MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PENSION & HEALTH BENEFITS COMMITTEE

OPEN SESSION

CALPERS AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 14, 2022

9:00 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Rob Feckner, Chairperson

Ramon Rubalcava, Vice Chairperson

Lisa Middleton

David Miller

Eraina Ortega, also represented by Nicole Griffith

Jose Luis Pacheco

Theresa Taylor

Mullissa Willette

Betty Yee, represented by Karen Greene Ross

BOARD MEMBERS:

Fiona Ma, represented by Frank Ruffino

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Donald Moulds, PhD, Chief Health Director

Anthony Suine, Deputy Executive Officer

Kim Malm, Chief, Strategic Health Operations Division

Christina Ortega, Committee Secretary

ALSO PRESENT:

David Aguinaldo, DLC799

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic, Retired Public Employees Association

Larry Woodson, California State Retirees

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PROCEEDINGS

CHAIRPERSON FECKNER: Good morning, everyone. We're going to call Pension and Health Benefits Committee meeting to order. The first order of business will be to call the roll.

COMMITTEE SECRETARY ORTEGA: Rob Feckner?

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY ORTEGA: Good morning.

Ramon Rubalcava?

VICE CHAIRPERSON RUBALCAVA: Present.

COMMITTEE SECRETARY ORTEGA: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY ORTEGA: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY ORTEGA: Eraina Ortega?

COMMITTEE MEMBER ORTEGA: Here.

COMMITTEE SECRETARY ORTEGA: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

COMMITTEE SECRETARY ORTEGA: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY ORTEGA: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Here.

COMMITTEE SECRETARY ORTEGA: And Karen Greene Ross for Betty Yee?

ACTING COMMITTEE MEMBER GREENE ROSS: Here.

CHAIRPERSON FECKNER: Thank you.

So we're now going to recess into closed session for items 1 through 3 on the closed session agenda. The open session of Pension and Health Benefits will reconvene immediately follow the Risk and Audit Committee meeting this afternoon I would assume somewhere around 1 o'clock.

So thank you all. At this point we will recess the open session meeting and clear the room.

(Off record: 9:01 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 1:00 p.m.)

CHAIRPERSON FECKNER: Good afternoon, we're going to reconvene the Pension and Health Committee. The first item on the agenda will be Item 2, the Executive Report. Who's going first?

Mr. Suine.

DEPUTY EXECUTIVE OFFICER SUINE: Yes, please.

CHAIRPERSON FECKNER: Yes, sir.

DEPUTY EXECUTIVE OFFICER SUINE: Good afternoon, Mr. Chair, members of the Committee. I'm Anthony Suine, CalPERS team member and thankful for being here again in person with you today.

Our regional offices have now been open for a few months providing in-person and virtual services. And in May, we had one of our busier counseling periods with just over 6,300 members counseled, which is about a 35 percent increase prior to our openings. Our members are hearing our strong recommendation to make appointments to ensure that they are served timely and with the most efficiency. And 80 percent of our members have been making appointments in our offices. The remaining 20 percent are walk-ins and we're able to triage them and provide the service options that would be available to them.

Roughly, 60 percent of our appointments are being conducted virtually and 40 percent of those are occurring in person. We also hosted 40 member education classes in May with a total attendance of about 1,500 members. We just started in-person member education classes, so five of those 40 classes were in person.

Moving to CalPERS Benefit Education Events. Registration is now open for our upcoming virtual CBEE that's occurring on June 22nd and 23rd. So far, we have over 2,700 members that have been registered. And following this June virtual event, we will be reintroducing our in-person CBEEs at -- with the event at Oakland Marriott on August 26 and 27th. We always welcome Board members to join those, events so we hope and -- hope to see you in attendance then.

I wanted to provide a brief update on the limited duration regulations that you approved to move forward at our April Committee meeting. The regulation package has made its way to the Office of Administrative Law to begin the rulemaking process. They will be published on June 17th and the comment period will run through August the 1st. The whole process including the public notice, hearings, comment periods, et cetera can be rather lengthy. And we would anticipate an updated version after comments are received will likely make it back to you for further review and approval later this year.

If everything stays on track, ultimate approval will occur in spring or summer of 2023, and then regulations are published on a quarterly basis, meaning the effective date would eventually be summer or fall of 2023.

This concludes my update and I'm happy to take any questions.

CHAIRPERSON FECKNER: Seeing none. Thank you.

DEPUTY EXECUTIVE OFFICER SUINE: Thank you.

CHAIRPERSON FECKNER: Mr. Moulds.

CHIEF HEALTH DIRECTOR MOULDS: Great. Good afternoon, Mr. Chair, members of the Committee. Don Moulds, Chief Health Director. Before we get to the focus for today, which is 2023 health plan rates, I want to give you a couple of updates.

First, this summer, we'll have completed two successful cohorts of the CalPERS Health Care Academy. Last summer, I announced the launch of the academy, which is an internal program we created for CalPERS team members to become more informed about health care markets, policy, and the role of purchasers. Marian Mulkey, who delivered the health education session to the Board in 2021 has worked closely with us to develop the curriculum and has led both groups. It's proven to be an excellent professional development opportunity for the nearly 45 team members who have gone through the program. And the Health Program has benefited greatly.

Cohort teams research and present on a health care topic relevant to CalPERS, which include recommendations for our consideration. In many instances, we're taking these terrific recommendations and they're becoming part of work groups we've created around our strategic plan and serving our members. The academy is a big success and we plan to offer two more cohorts to further expand health care knowledge throughout the enterprise.

Next, I want to -- I want you to know that this summer we're rolling out new functionality in myCalPERS.

Active employees, with their employer's approval, will be able to make any of their health enrollment changes online themselves in their myCalPERS account. Retirees have been able to do this for several years now. It's a great example how we're looking to increase efficiency and streamline the enrollment process for those members who choose to use it.

I want to set the stage for the preliminary premiums you'll see presented today. We've been working hard on along with our plans to better serve our members by adding more cost effective health plan choices and benefit designs focused on bringing our members high quality equitable care. Based on the changes you approved in November, members living in every county throughout the State will have much better options. No longer will the PPO plans be the only option in some of our rural areas. For the first time, members in those areas will have the option to switch to an HMO or an Exclusive Provider Organization, an EPO plan that offers lower cost sharing and in some cases a lower monthly premium.

Our members living in Monterey County will have the added choice of a low cost HMO option. We've added more Medicare Advantage Plans in 2022. To increase choice in plan competition. And this year, we're seeing a third year of Medicare Advantage premium decreases as we benefit from the cost efficiencies of those plans. And our HMO plans are also performing well, in what's shaping up to be a very difficult year for health plans -- health premiums nationally.

All that said, this will be a hard conversation today. The rates we are bringing you are unsustainably high. Our discussion will make it clear exactly where our foci will be need to be going forward. We face big challenges in our PPO basic portfolio, both with the rate increases you'll see today and the deficit in the PPO basic health care fund. Once Ms. Malm is done walking you through the 2023 preliminary rates, I'll be back to talk more about both and to lay out our plan for addressing them going forward.

That concludes my remarks and I'm happy to take any questions.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Chair. Sorry, Mr. Moulds, just a really quick question. You went over -- and I'm writing and I couldn't keep up. So you said that myCalPERS you'll be able to make changes to the health care online is that what you said?

