Pension & Health Benefits Committee

Agenda Item 5c

November 17, 2026

Item Name: Approval of Contracting Agency Health Regions

Program: Health Benefits

Item Type: Action

Recommendation

Approve the seven region contiguous model as recommended for pricing health premiums for public agencies and school contracting employers effective January 1, 2028.

Executive Summary

This agenda item presents the recommended seven region contiguous scenario for new CalPERS Health Regions for 2028. CalPERS uses health regions to price premiums for public agency and school employers so that premiums more closely align with actual healthcare costs. The recommendation is the same contiguous model that was presented at the September committee meeting. Following a year of analytic work and stakeholder consultation, we believe this is the best option for CalPERS. It improves cost of care alignment from 46% to 85% with the lowest member disruption and administrative complexity.

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 public agencies and schools since 2005. Differentiating regional pricing allows CalPERS 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.

Today, CalPERS has three pricing regions. Under this model, 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 CalPERS team conducted a year-long analysis of regional modeling. The approach involved creation of a CalPERS-specific County Cost of Care study. The study aimed to understand the total cost of health care on both a county-specific and statewide level. This served as the basic building block for the region evaluation. The first index used 2022-24 cost data. In September, the team updated the cost index to reflect 2023-2025 cost data. Using the county cost index, the actuarial team developed custom region models to evaluate different ways to group counties into regions. The team then evaluated the regional scenarios based on three priorities: improving healthcare cost alignment, minimizing member disruption and premium impacts, and minimizing the administrative complexity.

Analysis

At the September Pension & Health Benefits Committee meeting, the team presented refined scenarios based on updated modeling that included more recent claims data, enrollment migration assumptions, and 2027 premium impacts. Two seven-region options were presented: 1) a cost only, non-contiguous scenario and 2) a contiguous scenario. Both options increase cost of care alignment, addressing the challenges that three regions present today, but vary in their degree of administrative complexity.

Following the September Committee meeting, the CalPERS team reviewed all new employer and stakeholder feedback. The team considered factors such as the costs and premium impact of potential changes and input regarding administrative complexity. The team concluded the counties are grouped in the appropriate regions as set forth in the recommended scenario.

Budget and Fiscal Impacts

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

Benefits and Risks

The evaluation of health regions ensures the cost of health care 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 gaining membership in areas where there will be premium reductions. Overall, the change will make CalPERS more competitive.

Attachments

Attachment 1 – Approval of Contracting Agency Health Regions Presentation

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