



Finance and Administration Committee

Agenda Item 7b

April 18, 2022

Item Name: Semi-Annual Health Plan Financial Report

Program: Health Policy and Benefits Branch

Item Type: Information

Executive Summary

This report provides the committee with an update on the financial status for the California Public Employees' Retirement System (CalPERS) six self-funded Preferred Provider Organization (PPO) health plans and the nine flex-funded Health Maintenance Organization (HMO) health plans as of December 31, 2021.

Strategic Plan

This agenda item supports the CalPERS 2017-22 Strategic Goal: "High Quality Affordable Health Care".

Background

CalPERS has been self-funding PPO Basic and Medicare Supplemental plans since 1987. Each self-funded PPO plan is managed in a separate subaccount under the Health Care Fund (HCF) to deposit premiums, pay claims and other expenses, and maintain prudent levels of reserves.

Starting in 2014, CalPERS began flex-funding most of its HMO Basic plans. Flex-funding is an arrangement with a health plan wherein the contracted health plan pays the capitated portion of the health care services and CalPERS pays the fee-for-service portion of the health care services. These arrangements reduce the tax liability on the health plan product and allow CalPERS to retain in its accounts a portion of the funding allocated for health care services. If capitation and fee-for-service expenses come in lower than anticipated, CalPERS retains that funding in its Health Care Fund. The flex-funded HMO plans also have subaccounts within the Health Care Fund to deposit the fee-for-service portion of premiums and pay claims and other expenses.

In September 2018, CalPERS implemented a revised HCF reserve policy. This policy provides the CalPERS team with a framework with which to review the appropriateness of the PPO

reserve level and with a methodology for managing surpluses or deficits in the PPO subaccounts. The policy also addresses any surpluses or deficits that may accumulate in the HMO subaccounts.

As part of the monitoring and reporting process, CalPERS reports the Health Care Fund's account balances, the PPO plans' actuarial reserve amounts, and any surpluses or deficits for each health plan's subaccount to the Finance and Administration Committee semi-annually. The four plans that are fully insured, Kaiser Basic, Kaiser Medicare Advantage, UnitedHealthcare Medicare Advantage and Sharp Medicare Advantage, as well as the three Association plans, California Association of Highway Patrolmen (CAHP), California Correctional Peace Officers Association (CCPOA), and Peace Officer Research Association of California (PORAC) are not included in this report.

Analysis

PPO Plans

Attachment 1 summarizes the PPO financial status for calendar years 2019, 2020 and 2021:

- The "Total Revenues vs. Total Expenses" graphs illustrate the financial performance of the total PPO program and for each PPO plan subaccount by showing fund inflows and outflows. Total revenues include premiums, outpatient prescription drug (Rx) rebates, Federal Employer Group Waiver Plan (EGWP) subsidies, and investment income. Total expenses include medical and Rx fee-for-service claims payments, third-party administrator fees, and other administrative expenses. PPO plan medical costs are paid entirely on a fee-for-service basis.
- The "Fund Balance vs. Actuarial Reserves" graphs represent the subaccount balances and the actuarially prudent levels of reserves at the end of each period. The actuarial reserves for the PPO plans consist of Medical and Rx Incurred-But-Not-Reported (IBNR) Claim Liability, Continuity of Care Liability, Administrative Liability, and Risk-Based Capital (RBC) components.

As of December 31, 2021, the self-funded PPO plans had total projected fund balance of \$438 million, a decrease of \$153 million from the end of December 2020. The total actuarial reserves amount was \$684 million, an increase of \$134 million from the end of December 2020. The self-funded PPO program had a projected fund balance that was \$246 million lower than the actuarial reserve level, or a fund balance-to-actuarial reserves ratio of 64%.

