

*Everything a Finance Director
Needs to Know About the
Rising Cost of Healthcare*

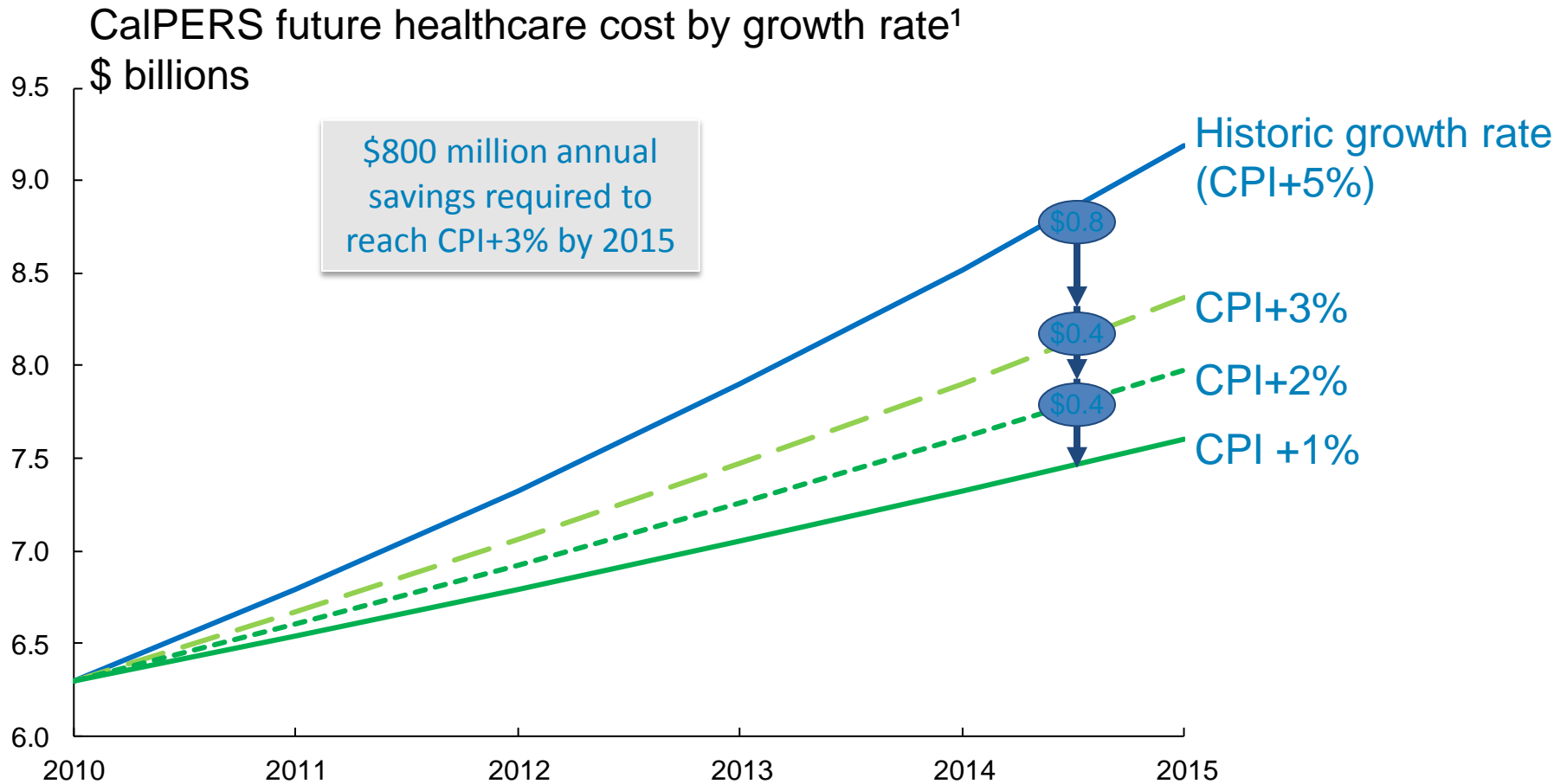
California Society of Municipal Finance Officers

