trend

Preliminary 2017 pharmacy trends are at least 2 percent lower than 2016, ranging from 9 to 12 percent. Staff is working diligently to push these trends further downward by June, in part, by capturing savings due to the an improved formulary, brand pipeline controls, and manufacturing discounts for high cost specialty drugs.

### Medicare Trend

Medicare trend is driven, in part, by the federal government, and is largely contingent on federal budget adjustments and other costs outside of the control of CalPERS. Nonetheless, CalPERS staff is analyzing those aspects of the Medicare rates that are negotiable, in order to minimize any increase upon the Medicare trend.

### Discontinuation of Blue Shield NetValue

For 2017 Blue Shield will no longer offer NetValue to CalPERS members. CalPERS staff is doing everything within its control to ensure that current NetValue members are able to retain their providers if possible, or transition to a non-Blue Shield CalPERS health plan that best meets their needs.

Accordingly, and to minimize disruption, current NetValue members will be automatically enrolled in Access+ during this year's Open Enrollment, since most providers who currently participate in NetValue also participate in Access+. However, current NetValue members whose providers reside in a different plan and/or who wish to no longer enroll in Blue Shield will still have the option during Open Enrollment to affirmatively select any applicable health plan available.

Attachment 3 provides the non-Blue Shield CalPERS health benefit plans available to current NetValue members by county and Attachment 4 provides the NetValue membership as of March 1, 2016.

### Health Plan Expansion

CalPERS staff is working with some of the carriers to expand into additional counties, and is confident that with the exception of NetValue, there will be no carrier withdrawals from existing counties.

The table below identifies potential expansions

Expansions	
Carrier	Counties
Health Net	Marin (SmartCare)
Kaiser Permanente	Santa Cruz (Basic only)
United Healthcare	San Luis Obispo, Madera*, Marin*, Riverside*, San Bernardino*, San Diego*

### Benefits and Risks

Not applicable.

## **Budget and Fiscal Impacts**

Budget and fiscal impacts include:

- Moderate increase in pharmacy costs; cost trend is being restrained due to limits on compound drug costs and usage of brand-name drugs and opioids; formulary controls; and improved manufacturing discounts for high cost specialty drugs.
- Modest uptick in medical cost; cost trend is being limited to mid-single digits.
- Reduction to rates due to the elimination of certain Affordable Care Act taxes.

**Attachments** (Attachments 1 and 2 will be provided under separate cover)

- Attachment 1 – State 2017 preliminary health plan rates (available on May 17, 2016)
- Attachment 2 – Contracting agencies 2017 preliminary health plan rates (available on May 17, 2016)
- Attachment 3 – 2016 Plans available to current Blue Shield NetValue members by county
- Attachment 4 – NetValue Membership (Total Covered Lives) by Counties

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