CHIEF HEALTH DIRECTOR MOULDS: To health care -- yes, to your -- you'll basically be able to make your elections and to make changes.

COMMITTEE MEMBER TAYLOR: Rather -- and when is that happening?

CHIEF HEALTH DIRECTOR MOULDS: This summer, so it will be in effect for open enrollment in the coming year for -- so for the fall for 2023.

COMMITTEE MEMBER TAYLOR: Oh, it will be ready for this year.

CHIEF HEALTH DIRECTOR MOULDS: Correct.

COMMITTEE MEMBER TAYLOR: So you don't have to go do all of that through your employer, like you used to have to do.

CHIEF HEALTH DIRECTOR MOULDS: That's correct. We need employ buy-in also --

COMMITTEE MEMBER TAYLOR: Okay.

CHIEF HEALTH DIRECTOR MOULDS: -- but -- but we're assuming that for the most part, that will be happening.

COMMITTEE MEMBER TAYLOR: Cool.

CHIEF HEALTH DIRECTOR MOULDS: Yeah.

COMMITTEE MEMBER TAYLOR: That makes me very excited.

CHIEF HEALTH DIRECTOR MOULDS: Very cool. Yeah.

COMMITTEE MEMBER TAYLOR: Thank you very much.

CHAIRPERSON FECKNER: All right. Thank you.

Seeing no other requests, we'll move on to Item 3, action consent items, the approval of the April 18th meeting minutes and the June 14th meeting minutes. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Moved approval.

COMMITTEE MEMBER MILLER: So moved.

CHAIRPERSON FECKNER: Moved by Taylor, seconded by Miller.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

CHAIRPERSON FECKNER: Opposed, no?

Motion carries.

Item 4, the information consent items. Having no request to move anything off of that agenda item, moving on to 5, Information Agenda items. 5a, Preliminary 2023 HMO and PPO health plan premiums.

Ms. Malm.

(Thereupon a slide presentation.)

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Good afternoon, Mr. Chair, members of the Committee. Kim Malm, CalPERS team member. This is an information item to present the 2023 preliminary -- preliminary health plan premiums.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: On the agenda today, I'll go over program updates and the preliminary weighted averages. I'll also go over the proposed preliminary premiums for each of the basic and Medicare plans and the next steps.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Let's review the program updates for 2023 that you approved last November. In addition, I think it's important to note that this year we made a modification to the rates development process, where we required the health plans to sign and send in and actual attestation with their submission.

First, Kaiser is bringing in a new Medicare Advantage plan named Summit. It's a $0 copay plan and will be in addition to Kaiser's Medicare -- or sorry, existing Senior Advantage Plan. Kaiser is also adding a quarterly $70 over-the-counter allowance for both their existing Kaiser Senior Advantage Plan and the Summit Plan.

Finally, due to extenuating provider negotiations, Kaiser is not moving forward with its expansion into Monterey County for 2023, but hopes to do so for 2024.

In the Basic portfolio, Blue Shield is expanding their Access+ EPO into 11 rural counties and expanding their Trio product into seven counties. We're particularly excited to announce that amongst those seven new expansions is Monterey County. Having Trio in Monterey will mean that our members will -- they will finally have a low cost HMO option. Blue Shield is also adding a pharmacy shared patient savings program for their Trio members. Western Health MyCare Select Medicare Advantage Plan is adding a post-discharge meal benefit following a hospital stay.

Anthem Medicare Preferred is reducing copays for acupuncture and chiropractic services to $10 to match the current Medicare covered copays for these services. Again, in November, the Board approved benefit design proposals that applied to all of our basic plans, which include changes that make the reproductive health and fertility benefits more equitable, enhance coverage for hearing aid members for members age 26 and under, and a primary care physician match for PPO Basic members.

Next, let me briefly mention that this is the last of a two-year phase in implementation for risk mitigation. In 2022, premiums were adjusted 50 percent. The 2023 premiums reflect the full impact of risk mitigation. And with its full implementation, we anticipate smoother and more predictable changes across the portfolio in future years. And just a reminder, Medicare plans are not included in the CalPERS Risk Mitigation Strategy.

Lastly, the Health Care Fund is currently below recommended reserve levels, because of losses from the 2 PPO Basic products in 2021, so we don't recommend the use of Health Care Funds to buy down premiums for 2023.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

For the timeline today, I'm presenting the 2023 premium -- preliminary premiums, which include the new program changes I just mentioned. Between now and July, the CalPERS team will finalize these premiums and the Board will then approve them at the July Board off-site.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

So let's look at the weighted averages for HMO, PPO, and Medicare. The first slide shows the overall basic HMO increase at 4.42 percent. If you remove the 2022 snapback, which is really how we should look at premium increases, it is a 3.7 percent increase. This is very low compared to the industry. I'll go over the health care trend chart a little later that compares our increases to the market. And just as a reminder, the numbers you see here and throughout the presentation are all single-party premiums. The regional premiums for contracting agencies are included in Attachments 2a and 2b.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: The PPO Basic plans, PERS Gold, and PERS Platinum have a 15.76 percent overall premium increase. Clearly, these are unsustainable high-rate increases. Don and I will discuss the PPO in more detail later in this presentation.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: The Medicare Advantage plans have an average overall premium decrease of 3.23 percent. This is the third year we're seeing an overall decrease in Medicare Advantage plan premiums.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: The Medicare Supplement plans have an overall weighted premium increase of 9.83 percent. Most of the 2023 increase is due to the high pharmacy costs we are seeing for the Medicare Supplement products, as well as the 4.45 percent snapback from the 2022 premium buydown.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

And finally, as I mentioned already, the overall combined HMO and PPO preliminary premiums have a 6.8 percent increase for 2023.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Now, let me speak to some of the cost influencers that are impacting health care costs in our program. First, medical inflation continues to impact premiums. General medical inflation includes the annual increases in payments to hospitals, doctors, and other health care providers. Medical inflation is contributing about four percent of the 6.8 percent increase for 2023.

COVID-related costs, including treatment, were more than doubled in 2021 than in 2020. The 2023 premiums submitted by the plans utilize the 2021 experience in the first few months of 2022. Both the HMO and PPO experienced a similar pattern for COVID. Many plans expect that COVID testing will increase slightly in '22 and '23, while treatment costs are expected to decline as prevention and treatment of COVID continue to improve.

The assumption that COVID costs will stabilize in 2023 and will not result in additional increases. We aren't saying that COVID is going away, just that we don't expect it to keep causing premium increases.

Pharmacy costs continue to increase driven primarily by increased utilization of high cost specialty drugs. The new Optum contract with improved pricing and rebate guarantees has brought the projected 2023 pharmacy increase from double digits to very low single digits. Overall, the Optum pharmacy increases have a very modest three percent increase to the 2023 Medicare premiums and a minimal impact to basic premiums.

Lastly, in the 2022 premium development, CalPERS spent approximately 125 million of the Health Care Fund surplus to buy down premiums for multiple Basic and Medicare plans in both HMO and PPO programs. The snapback of the 2022 premium buydowns is contributing about 1.4 percent to the total increase.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

As I mentioned previously, I'd like to share with you Oliver Wyman's Health Care Premium Trend benchmark for January 2022. We use this to compare how CalPERS premiums are doing relative to the rest of the market. As you can see, CalPERS basic HMO and Medicare Advantage came in lower than the national benchmark. Yet, the overall program increase of 6.8 is comparable to the national benchmark, and that's because the CalPERS PPO trend is higher than the national benchmarks.

