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Employment Based Coverages: Pivotal Times, Strategic Directions

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CalPERS Health**



CalPERS Health

- ◆ **Insures or arranges for coverage for 1.3 million active or retired public (local, state, educational) employees and families; self-funded LTC plan for 165,000**
- ◆ **“Multiple employer purchasing arrangement” for 1,100 public employers (1,450 “units”)**
- ◆ **60% State/40% Local 79% Active/21%Retiree**
- ◆ **Estimated expenditures for 2003 \$3.2 Billion**
- ◆ **Third largest payer in California**



Recent Changes

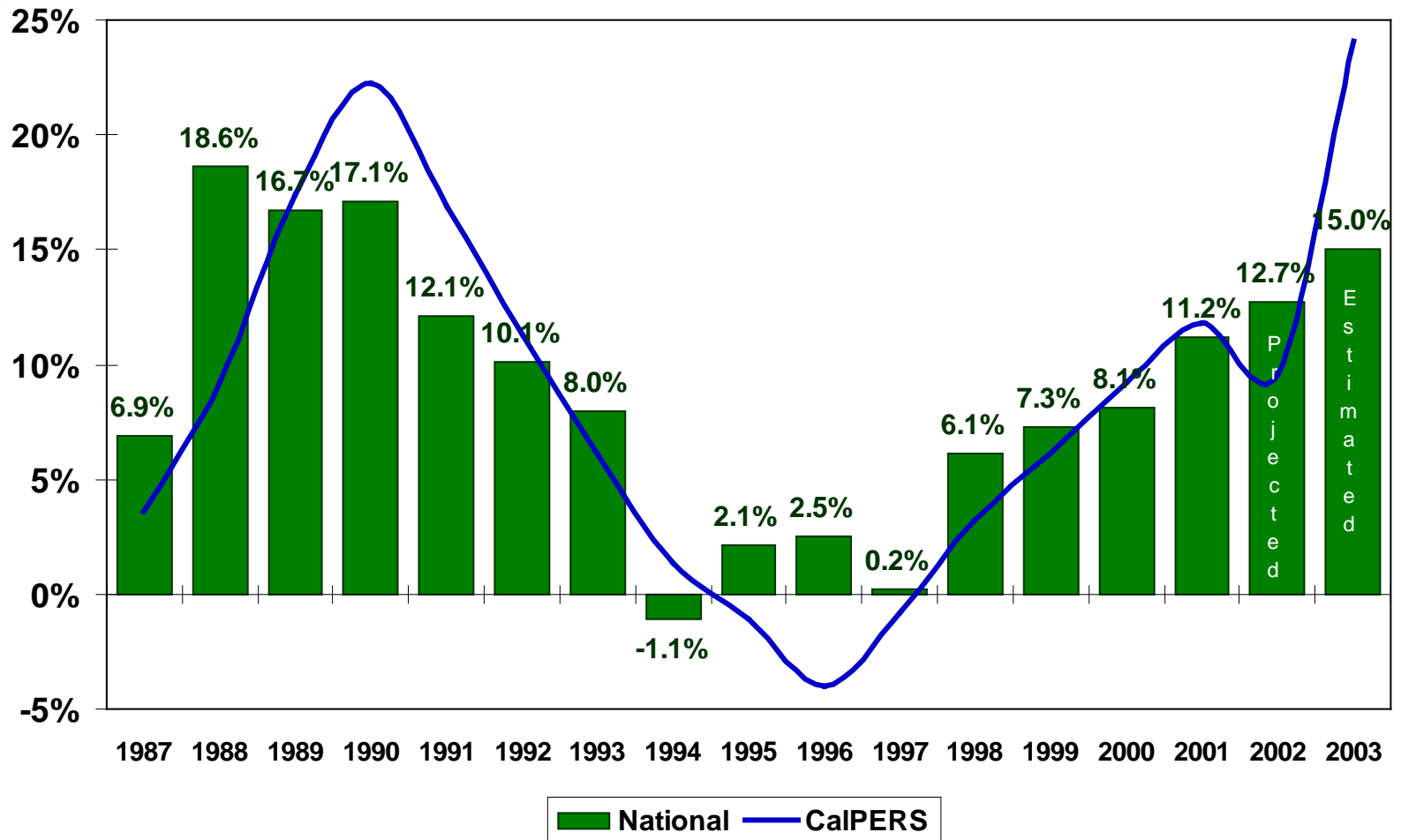
- ◆ **Rate Increases (under 65 HMO population)**

