Risk Mitigation Strategies

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Risk Mitigation Strategies

Agenda

- Background
- Analysis
- Project Plan & Timeline
- Impacts
- Benefits & Risks
Risk Mitigation Strategies

CalPERS Health Plan Portfolio

• $10 billion in premiums
• 1.5 million active members, retirees, and families
• Second largest purchaser of health coverage in CA behind MediCal program; slightly larger purchasing pool than Covered California
• 60% of membership are state employees and dependents; 40% from public agencies
• Twelve insured HMO products and three self-funded PPO plan options
• A menu of different:
  • Product, benefit and delivery systems designs
  • Broad and narrow provider networks
  • Choices for different geographic locations and member buying preferences
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Previous Risk Adjustment Approach

2014: Introduced

- Encouraged plans to compete on efficiency and quality
- Instead of pursuing healthy members

2019: Ended

- Complex
- Lack of transparency
- Unexpected member migration
- Year over year rate volatility
Current State of Basic Plans Portfolio

Challenges since 2019

• Significant year-over-year rate volatility
• Widely divergent premium levels for plans with same benefit designs for HMO products and similar benefit design in PPO products
• Premiums driven by risk concentration, rather than plan value
• Risk concentrating in a few broad-network plans
• Healthy members leaving plans in search of lower plan premiums
• Plans exiting higher-cost locations to try to lower premiums and disrupt the risk concentration patterns of members or providers
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Analysis: Risk Pooling

• Pooling risk is a fundamental component of a health insurance program

• Social Security, Medicare, Medicaid, Covered CA are all risk pools designed to protect people from catastrophic losses and provide access to needed care

• CalPERS portfolio is a fragmented risk pool – each health plan is rated separately based upon the risk of its membership

• Social Security is a single risk pool with no fragmentation; Medicare, Medicaid and Covered CA avoid the negative effects of risk fragmentation by risk adjusting

• Managing risk and plan sustainability are fiduciary obligations most easily achieved by creating large single risk pools versus fragmented risk
Analysis: Adverse Selection

- Fragmenting risk pools may result in disproportionate shares of either higher or lower risk members, causing adverse selection.
- Adverse selection occurs when there is an imbalance of high-risk, unhealthy members to low-risk, healthy members in any given health plan product.
- Premium increases for high-risk, higher-cost plans are higher than underlying medical trend.
- Over time, the remaining average risk profile worsens, leading to higher premiums and increased pricing volatility.
- Health plans respond by reducing provider choice, adjusting geographic footprint and targeting lower-risk members.
- Uncorrected adverse selection (i.e., death spiral) is unsustainable for an individual health plan.
Analysis: Benefits of Risk Mitigation

• Managing risk at the portfolio level provides greater:
  • Opportunity to encourage competition and reward quality and efficiency
  • Flexibility in contracting and funding arrangements with the plans
  • Choice of health plan designs, structures and network models

• Incentivizes health plans to compete on value rather than member risk

• Disincentivizes plans from chasing good risk by leaving geographies or excluding certain providers in order to discourage members who need care from choosing their plan

• Reduces premium volatility caused by significant member migration
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Analysis: Risk Mitigation Approaches

• Buy downs
  • Imprecise tool, contingent on reserves, creates rating snap backs, may required CalPERS to inflate premiums to guarantee reserves for buy downs

• Reduce plan/provider choice
  • Consolidating to fewer plans creates larger pools, reducing volatility within each risk pool.
  • Limits member choice and may exclude high-quality systems in favor of large risk pools

• Purchase or implement reinsurance
  • Protects the financial stability of the entire portfolio and/or protects individual plans
  • Does not address the impact of adverse selection for an individual plan or risk pool – plans are still not priced on value, but rather on risk

• Incorporate risk adjustment in pricing
  • Pricing all plan options based on the overall pool risk profile, incenting plans to compete on value and quality, rather than chasing better risk
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Analysis: CalPERS Risk Mitigation Strategies

• Incorporate risk adjustment in pricing
  • Price plan options based on the entire program risk pool
  • Avoid pricing individual plans based only on the risk profile of its members
  • Design incentives for plans to focus on efficiency and quality to enhance value and meet the needs of a diverse population

• Avoid issues with prior model
  • Known and well-used risk adjusters (HHS or CMS Hierarchical Condition Category (HCC) models)
  • Transparent to all health plans and stakeholders
  • Consider reduced number of phases and simpler application of Risk Adjustment methodology and reconciliation processes within the portfolio
Risk Mitigation Strategies

Project Plan & Timeline

- Risk mitigation strategy analysis & development
- Present alternatives to Board
- Board Decision
- Implement changes with 2022 RDP

2020
September

2021
November

2022

CalPERS Board of Administration Offsite
Impacts of a Risk Mitigation Strategy

- **Budget neutral impact on Basic plan portfolio**
- **Individual plan premiums impacted but not overall portfolio**
- **Member Disruption Considered**
- **Potential phase-in to mitigate disruption & volatility**
## Benefits and Risks for Risk Mitigation

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<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
<th>Mitigations</th>
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<tbody>
<tr>
<td>Negotiate with carriers based on value and quality of care</td>
<td>Initial rate adjustments likely</td>
<td>Phase-in may be needed</td>
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<tr>
<td>Reduce concentration of risk</td>
<td>Material member migration</td>
<td>Quality and value-based metrics can be incorporated</td>
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<tr>
<td>Reduce adverse selection</td>
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<td>Reduce year over year premium volatility</td>
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