It's worth pointing out here that the Basic PPO increase without the snapback and premium surcharge is 10.48 percent, about three percent higher than the benchmark.

Medicare Supplement plans premium increase, without snapback, is 5.38 percent, which is close to the benchmark of 5.20 percent

Don will talk about the challenges facing the PPOs later in this presentation. He'll also address the Health Care Fund deficit presented in April by the actuarial team to the Finance and Administration Committee

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Now, I'm going to walk through each Basic plan starting with the HMO plans.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

As a reminder, this again is the second and final year of risk mitigation implementation. We make these adjustments in the Basic plans to price them based on the value of the benefit design and network, rather than the concentration of healthy or unhealthy lives in the plans.

Also, I'm happy to report in 2023, we'll have an HMO or EPO option for all counties, as don mentioned in his opening comments. Let's start with Anthem Select HMO. Anthem Select has a strong presence in the Bay and Central

Valley. I'm going to step you through each of the charts on this first plan. I will point out more highlights on the following pages after I describe what each of these charts means.

The table shows the final published 2022 premium of $848.08. The plan's preliminary 2023 premium of $882.62. This is before risk mitigation. Next is the plan's risk score and risk mitigation impact for the plan. So for Anthem Select has a risk score of 0.9838. This indicates the plan is healthier than average -- than average members in the basic portfolio. Now, their premium is $903.85, a 6.58 percent increase over 2022.

Looking at the cost drivers chart to the right, the 2023 premium increase for Anthem Select is due to several factors, including medical cost increases, which contributed 4.47 percent to their premium. The next bar is pharmacy, where we see a slight reduction. The other bar is the family factor, which accounts for changes in the average family size during open enrollment. It also captures some of Anthem's administrative overs. There's a 2.48 percent snapback impact from using the Health Care Fund reserve to buy down the premium by $10 million in 2022.

And then the last bar on the chart is the impact that risk mitigation had on their rate. As you can see, overall the premium increase is 6.58 percent.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Now, let's look at Anthem Traditional. This is a broad network HMO and is offered in many high-cost, low-competition areas of the state. Anthem Traditional has a premium decrease of $217.68, which is almost entirely due to risk mitigation. This risk score is 1.2121, which means they have more unhealthy lives than the average Basic plan. So risk mitigation helps their premium significantly. Overall, Traditional's 2023 rate is 6.8 percent lower that it was in 2022. You'll also note here that there's a 5.78 percent snapback from buying down the premium by $10 million in 2022.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Next is Blue Shield Access+, which is also a broad network. In the last couple of years, they've been working with us to help achieve our goal of having an HMO or EPO option available in every county. Here, you'll see a premium decrease of $245.92 due to risk mitigation. This brings the 2023 premium to $842.61, a decrease of 6.4 percent from 2022.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Blue Shield is a narrow network -- Trio, sorry, is a narrow network plan introduced in 2020. Trio's preliminary premium is 2.58 percent increase over 2022. As Trio was introduced three years ago, it is a relatively small plan. They don't have much experience to base their projections. Looking at the cost drivers chart, there's a 1.25 percent snapback from buying down the premium by 1.7 million in 2022. Risk mitigation increased Trio's premium by 3.34 percent.

I'd like to add here that in 2023, we're moving forward with Trio's expansion into Monterey County, along with six other counties. That's a very nice win for CalPERS members in Monterey. And as you can see, we're able to successfully due the -- expand to Monterey without a big increase to their premium, which is another critical success.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Health Net's Salud y Más is another narrow network plan that provides services in the lowest cost Southern California counties. The plan has the healthiest lives in our portfolio. With risk mitigation, their premium is now $631.89, and increase of 29.88 percent. Even with this high premium increase, Salud y Más has the lowest HMO premium in the Basic portfolio, actually $90 less than the next one closest to it.

Looking at the cost drivers chart, the increase is primarily driven by 8.54 percent snapback from buying down the premium 2022. And again, from the 16.84 percent impact of risk mitigation.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Health Net SmartCare operates in 20 counties, but nonetheless has a very small number of members. Health Net SmartCare's premium is $993.39, or a 1.36 percent premium reduction from 2022. SmartCare has experienced volatile member migration and risk concentration fluctuations in the last few years, which impacted their medical and pharmacy numbers. However, risk mitigation helped SmartCare by over eight percent.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Kaiser is a closed network that operates in 31 counties throughout the state. Kaiser's 2023 premium is $852.68. Looking at the cost drivers, they have an 8.04 percent impact from Medical. The two-year phase-in of risk mitigation increased Kaiser's premium by 2.74 percent. Without it, Kaiser's increase would be 3.2 percent.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Sharp is a closed network that provides services in the San Diego area. This is a small and healthier plan. Their 2023 premium is $764.96 or 9.4 percent higher than the 2022. Most of that is due to risk mitigation.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: UnitedHealthcare Alliance is an HMO plan operating in 26 counties. They have a slightly sicker population, so risk mitigation reduces the plan's preliminary premium slightly to $848.53. There is a 2.79 percent snapback from buying down the premium by $16.7 million in 2022. That, and their medical trend, accounts for most of Alliance's 3,73 percent premium increase.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: UnitedHealthcare Harmony is a narrow network HMO available in five Southern California counties. UHC's Harmony's premium is at 2.04 percent decrease over 2022 with a premium of $722.28. The decrease is mostly due to pharmacy and updated risk mitigation assumptions.

One more thing to note is that Harmony's premium is coming in over $130 lower than Kaiser's. As you know, one of the reasons you proposed adding Harmony last year was to introduce another low-cost plan that could put downward price pressure on Kaiser.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Western Health Advantage HMO provides service in Sacramento and select Northern California counties. Their preliminary premium is $760.17, an increase of 2.55 percent over the 22022 premium.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Moving on to the PPO plans -- PPO Basic plans. As I mentioned earlier, the PPO Program is experiencing significant premium increases far higher than the HMO Program. PPOs lack the care management that are central in our HMOs. Members have the freedom of choosing any providers for care and see specialists without a referral. This results in higher utilization of services. PPO utilization almost 40 percent higher than HMO utilization. The capitation payment system is heavily used in our HMOs and creates incentives for health care providers to manage care. This results in a more cost efficient health care, lower unit costs for inpatient, emergency room, and physician services, and more appropriate utilization.

In addition to having higher trends in all of these areas, our PPO plans cover out-of-network services, which cost much more than in-network care. The Basic PPO plans had a very difficult year in 2021. COVID-related costs came in more than double than 2020 COVID costs. We also saw a strong increase of non-COVID services as our PPO members started seeking care that they had deferred in 2020. Looking at the cost drives chart, the main drivers are the --

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: -- medical trend and the increase in pharmacy costs, which total about 6.88 percent to the premium increase. PERS Gold had a very large increase due to high utilization and costs. The medical costs in 2021 was 21 percent higher than 2020. For PERS Platinum last year, we spent approximately $50 million of surplus reserves to buy down that 2022 premium. The snapback of the premium -- of the buydown contributed 2.66 percent to the total PPO premium increase.

