November 14, 2017

Item Name: Semi-Annual Health Plan Financial 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. The enrollment in these plan options has increased from over 22,000 Total Covered Lives (TCL) in 2014 to almost 170,000 in 2017.

In addition, Blue Shield, 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 June 30, 2017, 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 (6) CalPERS PPO plans and the seven (7) 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 $778.6 million, which is an increase of $86.0 million from the assets at the end of 2016. Required reserves for the PPO plans are $611.0 million, which is an increase of $24.7 million over the required reserves at the end of 2016. Actual reserves above the actuarial reserve requirements are $167.6 million. Overall, the Self-Funded PPO health plans have a ratio of assets to reserves of 127 percent.

For the first six months of 2017 there was an overall gain of $79.4 million for all six (6) 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 new Pharmacy Benefits Management (PBM) contract with OptumRx is responsible for most of this gain.

Medical claims cost trends are generally looking favorable at the current time. One exception is Choice Basic, which is at 9.7%. The remaining plans are currently under 5%.

Pharmacy claims cost trends are all currently in the negative. As stated above, this is due to the new PBM contract with OptumRx.

Total enrollment in 2017 has remained flat, increasing by only 0.7% over 2016 enrollment. Enrollment in Care basic continues to increase, from 29,000 to almost 31,000, while enrollment in Choice basic dropped by 8,400 (about 5%) and Select basic increased by 4,300 (about 10%). Enrollment in the Medicare plans increased by almost 3,500 (about 3%) in 2017.

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 third-party administrative fees and fee-for-service claims when the plan submits an invoice.

Attachment 2 summarizes the results for the HMO plans. There have been some changes to the HMO plans. With the implementation of a Consolidated Medicare Advantage Program effective January 1, 2016, the flex-funded Medicare plans discontinued operation. The Medicare plan assets displayed in Attachment 2 are for the purpose of paying claims and expenses that have not yet been received. In addition, the Blue Shield Net Value plan discontinued operation effective December 31, 2016. 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.

As of June 30, 2017, the assets for the HMO plans totaled $51.8 million, which is a decrease of $41.6 million from the end of 2016. Additional subsidies and rebates from the EGWP program and risk adjustment transfers are not fully accounted for in the asset total. These additional monies, which will be accounted for by the end of 2017, are expected to make up for the decrease shown here.

Medical and pharmacy claims costs are shown on pages 4 and 5 of the attachment. The variation in claims costs reflect the demographics of the population covered and the regions they live in. In addition, the significant enrollment changes that have occurred during the last 4 years make analysis of claims costs difficult to interpret.

Enrollments for each plan are shown on page 6. The new plans tripled their enrollment from 2014 to 2015, almost doubled the enrollment from 2015 to 2016, and they have increased by 33% from 2016 to 2017.

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 higher than expected costs in medical and/or pharmacy could lead to larger than expected premium increases

Attachments
Attachment 1 - Key graphical analyses of financial and historical data for the PPO plans.
Attachment 2 - Key graphical analyses of financial and historical data for the HMO plans.

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