



Finance and Administration Committee

Agenda Item 6d

April 21, 2020

Item Name: Semi-Annual Health Plan Financial Report

Program: Health Policy and Benefits Branch

Item Type: Information

Executive Summary

This report provides the Committee with an update on the financial status for the six California Public Employees' Retirement System (CalPERS) Self-Funded Preferred Provider Organization (PPO) health plans and the eight Flex-Funded Health Maintenance Organization (HMO) health plans as of December 31, 2019.

Strategic Plan

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

Background

CalPERS has been self-funding PPO Basic and Medicare Supplemental plans since 1987. The Self-Funded PPO plans are managed in separate subaccounts under the Health Care Fund (HCF) to deposit premiums, pay claims and other expenses as well as keeping prudent levels of reserves for each plan. Starting in 2014, CalPERS began flex-funding eight HMO Basic plans. Flex-funding is an arrangement with a health plan whereby the contracted health plan pays the capitated portion of the health care services and CalPERS pays the fee-for-service portion of the health care services. These arrangements reduce the tax liability on the health plan product and allow CalPERS to retain in its accounts a portion of the funding allocated for health care services. If fee-for-service expenses come in lower than anticipated, CalPERS retains that funding in its Health Care Fund. The Flex-Funded HMO plans also have subaccounts within the Health Care Fund to deposit the fee-for-service portion of premiums and pay claims and other expenses.

In September 2018, CalPERS implemented a revised HCF reserve policy. The main purpose for the policy is to review the appropriateness of the PPO reserve level and the methodology for handling surpluses or deficits in the PPO subaccounts based on predetermined thresholds and address any surpluses or deficits that may accumulate in the HMO subaccounts.

As part of the monitoring and reporting process, the CalPERS' team is reporting to the committee semi-annually regarding the Health Care Fund account balances, PPO plans actuarial reserve amounts and any surpluses or deficits for each health plan subaccount. Kaiser and the other health plans that are not self- or flex-funded are not included in this report.

Analysis

PPO Plans

Attachment 1 summarizes the PPO financial status for calendar years 2017, 2018, and 2019:

- The "Total Revenues vs. Total Expenses" graphs illustrate the financial performance of the total PPO program and each PPO plan subaccount by showing fund inflows and outflows. Total revenues include premiums, outpatient prescription drug (Rx) rebates, federal Rx subsidies, and investment income. Total expenses include medical and Rx fee-for-service claims payments, third-party administrator fees and other administrative expenses. PPO plan medical costs are paid entirely on a fee-for-service basis.
- The "Fund Balance vs. Actuarial Reserves" graphs represent the subaccount balances and the actuarially prudent levels of reserves at the end of each period. The actuarial reserves for the PPO plans consist of Medical and Rx Incurred-But-Not-Reported (IBNR) Claim Liability, Continuity of Care Liability, Administrative Liability, and Risk-Based Capital (RBC) components.

The total PPO projected fund balance was \$607.6 million at the end of December 31, 2019 and the actuarial reserves were \$509.3 million. Overall, the Self-Funded PPO program has a surplus of \$98.3 million, or a fund balance-to-actuarial reserves ratio of 119 percent. These are estimated figures, which reflect funds already encumbered to spend-down the PERSCare Basic plan's 2020 premium rate increase.

HMO Plans

CalPERS flex-funds most of its HMO health plans. As of December 31, 2019, the eight Flex-Funded HMO basic plans include Anthem Traditional and Select HMO, Blue Shield Access+, Health Net Salud y Mas and SmartCare, Sharp, United Healthcare and Western Health Advantage.

Flex-Funded HMO plan medical costs are paid on both capitation¹ and fee-for-service basis. CalPERS reimburses the Flex-Funded HMO plans for the actual capitation amounts that the plans pay to their contracted capitated health care providers. Once CalPERS remits the capitation amounts to the plans from the Contingency Reserve Fund (CRF), the remainder of the premium is deposited into the HCF. These funds are used to pay third-party administrative service fees, CalPERS internal administrative expenses and medical and Rx fee-for-service claims, Affordable Care Act Taxes and Fees when the plan submits an invoice to CalPERS for reimbursement.

¹ 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.

Attachment 2 summarizes the financial status for the Flex-Funded HMO plans for calendar years 2017, 2018, and 2019:

- The “Total Revenues vs. Total Expenses” graphs represent the financial performance of the total HMO program and to each HMO subaccount by showing fund inflows and outflows. Total revenues include premiums, Rx rebates, and investment income. Total expenses include medical and Rx fee-for-service claims payments, medical capitation payments, third party administrator fees and other administrative expenses. Although capitation payments are handled and remitted through the CRF, the capitation figures are included in both revenues and expenses of the HCF to more accurately reflect the total costs of the HMO plans.

The “Fund Balance vs. Estimated Claims Liabilities graphs show the account balances and any surpluses or deficits as of the end of 2017, 2018, and 2019. The total flex-funded HMO projected fund balance was \$234.0 million as of December 31, 2019, and the projected claims liabilities were \$150.4 million leaving a surplus of \$83.6 million. These are estimated figures, which account for all expenses related to the closures of the 2014-2018 contracts and other expenses.

Budget and Fiscal Impacts

This item serves as a preliminary analysis. Any budget or fiscal impact this item may have on future health plan premiums will be addressed during CalPERS annual Rate Development Process (RDP) that generally occurs from January through June and is overseen by the Pension and Health Benefits Committee.

Benefits and Risks

Benefits

- These semi-annual reports provide better insight of the financial performance and status of the CalPERS PPO and HMO health program.

Risks

- The projected dollar amounts may change due to other factors like account adjustments, timing issues and the change in overall members health experience.

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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