



Pension and Health Benefits Committee Agenda Item 8

December 19, 2017

Item Name: CalPERS PPO Basic Plans: Optimizing Health Care Benefits and Outcomes

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension and Health Benefits Committee (PHBC) background on the self-funded Preferred Provider Organization (PPO) Basic plans optimization effort and the team's recommended design changes to three PPO Basic plans including changes to the PERS Select plan to introduce Value Based Insurance Design (VBID) approaches, proposed changes to PERS Choice and PERSCare plans to continue offering choice to members, and the presentation of the modeling and migration assumptions associated with the proposed changes for all three PPO Basic plans.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2017-22 Strategic Goal: "Transform health care purchasing and delivery to achieve affordability."

Background

The CalPERS health program presented VBID strategies to the Board of Administration (Board). The September 2016 PHBC presentation introduced various VBID strategies, highlighted published literature, and included interviews with other health plan administrators who implemented VBID. The January 2017 Board offsite presentation illustrated options such as reducing coinsurance for good behavior, lower copay for attributing to a Primary Care Physician (PCP) and higher copay for low value services. The July 2017 Board offsite included an expert panel who presented their findings and opinions on high value versus low value care, as well as, different approaches for consumer-driven health plans. At both the January and September 2017 Board meetings, CalPERS staff presented a sample CalPERS VBID plan design. The new PERS Select Basic benefits introduces a VBID with higher cost share, but with incentives available that reduce share of cost through health and wellness participation. In addition, when seeking care directed by an attributed primary care physician co-pays are lower.

At the September 2017, PHBC the CalPERS PPO Plan Optimization proposal was presented which introduced the concept of aligning the Select VBID plan design with modernized PERS Choice and PERSCare health plans. Using the three plan designs, members are provided the opportunity to select one of three PPO plans based on value, choice of providers, benefit designs, and affordability.

Analysis

The plan designs presented here:

- Continue to innovate with value based designs by redesigning PERS Select, referred to here as PERS Select (New), using VBID incentives that can reward members for engaging in evidence-based health and wellness programs/services.
- Modernize the overall PPO plan benefits structure to align the three self-funded benefit designs in a manner that is consistent with expected benefit design outcomes and cost share modernization while continuing to give members the freedom to choose different plan options.
- Improve the affordability of plan options and aims to increase member engagement in health care decisions without reducing the quality of care.

PPO Plan Modeling

Mercer Health & Benefits LLC actuarial consultants were engaged to work with the CalPERS team and the Anthem actuaries to examine the sample VBID proposed plan design presented in September and advise on best plan design practices. The team then analyzed PPO Basic plan design factors for the PERSCare and PERS Choice PPO products compared to evidence-based practices and cost-share benchmarks to ensure the proposed CalPERS plan design is consistent with industry practice. The team used PPO plan experience, projected the participation in PCP selection and wellness participation, and made migration assumptions.

Optimization of PPO Basic Plans

PERS Select (Current) Becomes PERS Select (New) – A VBID Plan

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

Attachment 1 illustrates the benefit design components proposed for the PERS Select (New) Plan. While the proposed deductible for this significantly redesigned plan is \$1500 for individuals and \$3000 for a family, there are five (5) incentives for members to reduce that deductible amount when they seek evidence-based health and wellness programs (Biometric Screening, Non-Smoking Certification, Flu Shot/Immunization, Second Opinion, and Condition Care). This ability to buy down/credit the deductible is a key factor in attempting to engage members in health care decisions. Members would also be incentivized to seek high value care through lower co-pays (\$10 versus \$35) for members seeking care from a PCP and have a lower co-pay (\$10 versus \$20) when seeking mental health/behavioral health/substance abuse services. To encourage the healthy deliveries of newborns, expectant mothers enrolling in a Healthy Pregnancy Program will pay nothing for their delivery (\$0 versus 20 percent coinsurance). To discourage the use of lower value care, the co-pay for the following services would apply: Urgent Care (\$35 versus \$20), Specialist visit (\$50 versus \$35), and Emergency Room (\$200 versus \$50) if not admitted.

PERS Choice and PERSCare Benefit Design Modernization

There are only three proposed changes to the PERS Choice and PERSCare plans. The intent of the benefit design changes here is to differentiate the plans further by increasing the



deductible levels and making slight changes to the urgent care and specialist visit co-pay (Increase from \$20 to \$35) to align with the industry.