The decrease in fund balance was primarily driven by the high medical fee-for-service claims and pharmacy costs that occurred toward the second half of 2021 for the Basic PPO plans. Higher medical costs were mainly due to the higher-than-expected COVID-19 costs associated with the Delta surge and members returning to their providers after delaying and deferring care during the first year and a half of the pandemic. Higher pharmacy costs were due to an increase in high-cost specialty drug spending and the underperformance of the 2021-2022 OptumRx contract. In addition, higher pharmacy costs for the Basic PPO program reflect a more accurate

distribution of actual pharmacy expenditures and pharmacy manufacturer rebates between the Medicare and Basic programs than in prior years. The misallocation of pharmacy spending between Medicare and Basic was not apparent before the increased transparency of the 2021 - 2022 contract. These higher costs resulted in an increase to our required actuarial reserves.

HMO Plans

As of December 31, 2021, there were nine flex-funded HMO basic plans including Anthem Select and Traditional, Blue Shield Access Plus and Trio, Health Net Salud y Más and SmartCare, Sharp, UnitedHealthcare, and Western Health Advantage.

Flex-funded HMO plan medical costs are paid on both capitation¹ and fee-for-service bases. CalPERS reimburses the flex-funded HMO plans for the actual capitation amounts that the plans pay to their contracted capitated health care providers. Once CalPERS remits the capitation amounts to the plans from the Contingency Reserve Fund (CRF), the remainder of the premium is deposited into the HCF. These funds are used to pay third-party administrative service fees, CalPERS internal administrative expenses, and medical and Rx fee-for-service claims, as well as Affordable Care Act Taxes and Fees when the plan submits an invoice to CalPERS for reimbursement.

Attachment 2 summarizes the financial status for the flex-funded HMO plans for calendar years 2019, 2020 and 2021:

- The “Total Revenues vs. Total Expenses” graphs represent the financial performance of the total HMO program and for each HMO subaccount by showing fund inflows and outflows. Total revenues include premiums, pharmacy rebates, and investment income. Total expenses include medical and pharmacy fee-for-service claims payments, medical capitation payments, third party administrator fees and other administrative expenses. Although capitation payments are handled and remitted through the CRF, the capitation figures are included in both revenues and expenses of the HCF to more accurately reflect the total costs of the HMO plans.
- The “Fund Balance vs. Estimated Claims Liabilities” graphs show the account balances and any surpluses or deficits as of the end of each period. The total flex-funded HMO projected fund balance was \$170 million as of December 31, 2021, with estimated liabilities of \$160 million. There was no COVID-19 related impact on our medical capitation payments because the risk is borne by the plans and providers. The medical fee-for-service costs are also protected by the flex-funded arrangement. As with our PPO Plans, the reduction in HMO fund balances was mainly due to the increase in the high-cost specialty drug spending and the underperformance of the 2021 -2022 OptumRx contract.

¹ Capitation is a payment arrangement with health care service providers such as physicians or medical groups, etc., and is a set amount per person per month that is paid to cover the risk for a defined set of health care services, whether those services are provided or not.

Budget and Fiscal Impacts

This item serves as a preliminary analysis. Any budget or fiscal impact this item may have on future health plan premiums will be addressed during CalPERS annual Rate Development Process (RDP) that generally occurs from January through July and is overseen by the Pension and Health Benefits Committee.

Benefits and Risks

Benefits

- These semi-annual reports provide better insight of the financial performance and status of the CalPERS PPO and HMO health program.

Risks

- The projected dollar amounts may change due to other factors like account adjustments, timing issues, and higher than expected medical and pharmacy claims.

Attachments

Attachment 1 – Key graphical analyses of financial and historical data for the PPO plans.

Attachment 2 – Key graphical analyses of financial and historical data for the HMO plans.

Attachment 3 – Semi-Annual Health Plan Financial Report PowerPoint

Emily Zhong
Supervising Health Actuary
Actuarial Office

Hillary Kyumba
Assistant Division Chief
Health Plan Research and Administration Division

Donald Moulds
Chief Health Director Health Policy & Benefits Branch