Doug McKeever, Deputy Executive Officer

CalPERS

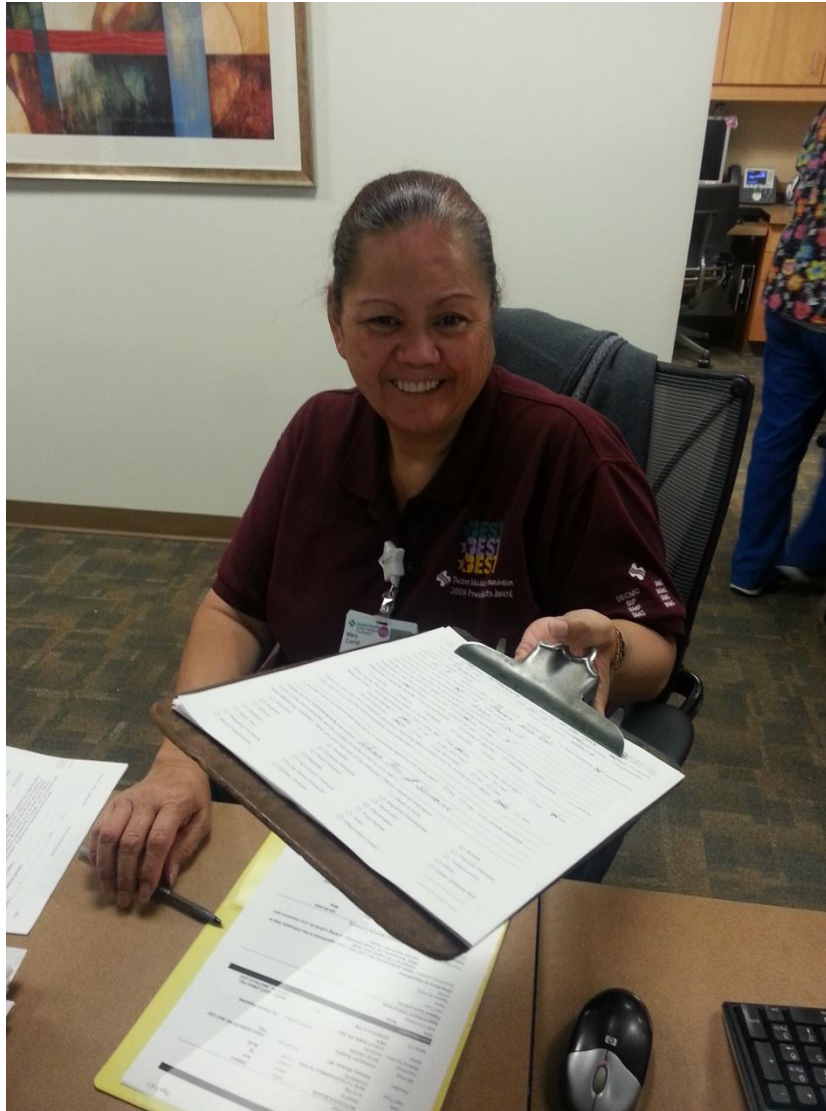
March 2, 2016

Historical growth of CPI+5% shows it will take significant savings to bend the trend



¹ CPI is 2.8%; from 1995-2010 CalPERS cost have grown at ~8% or CPI +5%; growth rates extrapolated on 2010 cost base of \$6.3 billion

SOURCE: CalPERS Thomson Reuters HIP Executive Report (Mar 24, 2011); Bureau of Labor Statistics; team analysis





