



## Finance and Administration Committee

# Agenda Item 8b

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**November 14, 2018**

**Item Name:** Semi-Annual Health Plan Financial Report

**Program:** Health Policy Research Division

**Item Type:** Information

### **Executive Summary**

Prior to 2014, Blue Shield and Kaiser Health Maintenance Organization (HMO), and the Self-Funded Preferred Provider Organization (PPO) were the health plan options available to California Public Employees' Retirement System (CalPERS) members. Starting in 2014, CalPERS introduced several new Partially Self-Funded HMO health plan options. Since the new plan options have been available, enrollment in these new plans has increased from over 22,000 Total Covered Lives (TCL) in 2014 to almost 160,000 in 2018. This report summarizes the financial results as of June 30, 2018 for all HMO and PPO plans.

### **Strategic Plan**

This agenda item supports Goal A: Improve long-term health benefit sustainability by ensuring high quality, accessible and affordable health benefits.

### **Background**

This report is to provide the Committee with an update on the financial status for the six (6) CalPERS PPO plans and the eight (8) Flex-Funded HMO health plans.

### **Analysis**

#### PPO Plans

Attachment 1 summarizes the results for the PPO plans. Anthem EPO in Monterey discontinued operation effective December 31, 2017 and was replaced by Anthem Select HMO, therefore it is no longer included in the Semi-Annual Financial Report. Actual Reserves, or assets, for the PPO plans are currently \$707.6 million, which is a decrease of \$22.0 million from the assets at the end of 2017. Reserves for the PPO plans are \$596.6 million, which is a decrease of \$6.8

million from the reserves at the end of 2017. Overall, the Self-Funded PPO plans have a ratio of assets to reserves of 119 percent.

For the first 6 months of 2018 there was an overall loss of \$15.1 million for all 6 Self-Funded PPO health plans. The gain or loss evaluates revenue against claims and expenses. Revenue includes premiums, drug rebates, subsidies from the Employer Group Waiver Plans (EGWP) program, and investment income.

These financial figures do not reflect the updates of the Reserve Policy approved by the Board in September 2018. The reserve updates and any potential impacts on future health plan premiums will be addressed in the next Semi-Annual Financial Report in April 2019 and during the 2020 rate development process.

Medical and pharmacy claims costs are shown on pages 6 and 8 of the attachment. Medical claims cost trends are looking favorable for Basic plans, all trends are negative. Conversely, current medical trends for Medicare plans are around 12% on average. The medical trends for both Basic and Medicare plans are reflective of the seasonality patterns on claims based on the current PPO benefit designs. Pharmacy claims cost trends are around 8% for all plans.

Total enrollment in 2018 has increased by 2.1% over 2017 enrollment. Enrollment in PERS Care Basic continues to increase, from 31,000 to almost 40,000, while enrollment in PERS Choice Basic dropped by 7,100 (about 5%) and PERS Select Basic increased by 3,300 (about 7%). Enrollment in the Medicare plans increased by almost 3,400 (about 3%) in 2018.

### HMO Plans

Excluding Kaiser, CalPERS reimburses the Partially Self-Funded HMO plans for a capitation amount equal to the actual capitation amounts the plans paid to their providers. Capitation is a payment arrangement with health care service providers such as physicians or medical groups, etc., and is a set amount per person per month that is paid to cover the risk for a defined set of health care services, whether those services are provided or not. Once CalPERS receives the invoice for the capitation amount due, and remits payment to the plans, the remainder of the premium is deposited into the Health Care Fund and is used to pay the third-party administrative fees and fee-for-service claims when the plan submits an invoice.

Attachment 2 summarizes the results for the HMO plans. The asset value for each HMO plan is shown on the first two pages of the attachment. There have been some changes to the HMO plans. Western Health Advantage started in 2018 as a new Partially Self-Funded HMO plan in CalPERS Health Benefits Program. With the implementation of a consolidated fully funded Medicare Advantage Program with United Health Care effective January 1, 2016, all other Partially Self-Funded Medicare plans were terminated. In addition, the Blue Shield Net Value plan discontinued operation effective December 31, 2016, as a result, the Partially Self-Funded Medicare plans and Blue Shield Net Value Basic plan are no longer included in the Semi-Annual Financial Report.

As of June 30, 2018, the assets for the HMO plans totaled \$250.3 million; an increase of \$225.4 million from the end of 2017. Most of the increase was based on the risk adjustment reconciliation results for 2017 and the risk transfers for the first 6 months of 2018.

Medical and pharmacy claims costs are shown on pages 4 and 6 of the attachment. The variation in claims costs reflects the demographics of the population covered and the regions in which they live. In addition, the significant enrollment changes that have occurred during the last 4 years make the analysis of claims costs difficult to interpret.

Enrollments for each plan are shown on page 8 of the attachment. Total enrollment for Basic plans has remained flat, decreasing by 0.8% over 2017, however, there are major enrollment changes for some plans. Enrollment in Health Net Smart Care decreased by 18,000 (about 50%) while enrollment in Health Net Salud y Mas continues to increase, from 5,900 to 8,600 (about 44%). Enrollment in Anthem Select decreased by 5,800 (about 20%) and Anthem Traditional remained the same as 2017.

### **Budget and Fiscal Impacts**

This item is for information purposes only and has no impact on the CalPERS budget. Any impact this may have on future health plan premiums will be addressed during the rate development process that generally occurs from April through June in the Pension and Health Benefits Committee.

### **Benefits and Risks**

#### Benefits

- The current financial status of the PPO plans is stable, with adequate premiums and reserves to fund benefits
- The flex-funding arrangement provides better insight into medical fee-for-service and pharmacy claims in an HMO population

#### Risks

- The higher than expected costs in medical and/or pharmacy could lead to larger than expected premium increases

### **Attachments**

Attachment 1 - Key graphical analyses of financial and historical data for the PPO plans.

Attachment 2 - Key graphical analyses of financial and historical data for the HMO plans.

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