Risk Mitigation Strategies

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Agenda

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

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

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

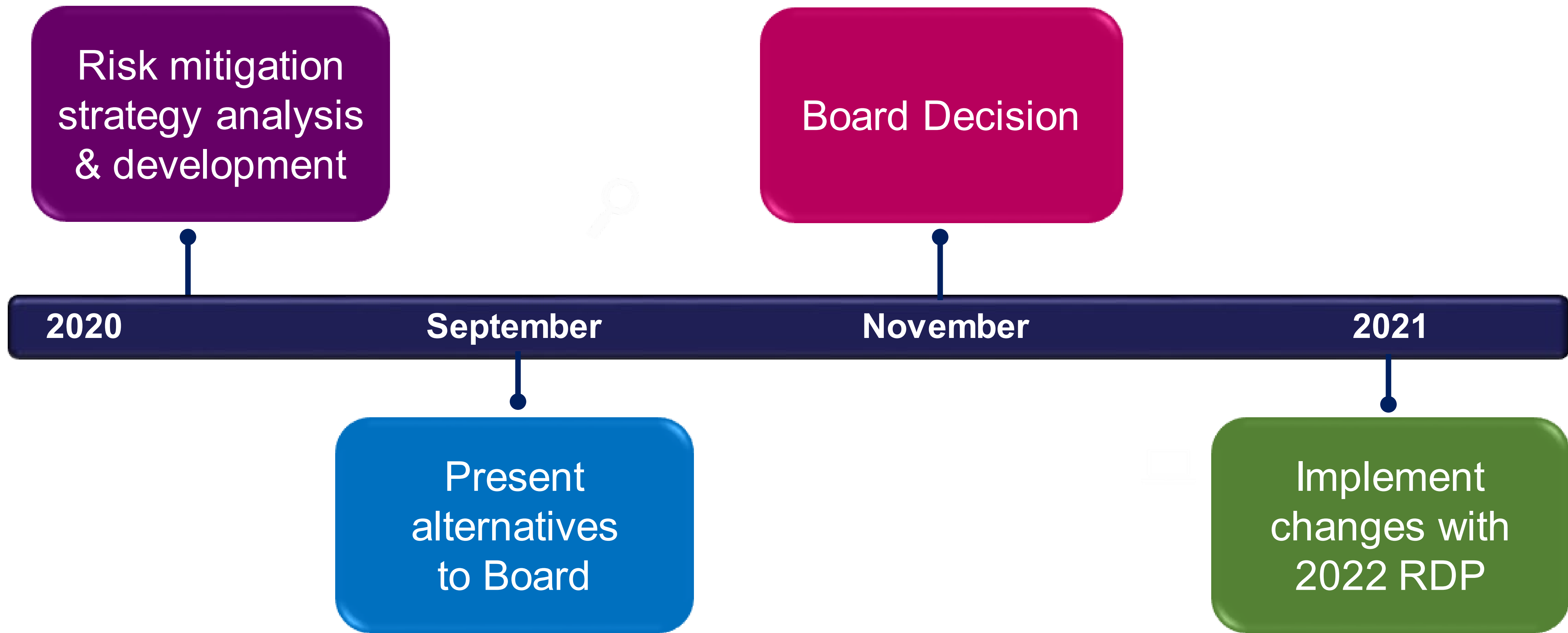
Analysis: Risk Mitigation Approaches

- 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

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

Project Plan & Timeline

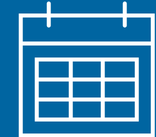


Impacts of a Risk Mitigation Strategy

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

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