9.2%	2001
6% (13.2%)	2002
25%	2003
- ◆ **Fewer HMOs: 78% of enrollees (40 of 58 counties)**

10 HMOs -	2001
7 HMOs -	2002
3 HMOs -	2003
- ◆ **Rate Convergence between HMOs & PPOs: 22% of pop. (58 of 58 counties)**
 - Increasing care management
 - Deep discounts
 - Demographic and geographic adverse selection

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National versus CalPERS Healthcare Cost Inflation



CalPERS April Announcement

- **Historic 25% premium increase-**
 - HMO only, under 65 population
 - PPO rates were 20% - with recovery
- **Dropping of two long-time HMO partners and two smaller HMO partners**

- Health Net	181,000
- PacifiCare	191,000
- HPR & Universal	30,000
- **Consolidation - strategic decision vs price tactic**

* * *
- **Competitive market no longer serves CalPERS**
 - Price leveraging ≠ Solution to long term cost issue
- **Employment based coverage cannot carry burden of financing health care in US**
- **Broader public policy debate is needed**
 - In Washington, Austin, Sacramento...



Conclusions from 2001 - 03

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

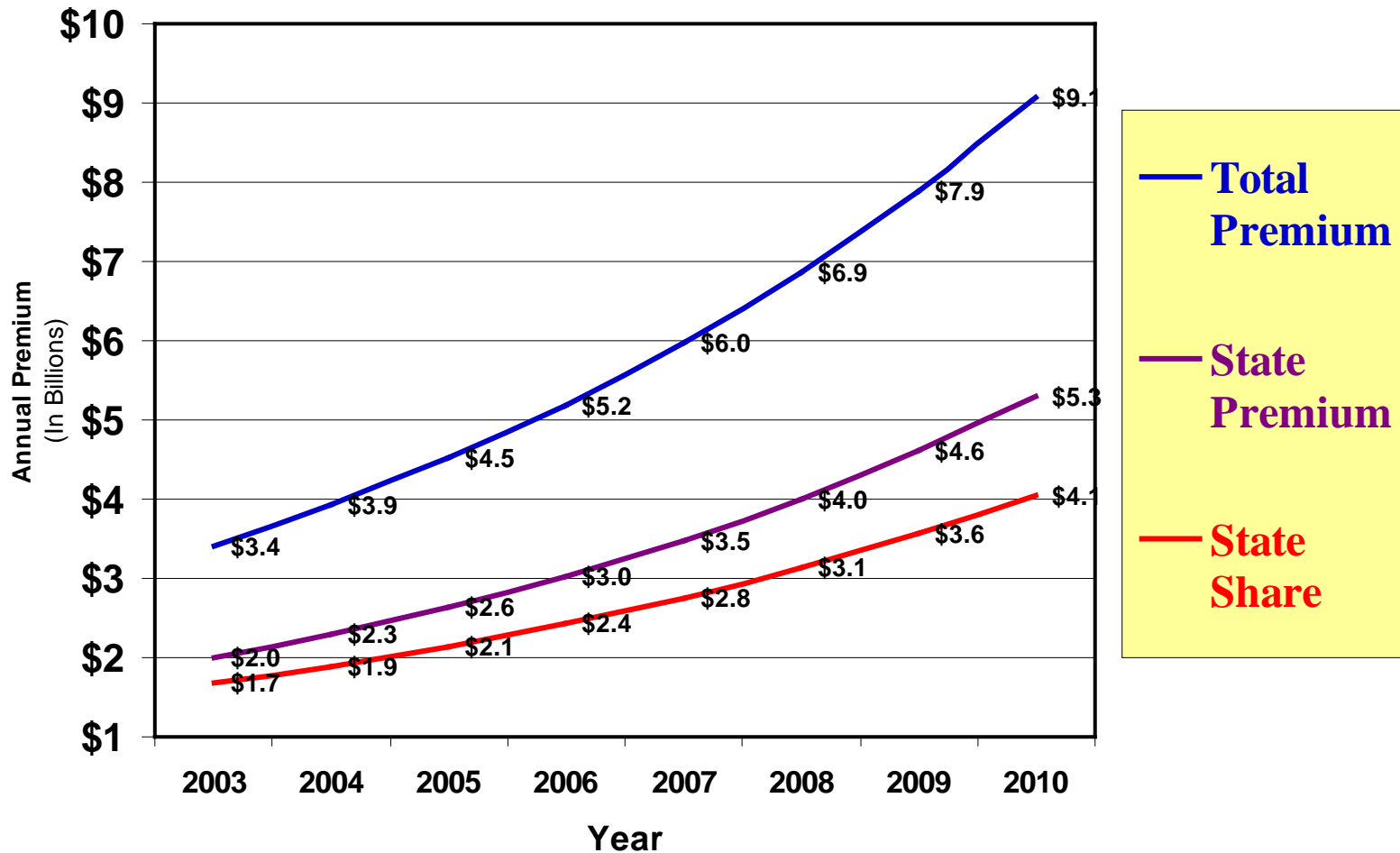


Conclusions from 2001 - 03 *(continued)*

- **CalPERS/Purchasers re-enforcing wrong incentives**
 - Price vs Value
 - Annual vs longer term perspective
 - Commoditization of networks & plans
 - Unengaged enrollees
- **HMO/Benefit Design masked wide Q & \$ variations**
- **CalPERS population needs are changing**
 - Low public service salaries increase importance of benefits
 - Older workforce/tight labor market increases value of health coverage
 - 40% of actives 75% of retirees have chronic conditions
 - Can we deliver better value to expected workforce?
- **Cost trend projection through 2010 in low teen**
- **Business as usual not acceptable**

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Program Premium Forecasts 15% Annual Trend (2003 - 2010)





