



Pension & Health Benefits Committee

Agenda Item 6c

November 17, 2020

Item Name: Minimum Standards for Health Benefit Plans – Amendment of Regulations

Program: Health Benefits

Item Type: Action

Recommendation

Approve staff's recommendation to pursue proposed amendments to existing regulations regarding the minimum standards for California Public Employees' Retirement System (CalPERS) health benefit plans.

Executive Summary

The CalPERS team is recommending the CalPERS Board of Administration (Board) adopt two proposed amendments to regulations: the first to update the risk adjustment sections to remove outdated procedural language that describes the previous risk adjustment process and second to delete outdated language that is inconsistent with current actuarial reserve processes.

Strategic Plan

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

Background

In 2013, the CalPERS Board approved regulations to implement risk adjustment for the 2014 plan year. Health plan premiums were subsequently risk adjusted for five years until the 2019 plan year, at which time the Board decided to remove risk adjustment and return to the practice of calculating premiums for each health plan independently due to the complexity of administering the program and the lack of transparency for participating health plans. The return to non-risk adjusted health premiums resulted in adverse selection, concentration of risk, and year-over-year premium volatility for certain health plans for plan years 2019 - 2021.

At the September 15, 2020, Pension & Health Benefits Committee (PHBC) meeting, the Health team presented various risk mitigation strategies and proposed bringing recommendations to PHBC for further discussion and approval at the November 2020 PHBC meeting.

In 1975, the Board approved regulations requiring each approved health benefit plan to pay a special reserve. In the ensuing decades, CalPERS has adopted actuarially prudent reserving methods for its self-funded Preferred Provider Organization (PPO) plans and flex-funding for most of its Health Maintenance Organization (HMO) plans. Due to these innovative approaches, a special reserve payment is no longer necessary.

Analysis

The CalPERS team conducted a review of existing risk adjustment regulations and identified obsolete and outdated sections that procedurally describe the risk adjustment process removed by the Board in 2018. This language could constrain the Board's ability to implement new risk mitigation strategies. Amending California Code of Regulations (CCR) section 599.500(x) will broaden the definition of risk adjustment. Amending CCR section 599.508(a)(8) and deleting CCR sections 599.508(a)(8)(A) through 599.508(a)(8)(E) will remove obsolete processes used to administer the previous risk adjustment program while still requiring health plans to participate in any risk adjustment methodology chosen by CalPERS.

Additionally, amending CCR section 599.508(a)(9) will remove an obsolete reserve requirement.

Budget and Fiscal Impacts

There are no budget or fiscal impacts.

Benefits and Risks

Potential benefits associated with the adoption of this regulations package:

- Stabilize premiums and provide CalPERS the ability to offer a variety of plans to meet the needs of a diverse enrollee population.
- Maintain choice of plan types for employees by improving plan sustainability.
- Contain costs and encourage members to select the most cost-efficient and effective plans.
- Encourage CalPERS health plan providers to compete based on medical and administrative efficiency and quality of care rather than on their ability to select lower health risk.
- Allow cost differences across options to reflect differences in health plan efficiency.
- Delete obsolete regulatory provisions.

Potential risks associated with the adoption of this regulations package:

- Initial premium pricing changes may cause member disruption.

Attachments

Attachment 1: Proposed Regulatory Action by CalPERS

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