Pension and Health Benefits Committee

Agenda Item 7b

September 25, 2018

Item Name: Evaluation of Health Regions for Public Agencies and Schools

Program: Health Benefits

Item Type: Information

Executive Summary

This item presents an update on the California Public Employees' Retirement System (CalPERS) Evaluation of Health Regions for Public Agencies and Schools (EHRPAS). The CalPERS team elicited feedback from hundreds of stakeholders and initiated actuarial analytic services to evaluate health care costs associated with public agency and school regions for Basic members. Outcomes from these activities are presented for informational purposes. The goal of this project is to evaluate the regional composition and regional factor calculations and propose changes if needed, to ensure that premiums are aligned with geographic costs of health care.

Strategic Plan

This item supports the CalPERS 2017-2022 Strategic Goal "Transform Health Care Purchasing and Delivery to Achieve Affordability."

Background

In 2005, CalPERS began regionally adjusting healthcare premiums to stay competitive and mitigate further agency losses in Southern California. While regional health care costs are assessed annually through the rate development process, the methodology by which CalPERS arrives at regional factors has not been revisited since 2005.

The CalPERS team provided a detailed history and background of the CalPERS public agency and school health regions at the January and July 2018 Board offsite meetings. In July, the panel presented information on why the regions were first created and the benefits of regional pricing of health premiums. Consulting actuaries from Milliman discussed how the regions were first created, using regional cost information, and they provided market scan results showing other entities that use regional pricing in California.

Analysis

Member Engagement

CalPERS used a survey to engage decision makers and influencers at public agencies and schools, to ascertain their level of understanding of the reason for and methodology of the health regions and regional factors. Circular letters and e-mail invitations to over 800 agency contacts were sent to elicit input. The survey was available for a three-week period and resulted in 263 responses. Responses received represent public agencies and schools throughout the state, as shown in the Table 1 below.

Table 1

Health Region	Count of Respondents
Bay Area	81
Sacramento	27
Los Angeles	48
Other Northern	38
Other Southern	53
Skipped Question	16
Total	263

Both large and small public agencies and schools were reflected in the responses, as shown in Table 2 below.

Table 2

Agency Size (members)	Percentage of Respondents
1-25	20%
26-50	12%
51-100	15%
101-500	32%
501 or more	21%

The CalPERS team analyzed survey statistics and responses to gain insight on the experience of public agencies and schools in the health program and to determine level of satisfaction with the current regions. Some of the highlights of this analysis are below.

- 8% of respondents were from school districts, 9% from counties, 44% from cities and 39% from special districts.
- 31% responded that CalPERS regional premiums were very or extremely competitive, 51% responded moderately competitive, while 17% responded that CalPERS regional premiums were slightly or not at all competitive.
- Approximately half of the respondents in the Bay Area Region feel that regional premiums do not reflect the cost of living in their area.
- Most respondents indicated they were only moderately knowledgeable of CalPERS regional pricing methodology.
- Most respondents indicated they would prefer that CalPERS calculate regional factors rather than the health plans.

- 55 respondents volunteered to engage in further discussions regarding regions.
- A common theme from the narratives that responders provided was that decision makers were less resistant to change if it was communicated effectively.

On August 22, 2018, the CalPERS team conducted a webinar entitled *Your Guide To CalPERS Health Regions*. This webinar was recorded and made available via the CalPERS YouTube channel.[1] The team received positive feedback from many of those who attended. The webinar will continue to be an added resource to help educate stakeholders about public agency and school health regions.

Finally, the team conducted focus groups to obtain input from the following stakeholder groups:

- August 29, 2018 - Retiree Stakeholder Focus Group
- September 7, 2018 - Labor Stakeholder Focus Group
- September 7, 2018 - Employer Stakeholder Focus Group

The CalPERS team provided background on public agency and school health regions and asked each stakeholder group a series of questions designed to elicit thoughtful responses and encourage an exchange of ideas and opinions. Initial analysis of the results of these exchanges shows stakeholders are interested in participation in the process and an ongoing exchange of ideas regarding regions and healthcare in general.

