Employment Based Coverages: Pivotal Times, Strategic Directions

Allen Feezor
CalPERS Health
CalPERS Health

- Insures or arranges for coverage for 1.3 million active or retired public (local, state, educational) employees and families; self-funded LTC plan for 165,000

- “Multiple employer purchasing arrangement” for 1,100 public employers (1,450 “units”)

- 60% State/40% Local 79% Active/21% Retiree

- Estimated expenditures for 2003 $3.2 Billion

- Third largest payer in California
Recent Changes

- Rate Increases (under 65 HMO population)
  - 9.2% 2001
  - 6% (13.2%) 2002
  - 25% 2003

- Fewer HMOs: 78% of enrollees (40 of 58 counties)
  - 10 HMOs - 2001
  - 7 HMOs - 2002
  - 3 HMOs - 2003

- Rate Convergence between HMOs & PPOs: 22% of pop. (58 of 58 counties)
  - Increasing care management
  - Deep discounts
  - Demographic and geographic adverse selection
National versus CalPERS Healthcare Cost Inflation

1987: National 6.9%, CalPERS 18.6%
1988: National 16.7%, CalPERS 17.1%
1989: National 12.1%, CalPERS 10.1%
1990: National 10.0%, CalPERS 8.0%
1991: National 1.0%, CalPERS 2.1%
1992: National 2.1%, CalPERS 2.5%
1993: National 0.2%, CalPERS 12.1%
1994: National 6.1%, CalPERS 11.2%
1995: National 7.3%, CalPERS 8.1%
1996: National 11.2%, CalPERS 11.2%
1997: National 12.7%, CalPERS 11.2%
1998: National 15.0%, CalPERS 15.0%
CalPERS April Announcement

- Historic 25% premium increase-
  - HMO only, under 65 population
  - PPO rates were 20% - with recovery

- Dropping of two long-time HMO partners and two smaller HMO partners
  - Health Net 181,000
  - PacifiCare 191,000
  - HPR & Universal 30,000

- Consolidation - strategic decision vs price tactic
  * * *

- Competitive market no longer serves CalPERS
  - Price leveraging ≠ Solution to long term cost issue

- Employment based coverage cannot carry burden of financing health care in US

- Broader public policy debate is needed
  - In Washington, Austin, Sacramento...
Conclusions from 2001 - 03

- Sellers market replaced buyers market of ‘90s
- Margins vs Volume
- More acute California Cost Drivers
- Despite managed care presence, quality in CA not different from US
- Enthovian Model Never Evolved
  - Choice of brand label not unique delivery systems
  - Focus on price leveraging & risk selection
  - Enrollees not acting as prudent purchaser
- Managed care entities imperatives short term dominated
  - Risk avoidance
  - Leveraging vs partnering with providers
  - Limited strategies to deal with cost or quality
  - Market, policy, legislative/regulatory environment not supportive of managed care
Conclusions from 2001 - 03 (continued)

- CalPERS/Purchasers re-enforcing wrong incentives
  - Price vs Value
  - Annual vs longer term perspective
  - Commoditization of networks & plans
  - Unengaged enrollees

- HMO/Benefit Design masked wide Q & $ variations

- CalPERS population needs are changing
  - Low public service salaries increase importance of benefits
  - Older workforce/tight labor market increases value of health coverage
  - 40% of actives 75% of retirees have chronic conditions
  - Can we deliver better value to expected workforce?

- Cost trend projection through 2010 in low teen

- Business as usual not acceptable
Program Premium Forecasts
15% Annual Trend (2003 - 2010)
At The Crossroads: Options For Employment Based Coverage

• Not To Provide
  Retirees (FASB 106, GASB pending)
  Defacto - via hiring practices

• Defined Contribution ("drop money and run")
  Limit Employers Liability
  Disengage employer/shift responsibility to employee

• "Consumer Driven Models" (Ralph Nader/Bill Gates/Milt Friedman)
  Internet enabled/enlightened & "motivated" enrollee;
  Self managed care; self selected provider

• Traditionalist ("death by incrementalism")
  Premium prices are cyclical (aren’t they?)
  Annual benefit redesign (share the pain)

• Workforce Health Management
  Disease/Care Management coupled with workplace productivity,
  wellness & prevention efforts

CalPERS Rethinking...
Workers with Chronic Conditions

• 25% to 40% of the working age adults (20-65) have one or more chronic conditions

• 67% of all medical costs in working age adults are for people with at least one chronic condition
Poor Care Coordination Leads to Unnecessary Hospitalization

A Case For Further Efficiencies...

Number of Chronic Conditions

Ambulatory Care Sensitive Conditions Per 1000 Beneficiaries
Opportunity to Refocus Expectations?

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CalPERS Strategic Imperatives

- Costs
- Stability/Predictability
- Choice
- Quality/Effectiveness
CalPERS Future Direction

Refocus on risk management
- Entrance and exit requirements
- Regional rating
- Lifetime maximums/effective triaging of technologies
- More toward self-funded arrangements

Provider Accountability
- Move value competition to provider level
- Tiered network products
- Data warehouse to do plan, provider and population profiling
- Narrower/customized (incented) networks
- Longer term relationships/contracts
Better (chronic) care management

- High risk enrollee identification and engagement
- Requisite 5 to 8 disease management programs
- Profile plans/providers on care (management) outcomes
- Performance-based reimbursement for plans/providers
- Re-design current dis-incentives in care management
- Engage enrollee in active care (and cost) management

Enrollees Engagement

- Recalibrating “choice” from “brand loyalty” to provider competencies
- Investment in information and decision support services
- Enrollee education → motivation
- Evolve consumer enlightened benefit designs
- Incent enrollees to engage in care management & value decisions
CalPERS Future Direction (work in progress)

CalPERS to become more “responsible purchaser”/strategic partner.

Strong preference for comprehensive coverage.

Expect to lower cost trend at the margin.

Better value/outcomes for money spent.