I'll note here that the PPO Basic plan premiums include surcharges, two percent for Platinum, and three percent for Gold. These are necessary to start replenishing the Health Care Fund. There are no surcharges in the Medicare supplement PPO plans, Gold or Platinum, since they do not have a deficit and therefore don't need to replenish the reserve.

Don will talk at the end of this presentation about challenges facing the PPO products and how we propose to address them.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Here we show the 2023 premium -- preliminary premium levels for each of the basic plans together as a portfolio. As you can see, there's still a variation in price points.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Okay. Moving on. Now, I'll go through each of the Medicare Advantage and Medicare Supplement plans.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Anthem Medicare Preferred is a statewide plan with a small enrollment. Anthem Medicare Preferred has a $413.59 premium, a 14.83 percent increase over 2022. Looking at the cost drivers, medical is within reasonable range. The majority of the increase is due to the 2022 snapback of almost 10 percent from last year's buydown of $1.8 million. As a reminder, Medicare plans are not included in CalPERS risk mitigation.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Blue Shield Medicare is a new Medicare Advantage

Plan in 2022 with 591 lives. They have a $361.96 premium with 2.49 percent increase over 2022.

Kaiser Senior Advantage has a $283.25 premium, a 6.37 percent decrease from 2022. Kaiser is showing a medical increase for 2023. They also administered their own pharmacy and are showing a pharmacy decrease.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Kaiser Senior Advantage Summit is a new plan that offers a $0 copay for most services. This plan has a preliminary premium of $336.29. The roughly $53 premium difference between the existing Senior Advantage product and this new product is the copay reduction. This plan has a copay for emergency room pharmacy, acupuncture, and chiropractic visits. Summit is not available out of state.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Sharp Direct Advantage is proposing $249.79 premium, a 5.33 percent decrease. This product was introduced in 2021 and has 170 lives.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: UnitedHealthcare Group's Medicare Advantage has a $299.68 premium, an increase of 1.7 percent. On the cost drivers chart, the reduction in medical is due to an increase in the CMS revenue. UHC Medicare Advantage self administers their pharmacy. Their pharmacy trend contributed 3.89 percent to the premium increase.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

UHC Medicare Advantage Edge has $357.50 premium, a 3.02 percent increase, UHC Edge is new in 2022. Again, like many of these new plans, they face volatility for the first few years because there's no experience to project costs.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

Western Health Advantage has a $331.11 premium, an increase of 5.13 percent. MyCare Select is another new plan for 2022. It's also a very small plan with 57 lives, and so again it's difficult to project costs.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

After the transition from three to two PPO Medicare Supplement plans, the majority of the PPO Medicare members are concentrated in the PERS Platinum plan. The PERS Gold PPO Medicare has an increase of 4.05 percent. PERS Platinum has an increase of 9.97 percent. Overall, the 2023 increase is mainly due to high pharmacy increase and the snapback from the 2022 buydown.

Last year, we spent 23.8 million to buydown PERS Platinum Medicare Supplement premium. In addition, we spent 3.7 million to buy down the PERS Gold Supplement.

For 2023 there's roughly a $27 difference between -- in premiums between these two plans. And again, as I stated earlier, there's no surcharges for Medicare Supplement PPO, Gold or Platinum. The benefits for these plans are similar and they both have the same network. PERS Platinum Supplement has slightly richer benefits for hearing aids and skilled nursing. It's also available out of state where PERS Gold Medicare Supplement is not.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Here, you'll see the 2023 Medicare premiums, which range from $250 to $420.

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STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: For next steps, the CalPERS team will finalize the premium amounts. In July, we'll present you final premiums for Board approval. The 2023 health premiums will be effective on January 1st, 2023.

And this concludes my portion of the presentation. I'd like to thank the rate teams for their -- a lot of hard work, Actuarial Office, Public Affairs, and the Health team.

And I'm going to now turn it over to Don who's going to discuss challenges facing our PPO products.

CHIEF HEALTH DIRECTOR MOULDS: Mr. Chair, you want to take a break and take questions or should we go in and take questions after.

CHAIRPERSON FECKNER: That's up to you. How do you want to do it?

CHIEF HEALTH DIRECTOR MOULDS: I've kept this a little shorter, so why don't we do it that way, and then we can go into questions.

So as Kim mentioned, the challenges we're seeing -- microphone okay?

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Um-hmm.

CHIEF HEALTH DIRECTOR MOULDS: Okay. Great.

As Kim mentioned, the challenges we're seeing with the rates this year are almost entirely driven by our PPO products, by our two basic PPO products in particular. Increases in our HMO rates and our other managed products are much more modest. When we take snapback out of our HMO rate, which as Kim mentioned is the right way of looking at actual premium inflation, it drops from 4.42 percent to right around 3.7 percent. That's about half of the projected national average for premium inflation. And as Kim noted, our Medicare Advantage products are getting cheaper again this year.

The investments that you've made in some of the narrow network products, Trio and Harmony, but also Western Health Advantage, Sharp, and Salud y Más are also starting to pay dividends. The same seems to be true of our new MA products, which are creating positive competitive dynamics in our Medicare market.

Our drug spending is also coming in line for 2023. For Medicare pharmaceutical inflation is running a very modest three percent and for the Basic program, it's basically flat.

The PPO is obviously a very different story. As Kim said, the rate increases we've seen over the last few years, and this year in particular, are unsustainable. We're particularly focused on the PERS Gold product, which for 2023 will still be among the lower cost plans, but going forward will not be, if we don't take decisive action in the coming year.

The other big challenge facing the PPO is the one that we talked about with you in April. We ran a large deficit for 2021 caused by a confluence of much higher than anticipated medical costs, which were primarily COVID related, higher than expected drug costs, and investment losses.

The steps we're going to need to take with respect to the PPO involve both near term and longer term interventions. What I'd like to do is walk you through those.

With the 2023 rates, our goal is generating enough premium revenue to start replenishing our HCF reserves and adequately fund our 2023 outlays for the two PERS PPO products. As we've talked about, it's essential that we set rates high enough to do these things, because the HCF fund is critically low and we always need enough money in that account to pay our bills.

When we briefed you back in April, I talked about a few different options that we planning on exploring that could help address some of the challenges facing our PPO products.

One was stop-loss insurance, which we were hopeful could help mitigate some of the risk we were -- were we to see large medical losses in the future. Another was conversion of our PPO to a fully insured product or to a flex funded product like most of our HMOs. Both were also attractive because having them in place would have dramatically reduced our reserving requirements. Unfortunately, our analysis is that neither of those is a good option for us.

Our near-term strategy for addressing the challenges facing the Basic PPO are embedded in the premiums we are bringing you today, which are neither conservative nor aggressive. They're priced at exactly what we anticipate will be our costs. In developing them, we worked with both Anthem and our outside consultant Milliman. However, on top of the premiums, we have included surcharge, which we propose having in place for five years. That allows us to slowly build up our reserves over that period of time until they are fully replenished in 2027. The surcharge is roughly two percent -- is roughly three percent of PERS Gold premium and two percent of PERS Platinum. The hope is that once the costs stabilize, we may be able to drop the surcharge sooner.

We modeled a lot of different options before landing on the five-year replenishment strategy and our analysis leads us to believe that it's the best option. On the one hand, we need to start replenishing the reserves as quickly as possible, and ideally we'd like to be back to full reserves in a period of time shorter than the five year schedule we're proposing today.

