Finance and Administration Committee
Agenda Item 8b

December 19, 2017

Item Name: Health Care Administrative Expenses

Program: Health Benefits

Item Type: Information

Executive Summary
This Agenda Item provides the Finance and Administration Committee information on statutory changes made to the Public Employees' Health Care Fund (HCF). In addition, it provides information regarding the fiscal effect on the State and public agency employers if all of CalPERS Health Benefits Program's administrative expenses were assessed on employers and paid from the Public Employees' Contingency Reserve Fund (CRF) instead of being partially funded through health plan premiums and paid from the HCF. The Board is required to report this information to the Legislature's respective budget committees by January 10, 2018.

Strategic Plan
This item supports the 2017-22 Strategic Goal of "Health Care Affordability: Transform health care purchasing and delivery to achieve affordability."

Background
CalPERS Health Benefits Program funds its administrative expenses for CalPERS operations through two means. First, it assesses a fee on employers, and the monies collected from this assessment are deposited into the CRF. Secondly, administrative expenses have been built into self-funded health plan premiums since program origination, and built into flex funded health plan premiums in 2017, on a per member per month (PMPM) basis. These monies which are initially deposited into the CRF eventually flow into the HCF.

Prior to July 2016, only the expenditure of monies deposited into the CRF for administrative expenses required approval in the annual State Budget Act. In June 2016, as part of the 2016-17 State Budget Act, the Legislature revised Government Code Section 22911 to require approval of the expenditure of monies deposited into the HCF for administrative expenses in the annual State Budget Act. This change was strongly supported by the Department of Finance (DOF). As such, DOF has requested improved transparency and efficiencies in accordance with its new shared role with the Legislature in overseeing CalPERS' expenditure of funds in the HCF for administrative expenses.

More recently, DOF has expressed an interest in funding all of CalPERS Health Benefits Program administrative expenses through the CRF, which is an employer-only contribution model. In June 2017, the Legislature enacted, and the Governor approved, a requirement in the 2017-18 State Budget Act for CalPERS to report to the budget committee of each house of the Legislature the fiscal effect on the State and different local government employers and employees, if all health benefit administrative costs were paid through the CRF, and not through health premiums. This report is required to be submitted by January 10, 2018.

In accordance with this requirement, CalPERS performed an impact analysis and has determined there will be moderate to significant fiscal impacts on the State and public agencies should all Health Benefits Program's administrative expenses be paid from the CRF using the employer-only contribution model. If this proposal were adopted, CalPERS would no longer be able to collect administrative expenses through the premiums of flex-funded and self-funded health benefit plans, which is currently an employer/employee contribution model.

Lastly, and additionally part of the 2017-18 State Budget Act, Control Section 4.20 now states that the reserve CalPERS must maintain in the CRF be reduced from three months to one month. This means that if the State's budget is not approved timely, CalPERS only has sufficient funding in reserve to pay up to one month of administrative expenses instead of three.

Analysis

Below is a brief analysis of the methodology and assumptions used to determine the fiscal effect on the State and different local government employers and employees, if all the Health Benefits Program's administrative expenses were paid through the CRF, and not partially through self-funded and flex-funded health benefit plan premiums.

- As the number of total covered lives (TCLs) and gross health insurance premiums regularly fluctuate, data from October 2017 was used to develop both monthly and annual impacts.
- The estimated CRF administrative fee billed to employers was calculated at 0.32 percent[1].
- PMPM fees[2] were removed from the gross health insurance premiums for each employer.
    - By removing the PMPM fees, a reduction in the gross health insurance premiums for each employer can be shown.
- A CRF administrative fee of 0.82 percent[3] was applied to the revised gross health insurance premiums.

Budget and Fiscal Impacts

Moving to an employer-only administrative fee contribution model would have moderate to significant financial impacts on the State and public agencies. The State would see a cost increase of approximately $25.5 million annually, and public agencies would experience an overall cost increase of approximately $18.7 million annually. On average, the administrative fees assessment on public agency employers is estimated to increase approximately one hundred and fifty percent (150%).

[1] Each fiscal year, CalPERS collaborates with DOF to set the CRF Administrative Fee. The fee for FY 2017-18 is 0.33 percent, and was 0.31 percent for FY 2016-17, therefore the average of those two FYs was used for this exercise. This fee is applied to the gross health insurance premiums paid by the employer.

[2] The PMPM fees assessed for 2017 was $4.68 for TCLs enrolled in all plans except Kaiser and UnitedHealthcare Medicare, which did not include the PMPM fee in 2017.

[3] A CRF Administrative Fee of 0.82 percent is required to collect the authorized amount of money appropriated for administrative expenses for the CalPERS Health Program.

Benefits and Risks
The benefit to collecting administrative expenses related to CalPERS operations solely through the CRF is the dollar amount would be easier to track and monitor by DOF as a control agency. An employer-only contribution model may produce the following unintentional consequences to the CalPERS Health Program:

- Due to increased costs to public agencies and schools, CalPERS would lose its competitive advantage over brokers that compete with CalPERS in the health benefits coverage marketplace.
- If public agencies leave the CalPERS Health Benefits Program as a result of these increased costs, CalPERS risks losing its market influence and ability to mitigate health care premium increases as it would have a smaller risk pool.
- The State and public agencies would be in less of a position to negotiate with labor groups due to the increased administrative bill employers would be required to pay.
- There is no added value to employers for the significant increase in costs.

Attachments
Attachment 1 – Impact Analysis
Attachment 2 – Health Care Administration Expenses Presentation

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