



## Pension and Health Benefits Committee Agenda Item 6

March 20, 2018

**Item Name:** Approval of PERS Select Value Based Insurance Design

**Program:** Health Benefits

**Item Type:** Action

### **Recommendation**

Approve the proposed Value Based Insurance Design (VBID) for the PERS Select basic plan for the 2019 plan year.

### **Executive Summary**

This agenda item provides information that the Pension & Health Benefits Committee (PHBC) requested at the February 2018 meeting and seeks PHBC's approval of a self-funded Preferred Provider Organization (PPO) PERS Select Basic VBID plan. This agenda item has no impact to Medicare members.

The CalPERS team plans to closely monitor and report to the Board on the VBID Plan effectiveness during the first year of operation, and periodically report on program results such as: (1) percentages of members that engage with a personal doctor and the type of doctor, (2) percentage of members that engage in the five VBID incentives, (3) percentage of qualifying members enrolled in the Healthy Mom's maternity program, and (4) the overall improvements to population health. At the end of a 2-year pilot period, the CalPERS team will conduct an evaluation study with recommendations for continuing or modifying the benefits.

### **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**

In July 2016, VBID was introduced as a plan design alternative that aligned with CalPERS strategies to improve health outcomes, and over the long term, reduce costs. With Board direction to move forward with research into benefit designs, there have been six (6) informational presentations about VBID to the PHBC (September 2016, January 2017, July 2017, September 2017, December 2017, and February 2018). Through this presentational process, the CalPERS team evaluated VBID plans implemented by other employers, invited experts to inform the PHBC about the benefits of VBID and lessons learned, and developed innovative and unique plan designs specific to CalPERS. The VBID objectives:

- Encourage members to receive high-value coordinated care through a personal doctor<sup>1</sup> to help assure members are getting the right care at the right time;
- Improve coordination of care and reduce system fragmentation;
- Advance coordinated care availability in counties not serviced by a Health Maintenance Organization (HMO) plan;
- Increase member engagement in health care decisions and reward members for selecting in value based programs and services; and
- Align with the goals of Healthier U Connections<sup>2</sup> and Let's Get Healthy California<sup>3</sup>. By encouraging members to select a personal doctor and engage in the VBID activities, members will have valuable information, such as their biometric screening numbers, to help guide their participation in these programs. As stated by Healthier U, "When we work toward common goals as teams we can achieve long lasting positive change."

## **Analysis**

### PERS Select (New) VBID Personal Physician Model

The CalPERS team believes our PERS Select members' health will benefit from a greater coordination of care from care teams, and provides people with the choice to engage in their health somewhat similar to an HMO model, but in those areas not serviced by HMOs,

The PERS Select (New) VBID Personal Physician Model provides a place where patients can expect, in most instances, that their health issues can be treated in some cases without needing to see a specialist. This model guides members and their families through the health system, including appropriate referrals for services from other health professionals. This member-physician-patient relationship facilitates ongoing dialogue between patients and clinicians and fosters participation by patients in decision making about their health and their own care. It provides opportunities for disease prevention and health promotion as well as early detection of problems and builds bridges between personal health care services and members' families and communities to help meet health needs.

The other aspect with this Personal Physician Model are economic incentives to earn credits toward the annual deductible. These are actions members take, including activities such as biometric screening, getting a flu shot, a non-smoking certification, or a second opinion for elective surgeries, and engaging with a nurse manager for disease management. The member's deductible is then reduced \$100 for each action taken. The purpose of this approach is to provide economic incentives for members to engage their health care decisions.

Most recently, at the February 2018 PHBC meeting, the PHBC instructed the team to; (1) examine the option of designing the PERS Select (new) VBID Plan (VBID Plan) with lower deductible levels; and (2) provide information on the projected cost savings and how these

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<sup>1</sup> For the purpose of the PERS Select (new) plan, personal doctor includes physicians or other primary care providers practicing in Family Practice, General Medicine, OB/GYN, Internal Medicine, Geriatrics, Pediatrics, Cardiology, Endocrinology, Rheumatology, Pulmonology, and Psychiatry.

