



# **The CalPERS Experience: Implications for the Future?**

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National Health Policy  
Audio Conference  
September 24, 2002**



# **CalPERS and Recent Trends**

## **Conclusions from 2001-03**

## **New Directions**



## CalPERS Health

- ◆ **Insures or arranges for coverage for 1.3 million active or retired public (local, state, educational) employees and their families**
- ◆ **“Multiple employer welfare arrangement”/ purchaser group for 1,450 public employers**
- ◆ **60% State/40% Local      79% Active/21%Retiree**



## CalPERS Health...

- **Rate Increases (under 65 HMO population)**

<b>9.2%</b>	<b>2001</b>
<b>6% (13.2%w/o benefit change)</b>	<b>2002</b>
<b>25%</b>	<b>2003</b>
  
- **78% of enrollees in 7 HMOs (40 of 58 counties)**

<b>10 HMOs -</b>	<b>2001</b>
<b>7 HMOs -</b>	<b>2002</b>
<b>3 HMOs -</b>	<b>2003</b>
  
- **22% in two self-funded PPO plans (58 of 58 counties)**
  - **Increasing care management**
  - **Significant discounts via commercial network**
  - **Rates converging toward HMO rate despite higher risks**
  
- **Self-funded Long Term Care Plan for 165,000**



# CalPERS April '02 Announcement

- **Historic 25% premium increase-**
  - HMO only, under 65 population
  - PPO rates with recovery 20% less
- **Consolidation - strategic decision vs price tactic**
- **Dropping of two long-time HMO partners and two smaller HMO partners**
  - Health Net                      181,000
  - PacifiCare                      191,000
  - HPR & Universal              30,000
- **Competitive market no longer serves CalPERS**
  - Price leveraging  $\neq$  Solution to long term cost /quality issues
- **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 California not different from US**
- **Enthovian Model Never Evolved**
  - **Choice of brand label not unique delivery systems**
  - **Focus on price leveraging & risk selection**
- **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
  - Disengaged 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
- **Cost trend projection through 2010 in low teen**
- **Business as usual not acceptable**



## **CalPERS Future Directions** *(work in progress)*

**CalPERS to become more “responsible purchaser”.**

**Strong preference for comprehensive coverage.**

**Lower cost trend at the margin.**

**Better value/outcomes for money spent.**

**Improved risk management.**

**Increased role of enrollee in care and cost management.**

**More competition/focus to provider accountability.**

**Better care management (especially chronic, case, high risk profile).**

**Longer term partnerships with plans/providers and targeted performance-based compensation.**





# Implications

**No quick fixes/long term**

**Re-engineering of payer and delivery systems**

**Tough to do in high cost/slow economic times**

**Data key to: comparability; accountability;  
consumer engagement**

**Motivation key to changing behavior**

**Can't do it alone**

**Public policy/public payer (Medicaid/Medicare)  
changes needed.**