At The Crossroads: Options For Employment Based Coverage

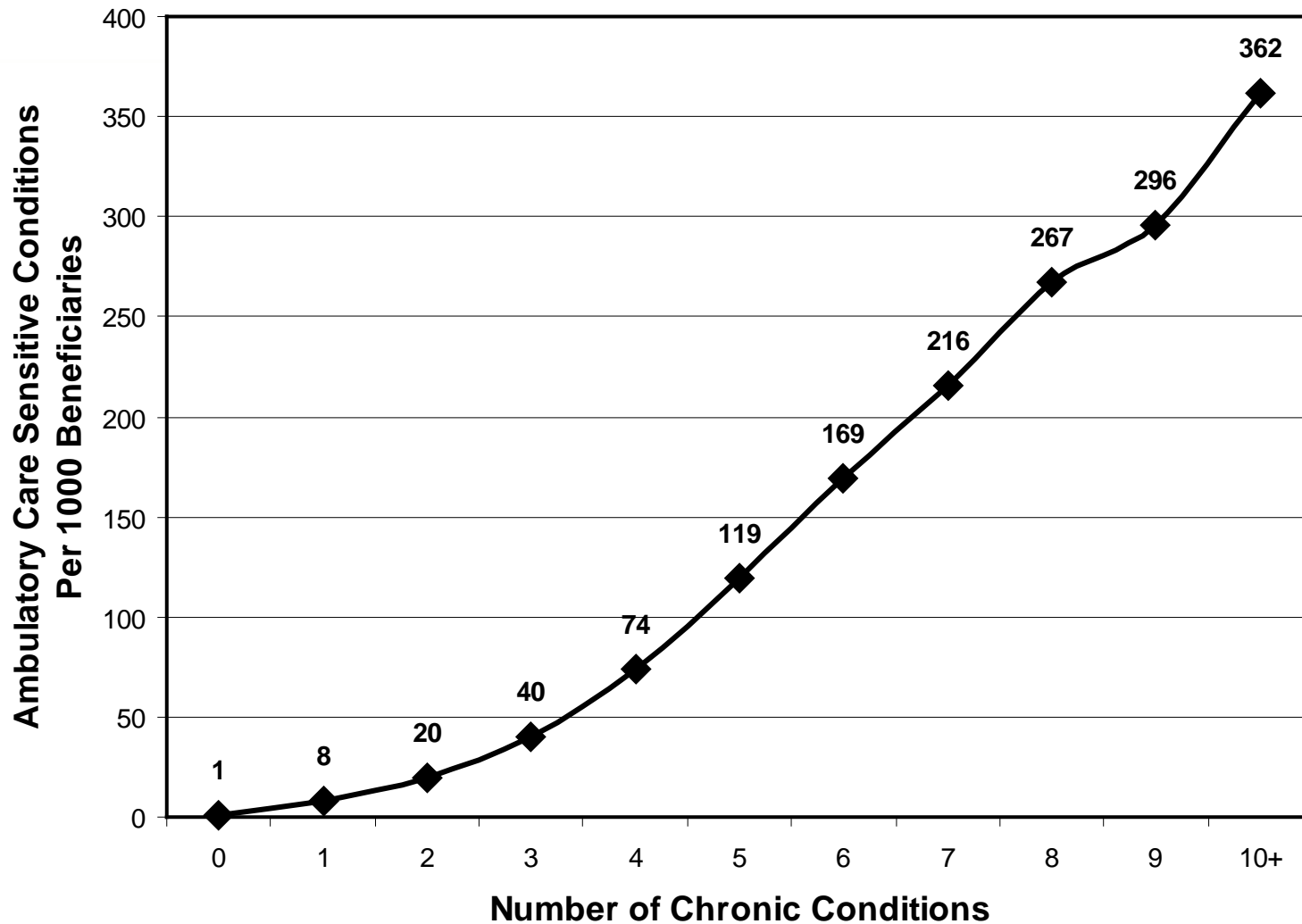
- **Not To Provide**
 - Retirees (FASB 106, GASB pending)
 - Defacto - via hiring practices
- **Defined Contribution (“drop money and run”)**
 - Limit Employers Liability
 - Disengage employer/shift responsibility to employee
- **“Consumer Driven Models” (Ralph Nader/Bill Gates/Milt Friedman)**
 - Internet enabled/enlightened & “motivated” enrollee;
 - Self managed care;self selected provider
- **Traditionalist (“death by incrementalism”)**
 - Premium prices are cyclical (aren’t they?)
 - Annual benefit redesign (share the pain)
- **Workforce Health Management**
 - Disease/Care Management coupled with workplace productivity, wellness & prevention efforts

Workers with Chronic Conditions

- **25% to 40% of the working age adults (20-65) have one or more chronic conditions**
- **67% of all medical costs in working age adults are for people with at least one chronic condition**

