Pension & Health Benefits Committee

Agenda Item 6b

November 17, 2020

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

Program: Health Benefits

Item Type: Action

Recommendation

Adopt portfolio rating approach for the Basic health plan portfolio using the Milliman Advanced Risk Adjusters (MARA) prospective risk scoring tool with a two-year phase in as presented at the November meeting. This rating approach includes replacing the current PERS Basic Preferred Provider Organization (PPO) Plans with the proposed PERS Platinum and PERS Gold plans; benefit design changes will be considered next November as part of year two of a two-year phase in.

Executive Summary

This agenda item provides the Pension & Health Benefits Committee (PHBC) with recommendations regarding how to mitigate risk in the California Public Employees' Retirement System (CalPERS) Basic Health Maintenance Organization (HMO) and PPO health plans. The proposed risk mitigation strategies do no not apply to Medicare and Association health benefit plans. 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 premium increases. The proposed strategy includes adopting a portfolio rating approach for the Basic health plan portfolio using the MARA prospective risk scoring tool with a two-year phase in as presented at the November meeting.

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 based on 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 beginning with the 2019 plan year.

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 to remain competitive in CalPERS portfolio by introducing network alternatives that only attract healthy risk, exiting high-cost areas, and/or removing providers that do an exceptional job treating high cost conditions from networks. 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.

CalPERS has investigated solutions to address adverse selection within the portfolio. During the July 2020 Board Offsite, we discussed the advantages and disadvantages of various risk mitigation solutions that CalPERS could implement. In September, the CalPERS team presented a potential portfolio rating approach to address risk. Since September, the team has continued refining scenarios and modeling and has met with several stakeholder groups and the health plan carriers to address questions and get their feedback.

The final proposed portfolio rating approach that will be presented at the November meeting uses the MARA prospective risk scoring tool with a two-year phase in. This rating approach includes replacing the current PERS Basic PPO Plans with the proposed PERS Platinum and PERS Gold plans; benefit design changes will be considered next November as part of year two of the two-year phase in.

Risk Mitigation Modeling and Analysis

The team focused on a few key principles for developing, analyzing and forming our recommendations for the Basic portfolio risk mitigation strategy. These included: adopting a transparent, known and simple process appropriate for the large group commercial market, using risk scoring tools that are readily available so that the results are repeatable, and ultimately moving the Basic program toward a single risk pool.

The team conducted a comprehensive review of potential strategies for managing risk within the Basic health plan portfolio informed by successful approaches adopted by other major purchasers including Covered California, large private companies and other purchasers of health coverage for public employees. For each scenario, the team projected plan premiums, member migration, and population health risk concentration for the Basic PPO and HMO programs from 2022 through 2026 (five plan years). The team analyzed three risk score models, MARA concurrent, MARA prospective and Department of Health and Human Services

Hierarchical Condition Category (HHS-HCC). We also investigated how to address the issue of volatility in risk scores with relatively small populations.

The final proposed portfolio rating approach that will be presented at the November meeting uses the MARA prospective risk scoring tool with a two-year phase in. This rating approach includes replacing the current PERS Basic PPO Plans with the proposed PERS Platinum and PERS Gold plans; benefit design changes will be considered next November as part of year two of the two-year phase in. 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

---

Marta Green, Chief
Health Plan Research & Administration Division

Don Moulds
Chief Health Director
Health Policy & Benefits Branch