



Pension and Health Benefits Committee

Agenda Item 7a

March 19, 2019

Item Name: 2020-2024 Preferred Provider Organization (PPO) Plan Third-Party Administrator Contract Award

Program: Health Benefits

Item Type: Action

Recommendation

The California Public Employees' Retirement System (CalPERS) team recommends that the Pension and Health Benefits Committee (PHBC) consider the results of the Solicitation No. 2019-8505 ("Solicitation") and recommend to the Board of Administration (Board) the Intent to Award to the selected Firm who best demonstrates the ability to offer services in terms of provider network/coverage area, pricing, and agreement to fulfill contractual terms and conditions of CalPERS 2020-2024 PPO Contract.

Executive Summary

This agenda item provides information to the PHBC on the process that CalPERS used for the PPO health plans health benefit offerings. CalPERS solicited proposals for a 5-year agreement beginning January 1, 2020 and ending December 31, 2024. The Solicitation process resulted in two finalists: Aetna and Anthem Blue Cross. The evaluation review process determined that both Firms demonstrated their ability to meet CalPERS needs.

Strategic Plan

This item supports Strategic Goal Plan: Health Care Affordability – "Transform Health Care Purchasing and delivery to Achieve Affordability."

Background

The health plan procurement process is consistent with Government Code Section 22850 whereby the Board may, without compliance with any provision of law relating to competitive bidding, enter into contracts with carriers offering health benefit plans or with entities offering services relating to the administration of health benefit plans. CalPERS undergoes a competitive solicitation process to identify top health plan proposals and provide best and final offers for Board consideration. To improve its ability to deal with the rising cost of medical services, CalPERS, through this competitive Solicitation process, sought proposals from Firms

committed to combating rapidly increasing costs while maintaining member access to quality healthcare. The expected outcomes for the Solicitation include adequate provider networks/coverage areas, sustained affordability through competitive pricing, and Firm's agreement to CalPERS 2020-2024 Contract.

Analysis

The below summarizes the results of the Solicitation:

Phase I – Minimum Qualifications

In September 2018, CalPERS released Phase I of the Solicitation. This phase required Firms to submit evidence of meeting CalPERS minimum qualifications to be considered for continuation in the Solicitation process. The minimum qualifications are based on book of business requirements as established by CalPERS e.g., network, membership, and claims management. Phase I resulted in five submissions (Aetna, Aetna/Sutter Health Joint Venture, Anthem Blue Cross, Blue Shield and United Health Care). Upon completion of Phase I evaluation, it was determined that Aetna/Sutter Health Joint Venture and Blue Shield of California did not meet the minimum qualifications.

Phase II – Provider Network and Financial Plan

In November 2018, CalPERS released Phase II of the Solicitation to those Firms who were competitive in Phase I (Aetna, Anthem Blue Cross, and United Health Care). This phase required Firms to submit their proposed provider networks/geographic coverage areas and pricing. Upon completion of Phase II evaluation, it was determined that United Health Care's proposed network and pricing was not in the competitive range to remain in the process.

Phase III – CalPERS 2020-2024 Contract

In January 2019, CalPERS released Phase III of the Solicitation to those Firms who were competitive in Phase II (Aetna and Anthem Blue Cross). In this phase, Firms were provided CalPERS 2020-2024 Contract that contain key provisions e.g., standard terms and conditions, services to be provided, contractor compensation, performance measurements, etc. Firms were asked to provide their best and final financial offers, review their respective contracts, and provide a Contractor Acceptance Letter stating they agreed with the contract. Both firms have provided their acceptance of the Contract.

Phase IV – Contract Award

CalPERS used the above information to evaluate each Firm's ability to meet CalPERS Solicitation requirements. The results are presented to the PHBC for consideration.

Budget and Fiscal Impacts

The Health Plan Administration Division (HPAD) is responsible for contract management of one Third-Party Administrator to manage three PPO Basic and Medicare plans and one Pharmacy Benefit Manager (PBM) to provide outpatient prescription drug coverage for over 575,000 PPO and HMO members.

As a result of the Solicitation, CalPERS will have contractual and operational changes impacting the PPO Third-Party Administrator workload. These increased health benefit management

activities will have an immediate and ongoing fiscal operating cost implication for salaries, benefits, consulting services, etc., for the Health Benefit Program.

Benefits and Risks

The benefits are an executed contract, increased transparency into the PPO health plan carriers' financial arrangements with providers, and cost-effectiveness through carefully monitored competition. The risk is healthcare costs may increase at a rate beyond the control of CalPERS, which may hamper its goal of improving healthcare affordability.

Attachments

Attachment 1 – Provider Network Coverage Area Maps

Attachment 2 – PPO Solicitation PowerPoint

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