Pension and Health Benefits Committee

Agenda Item 6a

December 18, 2018

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

Program: Health Benefits

Item Type: Action

Recommendation

Approve a three-region model for public agency and school health regions as represented by scenario A1, and direct the California Public Employees' Retirement System (CalPERS) to set a range for Health Maintenance Organization (HMO) regional factors.

Executive Summary

This agenda item provides information requested by the Pension and Health Benefits Committee (PHBC) at the November 2018 meeting, and seeks approval of the recommendation for a three-region model and a range for setting the HMO regional factors. The team recommends adopting new region boundaries to have a larger number of members with premiums more in alignment with the cost of care in their region. When premiums and costs are more closely aligned, members and employers benefit and CalPERS can more effectively compete in the market. The three-region model is a slight modification to the two-region scenario presented in November. We recommend separating Southern California into two regions, by grouping together the counties with the lowest costs of care in the state: Los Angeles, Riverside, and San Bernardino counties. For HMO regional factors, the team recommends CalPERS sets a range each year for the plans to stay within. This would provide CalPERS greater control over the factors, while giving the plans flexibility to respond to trends and their particular enrollment. Any change to regions and the calculation of regional factors will take effect in 2020.

Strategic Plan

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

Background

Regions enable CalPERS to provide high quality health plans to public agency and school contracting employers with rates that are competitively priced and in alignment with the cost of care in the market. Over the last six months, the team performed an extensive evaluation of CalPERS specific data to examine and measure the costs of care in the regions as they compare to the statewide average. The goal of the evaluation was to assess costs throughout the state, scan the market, hear from employers and stakeholders, and determine if any changes to the regions are warranted.

Throughout the year, extensive employer and stakeholder outreach was conducted. CalPERS surveyed and met with employers as well as the associations for retirees, employer, and labor, representing members. The primary areas of concern included:

- The current geographically-based names used for regions.
- Premium volatility from year to year that significantly impacts local agency budgets more than estimated.
- Premiums in the Bay Area and Other Northern regions, where the cost of healthcare is greater compared to Southern California areas.

In November, the team presented five scenarios. To assess how the proposed scenarios compared to the status quo, each was evaluated by:

- The estimated change to members' 2019 premiums
- Alignment to the cost of care in the region, which we called marketability

Marketability refers to the percentage of Total Covered Lives (TCLs) that are paying within 97 percent of the cost of care in their particular area. The higher the marketability percentage, the more members with premiums in alignment with their cost of care.

The current five-region structure has a marketability of 22 percent. Each new scenario for consideration nearly doubles the marketability, ranging from 38 to 50 percent. Adopting a new region model will increase the number of TCLs with premiums more closely aligned to their cost of care, which will benefit members and employers, reduce premium volatility, and improve the overall competitiveness of the health program.

Analysis

Responding to direction from the November 2018 PHBC meeting, the team took a closer look at the estimated increases to 2019 premiums for each scenario. The analysis included various impact thresholds, counting the number of TCLs experiencing an estimated premium increase between 3 and 5 percent, between 5 and 7 percent, between 7 and 10 percent, and greater than 10 percent. This information can be found in Attachments 1 and 2.

The analysis also identified four potential "hot spots" defined as a large number of TCLs with an estimated increase, and/or a large Per Member Per Month (PMPM) increase. In scenarios A and A1, Sacramento showed a large number of TCLs with an impact between seven and 10 percent. In Monterey and Stanislaus counties, there is a large PMPM increase across all scenarios, but to a small population. In all scenarios, the current Los Angeles region shows a large population with an estimated increase greater than three percent. Potential hot spots are shown in Attachment 3.

While all scenarios contain some examples of premium increases for certain members, up to the largest increase of 35 percent in one instance, it is important to note that these examples are not predictions but rather represent an illustration of estimated premium changes. Actual premium impact will remain unknown until after the 2020 Rate Development Process. Additionally, the decision on HMO regional factors will influence the final public agency rates.

Based on board and stakeholder input, the team looked at Scenario A, a two-region model, and recommends a slight modification to incorporate a third region in Southern California, consisting of Los Angeles, Riverside, and San Bernardino counties. These counties have some of the lowest costs of care in the state.

Scenario A1 shows a marketability of 38 percent compared to 40 percent in Scenario A, and a significantly lower number of TCLs with an estimated premium increase, compared to the other scenarios. This model also has the greatest number of TCLs within the three percent threshold.

While Scenarios A, B, C and D offer higher marketability, there would be significantly more TCLs with estimated premium increases. We considered the principles of the greatest good for the greatest number of people, and the ability to compete. Thus, we concluded that Scenario A1 offers the most benefits compared to the current regional structure, or the other four scenarios. Benefits include:

- Nearly doubling the marketability to 38 percent from the current 22 percent (more TCLs have premiums in alignment with the cost of care)
- Fewer regions will increase region populations, which increases premium stability year over year
- Premium stability will help to retain and attract public agencies over time, and addresses volatility as one of the top concerns from employers
- More administrative ease for employers

We will adopt a new naming nomenclature that sequentially numbers the regions, 1, 2, 3, etc. This will take effect whether regions remain as they are, or there are new regional boundaries.

<u>Regional Factors</u>

A regional factor is used along with the state premium to determine regional rates for public agency and school employers. In November, the team provided three options for how the regional factors are to be developed by the HMOs, and recommended option 3 from the alternatives:

1. Continue the current practice in place today for HMO plans where the plans interpret directions, 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

To avoid extreme regional factors, and create consistency among the health plans' calculations in the future, we recommend for CalPERS to set a range for the HMO regional factors for the plans to stay within. This will give us greater control, while providing the plans with latitude to respond to trends and their particular enrollment.

Budget and Fiscal Impacts

This item has no impact on the CalPERS budget. Any impact the recommended changes may have on future health plan premiums for contracting agencies will be addressed during the rate development process.

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 health care premiums. The adjustment of CalPERS regions may cause some member premiums to increase and others to decrease. This may cause fluctuations in enrollment and possible loss of agencies. Conversely, it could also result in increased marketability to some agencies.

Attachments

Attachment 1: Regional Scenario Scorecard

Attachment 2: Maps and Estimated Premium Increases

Attachment 3: PowerPoint

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