TO: HEALTH BENEFIT OFFICERS AND ASSISTANTS OF THE
STATE, CALIFORNIA STATE UNIVERSITY AND
CONTRACTING PUBLIC AGENCIES

SUBJECT: PERSCare AND PERS Choice PREMIUM AND BENEFIT
CHANGES

The purpose of this letter is to inform you of important changes to the PERSCare and PERS
Choice Preferred Provider Organization (PPO) health plans that may affect your employees, and
to provide your agency with instructions for a "Special Open Enrollment" period as a result of
these changes.

The PERSCare and PERS Choice PPO health plans are projected to lose about $96 million in
2000. CalPERS administrators attribute the losses to a faster than anticipated drawdown of
reserves and a huge unexpected increase in membership, increased utilization of services,
especially of prescription drugs, and longer hospital stays. Immediate action is necessary to
ensure the financial solvency of these plans.

In the past, CalPERS has been able to use surplus reserve funds to subsidize premium rates,
keeping them lower than they would have been otherwise. But because of significant—and
unpredictable—growth and higher costs, funds in reserves have gone down faster than
anticipated. Despite this unwelcome news, "turnaround" efforts are underway to stem the losses
and begin rebuilding the reserves.

To begin rebuilding the reserves, the CalPERS Board of Administration has approved benefit,
premium, and administrative changes that will become effective February 2001. The year 2000
Self-Funded Plan contracts will be extended through January 31, 2001 (13-month contract) and
the new contract becomes effective February 2001 through December 31, 2001 (11-month
contract). CalPERS will offer a "Special Enrollment Period" for PERSCare and PERS Choice
enrollees only. This will allow those enrollees to choose another plan if this is their choice. This
"Special Enrollment" will begin on December 18, 2000 through January 31, 2001. The effective
date of the changes will be February 1, 2001.

All enrollees are being notified through a special mailing by Blue Cross (PPO Administrator).
The enrollee’s letter includes information concerning the benefit, premium, and administrative
changes. Additionally, this letter includes instructions on requesting a health plan change, and
information that will assist the employee in selecting another health plan.

Plan Design and Administrative Changes
Following is a brief summary of plan benefit and administrative changes that will take effect February 1, 2001:

- **Calendar Year Deductible**—The calendar year deductible for each member will be $500 per person, not to exceed $1,000 per family. Medical services applied toward the calendar year deductible during the month of January 2001 will be carried over to the increased deductible that is in place from February 1, 2001, through December 31, 2001. The deductible carry-over applies only if the member remains in the same health plan throughout calendar year 2001.

- **Network Additions**—The Blue Cross Prudent Buyer Plan Network now includes acupuncturists, speech therapists, and skilled nursing facilities.

- **Non-Preferred Provider Reimbursements Changes**—Members who receive services from non-preferred providers may see a reduction in their claim reimbursements. Reimbursements for non-preferred professional charges will be based on 60 percent of the Blue Cross Prudent Buyer (preferred provider) fee schedule. Currently, reimbursement for non-preferred providers is based on a separate fee schedule that is based on billed charges. This change will provide for a more equitable relationship between reimbursements to preferred versus non-preferred providers.

- **Office Visit Copayment**—There will be a $20 copayment for physician office visits to a Preferred Provider under both health plans.

- **Emergency Room Copayment**—There will be a $50 copayment for visits to the emergency room.

- **Preventive Care**—Claims processing modifications will ensure that preventive care benefits are allowed when appropriate to prevent disease from occurring in a healthy individual.

- **Hospital Admission Deductible for PERSCare Basic Plan Members**—PERSCare Basic members must meet a $250 deductible for each hospital inpatient admission.

- **Cardiac and Pulmonary Rehabilitation**—Precertification is no longer required for cardiac and pulmonary rehabilitation.

- **Three-Tier Copayment System for Outpatient Prescription Drugs**—A three-tier copayment system will be introduced. Higher copayments will apply to certain covered drug categories.

Please refer to the PERSCare/PERS Choice Member Alert for a summary and comparison of these benefit changes.

**Increase Premium Rates**

Premiums for the "Self-Funded" PERSCare and PERS Choice preferred provider organization (PPO) plans are based on the actual cost of providing benefits to the group of individuals enrolled in each plan. Premium costs continue to rise for a variety of reasons. A leading contributor is the increased cost of prescription drugs. Other factors include growth in spending for physicians and hospital services, new medical technology, and an aging population that uses
more medical services.

It is important to understand that premiums for the self-funded PERSCare and PERS Choice preferred provider organization (PPO) plans reflect the actual cost of providing benefits to the group of individuals enrolled in each plan. There is no "profit margin."