<sup>2</sup> Healthier U is an online wellness service for state active employees designed to better their physical and mental health. Healthier U lets employees track health behaviors, connect with peers, and access resources online with the goal of reducing preventable chronic disease and promoting a culture of health among state employees.

<sup>3</sup> Let's Get Healthy California provides an ecosystem of resources focused on better health, better care, lower costs, and promoting health equity for all Californians. The goals focus on healthy beginnings, living well, redesigning the health system, creating health communities, and lowering the cost of care.

savings impact premiums for various employer and employee groups, including the state, public agencies and schools.

(1) VBID Plan With Lower Deductible Levels

The CalPERS team concluded that the option of designing the VBID Plan, with lower deductibles and credits for VBID activities which could bring the deductible level to zero (\$0) is not feasible. The accounting process requires that the credits for VBID activities actually reduce the deductible just like a deductible payment. If the deductible is met by the member in a year (such as a hospital admission or ER visit), and then the member satisfies the requirements for a credit, there would be no deductible amount available to credit against. Conversely, if a member receives one or more credits early in the year and then later in the year the credits need to be reversed (such as not getting a second opinion for surgery), this could result in the plan providing a credit it shouldn't have allocated.

Note:

Deductible is a set amount members must pay every year toward their medical bills before the health plan starts paying.

Copayment is the flat fee member pays every time they go to the doctor.

Coinsurance is the percentage of medical bill the member shares with the health plan after they have paid the deductible.

(2) Premium Savings for VBID Plan

Based on the number of individuals currently enrolled in the PERS Select plan, the CalPERS team calculated the estimated premium savings for the VBID Plan based on 2018 unadjusted rates.

The following table provides the number of Basic members currently enrolled in the PERS Select plan.

PERS Select Basic Enrollment	Subscribers	Dependents	Total Covered Lives
State Active	10,079	15,508	25,587
State Early Retiree	904	1,188	2,092
Public Agency Active	10,046	11,214	21,260
Public Agency Early Retiree	756	401	1,157
<b>Total</b>	<b>21,785</b>	<b>28,311</b>	<b>50,096</b>

The CalPERS team modeled the VBID Plan (as presented at the February PHBC meeting) and calculated an estimated \$10M in savings annually to the premium for just a snapshot VBID plan as show in Attachment 2. The estimated impact on the premium, using 2018 unadjusted rates for a single-party are illustrated in the following table:

PERS Select Single-Party Premium (Unadjusted)			
State/Contracting Agency Region	2018 Current	2018 VBID (est.)	Estimated Premium Saving (Per Month)
State	\$473.82	\$452.50	(\$21.32)
Bay Area	\$514.09	\$490.96	(\$23.13)
Sacramento	\$490.74	\$468.65	(\$22.09)
Los Angeles Area	\$410.71	\$392.23	(\$18.48)
Other S. California	\$469.13	\$448.02	(\$21.11)
Other N. California	\$495.66	\$473.36	(\$22.30)

The estimated savings for an entire plan year is between \$221 and \$277 per subscriber depending on the State, contracting agency, and region. Depending on the employer's contribution formula, the following table illustrates examples of how the above single-party premium savings per month would be shared based on a variety of employee and employer types in different regions.

Average pension per month: State \$3,428, Public Agency \$3,674, School \$1,613			
State / Public Agency Region	Estimated Premium Saving	Active & Early Retiree	
		Employee Savings	Employer Savings
<b>State</b>			
Monthly Savings	(\$21.32)	\$0.00 <sup>4</sup>	(\$21.32)
<b>Total Annual Savings All Members</b>	<b>(\$5,515,994)</b>	<b>\$0.00</b>	<b>(\$5,515,994)</b>
<b>Public Agency (PA) &amp; Schools</b>			
Bay Area (monthly savings)	(\$23.13)	(\$15.96)	(\$7.17)
Sacramento (monthly savings)	(\$22.09)	(\$15.24)	(\$6.85)
Los Angeles Area (monthly savings)	(\$18.48)	(\$12.75)	(\$5.73)
Other S. California (monthly savings)	(\$21.11)	(\$14.57)	(\$6.54)
Other N. California (monthly saving)	(\$22.30)	(\$15.39)	(\$6.91)
<b>Total Annual Savings All Members</b>	<b>(\$4,514,763)</b>	<b>(\$3,115,186)</b>	<b>(\$1,399,576)</b>

For State employees and fully vested early retirees, the current Basic State Actives formula pays for the entire PERS Select premium, so the employer receives all the estimated savings (\$5.5M). Since public agencies and schools utilize different premium formulas (than the Basic State formula), the estimated savings, on average, is approximately 69% for the employee (\$3.1M) and 31% (\$1.4M) for the employer.

