



# Pension and Health Benefits Committee Agenda Item 6

September 19, 2017

**Item Name:** CalPERS PPO Plans: Working to Optimize Health Care Outcomes

**Program:** Health Benefits

**Item Type:** Information

## **Executive Summary**

This agenda item provides the Pension and Health Benefits Committee (PHBC) historical background on the self-funded Preferred Provider Organization (PPO) Basic plans and Value Based Insurance Design (VBID) health plan approaches, and proposes that the three PPO Basic plan benefits be redesigned. It is proposed that the PERS Select benefits incorporate VBID benefits designed to vary cost share based on service value and guide members to high value care. This benefit design exploration has prompted examination of PERS Choice and PERSCare benefit designs and the need for modernization. The role of risk adjustment, once VBID and non-VBID plan designs are in place for the California Public Employees' Retirement System (CalPERS) PPO plans, is briefly discussed.

## **Strategic Plan**

This item supports CalPERS) 2017-22 Strategic Goal: "Transform health care purchasing and delivery to achieve affordability."

## **Background**

CalPERS self-funded PPO plan(s) have existed since 1988-89. In 2008, CalPERS added PERS Select, a PPO plan with a narrow provider network designed to provide a lower cost PPO option. In 2011-12, CalPERS implemented a Value Based Purchasing Design (VBPD) program for the self-funded PPO Basic plans that limited the amount the plans would cover (i.e., imposed a reference price) for hip and knee replacement surgeries performed at select hospitals, and colonoscopy, cataract surgery, and arthroscopy if the procedures were performed in a hospital outpatient setting instead of an Ambulatory Surgery Center (ASC). In 2014, CalPERS began risk-adjusting premiums for the PPO and Health Maintenance Organization health plans. In 2018, the self-funded PPO Basic plans will expand the VBPD for twelve new diagnostic or surgical procedures performed at ASCs, as well as, align site of care for medical pharmacy that steers members to lower-cost sites of care for drug therapy when clinically appropriate.

## VBID Approaches

The CalPERS team presented VBID strategies to the Board of Administration (Board) in September 2016, January 2017, and July 2017.

The September 2016, PHBC presentation introduced various VBID strategies, highlighted published literature, and included interviews with other states' health plan administrators who implemented VBID. The January 2017, Board offsite presentation introduced the idea of

changing the PERS Select benefit design to a VBID plan design with a higher cost share if certain wellness, prevention and health screenings were not met. For example, the potential VBID plan design reduced co-pays and coinsurance for evidence-based good behavior, lower copay for attributing to a Primary Care Physician (PCP) and higher copay for low value services. More recently, the July 2017, Board offsite included an expert panel on high value vs. low value care.

### **Analysis**

For the past several years, CalPERS has been researching and implementing various value based initiatives to improve health outcomes and reduce costs over the long term. Some of the programs include standardizing population health and integrated health models; implementing disease management programs; reference pricing for sites of care for elective knee and hip replacements, colonoscopy, arthroscopy and cataract surgery; high performance generic step therapy; and, changing from an open formulary to a more defined formulary with lower cost alternatives.

The VBPD programs have proven to save money without compromising quality or patient safety. This approach is consistent with the “Let’s Get Healthy California” Triple Aim for:

- **Better Health:** Promote population health through prevention
- **Better Care:** Patient centered, high quality, value-based, whole person health care
- **Lower Costs:** Reduce health care expenditures regionally and statewide to improve access, achieve savings, and advance transformation.

As illustrated in the various Board offsite presentations and research, there are no absolute formulas about how a VBID plan gets designed and implemented. Three different approaches for consumer-directed health plans were discussed (Attachment 1):

- Connecticut purchases care for its state employees using varied premiums based on consumers meeting specific health compliance goals.
- Minnesota purchases care for its state employees using a provider tiered network approach to discourage low value providers and incent its members.
- The CalPERS Select PPO concept varies cost share based on service value.

Building on value-based initiatives CalPERS has already implemented, and recognizing the difficulties of implementing other states’ approaches to VBID, CalPERS health program is proposing to redesign the PERS Select Basic plan into a new VBID health plan with incentives.

