



Pension and Health Benefits Committee

Agenda Item 6a

May 14, 2019

Item Name: Use of Preferred Provider Organization (PPO) Plan Reserves to Reduce PERSCare Premiums

Program: Health Benefits

Item Type: Action

Executive Summary

This agenda item discusses potential uses of California Public Employees' Retirement System's (CalPERS) PPO plan reserves. The CalPERS' team recommends using some of the monies above what is required for an actuarial reserve to mitigate the 2020 PERSCare PPO Basic plan premium rate increase.

Strategic Plan

This item supports CalPERS Health Care Affordability Strategic Goal: "Transform health care purchasing and delivery to achieve affordability".

Background

CalPERS three PPO Basic plans promote member choice by offering different cost sharing obligations, benefit designs and provider choices. In 2014, CalPERS introduced risk adjustment, which permitted premium subsidization among the three PPO Basic plans. For five years, the PERSCare PPO Basic plan premium was below the actual medical costs for members enrolled in this plan. When CalPERS ceased risk adjusting the PPO Basic plan premiums in 2019, the PERSCare Basic plan premium increased nearly 40 percent since it was no longer being subsidized by the other two PPO Basic plans.

In September 2018, the Board of Administration (Board) approved a revised Health Care Fund (HCF) Reserve Policy (Attachment 1). The policy, in part, updated the level of a prudent PPO plan reserve, established criteria for reducing or increasing a PPO plan's reserves when predetermined thresholds are met, and adopted a methodology for handling any surpluses or deficits attributable to a PPO plan.

Based on the revised policy, the actuarial team decreased the Risk-Based Capital (RBC) reserve level, on an individual PPO plan basis, from 300 to 250 percent. This action resulted in the HCF having \$84 million more in reserves for CalPERS PPO plans than is required under the HCF Reserve Policy. Portions of the \$84 million reside in all the Basic and Medicare PPO plan HCF accounts, but the overwhelming majority are in the PERS Choice Basic plan and PERSCare and PERS Choice Medicare plan HCF accounts.

The Committee has asked team members to explore options on how to use these additional reserve moneys and provide recommendations. This agenda item responds to this request.

Analysis

In the last ten years, monetary amounts have periodically accumulated in the HCF due to over projection of pharmacy costs, under projection of pharmacy rebates, non-use of Medicare subsidies, and increased savings from value-based benefit designs implemented in prior years. For example, in the last quarter of 2015, high cost Hepatitis C curative drugs were introduced. At that time, team members thought their introduction would lead to higher pharmacy costs for 2016 and 2017. Consequently, the team had to account for an adverse pharmacy claim trend in the premiums to ensure the plans could pay for projected costs. These projections, however, did not come to pass, which led to CalPERS having money more than actuarially required.

In the past, the Board has used these excess amounts to mitigate PPO Basic and Medicare Supplement plan premium rate increases. The CalPERS' Board has the option to use this additional \$84 million, or a portion of it, to (1) reduce any premium rate increases for the individual PPO plans that generated them, or (2) lower the 2020 PERSCare Basic Plan premium rate increase. The CalPERS' team recommends the Board choose the latter option and use only \$44 million of the available \$84 million for this purpose.

PERSCare Basic Plan 2020 Premium Rate Buy-Down Proposal

For 2020, the CalPERS' team projects the following premium rate increases for CalPERS PPO Basic plans:

- 23.9% for PERSCare;
- 4.8% for PERS Choice; and,
- 0% for PERS Select.

The significant 2020 PERSCare Basic plan premium rate increase is due mostly to ending risk adjustment beginning with the 2019 plan year. To lessen this burden for members enrolled in this plan, the Board can use \$44 of the \$84 million available and decrease the projected 23.9 percent premium rate increase to 9.4 percent. The below chart illustrates what the 2020 statewide, single-party premium would be if the Board adopted this recommendation.

	2019 State, Single-Party Premium	Projected 2020 Premium (PMPM)	Projected 2020 Premium with \$44 Million Buy-Down (PMPM)	Percentage Change
PERSCare Basic Plan	\$929.89	\$1,151.82	\$1,017.20	9.4%

There is precedent for CalPERS using reserve monies in this manner. During the 2019 rate development process, the CalPERS' team recommended, and the Board approved, using \$46 million in reserves above what is actuarially required to smooth the impact to the 2019 PERSCare Basic plan premium rate caused by the elimination of risk adjustment. Instead of a 38 percent premium rate increase, the 2019 PERSCare Basic plan premium rate increase was 19 percent.

We recognize that the PERSCare PPO Basic plan may continue to experience unacceptably high premium rate increases. To this end, over the next year, the CalPERS' team intends to look specifically at the PPO Basic and Medicare plan data including, but not limited to, member

migration patterns, plan design, member purchasing preferences, and focused outreach to stakeholders, to formulate recommendations for the Board's consideration for broad network, richer benefit plans. This is like the approach the CalPERS' team performed in redesigning the PERS Select PPO Basic plan, which has yielded initial positive results.

Benefits and Risks

One of the benefits of this buy-down proposal is that it will greatly reduce the 2020 premium rate increase for members enrolled in the PERSCare PPO Basic plan. Another benefit is that it will give the CalPERS' team time to analyze data over the next year and use this information to provide recommendations to the Board for creating sustainable broad network, richer benefit plans. And, once this analysis is completed, it will give the Board flexibility to determine how to use the remaining \$40 million in reserves, which are not required under the HCF Reserve Policy.

We have not identified any risks with the proposed recommendation in this Agenda Item.

Attachments

Attachment 1 – Health Care Fund Reserve Policy
Attachment 2 – HCF Reserves at December 31, 2018
Attachment 3 – Presentation

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