However, we don't want to raise premiums more than we absolutely have to and we also need to be careful when we raise premiums for PERS Gold, in particular, because if we raise them too much, we're going to see attrition.

In modeling various scenarios, our actuaries have projected that the current premiums, including the surcharge, will result in attrition numbers that are on the high for the normal range of members who leave in any given year, but not high enough to have addition -- additional material impact on our premium. Other shorter time frames for replenishment likely would cause an additional material impact on premium.

As I said, the other critical task is curbing cost growth going forward. Our plan in the coming months is to develop benefit design options that we will be bringing you in September and then again for potential adoption in November.

During this period, we'll also engage stakeholders. The overall goal is going to be to keep PERS Platinum as affordable as possible and to keep PERS Gold in line with the cost we see in our low cost HMO products like Trio and Harmony.

In addition to the intense work on rates over the last few months, we've been reaching out to national groups with deep expertise in this space. As always, our aim is going to be to bring you options that connect our members with high value services and that minimize cost shifting.

That in -- that concludes my comments about the challenges facing the PPO and gives you a picture of our plans for addressing them. I'm sure you have questions, which we're happy to address now.

CHAIRPERSON FECKNER: Thank you, Mr. Moulds and Ms. Malm. I first want to start off by thanking you and your team, the whole team, that worked on this this year. It's never an easy process. We understand that, but I think you've done a yeoman's job in getting us to where we are. And I just want to thank each and every one of you and your team for all the dedicated hard work.

At the same time, I also need to say since last year at this time I did call out United for needing to have sharper pencils, at the same time I think I also need to recognize the fact that they did sharpen their pencils, and they heard what we had to say last year and they came back with a better price. I always wish all of the funds came back with better prices. But that being said, they did a good job and I want to recognize that. Puts them below Kaiser. I think Kaiser needs to get back to work.

So at this point, I'm going to call on Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Chair. And thank you, Kim and Don, for the presentation.

As always, you guys do such a job to make sure you get us to the best rates we can get to.

I will echo what Chair Feckner just said, which is we got United to listen to us and maybe next year we get Kaiser to listen to us a little better. They did a little better, I will say, but it always can be better.

And I just want to repeat some of the stuff that I talked about earlier. For -- one thing I want to make sure is why we -- so Ms. Malm, could you, for our members, answer why we don't include the Medicare Advantage programs in the risk adjustment?

CHIEF HEALTH DIRECTOR MOULDS: Medicare is already risk adjusted by Medicare.

COMMITTEE MEMBER TAYLOR: Thank you. That's -- I just wanted that addressed in public. And I just wanted to kind of go back on the risk mitigation. We're in the final year, right? So this will be the last time we see this large risk adjustment, one way or the other, correct?

CHIEF HEALTH DIRECTOR MOULDS: That's correct.

COMMITTEE MEMBER TAYLOR: Okay. And then the snapback. We're not doing any of the buybacks right now, so --

CHIEF HEALTH DIRECTOR MOULDS: We will not see snapback next year.

COMMITTEE MEMBER TAYLOR: Right. And so this will be kind of a whoo for next year.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. I mean, it's not for great reasons obviously.

COMMITTEE MEMBER TAYLOR: Right.

CHIEF HEALTH DIRECTOR MOULDS: But it will be -- it will not be part of the equation next year, because we're not anticipating buying back Premiums.

COMMITTEE MEMBER TAYLOR: Okay. And I'm not sure, but I just feel like maybe we shouldn't be doing that, if that's going to cause us this kind of contention.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. And I will say that when we -- when we come to you with -- at -- to begin the discussion about the five-year HMO procurement, whether flex funding as we do it or -- or just period is one of the things that we're going to want to be talking about.

COMMITTEE MEMBER TAYLOR: Great, yes, because it seemed like it was a little bit -- you know, every time we do that, right, we buy down those rates, we feel like, okay, pat ourselves on the back, because we got those rates down, but now we see result of that, right, so --

CHIEF HEALTH DIRECTOR MOULDS: Yeah. They do increase volatility year over year, as -- you know, as we've talked about in the past, when you buy back premiums, you artificially lower the base, which is a good thing --

COMMITTEE MEMBER TAYLOR: Right.

CHIEF HEALTH DIRECTOR MOULDS: -- but then in the coming year, unless you buy back at least as much, you see snapback in the rates. The rate increases is artificially higher.

COMMITTEE MEMBER TAYLOR: Right, which, yeah, makes it harder for all of us.

And then I wanted to talk about one of our low-cost plans. As my -- as my members look at these kind of plans -- I want to make sure I'm on the right page here. I think it's Harmony. And let me get there. Hold on. Yeah. So it is -- oh, I'm sorry. It's Health Net Salud y Más. And I just wanted to mention that while the cost drivers of this increase of this almost 30 percent increase, I understand are the risk mitigation -- the main cost drivers, the risk mitigation and the snapback. I just want to remind everybody hopefully that's it, because this is one of our low cost plans for folks in the area that -- that this plan serves, and having a $200 increase is huge for these folks. So I just want to make sure that that is not an ongoing problem that we see in the future.

And then also we had some medical costs. And if you guys could go a little more deeper into some of those -- not -- not just for health -- not for that particular one, but for a lot our plans, we had high medical costs. And I know that you guys had explained some of the reasons for that. If you guys would go into that a little bit, high medical costs on most plans, where they're were rate increases.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. Do you want to jump in or?

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

That was, I think, earlier in my presentation, talking about the COVID impacts that we saw.

COMMITTEE MEMBER TAYLOR: Right. Right.

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

And then we saw that the members came back and did non-COVID activities. I'm sorry, like non-necessary --

COMMITTEE MEMBER TAYLOR: I know what you're talking about.

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM:

I'm saying the words wrong. I'm saying it wrong.

But non-COVID related medical expenses, such as knee, hip surgeries and after the 2022 surge -- 2020 surge. So the increases for this next year show COVID and non-COVID services.

COMMITTEE MEMBER TAYLOR: And then the year before the increase with COVID had to do with no services except COVID.

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Right, and COVID. Yes And the alpha of COVID that Don talked about.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. We saw -- in 2020, we saw -- certainly saw COVID costs, but we saw an associated decrease in the use of normal medical care. So part of that was the cancellation of elective surgeries to make space in hospitals for people with COVID. Part of that was apprehension on the part of our members to get medical care. We saw, as we talked about in the past, a pretty dramatic increase in the use of telehealth, which in the early days, and I stink -- I think still to a certain extent does a nice job of replacing, in some instances, and not such a great job in others, as we are talking on an ongoing basis about how to lean into and take advantage of telehealth. We're parsing a lot of that out.

But in 2021, which is the most important year for this rate buildup. When we build up rates, we look at the last full year primarily, that was 2021, we had -- we had two COVID surges --

COMMITTEE MEMBER TAYLOR: Right.

CHIEF HEALTH DIRECTOR MOULDS: -- Delta and then the first part of Omicron. And then the second thing that happened was we had people returning in much higher numbers. That was unanticipated by the actuarial community. So in -- you know, in alpha, that as I said, with an increase in COVID treatment, there was a corresponding decrease in normal care. Hospitals became much more sophisticated at being able to treat people without COVID and not to have to cancel elective surgeries. People were coming back after a year of living with COVID. They needed to get preventative care. Their tolerance for the risk associated was higher, because they understood that the health -- the health community was doing a better job of protecting them and so forth. So that's -- that's what you're seeing in some of the medical side is that piece of it.