### PERS Select with VBID Benefit Design

The CalPERS approach to VBID varies cost share based on service value (Attachment 2). Using cost share incentives, members are guided to attribute to a VBID PCP that would require the member to complete a Health Risk Assessment (HRA); obtain wellness/preventive services; accept site of care guidance; participate in healthy lifestyle changes including weight-loss, disease management, maternity programs; and, seek care from designated laboratory, x-ray and other ancillary services. Within this design, members are steered away from higher cost sites of care for services that can be obtained in lower cost settings. This leads to reduction of overuse, misuse, and non-evidence based treatments and procedures.

### PERS Choice and PERSCare Benefit Design Modernization

The PERS Select VBID benefit design evaluation has prompted an analysis of the PERS Choice and PERSCare plan designs in order to align the three self-funded benefit designs in a manner that is consistent with expected benefit design outcomes and cost share modernization.



The PERS Choice and PERSCare benefit designs have not materially changed since 2002. With the advent of the Affordable Care Act, health plan lifetime limits were eliminated which removed the \$2 million cap from PERS Choice. This change tended to drive the sicker membership to PERSCare as some members feared exceeding the cap; however, in 2010, this cap was removed. In 2013, prior to risk adjustment, the PERSCare membership had declined to less than 9,000 members, and the PERSCare population's increasing morbidity required higher premiums to pay for the cost of care for this membership. With the advent of risk adjustment, the PERS Select premiums increased and the PERSCare premiums decreased, whereas PERS Choice remained the same relative to the other two plans. The resulting premium differentials between the PPO plans has resulted in migratory shifts most significantly between the PERS Select and PERSCare plans.

#### Effect of Risk Adjustment on PPO Plans

The August 2017, Risk Adjustment Agenda Item summarized CalPERS' history and experience with risk adjustment and focused on the PPOs. At the August PHBC meeting, the CalPERS team discussed the effects of risk adjustment on the self-funded PPO premiums. The 2018 non-risk adjusted and risk adjusted premiums are shown in Attachment 2, slide 6 for PERS Select and PERSCare as illustrative of the effect of risk adjustment premiums differing solely based on plan design.

As part of the PPO Plans' benefit design evaluation, the team intends to investigate whether the goals related to risk adjusting the PPOs are still applicable, have been met, or can be achieved without risk adjustment in order to design PPO benefits that add value and efficiency. As part of this evaluation, the team will look at whether CalPERS should retain three separate PPO plans, or alternatively have two PPO plans; one being a VBID plan and the other being a non-VBID plan.

#### Next steps

CalPERS has engaged Mercer actuarial consultants to work with the CalPERS team and the Anthem actuaries to examine the sample VBID proposed plan design and advise on best plan design practices. The teams will analyze the proposed VBID plan design compared to evidence-based practices and cost-share benchmarks to ensure a CalPERS plan design is consistent with industry practice. As part of this effort the team will engage Anthem and Mercer actuaries to assist the CalPERS team in modernizing the PERS Choice and PERSCare benefit designs.

#### **Budget and Fiscal Impacts**

The proposed PERS Select, PERS Choice and PERSCare VBID and modernization strategies for 2019 and beyond are expected to mitigate future years' premium increases associated with medical and pharmacy costs, and are consistent with the CalPERS 2017-2022 Strategic Plan affordability goal; however, specific budget and fiscal impacts are unknown at this time.

#### **Benefits and Risks**

The strategies promote prevention, healthy lifestyles and adherence to evidence-based medical and pharmacy practices which should improve population health. The strategies are consistent with the "Let's Get Healthy California" Triple Aim of Better Health, Better Care, and Lower Costs.

There are risks that the PPO plans' new benefit structures may not materially change behavior, that modernization premium-saving efforts may not go far enough to achieve and sustain affordability, and that member appeals may increase.

Attachment 1 – Value Based Insurance Design



Attachment 2 – Proposed VBID Plan Design and Comparison of PPO Plans  
Attachment 3 – CalPERS PPO Benefit Design Presentation

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