Open Enrollment material that members received this past summer informed them that premium rates for the PERSCare and PERS Choice Basic plans would increase January 1, 2001. Those increases will remain in effect; however, premiums for the **PERSCare Basic Plan** will rise a second time, effective February 1, 2001. Enrollees will see a higher amount deducted from their paycheck.

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<th>2/01/01</th>
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**IMPORTANT** — **PERSCare Basic Plan** enrollees will see a higher amount deducted from their paycheck.

**CalPERS Web Site**

CalPERS Health Benefits Program web pages offer a wealth of information on changes, as well as information on health plans that are available in member’s residential zip code area, premium rates and benefits offered.

**Special Open Enrollment Instructions**

CalPERS will conduct a "Special Open Enrollment" period for members who are enrolled in PERSCare/PERS Choice ONLY and who want to change plans. This "Special Open Enrollment" period will be held through January 31, 2001. The effective date of this "Special Open Enrollment" transaction will be February 1, 2001. All requests to change enrollment forms (HBD-12) must be received by Health Benefit Services Division by the close of business on February 6, 2001.

**Note:** If plan changes or cancellations are received after the January cut-off date, the employee/retiree paycheck will not reflect the change until the following pay period. However, the effective date of change or cancellation will be February 1, 2001.

**Active Employees**

The Health Benefit Officers or Assistants are responsible for completing the Health Benefit Enrollment forms (HBD-12) for agency’s their active employees and COBRA enrollees.

Complete Open Enrollment HBD-12s as follows:

**Box 11**  
Primary Care  
Providing this information will assist in the timely issuance of identification cards.
Retired Members

Retired members can make changes by calling (800) 352-2238. Additionally, retirees plan changes can be made by completing and mailing the "Retiree Special Enrollment" form (Attachment 2) or by FAXING the form to (916) 326-3935. The "Retiree Special Enrollment" form is attached to the retirees’ letter being mailed by Blue Cross.

Special Saturday Hours for Retirees Only

To further assist members who wish to make health plan changes, the toll-free number will also be available on Saturday, January 6 and Saturday, January 13, from 8 a.m. to 2 p.m. PST. These special Saturday hours are for making plan changes only. All other inquiries should be made during normal business hours, Monday through Friday.

Saturday, January 6, 2001 (800) 352-2238
Saturday, January 13, 2001 (800) 352-2238

PERSCare/PERS Choice Evidence of Coverage (EOC) Book Revision

The terms and conditions contained in the 2000 EOC will stay the same until January 31, 2001, except the premium rate will change. Due to the change in benefits, enrollees will receive a new 2001 EOC in a separate mailing. Terms and conditions contained in the new EOC will be effective February 1, 2001, through December 31, 2001.

CONTRACTING PUBLIC AGENCY INFORMATION ONLY

Public Agencies

For Public Agencies with contributions adjusted annually, the following will apply:

Equal Option:

If your employer contribution for employees and annuitants is based on the following:

- PERSCare Basic or combination Basic/Supplemental premium
- Single party Basic or combination Basic/Supplemental premium
- Percentage of the premium (i.e., 50% of the premium)
• Total premium

Due to the February 1, 2001 rate increase for the PERSCare Basic Plan, CalPERS will increase the employer contribution for annuitants retroactive to February 1, 2001 to reflect this increase.

If your employer contribution is different than noted above, the contribution for annuitants will not be changed.

**Unequal Option:**

Your employer contribution has already been updated January 1, 2001 as required by law.

If your employer contribution for employees and annuitants is based on the following:

- PERSCare Basic or combination Basic/Supplemental premium
- Single party Basic or combination Basic/Supplemental premium
- Percentage of the premium (ex. 50% of the premium)
- Total premium

CalPERS will increase the employer contribution for annuitants retroactive to February 1, 2001 to reflect this increase. The increase will be based on the difference between the PERSCare Basic premium from January to February.

Example: PERSCare single party rate:

January premium is $343.00
February premium is $361.00

The 5% (at least) increase will be based on $18.00, the difference between the January and February 2001 PERSCare Basic Plan premium.

If your employer contribution is different than noted above, it will remain at the January 1, 2001 level.

We estimate the updates for the Equal and Unequal Option to take at least 3 months to complete.

Thank you for ensuring that this letter is distributed to all staff who assist employees with the health enrollment process. If you have any questions pertaining to the information provided, please call (800) 237-3345.

Respectfully,

Tom Fischer, Chief
Health Benefit Services Division

Enclosures (See PERSCare & PERS Choice Member Alert)