Overview of CalPERS

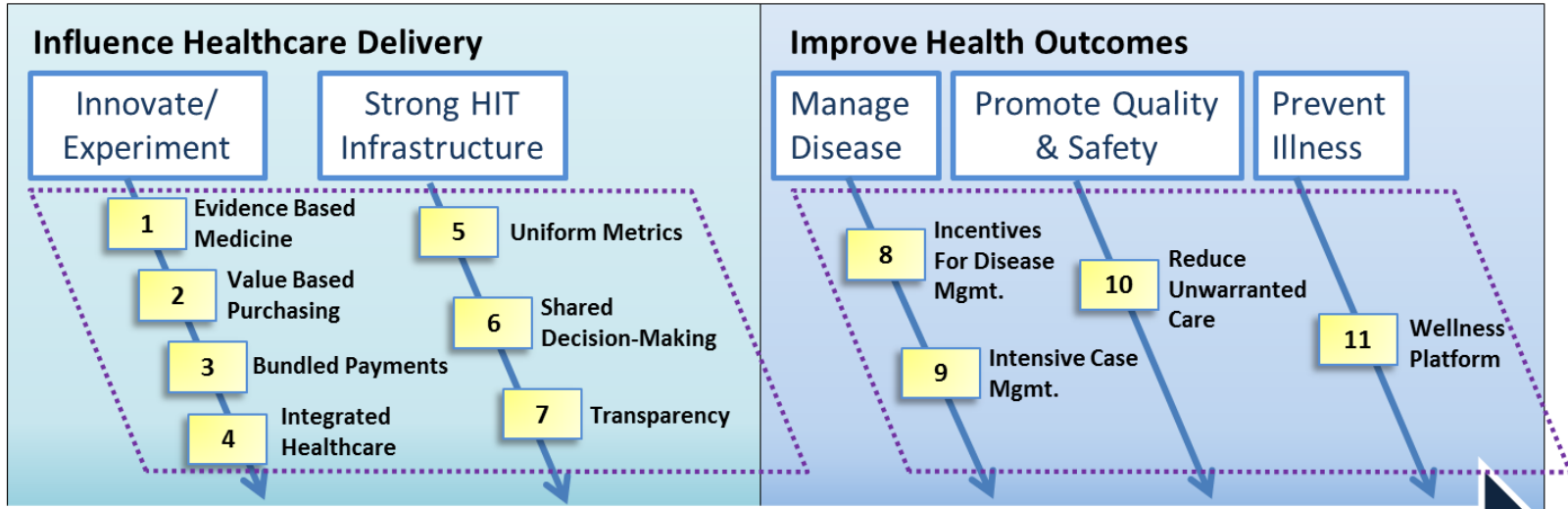
- Nearly 1.4 million members
- More than 1,200 employers
- State
- Public agencies
- Schools
- Spent approximately \$8.5 billion in 2015 to purchase health benefits
- Largest employer health benefits purchaser in California and second largest public employer purchaser in the nation

CalPERS' Six Health Insurers

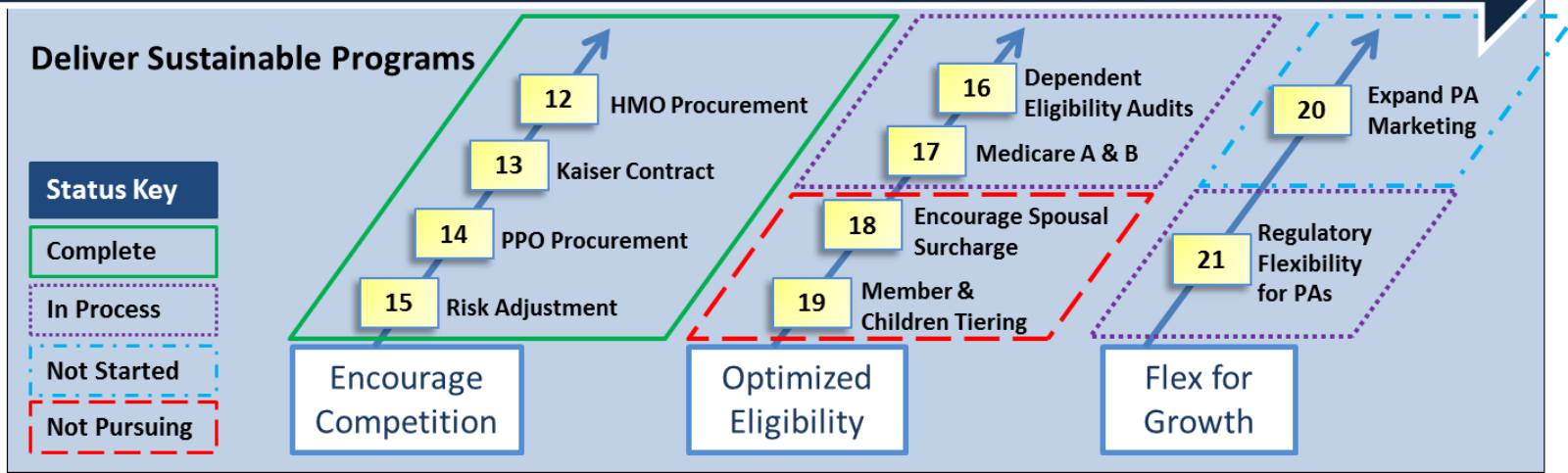


What has CalPERS Done?

