Pension and Health Benefits Committee

Agenda Item 6

May 17, 2016

Item Name: Health Care Cost Trends

Program: Health Benefits

Item Type: Information

Executive Summary

In Fiscal Year (FY) 14-15 (July 1, 2014 to June 30, 2015), the overall Basic Plan membership increased 0.3 percent from the previous FY. The overall cost trend is 6.9 percent increase, compared to 7.7 percent increase in FY 13-14. The trend in service category costs varied, with the largest trend increases occurring from the prescription drugs (Rx), and Emergency Room (ER) categories; the Mental Health/Substance Abuse increased trend warrants further investigation with our health plans. The utilization rate for inpatient care is flat. Most notably, utilization trend increases occurred in ER visits and office visits while inpatient hospital Average Length of Stay (ALOS) trend showed a significant decline. Unit price increases occurred across all key service categories as a result of inflation, but of significance is the low single digit unit cost increase for inpatient care.

Strategic Plan

This item supports Strategic Goal Plan A "Improve long-term pension and health benefit sustainability."

Background

The CalPERS Health Care Cost Trend Report provides cost and utilization information for health plan enrollment, four years of cost and use trends for ten key categories. In addition, utilization and unit price by key service categories such as hospital admissions, ALOS, number of ER and office visits, lab tests and pharmacy day's supply indicate where use of services are driving costs. Through these differing measures, CalPERS staff analyze the differences that exist in aggregate Per Member Per Month (PMPM) costs, services, unit cost, utilization and plan-specific PMPM disease risk. This report provides these trends and measures for FY14-15, FY13-14, FY12-13 and FY11-12.

Analysis

The increased overall cost trend compares FY 14-15 to the prior three fiscal years. The following are highlights for the current period. Costs are stated in PMPM terms.

Membership

Basic Plan membership increased 0.3 percent (approximately 4,000 members) from FY 13-14 to FY 14-15.

- Gains: Kaiser, PERSCare, and new plans contributed to the membership increase by attracting approximately 33,600 members.

- Losses: Blue Shield Access+ and NetValue, PERS Choice, and PERS Select lost approximately 43,000 members due largely to member movement to other plans.
- New plans in 2014 enrolled approximately 47,700 members as of FY 14-15.
- Midyear changes may reflect new employee plan selection and/or members aging into Medicare.

Overview (Attachment 1a)

- The overall Basic Plan membership increased 0.3 percent from the previous FY.
- The overall cost trend increased 6.9 percent, compared to 7.7 percent in FY 13-14.
- Cost trends for most service categories were generally driven by changes in both utilization and unit cost. Notable contributions to the overall increased cost trend include hospital admissions (Inpatient), Rx, and ambulatory surgery.

Basic Plan Membership (Attachment 1b)

- Basic Plan membership increased 0.3 percent (approximately 4,000 members) during FY 14-15.
    - Kaiser, PERSCare, and Plans introduced in 2014 (HealthNet, United, Sharp, and Anthem Health Maintenance Organization (HMO)) attracted approximately 33,600 members.
    - Blue Shield Access+ and NetValue, PERS Choice, and PERS Select lost approximately 43,000.
    - Plans introduced in 2014 enrolled approximately 47,700 members as of FY 14-15.

PMPM Cost Change by Service Category (Attachment 1c)

- Overall PMPM costs increased approximately 6.9 percent, slightly lower than the 7.7 percent experienced in the previous FY, with inpatient and outpatient facility, pharmacy and ER services being the major cost drivers.
- There was a 35.3 percent increase in allowed PMPM for Mental Health/Substance Abuse which warrants further investigation.

Utilization and Unit Cost Changes by Service Category (Attachments 1d and 1e)

PMPM costs are a result of the relationship between utilization (number of admissions, office visits, services, etc.) and unit cost (cost per admission, office visit, service, etc.). PMPM trend is examined across 10 service categories, revealing the key drivers of change between years. Utilization and unit cost changes are shown independently in Attachment 1d. The relationship between these two components is shown in Attachment 1e.

- Inpatient utilization (based on admits per 1,000) had no change between FY 13-14 and FY 14-15. The change in unit price for inpatient hospital significantly dropped to 1.7 percent increase between FY 14-15 and FY 13-14.
- There were high single digit increases in unit cost trends for the emergency room, lab, radiology, and a low double digit increase in pharmacy days supply.
- Unit price trend across increased across all service categories for FY 14-15; most notably low for inpatient admissions and high for the ER and pharmacy days supply.

Allowed Costs PMPM Divided by Risk Scores (Attachments 1f and 1g)

A member's risk score is based on underlying demographics and medical conditions/health status of the member. Allowed costs PMPM were divided by the plan aggregated risk score. Once applied, this calculation narrows the differences in PMPM costs across plans by calibrating payments based on the relative health of the at risk populations.

- In FY 14-15, overall Allowed Cost PMPM, divided by risk score, was $505.

- The largest percentage change was experienced for PERSCare (15.9 percent), adjusting Actual Allowed Cost PMPM of $1,029 to Allowed Cost PMPM divided by risk score of $570.
- Kaiser had the smallest percentage change (3.4 percent) in Allowed Costs PMPM, bringing Actual Allowed Cost PMPM of $464 to Allowed Cost PMPM divided by risk score of $470.

Analysis Notes

This report includes only Basic health plan data because payment schedules and operational rules in the Medicare plans are typically established by the federal government rather than CalPERS or its health plans.

The cost changes shown are based on the contractual "allowed" amounts due to healthcare providers for each claim rather than the "net" amounts paid by each plan. This allows for easier comparisons between HMO and Preferred Provider Organization healthcare costs, because the portion of the allowed amount paid by the health plan versus the member can vary significantly due to differences in benefit design (copays vs. deductibles, coinsurance, etc.).

The three association plans (California Association of Highway Patrolmen, California Correctional Peace Officers' Association, and Peace Officers Research Association of California) are consolidated into "Assocs" for this analysis.

Budget and Fiscal Impacts

This trend report is for information purposes only and has no bearing on the CalPERS budget. Impacts on future premiums will be addressed during rate development occurring April through June in the Pension and Health Benefits Committee.

Benefits and Risks

- The benefits of producing the Health Plan Financials Report on a FY or Calendar Year (CY) basis allow CalPERS to not only be aware of current healthcare cost and utilization trends during the FY or CY, but also provides as a performance management tool to ensure that plan performance is being aligned with the CalPERS initiative of lowering healthcare costs while increasing quality of care. Furthermore, the report may help spot performance shortfalls so that CalPERS can take immediate corrective actions as necessary.
- The risks of producing said report may include the timeliness of claims data availability as claims are sometimes incurred but not reported until a later period.

Attachments

Attachment 1 – Health Plans Trend Report FY 14-15/Basic Plans

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