<u>Region Analytics Methodology</u>

CalPERS engaged Milliman to work with the CalPERS team to conduct an actuarial analysis of the relative cost of health care by county for public agencies and schools. The analytics utilized millions of health care claim records over a 5-year period (2013-2017). Data was summarized and grouped by plan type, to account for the differences in payment structure, benefit design and network. Three plan type groups were created: Preferred Provider Organizations (PPOs) and Exclusive Provider Organizations (EPOs), Health Maintenance Organizations (HMOs) other than Kaiser, and Kaiser HMO.

HMOs, with their heavily capitated payment model, tend to be less expensive than PPOs in most counties. The Kaiser HMO data was analyzed separately because its two-region model tends to flatten the variation between counties. Kaiser data will be reintroduced in later analyses.

The team combined PPO, EPO and non-Kaiser HMO data from the Health Care Decision Support System (HCDSS) to calculate the relative cost of care. County relative cost factors were calculated from each county's healthcare costs, adjusted for health status. This adjustment maintains the relative cost patterns that exist due to geographic competition and service delivery efficiencies rather than health status. The team calculated a five-year average cost factor for each county, with recent years weighted more heavily than older years.

To account for outliers, high-cost claims (over $500K) were excluded when calculating the relative cost of care. In addition to county delimiters, the team is also examining costs by 3-digit zip code. Zip codes offer greater detail in populous areas but less detail in rural areas. The team is exploring ways to combine counties and zip codes to offer greater flexibility and accuracy when drawing regional boundaries.

[1] Webinar https://www.youtube.com/watch?v=SQHjHfDnIEg

Region Analytics Results

Prior to implementation of regional pricing, some agencies were being charged above market rate premiums to stay in the program. Because of this, CalPERS was losing agencies and members. Ultimately the goal of regional pricing is to stay competitive, to provide stability of the premiums, and to ensure the future of the program. To this end, the team is in the preliminary phases of developing regional pricing options to present to the Board in November.

Considerations when making any changes to regional composition or calculations include member impacts and market analysis. How many members will be affected by the change and will it be positive or negative? If CalPERS had calculated the 2019 regional factors, what would they have been and how would it have affected the premiums and our members? How competitive are regional rates compared to the outside market? The following attachments are some of the tools the team is currently using to develop and evaluate scenarios.

Attachment 1 shows a map of county cost relativities using PPO and non-Kaiser HMO health data. Higher cost counties are in red and lower cost counties in blue.

Attachment 2 shows the current CalPERS health regions for reference.

Attachment 3 shows the ranges of cost relativities, highest to lowest, in the regions and counties. Counties with very low enrollment (less than 1,000 member months, which is approximately 80 members) were removed from this analysis.

Attachment 4 shows the relative cost of care scatterplots for each county within the existing CalPERS regions.

These attachments illustrate that the cost relativities and the relative cost of care in most southern counties are below the statewide average, and the cost relativities and relative cost of care in most northern counties are above the statewide average.

Next Steps

The team will continue to analyze data and engage with stakeholders. We will bring scenarios for regions and regional factors to the Board in November. In December, we will refine scenarios and request a decision to be effective 2020.

Budget and Fiscal Impacts

No impact. This item is budget-neutral.

Benefits and Risks

The evaluation of costs for public agency and school health regions provides for continuous improvement in ensuring that the relative cost of care for a region is accurate. The adjustment of CalPERS regions may benefit some agencies and may impact other agencies if the Board chooses to adjust regions for the 2020 plan year.

Attachments

Attachment 1: County Cost Relativities Using Non-Kaiser HMO and PPO Data (Map)

Attachment 2: Current CalPERS Regions for Public Agencies and Schools (Map)

Attachment 3: Cost Relativities by Current Region and County (Table)

Attachment 4: Cost Relative to Statewide Average by Current Region and County (Scatterplot)

Attachment 5: September Region Analytics Presentation (Power Point)

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