Going forward, we do not -- as Kim mentioned, we do not anticipate COVID being an additional cost driver, so the strains have become increasingly less harmful, which is nothing that we can completely bank on, but is definitely a positive trend. Treatments have gotten better. More people have become -- gotten vaccinated and more people have had the disease. So that's bearing on it. We did inherit some new mandates with respect to testing, so we are paying for basically all of the testing right now, which is a cost driver. The net effect on premium growth is pretty close to flat.

COMMITTEE MEMBER TAYLOR: Okay.

STRATEGIC HEALTH OPERATIONS DIVISION CHIEF MALM: Great. But the answer to Salud y Más, there will not be a snapback and there will not be risk mitigation. That was about 25 percent out of their 29.88 percent increase, that will not be there next year.

COMMITTEE MEMBER TAYLOR: Actually, it was a little more than that it looks like, but, yeah I appreciate that. I just want to get that out there. I also look forward to the conversation regarding how we move forward with our PPO plans. But again, I want to thank you very much. If you think you can get any better rates before we come back in July, I encourage you to do that.

CHIEF HEALTH DIRECTOR MOULDS: We will keep trying until the bitter end.

COMMITTEE MEMBER TAYLOR: I appreciate it. Thank you very much.

CHIEF HEALTH DIRECTOR MOULDS: Yep.

CHAIRPERSON FECKNER: Thank you.

Ms. Greene Ross.

ACTING COMMITTEE MEMBER GREENE ROSS: Yes. Thank you, Mr. Chair.

So I understand very much the difficulties of negotiating with this many variables up in the air all the time. And you guys work really hard. And I'm very impressed year after year at the hard work that you put into this. And I just wanted to ask, I know that it was a huge help, the renegotiated Optum contract with the pharmaceutical rates. Do you have any update on the State-coordinated effort to do pharmaceutical purchasing or production you mentioned a couple months ago.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. Yeah, and that's a -- that's a really exciting development. So the Governor has put I think it's $100 million, yep, into the budget for this year to build a manufacturing site in California to manufacture generic insulin. It is the -- it would be the first step in a -- in an initiative that he identified when he came in, which is generic manufacturing to try to bring prices in the generic space down.

Insulin is -- is both a great and a challenging first target. So it's great because -- because we have so many people who depend on insulin and the prices in insulin have continued to rise dramatically, so it makes sense to put your cards there. Insulin is also more complicated than some other generic drugs to manufacture. It's something sort of between -- I think the way that Dr. Logan has described it in the past sort of between a drug and a biologic.

(Laughter.)

CHIEF HEALTH DIRECTOR MOULDS: And -- but that seems to be moving forward, you know, assuming again the money -- the budget still needs approval. But if that is successful, the intent is that they would do more of that. I've already begun discussions with OptumRx to kind of put them on notice that if the State is able to do this successfully, that we need to amend our contract to make sure that we can take full advantage of that.

ACTING COMMITTEE MEMBER GREENE ROSS: That's wonderful.

CHIEF HEALTH DIRECTOR MOULDS: Yeah.

ACTING COMMITTEE MEMBER GREENE ROSS: And that's also wonderful because I know you and I have talked on about the biosimilars and generics aren't as well regulated and a lot of them are produced outside this country so another also positive of that, so that's great news.

Thank you. Hopefully it gets passed.

CHIEF HEALTH DIRECTOR MOULDS: Yep.

CHAIRPERSON FECKNER: Thank you.

Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Chairman Feckner.

First of all, thank you, Don, and thank you, Kim, for your presentation. I really again really enjoyed listening to your presentation and providing this is very important and timely information. My question is -- first of all, just more of a comment and then a -- then a question. I noticed that in the health care premium trends, the trend of the Basic HMO being 4.2 versus the -- you know, the trend of the national, which is 7.11, which is obviously below, which is really good for us. And, you know, again you alluded earlier about the Basic PPO being unsustainable in terms of the trends. And Medicare Advantage being very -- being negative versus the other national trend being 4.8, and the Supplemental being higher than the -- than the trend.

And my question is is, do you feel that because of inflation, medical inflation, and we recently had -- as I think of last Friday, we had a -- the labor -- labor people sent out the information it was 8.6 percent. Do you think that because of the inflation issue and supply chain issues that are going on in the economy that we may still see this and this inflation may still be an influencer -- a cost influencer moving forward do you --

CHIEF HEALTH DIRECTOR MOULDS: Yeah. Inflation -- general inflation will absolutely be an influencer, as well a tight labor market. I think it is hard to read the paper on any given day and not hear about -- about health care worker burnout. And, you know, those folks have been through the ringer over the last couple of years. And in a tight labor market, you have to anticipate that labor costs are going to go up, if they're going to be successful in retaining that workforce. Material costs are also going up across the board. And all of that affects the cost of delivering health care service. So, you know, medical inflation is -- in its relate to general inflation is not perfectly linear.

COMMITTEE MEMBER PACHECO: Um-hmm.

CHIEF HEALTH DIRECTOR MOULDS: But yes, those costs certainly will factor in for the next couple of years or for however long it takes to rein in inflation.

COMMITTEE MEMBER PACHECO: So in your opinion we would still kind of anticipate that cost influencer over -- over this?

CHIEF HEALTH DIRECTOR MOULDS: Yeah. I mean we're seeing it -- we're seeing some of that in the 2023 rates, because it's anticipated already.

COMMITTEE MEMBER PACHECO: So just given that because -- let's say for the instance that COVID, as mentioned earlier, because we're getting new variants and it's getting more -- where we're getting more under -- we have a better understanding of it, this could be -- this could still be an influencer. And then my other question is it's not -- it doesn't relate to this, but it's just -- with respect to the Kaiser Permanente -- Perma -- Kaiser Permanente Senior Advantage Summit, that's going to be offered across -- is it going to be offered across all areas where Kaiser is located?

CHIEF HEALTH DIRECTOR MOULDS: Within the state.

COMMITTEE MEMBER PACHECO: Within the state --

CHIEF HEALTH DIRECTOR MOULDS: Yeah.

COMMITTEE MEMBER PACHECO: -- but not out of state, correct?

CHIEF HEALTH DIRECTOR MOULDS: Yes, that's correct

COMMITTEE MEMBER PACHECO: And do you anticipate many members to enroll in this in the 2022 period or is it going to be a gradual thing?

CHIEF HEALTH DIRECTOR MOULDS: Yeah. That's an question. We don't know is the short -- is the short answer unfortunately. You know, the premium is a little bit higher.

COMMITTEE MEMBER PACHECO: Right.

CHIEF HEALTH DIRECTOR MOULDS: It also -- you know, it's -- it's leaned into some strategies that -- that are -- make it potentially more attractive to some of our Medicare members, so -- and the cost sharing is lower. So, you know, we're watching these -- these low cost share plans and the plans that have leaned into the supplemental benefits very closely. We are going to continue monitoring our own data over the short and the longer term, both to look at how those products affect costs and ultimately, over the longer term, how they affect outcomes.