Health Benefits Purchasing Strategies & Initiatives



...2012... **CalPERS Health Benefits** ...2015...



What You Need to Know...

Ongoing Challenges:

- Cost Drivers / Trends
- Excise Tax
- Rate Process
- Moving Forward

Cost Drivers / Trends

- Chronic Conditions
- Hospitals
- Pharmacy
- Geography

Excise Tax

- Affordable Care Act tax effective January 1, 2020
- 40 percent tax on high cost employer-sponsored plans applies to:
 - Aggregate cost of applicable coverage above threshold
 - Coverage employees are enrolled in, not to the lowest cost plan offered by employer
- Annual thresholds for coverage:
 - \$10,200 for individuals
 - \$27,500 for families

Excise Tax continued

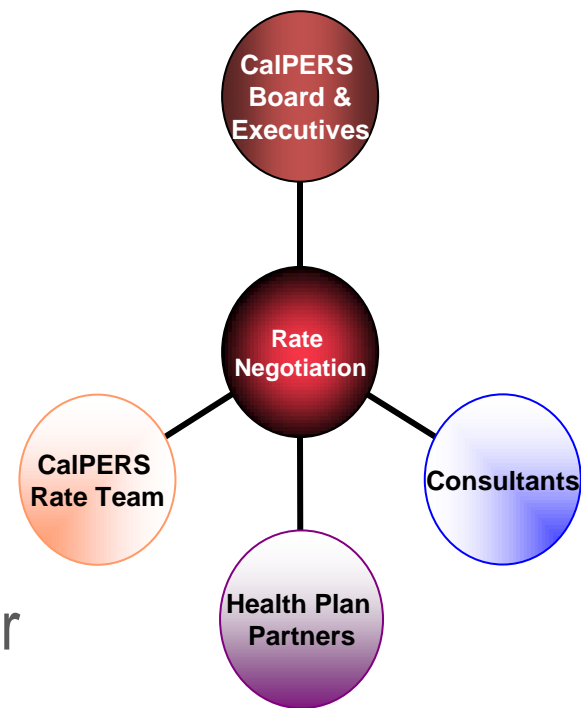
- Applicable coverage subject to tax:
 - Employee and employer contributions toward health coverage
 - Employer contributions and employee pre-tax contributions made to FSA, HSA, HRA, and MSA
- NOT applicable coverage:
 - After-tax health contributions made by employees
 - Coinsurance
 - Copays

Excise Tax continued

- Currently some CalPERS plans meet or exceed thresholds
- Tax thresholds and approaches could change:
 - IRS collected comments in May and October 2015
 - Comments will inform future proposed excise tax regulations
- Path forward:
 - Respond to future IRS notices and regulations
 - Communicate concerns to public agency employers
 - Analyze potential benefit design mitigation strategies

Rate Renewal Process - People

- CalPERS Board sets policy for Health Benefits
- CalPERS executive staff align planning goals
- CalPERS rate team sets PPO rates and negotiates HMO rates
- Health Plan Partners develop assumptions for rates, request premiums for rate year
- Actuarial consultants develop rate targets, validate assumptions, and review provider networks