The following table illustrates the current and proposed deductible changes:

Plan	Current	Proposed
PERS Choice	Individual \$500 Family \$1,000	Individual \$750 Family \$1,500
PERSCare		Individual \$1,000 Family \$2,000

These changes are standard benefit design changes that will offer a wider set of affordable plan pricing options in all 58 counties of California for members and employers to choose from. While these changes could place additional cost of the part of the members who utilize a high level of services, these changes also help lower the premium for both the member and the employer and is intended to direct members to evaluate the PERS Select (New) where the members can engage in activities to lower the deductible.

While the deductible levels proposed are increases to the current plan deductible (Individual \$500, Family \$1000), the increase is much less than Covered California’s Silver plans (\$2,500 Individual, \$5,000 Family) offered on and off the Exchange.

Estimated Cost Reductions

The estimated cost reductions of the proposed three PPO modernized benefits is \$57M and comprised of the following:

	PERS Choice	PERSCare	PERS Select (New)	Estimated Total
Plan Design Impact	(\$34M)	(\$12M)	(\$11M)	(\$57M)
Migration Impact	(\$2.2M)	\$1.1M	\$600K	(\$0.5M)
Wellness Incentives (VBID)	\$0	\$0	\$2.5M	\$2.5M
Network Impact	\$700K	\$200K	(\$2.9M)	(\$2M)
				(\$57M)

- **Plan Design Impact** - Before taking migration, network changes, or selection into account, the proposed plan design changes have an estimated savings of \$57M.
- **Migration Impact** - With migration out of the PERSCare plan into the PERS Choice and PERS Select (New) plans comes increased savings. However, the per member cost of the PERS Choice and PERS Select (New) plans increases as the riskier members migrate from the PERSCare plan. Assuming historical patterns between plans still apply (which is a low migration assumption), estimated savings due to migration is \$0.5M.
- **Wellness Incentives (VBID Components)** – Reductions in the annual deductible are offered as incentives for members to participate in wellness activities under the PERS Select (New) plan. These reductions in the deductible offset some of the anticipated plan design savings. The estimated cost of these reductions is \$2.5M. Note that this estimate does not include an assumption that participation in the wellness activities will result in lower claims costs in the future.
- **Network Impact** – Network savings arise from the fact that the provider discounts in the PERS Select (New)/Select network are deeper than those in the network used in the PERSCare and PERS Choice plans. So, as members migrate out of PERS Choice and PERSCare into PERS Select (New), there will be claim cost savings attributable to the



deeper discounts in PERS Select (New). Conversely, as members migrate out of PERS Select and into PERS Choice, they lose the advantage of the deeper discounts. These changes result in an estimated reduction in claim costs of \$2M.

As part of the PPO Plans' benefit design evaluation, the team investigated the impact and goals related to risk adjusting the PPO premiums. The estimated cost reduction of \$57 million is independent of whether or not premiums are risk adjusted. Under VBID, if a member engages in good behavior such as seeking preventive services, maintaining chronic conditions, etc., their cost of health care should be lower, and their out of pocket cost will be lower if a member uses all five incentive programs. With the maximum reduction applied, the share of cost is reduced to match that of the proposed PERSCare plan share of cost. Conversely, a member that is not engaged in managing their health conditions would pay a higher share of cost in the VBID. The PERS Choice and PERSCare plans continue to offer the freedom of choice to PPO members who wish to maintain the status quo.

Next Steps

The CalPERS team will take the recommendations and feedback from the PHBC to refine the plan design and run actuarial modeling once the 2018 open enrollment is completed to evaluate the impact of not risk adjusting the PPO plans. This will result in a revised migration analysis which can be presented in February 2018, with the intent to seek Board approval in March, in time to incorporate the plan designs into the 2019 rate development process. In addition, the CalPERS team will engage our stakeholders and develop a communication plan for members.

Budget and Fiscal Impacts

The proposed PERS Select (New), 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. At this time, specific budget and fiscal impacts are estimated at \$57 million as a minimum. Higher savings may result from migration if 2019 premiums are not risk adjusted.

Benefits and Risks

PPO plan design optimization supports CalPERS 2017-22 Strategic Goal to transform health care purchasing and delivery to achieve affordability; promote prevention, healthy lifestyles and adherence to evidence-based medical and pharmacy practices which should improve population health. Strategies are consistent with the "Let's Get Healthy California" Triple Aim for Better Health, Better Care, and Lower Costs.

There is a risk the PPO plans' new benefit structures may not materially change behavior, modernized premium-saving efforts may not go far enough to achieve and sustain affordability, and there is the potential for increase in member appeals.

Attachments

Attachment 1 – PPO Basic Plan Design Summary Sheet

Attachment 2 – PERS Select (New) VBID Components

Attachment 3 – PPO Plans: Optimizing Health Care Benefits and Outcomes Presentation

Exhibit 1 – PPO Basic Plan Comparison Sheet



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