CalPERS

Pension and Health Benefits Committee
Agenda Item 7a

November 14, 2018

Item Name: Review of Public Agency Regions/Regional Factors

Program: Health Benefits

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Executive Summary

This is a continuation of the Evaluation of Health Regions for Public Agencies and Schools (EHRPAS). This agenda item presents scenarios for health region composition and regional factor calculations for comment and direction that will lead to a recommendation and decision in December 2018. Any changes to regions or regional factors will become effective in the 2020 health plan year.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2017-2022 Strategic Goal "Transform Health Care Purchasing and Delivery to Achieve Affordability."

Background

CalPERS has had regions and regional pricing of Basic health care premiums for its public agency and school employers since 2005. Regions allow CalPERS to provide high quality health plans with rates that are competitively priced and aligned with the market. In 2018, CalPERS is assessing regions to determine if changes would benefit our employers and members. The assessment includes a comprehensive analysis of health care costs throughout the state, employer and stakeholder outreach, and development of various regional scenarios.

The history and background on the development of public agency and school health rate regions were presented at the January 2018 Board of Administration (Board) Offsite. At the July Board Offsite, experts from Milliman, an actuarial consulting firm, provided a market scan of regional pricing, comparing CalPERS with Covered California and Medicare. In September, preliminary findings were shared for cost relativities by county, as well as, feedback from stakeholder outreach efforts.

In order to remain competitive, CalPERS must assess and adapt to changes in regional costs over time.

Analysis

Guiding Principles

The guiding principles established in September were used throughout the analysis and discussions with stakeholders: to provide the greatest good for the greatest number of people, remain competitive, and be Public Employees' Medical and Hospital Care Act (PEMHCA) compliant. These principles were well received by stakeholders and have helped guide the analysis of regions. For the evaluation of the scenarios, this meant aligning premiums with cost of care in the region as much as possible, while balancing premium impact to employers and members. Remaining competitive and PEMHCA compliant are both achieved by ensuring that premiums reasonably reflect the costs of health care. Providing the greatest good for the greatest number of people means we assess scenarios based on premium impact to members, striving to have a lower percentage of members with premium increases, while balancing the ability to market in a region.

Nomenclature

Employers and stakeholders overwhelmingly voiced their concern about CalPERS region names and provided feedback that we revise the nomenclature regardless of whether they are redrawn. In 2004-05, when regions were developed, the names made sense but over time they have created confusion and negative feelings among some employers who feel they are mislabeled. We received input on naming conventions, including calling them rating regions, zones, and tiers, as well as, the use of numbers or letters to distinguish the regions.

For presentation of the scenarios, we use the nomenclature of "rating regions" and assign each region a number.

Regional Factor Calculations

A regional factor is used along with the state premium to determine regional premiums for public agency and school employers. Regional factors for the Preferred Provider Organization plans are set by the CalPERS actuarial team. Factors for the Health Maintenance Organization (HMO) plans are developed by the HMO. The rate development team provides instruction in the rate development process for health plans to calculate regional factors. The team then works with the plans and a third-party actuary to negotiate an acceptable regional factor.

One of the challenges has been a lack of transparency of the actuarial method used by the HMOs to calculate their factors. During the last rate development cycle, extreme regional factors prompted CalPERS to remove certain health plans from regions where they could not offer a reasonable factor.

As part of this comprehensive review of regions, the Pension and Health Benefits Committee (PHBC) will consider how regional factors are calculated in the future to give CalPERS greater transparency. There are three options for the PHBC's consideration for action in December:

1. Continue the current practice in place today for HMO plans where the plans interpret directions and then calculate factors and provide the factors to CalPERS
2. CalPERS will provide prescriptive definition to HMO plans for calculating the factors
3. CalPERS sets a range for HMO regional factors that the health plans must stay within

Alternative three would provide health plans a range of regional factors that CalPERS will accept for each pricing region. Under this option, CalPERS actuaries will calculate a range for each region, based on the health claims in that area. This would give CalPERS greater control over the calculation of regional factors while still giving the plan some leeway to respond to member migration and emerging geographic trends such as network changes, new hospitals, regional dispensing patterns or contracting challenges. This is the recommendation of the health actuarial team.

Methodology

The purpose of regionally pricing health premiums is to be able to market to areas where health care costs are less than the state-wide average. If we do not do this, CalPERS may become less competitive and lose members in those areas. When there was essentially one statewide region, the cost of care was not aligned with the premiums charged for many in our program. Introducing regions allowed us to align premiums with the cost of care for public agency and school members.

The less covered lives in a region, the smaller the risk pool and the more difficult it is to accurately predict costs for the following plan year. This can result in premium fluctuations. Grouping counties together provides stability for smaller counties. A greater number of regions creates more instability. Grouping counties together offers greater premium stability from year to year.

In September, the team presented county cost relativities. Since September, working with Milliman, the model was adjusted to incorporate three-digit zip codes and create 157 unique county/zip code combinations with relative cost values for each. Zip codes allowed the team to analyze the data in more detail in densely populated counties. The model incorporates 2019 Basic public agency and school premium data to calculate the potential changes to premiums introduced by various scenarios. Kaiser premium and cost of care data was added to the model, as well as, refreshed enrollment data from October 2018, to calculate the impact on premiums and marketability.

