Pension & Health Benefits Committee

Agenda Item 5b

September 15, 2026

Item Name: Contracting Agency Health Regions: Refined Modeling and Scenarios

Program: Health Benefits

Item Type: Information

Executive Summary

This agenda item presents refined scenarios for new CalPERS Health Regions for 2028. Health regions are used to price premiums for public agency and school employers more closely aligned with actual healthcare costs locally in the area. Since the discussion in July, the team has updated county healthcare cost data, refined the model with more recent data, and considered Board and employer feedback. The presentation will include the updated county cost index, refined scenario options, and estimated member premium increases and decreases along with stakeholder feedback.

Strategic Plan

This item supports the 2022-2027 Strategic Goal of Exceptional Health Care: Ensure our members have access to equitable, high-quality, and affordable health care.

Background

CalPERS has had regional pricing of premiums for contracting public agencies and schools since 2005. Pricing regions were created to provide employers with premiums that are competitively priced and in alignment with the cost of care in the local market. If regions don't track closely with actual health care costs, CalPERS becomes uncompetitive in select markets making recruitment and retention of employers challenging.

Under today's three-region model, only 46% of public agency and school members are paying within 5% of the actual cost of care in their county. This misalignment makes CalPERS premiums more appealing in high-cost areas of the state and less competitive in low-cost areas. The team is evaluating an increase in the number of regions to better align premiums with the actual cost of care while minimizing negative impacts on employers and members.

Analysis

In July, the team presented its approach to modeling and evaluating regions that included impacts on premiums for employers and members. The approach consisted of three key activities: a CalPERS-specific County Cost of Care study; creation of a custom region model to evaluate different ways to group counties into regions; and evaluation of various scenarios using three priorities: improving healthcare cost alignment, minimizing member disruption and premium impacts, and minimizing administrative complexity.

The team presented three potential scenario maps: a cost only option, a six-region option, and a seven-region option.

Since July, the team updated the data and the model with the following:

- 2023-2025 claims data to update the county healthcare cost index, compared to the prior cost index using 2022-2024 data.
- 2027 premium impacts and enrollment migration assumptions

<u>Refined Scenarios</u>

Using the updated model, the team analyzed several new seven region scenarios as these offer the highest cost of care alignment relative to administrative complexity and impact on members. Several six-region models were analyzed but did not do enough to address current cost misalignment.

The two options presented are:

- A cost-only seven-region scenario with 97% alignment to the actual cost of care. However, while the alignment is high, the regions are highly non-contiguous and very complex with the potential to cause significant administrative burden for employers.

- An updated contiguous seven-region scenario that results in 85% alignment to local healthcare costs with much lower administrative complexity for employers. Under this scenario, 38% of members should experience a premium increase and 62% should experience a premium decrease.

<u>Stakeholder Outreach</u>

We held an employer webinar in August to inform employers about the potential changes to regions for 2028. We presented the challenges, county healthcare costs and the three scenarios presented to the Board in July. For each scenario, we provided estimated member premium increases and decreases by county so employers could gauge how the scenarios may impact their agency and members. Following the webinar, we emailed the recording and the presentation to over 3,000 employer representatives and asked that they share their feedback.

<u>Next Steps</u>

The team will bring a recommended option for new health regions for action at the November Pension & Health Benefits Committee meeting. New regions will be incorporated into the 2028 rate development process and take effect January 1, 2028.

Budget and Fiscal Impacts

This item has no impact on the CalPERS budget. Changes to regions may impact future health premiums for contracting agencies which will be addressed during the rate development process.

Benefits and Risks

The evaluation of health regions ensures the cost of healthcare for a region is closely aligned with premiums and enables CalPERS to remain competitive. Changes to CalPERS regions may cause premiums in some geographic areas to increase and others to decrease, impacting both employers and members. Employers in some geographies will see premium increases for their employees, which may result in CalPERS losing some contracting agencies but also should result in CalPERS becoming more competitive, and ultimately gaining more membership, overall.

Attachments

Attachment 1 – Contracting Agency Health Regions: Refined Modeling and Scenarios Presentation

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