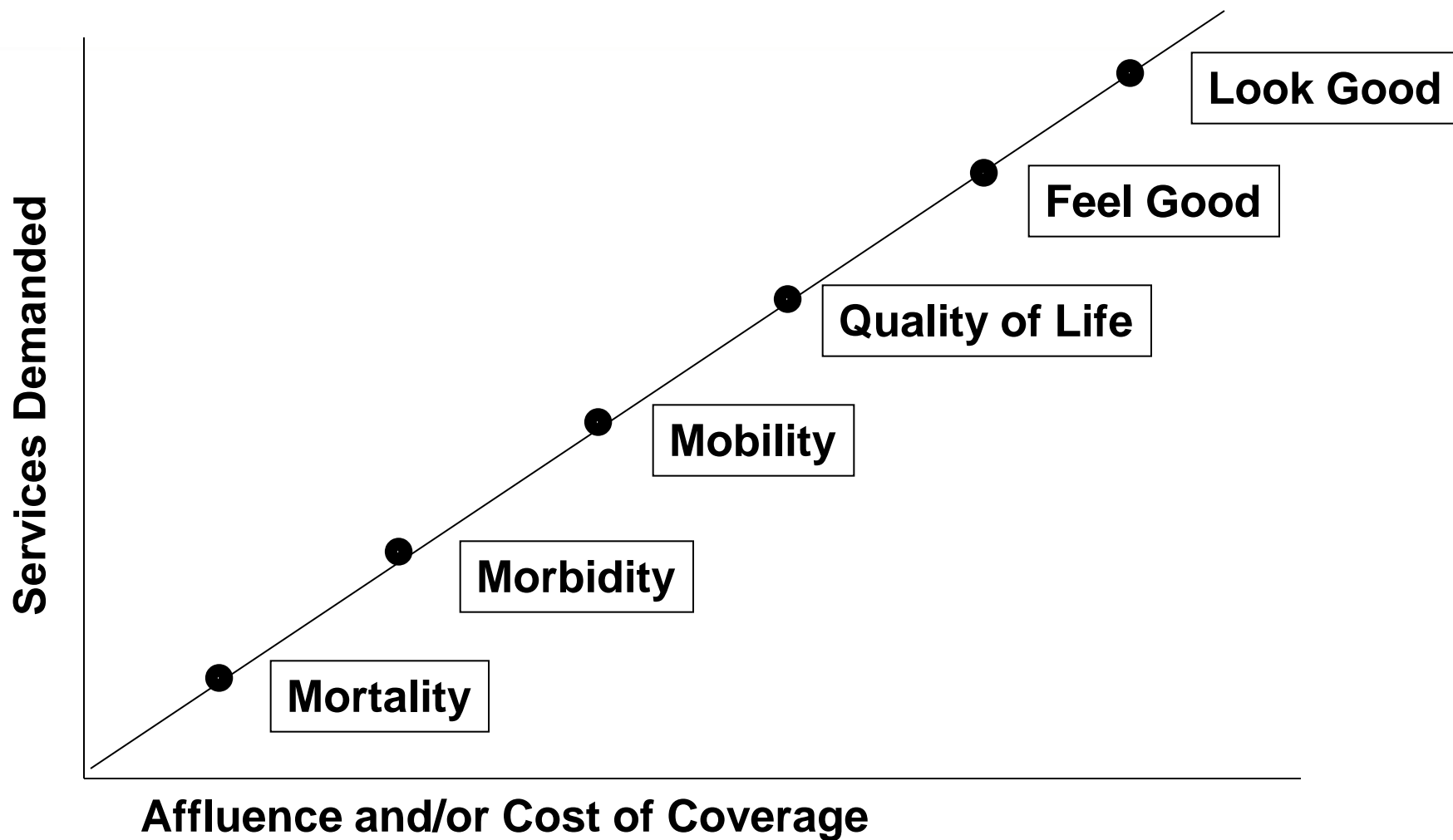
A A Case For Further Efficiencies...

⋮ Poor Care Coordination Leads to Unnecessary Hospitalization



A Opportunity to Refocus Expectations?

☐☐ Socio-Economic Tiering of Care





CalPERS Strategic Imperatives

- **Costs**
- **Stability/Predictability**
- **Choice**
- **Quality/Effectiveness**



CalPERS Future Direction

Refocus on risk management

- **Entrance and exit requirements**
- **Regional rating**
- **Lifetime maximums/effective triaging of technologies**
- **More toward self-funded arrangements**

Provider Accountability

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

CalPERS Future Direction *(continued)*

Better (chronic) care management

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

Enrollees Engagement

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

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CalPERS Future Direction *(work in progress)*

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

Strong preference for comprehensive coverage.

Expect to lower cost trend at the margin.

Better value/outcomes for money spent.