<sup>4</sup> For early retirees not fully vested, there would be some savings to these members who pay some portion of the premium.

### Estimated Cost Savings

The following table illustrates the breakdown and total estimated cost savings for the VBID Plan (approximately \$10M) by category.

Category	Estimated (Savings)/Costs Based on 2018 Premiums
VBID Plan Design Savings	(\$8M)
VBID Incentives/Costs	\$3.8M
VBID Network Savings	(\$5.7M)
<i>VBID Plan Savings</i>	<i>(\$10M)</i>

### Projected Qualitative Results of the VBID Plan

The proposed VBID Plan aligns with CalPERS's strategies to improve health outcomes, and over the long term, reduce costs. This innovative plan design:

- gives California PPO members the opportunity to select a personal doctor to help them navigate the complexities of the health care system;
- encourages members to build a relationship with their personal doctor and engage in VBID activities;
- aligns with the Let's Get Healthy California and the Healthier U California workplace wellness program by helping members engage in healthy decisions like biometric screening, certifying non-smoking status and preventive care, such as flu shots; and
- continues to allow freedom of choice.

### Monitoring the VBID Plan Effectiveness

The CalPERS team plans to closely monitor and report on the VBID Plan effectiveness during the first year of operation. The team plans to report on factors, such as: 1) percentages of members that engage with a personal doctor and the type of doctor, 2) percentage of members that engage in the five VBID incentives, 3) percentage of qualifying members enrolled in the Healthy Mom's maternity program, and 4) the overall health risk of the population. By evaluating key factors such as these over a 2-year pilot period, CalPERS staff can make recommendations to the PHBC based on experience. These recommendations may include the expansion of the VBID incentives to other PPO products based on the VBID Plan results.

### Next steps

Should the Board approve the proposed VBID Plan, the changes will be incorporated into the 2019 rate development process. The CalPERS team will begin working with the third-party administrator to develop a communications/outreach plan to members that will inform members of the upcoming changes and develop the communications plan necessary to engage stakeholders as well as encourage members to select or be attributed to a personal doctor, and encourage members to engage in the VBID incentive activities. The CalPERS team will reach out to other stakeholders, including Healthier U and Let's Get Healthy California, to see how messaging to members can be collaborative.

The CalPERS team will report on the VBID outreach and communications plan prior to the 2019 Open Enrollment.

### **Budget and Fiscal Impacts**

The CalPERS team investigated the costs and savings associated with the PERS Select (New) benefit design changes, VBID incentives, and PPO network pricing impacts. The proposed design changes are estimated to result in a cost reduction of approximately \$10 million annually that would apply to the employee and employer as described in the Analysis section above. The proposed plan design changes are expected to improve member engagement in health programs and mitigate future years' premium increases associated with medical costs.

### **Benefits and Risks**

The redesign promotes enhanced coordination of care to counties without an HMO plan, prevention, healthy lifestyles and adherence to evidence-based medical practices which should improve population health. The strategies are consistent with "Healthier U" and the "Let's Get Healthy California" Triple Aim for Better Health, Better Care, and Lower Costs.

There are risks that the VBID new benefit structures may not materially change behavior, members may not engage in the incentives, such as biometric screening and non-smoking certification. Savings to employees and employers may not meet estimates.

### **Attachments**

Attachment 1 – VBID Plan PPO Basic Plan Design Summary and 5 Easy Deductible Incentives  
Attachment 2 – Value Based Insurance Design Presentation

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**Kathy Donneson, Chief**

Health Plan Administration Division

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**Liana Bailey-Crimmins**

Chief Health Director

Health Policy and Benefits Branch