



Pension and Health Benefits Committee Agenda Item 4f

November 14, 2017

Item Name: Health Care Cost Trends

Program Health Benefits

Item Type: Information

Executive Summary

Analysis of trends allows a better understanding of the factors that impact healthcare premiums. Trend is the pattern of cost and utilization metrics over time. The changes presented in this summary are the result of comparing Calendar Year (CY) 2016 to 2015.

In CY 2016, the overall Basic plan membership increased 1 percent from the previous CY. The overall cost trend increased 4.2 percent across all 12 service categories. Inpatient care ("Inpatient"), prescription drugs ("Presc Rx"), and ambulatory surgery ("AmbSx") are the largest categories of cost, accounting for over 57 percent of the total. Change in utilization varies across service categories. Unit price increased across all key service categories with the exception of office visits.

Strategic Plan

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

Background

The healthcare cost trend reports provide cost and utilization information to inform Committee members on where changes in premiums, benefits, plan and provider contracting, or other areas may be required in the future.

Analysis

This Health Care Cost Trend analysis reports findings for CY 2016. Costs are stated in per member per month (PMPM) terms.

Overview (Attachment 1)

- Lower cost plans continue to gain members and higher cost plans continue to lose members.
- The overall cost trend for CY 2016 rose 4.2 percent over CY 2015.
- Due to insufficient 2016 mental health and substance abuse (MH/SA) claims data from one of our health plans, CalPERS is not including MH/SA trend in this report while this issue is being resolved. MH/SA was included as a service category in prior reports.
- Cost trends for most service categories were generally driven by changes in both utilization and unit cost. Unit price increased in all cost categories except office visits in 2016.

Basic Plan Membership (Attachment 2)

- Basic Plan membership increased 1 percent (12,000) in 2016.
- Among the plans with increased membership UnitedHealthcare Alliance HMO (33,000) and Kaiser (27,000) contributed the largest membership increase by attracting approximately 60,000 members.
- Decreases in membership were experienced in Blue Shield Access+ (16,000), Blue Shield NetValue (61,000), and PERS Choice (9,000).

Change in Allowed PMPM by Major Service Categories (Attachment 3)

- Overall PMPM costs increased approximately 4.2 percent with Inpatient, Presc Rx, and AmbSx accounting for over half of the total costs.
- Inpatient increased 3.3 percent, Presc Rx increased 1.4 percent, and AmbSx increased 4 percent.
- For individual service categories, percent changes between years ranged from 0.0 percent to 19.4 percent.
- Medical pharmacy (Medical Rx), while only contributing 5 percent of total costs, increased by 19.4 percent.

Utilization and Unit Price Trends by Service Category (Attachment 4) and Change in Utilization and Unit Price by Key Service Categories (Attachment 5)

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 12 service categories, revealing the key drivers of change between years.

- Increase in utilization occurred in average length of stay (“ALOS”) by 2.5 percent, office visits (“Office”) by 2.5 percent, and emergency room 0.5 percent.
- All other key service categories experienced a decrease in utilization with Radiology (“Rad”) experiencing the largest decrease of 3.5 percent, followed by Admits with a decrease of 3.0 percent.
- Except office visits, unit price trend increased across all service categories for CY 2016.

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 Health Maintenance Organization 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 “Associations” 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 the rate development process occurring between January and June in the Pension and Health Benefits Committee.

Benefits and Risks

- Producing the Health Care Cost Trends Report allows CalPERS to be aware of current healthcare cost and utilization trends. It also provides a performance management tool to ensure that plan performance is being aligned with CalPERS' goal of offering affordable healthcare while increasing quality of care.
- The trend of membership movement from higher-premium plans to lower-premium plans reduces the ultimate cost of healthcare for all participants; both members and employers.

Attachments

Attachment 1 – Overview: Health Plans Trend Report CY 2016/Basic Plans

Attachment 2 – Basic Plan Membership

Attachment 3 – Change in Allowed PMPM by Major Service Categories

Attachment 4 – Utilization and Unit Price Trends by Service Category

Attachment 5 – Change in Utilization and Unit Price by Key Service Categories

Attachment 6 – Glossary

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