You know, the strategy with the supplemental plans and some of the supplemental benefits as we've talked about before is improving health. And those were a bet by CMS that paying for things like nutritional meals after hospital discharge or rides to physician's office are going to, in the long term, not only increase health care for Medicare members, but also save costs, because they avoid readmissions in the case of nutritional meals, or hospitalizations in the -- in the case of transportation to preventative care.

So we're monitoring that closely, we will over time, to make sure that those plans are performing the way that we anticipate them planning, but we do anticipate migration of members into those plans, because of the benefits. And we're hopeful that that will be something that is good for both CalPERS bottom line and good for our members.

COMMITTEE MEMBER PACHECO: Well, I was -- I was impressed ed by the zero -- the $0 copay for most -- most services. That was very impressive. Thank you very much.

CHAIRPERSON FECKNER: Thank you.

Mr. Rubalcava.

VICE CHAIRPERSON RUBALCAVA: Thank you. Rob and team, Kim, excellent job. I really look forward, as we move forward, I know the rates are not what everybody ex -- we'll see as advantages, but I do see it very official that we're finally at a point where we plateaued and these are, to use your term, fully priced, meaning the price that we're -- it's justified. It's based on the design and the risk that the plan carries with it.

We do have work to do on the PPO, but I'm looking forward to -- and I would ask that we work with the carriers on some sort of materials for open enrollment that will sort of promote what the plans are, especially the HMOs, what they can deliver in connecting with your primary care physician, providing preventive care for those that are healthy or keep from healthy, and if they have chronic disease, that they address that to either maintain their health status or improve it as much as possible, because until we can -- we're able to move a little bit of that behavior, we cannot -- we can always -- not always -- there will not always be a silver bullet of a pharmacy drug that would reverse something that's already happened.

So we -- we have responsibility to make sure that we provide affordable and accessible health care and I'm glad we're moving in that direction. I look forward to your presentation in September and the Board's action in the following months.

Thank you very much. Thank you for your good work.

CHAIRPERSON FECKNER: Thank you.

Seeing no other requests, we do have a couple of commenters from public. So I first call on Mr. Woodson.

MR. WOODSON: Hello. Testing. Yeah.

Masks and hearing aids don't go well together.

(Laughter.)

MR. WOODSON: I apologize.

Okay. Larry Woodson, California State Retirees. Chairman Feckner and Board members, thank you for the opportunity to comment today.

At the stakeholders, we had the opportunity -- in break-out session this morning, we had an opportunity to review these rates earlier and discuss them with the staff. And Kim Malm gave a good overview and answered our questions. My initial take on these tree preliminary rates is that they are on average not too unreasonable, but there are a few individual plan premiums that are.

One Basic plan, Anthem Blue Cross Select increase seems unreasonably high at 6.58 percent with most due to increased medical costs. And I would point out that Anthem had huge profits in 2021, $6.1 billion, third highest of all the carriers. And I understand CalPERS doesn't consider overall profits, but we see that, and -- but just comparing their increase to the other 11, they're significantly higher. And also with their Medicare Advantage plan, it's even worse at 14.83 percent. It's almost triple the next highest plan increase. So -- and compared to Kaiser Senior Advantage. They're decreasing 6.37 percent in the same population of elderly. So, you know why?

Kaiser HMO also stems out, as the Chairman pointed out, with a 5.92 percent. I hope, as in year's past, these will come down somewhat in July. The PPO plans are disproportionately high. I understand. We'll be interested in hearing more about the plans to address this in the future and give input.

In new just yesterday, the Federal Trade Commission announced they're beginning an investigation of OptumRx and five other major PBMs for their business practices, which they feel drives drug costs much higher than they should be. So this may have an effect on lowering drug costs.

So, in conclusion, I'm going to be commenting at

5c on the Medicare ACO REACH privatization, that's already been implemented. And it affects, and will affect, and is affecting many CalPERS retirees who have been moved into this program without their consent. Unfortunately, CalPERS has no easy way of knowing who or how many have been moved. And we're -- it's somewhat up in the air how this may affect premiums as well.

So more from me on that later.

Thank you.

CHAIRPERSON FECKNER: Thank you.

Mr. Jelincic.

MR. JELINCIC: J.J. Jelincic, RPEA.

The rates are too high. Shouldn't shock anybody. I've said that for years and I think everybody recognizes it's true. It's also somewhat against my nature to defend Kaiser, but I would point out that absence the risk mitigation, their rate would have gone up three-tenths of one percent. What led to my desire to make a comment is we're being told that this is the last year of the risk mitigation. But if low cost plans no longer getting hit with surcharges, they're going to go even -- their relative position will drop. High cost plans won't get the subsidies. They will go up and it seems to me we're back where we started. So I'm really questioning whether risk mitigation is going away.

If the plan is to equalize the premiums, then we've got to do something to recognize the different cost structures and the different populations. You may want to go -- consider going back to your old risk mitigation, which focused on the health conditions of the population of the insured. I thank you.

CHAIRPERSON FECKNER: Thank you.

Mr. Teykaerts, I understand we have a phone caller

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: Mr. Chair, that's correct. We have one call on the phone. David from SEIU, go ahead.

One moment.

MR. AGUINALDO: Hello, everyone. Can you hear me?

CHAIRPERSON FECKNER: We can barely.

MR. AGUINALDO: Yes.

CHAIRPERSON FECKNER: There you go.

MR. AGUINALDO: Wonderful. Yes. My name is David Aguinaldo. I am calling in from Chicago. I am part of the CDTFA. I work in the Chicago district office and I am union steward for Unit 1 DLC799.

I am calling because I just wanted to make sure that it is noted that in out of state, there are three -- around 300 employees. We have one choice for health insurance and that is the PERS Platinum plan. And there -- so far as I know, there are no plans to offer anything else.

Over the course of the last four years, we've seen our premiums increase. So in 2020 our -- my personal portion of a two-person plan was $351. Under the new -- the new premiums that were announced today, my portion would increase to $803 today. This year currently, I'm at 591.56 is my contribution.

We have people who are -- you know, we have office techs in our office, we have tax auditors who are just starting, so we're -- you know, people sitting at around $4,000 a month in gross pay who are being asked to pay, you know, $800 for them and their spouse to be on a health care plan.

I'm trying not to cry in this moment, because I've had these conversations with my co-workers who are having difficulty paying their mortgage, because their health insurance premiums are so high. We don't have another option. I don't know what can be done to help this situation, but I have called CalPERS, the union, everyone try to make this more equitable. But as of right now, I still don't see a solution.

So I just wanted to make sure that that was on -- that we're not forgotten, you know, over in -- out of state. And again, we're looking at single payer -- you know, a single payer at Kaiser, their likely employee contribution will be 171, ours will be 402, so over double. Almost two and a half times the premium for our in-state counterparts.

That's all I have. Thank you.

CHAIRPERSON FECKNER: We appreciate your comments. Thanks for calling.

Mr. Moulds.

CHIEF HEALTH DIRECTOR MOULDS: Yeah. I just -- I really appreciate the call and wanted to just -- this is something that we have been focused on, particularly recently. You know, we do not have very many active members in particular who are -- who are living in other states, but we do have some. California has offices that are located in select other states. And for some of them, it is, in fact, the case that they only have one option, which is a platinum option. And that is the second highest plan in our portfolio.

