



Pension and Health Benefits Committee

Agenda Item 7a

April 21, 2020

Item Name: Preferred Provider Organization Health Plan Assessment

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item provides the Pension and Health Benefits Committee with an update on the Preferred Provider Organization (PPO) Health Plan Assessment Project. The purpose of this project is to understand the cause of the current premium disparities between the PPO Basic Plans and help inform proposed changes to achieve the long-term sustainability and stability of the PPO Program. This agenda item outlines the project plan and approach, project timeline, and the team's current findings from the data analysis phase of the project.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2017-22 Strategic Goal: "Transform Health Care Purchasing and Delivery to Achieve Affordability."

Background

CalPERS offers three PPO Basic health plans, PERSCare, PERS Choice, and PERS Select, and the corresponding Medicare Supplement plan options. These plans were designed to offer different cost sharing obligations, benefit designs, and provider choices to accommodate different members' healthcare needs.

In 2014, CalPERS introduced risk adjustment, which adjusted the PPO Basic plan premiums in order to more accurately reflect the value of each plan based on its network and benefit design. When CalPERS ended risk adjustment in 2019, the PERSCare Basic plan premium increased nearly 40 percent from the previous year while the PERS Select Basic plan premium decreased by 26 percent. To help mitigate the sharp premium increase of 40 percent to the PERSCare members, CalPERS implemented a premium buy-down for PERSCare Basic plan for the 2019 and 2020 plan years, which required a total spend of approximately \$90 million using the excess PPO program reserve fund. Without further premium buy-down, the PERSCare Basic plan will likely continue to experience unacceptably high premium rate increases with the current benefit design and risk-based pricing.

The Committee and stakeholders have shared concerns regarding the long-term viability of the CalPERS PPO program. As a result, the CalPERS team committed to conducting a formal review of the PPO plans.

Analysis

CalPERS launched the PPO Health Plan Assessment Project in October 2019. The assessment includes actuarial analyses and stakeholder outreach activities to provide insight into the cause of the premium disparities in the PPO Basic plans and how member choice may influence those disparities. The assessment will provide CalPERS learnings to help develop strategies to reduce year-over-year premium volatility allowing for more stable premiums and minimized member disruption. It will also help to maintain member satisfaction and stabilize plan populations.

The project includes four phases:

- **Phase I Analysis:** Analyzing historical premiums, enrollment, member migration patterns, health care cost trends, as well as benefit and network differentials among the plans. Phase I analysis is completed; key findings are outlined below.
- **Phase II Stakeholder Outreach:** Understanding members' interests and behavior, as well as gauging their reactions to potential changes.
- **Phase III Benefit Design Modeling:** Leveraging the results of phase I and II to design and model alternative benefit designs for the PPO health plans. Potential scenarios of alternative benefit designs will be presented to the Committee in September 2020. Based on that discussion, the team will provide final recommendations for Board of Administration approval in November 2020.
- **Phase IV Implementation:** Any approved changes will be reflected in the 2022 Rate Development Process.

Key Findings of Phase I Analysis

In Phase I, the team found the nearly 40 percent required premium increase for the PERSCare PPO Basic plan from 2018 to 2019 was due to adverse selection. Adverse selection occurs in health plans when there is an imbalance of high-risk, sick members to low-risk, healthy members in any given health plan product. Adverse selection can be influenced by network and benefit design differences and the health plan choices members make based upon their health status. Members with higher medical needs have historically migrated out of PERS Choice and PERS Select and into PERSCare. Conversely, members with lower medical needs historically migrated out of PERSCare and PERS Choice and into PERS Select.

The increased concentration of high-utilization members in PERSCare necessitates large annual premium increases to accommodate for the higher medical and pharmacy costs for the plan. Likewise, the increased concentration of low-utilization members in PERS Select cause the annual premium to be lower than the value of the plan based on the benefits and network offered to its members.

With the growing trend of adverse selection, the team anticipates the PERSCare Basic plan premium will continue to experience high increases, while the PERS Select Basic plan premium

will be priced much lower than the actual benefit design and network value. The PPO Medicare Supplemental plans are not currently experiencing the effects of adverse selection.

Budget and Fiscal Impacts

Currently, there is no expected fiscal impact. The aim of this project is to promote a budget-neutral solution for the PERS Basic PPO products that is self-sustainable and reduces year-over-year premium volatility, allowing for more stable premiums.

Benefits and Risks

This project serves to protect members of the CalPERS PPO Basic health plans from the negative effects of adverse selection and premium volatility. However, any proposed plan changes have the potential to cause member disruption.

Attachments

Attachment 1 – PPO Health Plan Assessment Phase One Report

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