



## Pension & Health Benefits Committee

# Agenda Item 7a

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**September 15, 2020**

**Item Name:** Risk Mitigation Strategies: Health Maintenance Organization and Preferred Provider Organization

**Program:** Health Benefits

**Item Type:** Information

### **Executive Summary**

This agenda item provides the Pension and Health Benefits Committee (PHBC) with information about California Public Employees' Retirement System (CalPERS) Risk Mitigation Strategies for the Basic Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) health plans. We present options for managing risk within the HMO portfolio and the modeling for those options, as well as the results from the Benefit Design Modeling phase of the PPO Health Plan Assessment Project. The purpose of implementing a risk mitigation strategy is to enable CalPERS to manage population health risk within the portfolio of Basic health plans, improve quality and affordability of health care, promote efficient care management, and mitigate year-over-year premium volatility and large increases.

### **Strategic Plan**

This item supports CalPERS High-Quality Affordable Health Care Strategic Goal.

### **Background**

In 2014, CalPERS introduced risk adjustment to encourage health plans to compete on the basis of medical and administrative efficiency and quality of care rather than on their ability to select risk. However, due to the complexity and lack of transparency with the prior risk adjustment model, CalPERS ended risk adjustment in 2019.

The end of risk adjustment caused plans with high population health risk to experience significant increases to their premiums, while plans with low population health risk experienced decreases to their premiums. These premium changes triggered a large member migration between plans, since the lower cost of narrow-network plans attracted members who require minimal health care services. As members migrated to lower cost options, the broad-network high value plans retained a greater proportion of high-cost members with more health care needs relative to other plans. The differences in the concentration of high and low health risk

among the plans in our portfolio resulted in a disparity in premiums that did not reflect a product's value.

Without a risk mitigation strategy, health plans will continue to be forced to reduce their health care costs by exiting high-cost areas, removing high-cost and high-value providers from their networks, and introducing low-cost and narrow-network alternatives. Without risk mitigation, there is an economic disincentive for health plans to create networks that excel at treating high-cost conditions. With a risk mitigation strategy in place, plans would instead compete by appropriately managing efficiency and improving their quality of health care, including high-cost conditions.

The Committee and stakeholders have shared concerns regarding the long-term viability of the CalPERS HMO and PPO programs, in particular the steep premium increases members have been experiencing. As a result, CalPERS has investigated potential resolutions for the adverse-selection issue that is taking place within these programs. During the July 2020 Board Offsite, we discussed potential risk mitigation solutions that CalPERS could implement as well as the disadvantages of other potential solutions. Additionally, the CalPERS team continues its work on the PPO Health Plan Assessment Project. Currently in Phase III of the Project (Benefit Design Modelling), the team used the results from Phase I (Data Analysis), as discussed during the April 2020 PHBC meeting, and Phase II (Stakeholder Outreach) to model different options for the PPO program.

### **Risk Mitigation Modeling and Analysis**

The CalPERS team is working with consulting actuaries from Mercer Health & Benefits LLC to develop a new risk mitigation strategy for the CalPERS Health Benefits Program. This new risk mitigation strategy is intended for Basic HMO and Basic PPO plans. The team conducted a review of potential scenarios for managing risk within the Basic health plan portfolio.

For each scenario, the team projected plan premiums, member migration, and population health risks for the Basic PPO and HMO programs from 2022 through 2026 (five plan years). With the PPO Health Plan Assessment Project, we are also considering potential plan and benefit design changes. We are actively using the results from these projections and benefit design changes to identify pros and cons for each scenario in terms of the long-term sustainability of the Health Benefits Program and minimizing disruption to our members.

The team will provide a detailed review of these scenarios at the September meeting and bring recommendations to the November PHBC meeting for further discussion and, ultimately, Committee approval. Any approved changes would be reflected in the 2022 Rate Development Process.

### **Budget and Fiscal Impacts**

Implementing a risk mitigation strategy for HMO and PPO health plans will result in overall budget neutrality in our Basic plan portfolio. Any impact to the premiums may alter member and employer contributions.

### **Benefits and Risks**

There will be significant premium changes in the initial year or years that risk mitigation is implemented. Plans that are currently underpriced relative to their value will experience

premium increases while plans that are overpriced relative to their value will experience premium decreases. After this initial period of premium volatility, CalPERS will be able to negotiate with our carriers based on the value and quality of care provided. Implementing a risk mitigation strategy will reduce adverse selection, concentration of risk, and year-over-year premium volatility in our Basic plan portfolio.

### **Attachments**

Attachment 1 – Risk Mitigation Strategies: Health Maintenance Organization and Preferred Provider Organization PowerPoint

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