Rates continued - Tools

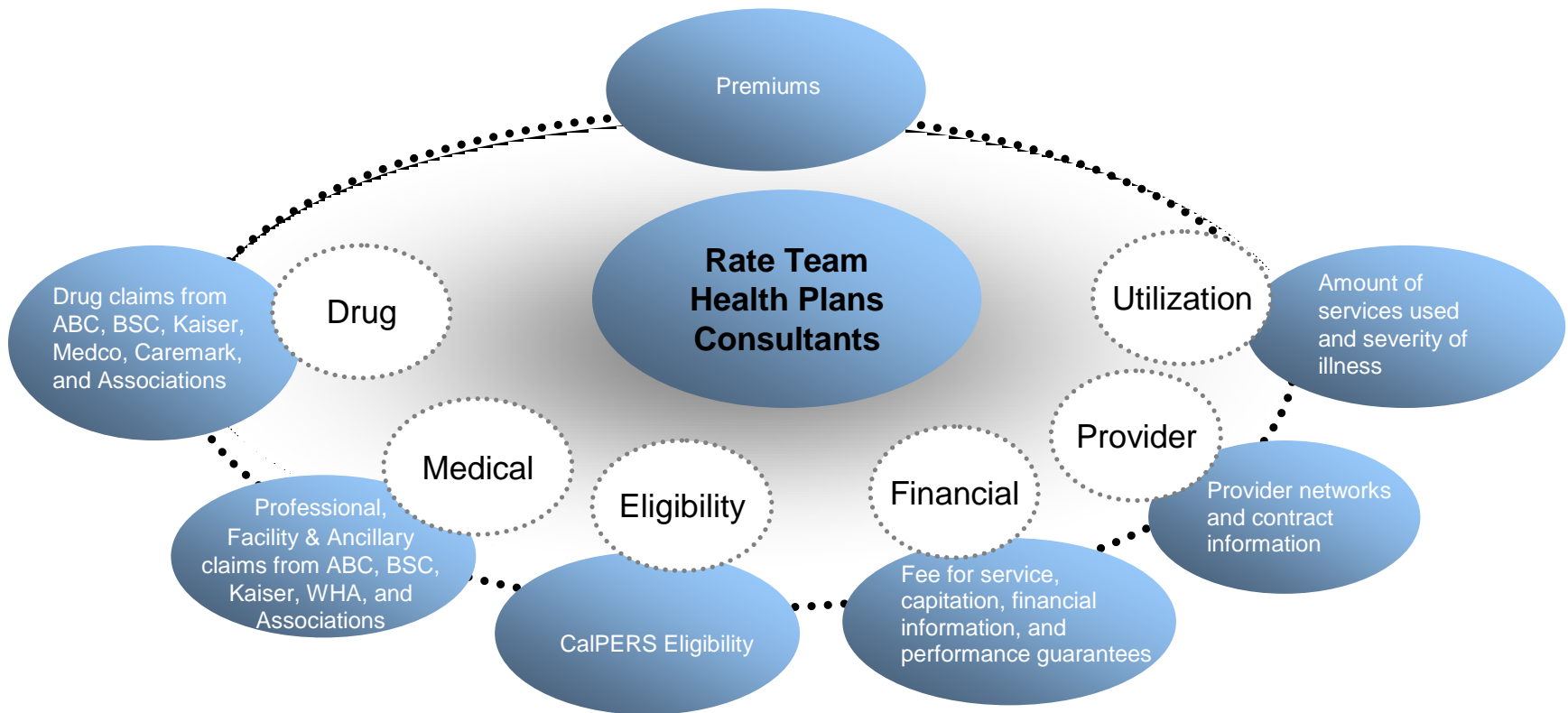
- Health Informatics and Business Intelligence
 - Health Care Decision Support System (HCDSS) supports team by providing
 - Uniform health care cost and use data across plans (PPO and HMO)
 - Protocols for computing health plan risk for Basic and Medicare Plans
 - In-house capability to compare health plans' quarterly cost and use data
- Market scan benchmarks
- Health care quality reporting tools by plan

Rates continued – What is in a Premium

- Demographic (age, gender, illness burden) and geographic data
- Unit cost and use of services expended in one year for two-year projected trends (unit cost and utilization trends)
- Benefit design and subscriber cost sharing
- Purchaser/health plan risk sharing (PPO or HMO) calculations
- Experience rating adjustments
- Administrative costs
- Health plan's margin

Rates continued - Methodology

Transforming Rate Data into Premiums



Rates continued - Rate Trend Projection

- Cost trends are projected two years into the future (e.g. 2016 rates are based on data from 2013-2014)
 - PPO cost trends have fluctuated by as much as 6 percentage points (both up and down) over that time period
- All plans have a natural tendency towards conservatism in trend projections
 - High trends are “ongoing”
 - Low trends are from “one time events”
- CalPERS self-funded plans have no external source of funding to draw upon
 - Existing reserves are the only funds available for use when actual costs are higher than projected

Moving Forward

- 2017 Rate Development Process
- Ongoing advocacy in Washington D.C. on Pharmacy
- Employer Engagement