We had a good conversation with New York State and our -- have conversations that we're looking forward to with some of the other states about the possibility of reciprocity in some of these states and piggybacking on their networks. It is a tricky business, potentially requiring statutory changes. But the thing that we landed on that -- sort of next steps in New York that is potentially a model here is making that -- those networks, the networks that the state retirement organizations use, available somehow to our members. So it's a -- it is -- this is a -- this is a legitimate problem and it's something for those folks that we're going to need to fix and something that I'm working with Rob Jarzombek to dig into at the moment.

CHAIRPERSON FECKNER: Very good. Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: So I just want to make sure if there's a way that that caller can get my information, that would be awesome. I don't know if Mr. Teykaerts is even still listening. I'd be happy to provide that to the caller, because he's in my union, but I also would like to piggyback on this, because we -- Franchise Tax Board, which is my agency, also has New York, Chicago, and Houston offices.

CHIEF HEALTH DIRECTOR MOULDS: Yeah.

COMMITTEE MEMBER TAYLOR: They're small offices, but if you combine them with the CDTFA folks and everyone else, you know, we've got about three or four hundred people out of state. So I really app -- I did not know that you guys were looking into piggybacking on some of the retirees programs. That would be awesome, because that's a ridiculously high price.

CHIEF HEALTH DIRECTOR MOULDS: Yeah.

COMMITTEE MEMBER TAYLOR: So it takes --

CHIEF HEALTH DIRECTOR MOULDS: It is never -- it should never be the only option for anyone.

COMMITTEE MEMBER TAYLOR: Absolutely. And I hope that anybody else who's listening from out of state, please give me a call, if you're continuing to have these problems, so I can connect with you the right people and we can get you some answers.

CHAIRPERSON FECKNER: Thank you.

Seeing no other requests on this topic, again, thank you both, and both of your teams for putting this together. It was a lot of hard work and we appreciate the outcome, so thank you.

CHIEF HEALTH DIRECTOR MOULDS: Mr. Feckner, can I -- are we done with public comment or is there --

CHAIRPERSON FECKNER: No, we haven't gotten there yet.

CHIEF HEALTH DIRECTOR MOULDS: Okay. Then I will wait until the very end.

CHAIRPERSON FECKNER: Okay. All right.

Next item is 5b, Summary of Committee Direction.

Mr. Moulds, Mr. Suine, either one of you have any summary of Committee direction?

CHIEF HEALTH DIRECTOR MOULDS: I have -- I have two. The first one is to continue working with the plans between now and July to see if we're able to find additional decreases in premiums, and the second one is to continue looking into this issue of out-of-state networks and options.

CHAIRPERSON FECKNER: Very good. And I will add one more to your --

Mr. Moulds.

CHIEF HEALTH DIRECTOR MOULDS: And I'll do this now. I just wanted to take a second -- sorry, parliamentary procedure is not my specialty.

CHAIRPERSON FECKNER: It is mine, so I'll keep on talking.

CHIEF HEALTH DIRECTOR MOULDS: Well, good. Then we're in great company. I just -- I wanted to take a second and thank -- and I really appreciate you recognizing our team, but I wanted to take a second and do it as well. It is just a terrific team. They have worked very, very hard under very difficult circumstances, and it is just a joy to work with them. I want to -- I want to thank Diana Dooley, who is not here. She is in Belize celebrating her 50th wedding anniversary.

CHAIRPERSON FECKNER: Wow.

CHIEF HEALTH DIRECTOR MOULDS: But she has gracefully came out of retirement to help us with some of the rates work and has been just a terrific addition to the team.

I especially want to thank Ms. Malm, who has taken on this role as a second job. She is continuing to lead her day job division and do this in her spare time. I have -- I have only the best things to say about her. She is, as you all know, as loyal as they come to CalPERS, and as dedicated as they come period. Smart as all be. And we would not have been able to get to this point without her. So thank you for taking on the extra work and for being such a wonderful colleague. And we're hoping that after we're done with this, she goes back to just one job.

(Laughter.)

CHAIRPERSON FECKNER: Thank you for our comments.

But I will add one more to your list of Committee direction, not to preempt Mr. Woodson's comments coming up, but he did start on the comment, and we did read the letter that he sent to all of us. I would encourage you to put together some subject matter -- subject matter experts that you find to have value that are working on this process that he's going to talk to us about and have them at a future meeting, maybe in September or November, to come before us, so that we can hear from their perspective the equation.

CHIEF HEALTH DIRECTOR MOULDS: Happy to do that.

CHAIRPERSON FECKNER: Thank you.

With that, we move on to 5c. Mr. Woodson, sorry to take some of your thunder, but I wanted to put that out there.

MR. WOODSON: Appreciate it.

Larry Woodson, California State Retirees again.

On Friday last week, as you mentioned, I sent emails to all Board members, CEO Frost, Mr. Moulds providing a report on CSR's findings regarding the dangers of Medicare direct contracting pilot, now rebranded as ACO REACH. It also reports the results of our meeting with Center for Medicare and Medicaid Services management staff.

Essentially, REACH has the same dangerous elements and will greatly expand the number of DCEs, now called ACOs, since CMS is allowing new Applications. My email included attachments, including, number one, CSR's letter to Secretary Becerra asking him to halt the program, two, the Washington Post article -- or opinion piece, which first made this known to the public, and then thirdly, a letter from one of our CSR CalPERS retirees that she received informing her that she was now part of a DCE. And then lastly, I sent the CMS list of 99 already approved DCE's nationwide, a disproportionate 29 of which are in California.

And I recently discovered Sutter Health applied to become a DCE and was granted. And they have 11 -- 140 primary care providers as DCE providers. They take all their patients with them against their -- well, without their knowledge.

CMS Center for Innovation implemented this program in 2020 in the last days of the Trump administration, which moves traditional Medicare enrollees into a direct contracting entity, DCE, without their knowledge or consent, and without Congressional oversight. The payment model for DCEs in REACH is similar to Medicare Advantage.

Instead of paying doctors and hospitals directly for care, Medicare gives the middleman, DCE or ACO, up-front money to cover a defined portion of each senior's medical expenses allowing the DCE to keep as profit what they don't pay for in care over the year. This incentivizes them to deny services, exaggerate diagnostic codes both in number and severity. This capitation practice has been identified in Medicare Advantage plans as resulting in billions of dollars, higher annual costs to the Medicare fund by MA plans over traditional Medicare fee for service.

Any type of company can and has applied to be a DCE, including commercial insurers, private equity companies, new start-ups, even dialysis centers. Thirteen of the 99 approved DCEs have little or no experience with Medicare beneficiaries. An analysis by two former doctors who are directors of CMS estimates that DCEs could spend as little as 60 percent on care and keep 40 percent overhead and profit. Both doctors oppose that program.

In conclusion, opposition to this program is gaining momentum. However, much more is needed since CMS is expanding it. A letter from CalPERS to present Biden and Secretary Becerra on behalf of CalPERS retirees on original Medicare could have a significant impact.

We hope you'll seriously consider this.

Thank you.

CHAIRPERSON FECKNER: Thank you.

All right. Seeing nothing else coming before the Committee, this meeting adjourned.

(Thereupon California Public Employees' Retirement System, Pension and Health Benefits Committee open session meeting adjourned at 2:18 p.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Pension and Health Benefits Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of June, 2022.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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