<u>Region Scenarios</u>

Scenarios were evaluated by premium impact and cost/premium alignment, which we refer to as marketability. A negative premium impact is one where a high percentage of members would see potential premium increases greater than three percent. Cost/premium was considered in alignment if a significant percentage of members had a premium that was within three percent of the cost of care in the area. The team experimented with various thresholds in the model. Three percent was ultimately used to reflect the variance of market inflation during the past ten years.

The data set examined was comprised of 2017 Basic public agency and school health data consisting of 466,928 total covered lives and modeled regional scenarios based on cost-only or cost and geography. Also evaluated was the effect of adding zip codes to the model and scenarios with additional regions based on premium impact and marketability. In several scenarios, Los Angeles County was split across two regions based on the cost of care differences between those areas of the county. This may require some additional administrative costs. The analysis also found no significant difference to premium impact and marketability in scenarios of more than six regions.

Based on the analysis of the data, presented are five scenarios. Each of these scenarios is a change from the regional boundaries in place currently. The following summarize each scenario. Maps and more detailed analyses are available in Attachment 2.

In each scenario, the members were identified as having a premium decrease by more than three percent, while a minimal impact is considered to be a change in premium within three percent.

Scenario A: Two Regions

This scenario divides the state into two rating regions along county borders. Two regions may provide increased stability for regional premiums.

Premium Impact: Premium decrease for 41 percent of members and a minimal premium impact for 26 percent of members.

Marketability: 40 percent of premiums are aligned with cost of care.

Scenario B: Four Regions

This scenario divides the state into four regions of mostly contiguous county and zip code combinations. Los Angeles county is split by zip codes into two cost zones.

Premium Impact: Premium decrease for 40 percent and minimal premium impact for 23 percent of members.

Marketability: 48 percent of premiums are aligned with the cost of care.

Scenario C: Five Regions

This scenario divides the state into five regions of mostly contiguous county and zip code combinations. It offers similar premium impact as scenario B with slightly better cost of care alignment. Los Angeles county is split by zip codes into two cost zones.

Premium Impact: Premium decrease for 39 percent and minimal premium impact for 23 percent of members.

Marketability: 50 percent of premiums are aligned with cost of care.

Scenario D: Six Regions

This scenario divides the state into six regions of mostly contiguous county and zip code combinations. Los Angeles county is split by zip codes into two cost zones.

Premium Impact: Premium decrease for 39 percent and minimal premium impact for 24 percent of members.

Marketability: 49 percent of premiums are aligned with cost of care.

Scenario E: Five Regions Based on Cost Relativity

This scenario divides the state into five regions based on the relative cost of each county.

Premium Impact: Premium decrease for 34 percent and minimal premium impact for 31 percent of members.

Marketability: 51 percent of premiums are aligned with cost of care.

Marketplace Evaluation

CalPERS asked Milliman to provide a market comparison of regional rates. In California, most school districts participate in either CalPERS or one of several large consortiums of school districts, such as Self Insured Schools of California (SISC) and California's Valued Trust

(CVT). These large consortiums offer a menu of health plan options similar to the CalPERS plan options. They differ from CalPERS because each district's premium depends to some extent on their own health experience, whereas CalPERS schools all have the same underlying total monthly premiums for each participating employer within a given rating region.

SISC is the largest public-school pool in the United States and has more than 400 educational agencies as members with membership of more than 350,000 members. SISC offers more than 300 distinct health plans through Anthem Blue Cross, Blue Shield of California, and Kaiser. Participating school districts do not offer all of these health plans, instead they generally select a subset. CVT is smaller than SISC, though still a major public-school pool in California. CVT offers more than 200 distinct health plans through Anthem Blue Cross, Blue Shield of California, and Kaiser. Like SISC, school districts that participate in CVT do not offer all of these health plans but instead select a subset.

Milliman compared the observed 2017 composite monthly premiums for CalPERS, SISC, and CVT. Each school's composite reflects their own mix of enrollment by dependent tier, benefit plan design, and health plan carrier. In addition, the SISC and CVT premiums also reflect each school's health status and regional costs. The results of this comparison showed that CalPERS remains very competitive in all regional areas. While the statewide average is slightly higher, the CalPERS plan benefits are in general more comprehensive, since CVT and SICS have significant enrollment in high deductible health plans.

Next Steps

The team will take back questions, refine scenarios and provide additional analysis based on PHBC direction. We will also continue to meet with stakeholders and collect feedback to be incorporated into our analysis. In December, we will bring an action item to the PHBC for decision on regions, regional nomenclature, and regional factors, to become effective in 2020.

Budget and Fiscal Impacts

The proposed evaluation is technical and does not impose any budget or fiscal impacts to the state.

Benefits and Risks

The evaluation of costs for public agency and school health regions provides for continuous improvement in ensuring that the cost of health care for a region is aligned with premiums. The adjustment of CalPERS regions may cause some member premiums to increase and others to decrease. This may cause shifts in enrollment and possible loss of agencies. It could also result in increased marketability to some agencies.

Attachments

Attachment 1: Current Regions Map

Attachment 2: Regional Scenarios

Attachment 3: Health Regions for Public Agencies and Schools Scenarios and Regional Factors

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