



Pension & Health Benefits Committee

Agenda Item 6c

March 14, 2023

Item Name: Health Maintenance Organization Solicitation Intent to Award

Program: Health Benefits

Item Type: Action

Executive Summary

This agenda item provides the Pension & Health Benefits Committee (PHBC) with an update on the 2024-28 Health Maintenance Organization (HMO) Health Plan solicitation. Team members will present recommendations at the meeting.

The solicitation seeks to implement key strategies to transform health care purchasing and delivery by ensuring members have access to high-quality health care that is equitable and affordable. This agenda item includes an overview of the solicitation objectives and key features, as well as a summary of plan submissions for the 2024-28 HMO Contract.

Strategic Plan

This item supports the CalPERS 2022-27 Strategic Goal of Exceptional Health Care: Ensure our members have access to equitable, high-quality, affordable health care.

Background

In August 2021, CalPERS released a Request for Information (RFI) to targeted stakeholders to seek input on key strategies and initiatives for the 2024-28 HMO contract. The responses helped shape the business and technical specifications for the solicitation. On August 19, 2022, CalPERS launched the 2024-28 Solicitation for its HMO offerings. This solicitation serves as an opportunity for CalPERS to improve quality, access, equity, and affordability.

Analysis

New Objectives and Contract Requirements

To further the goals in our strategic plan, we included several key features in the solicitation including plan requirements to improve clinical quality alignment and overall population health, health equity, primary care, and behavioral health.

We aligned with our health care purchaser partners, including the Department of Health Care Services and Covered California, to hold our plans accountable to a set of high-value clinical quality measures. These quality measures include controlling blood pressure, diabetes care,

childhood immunizations, colorectal cancer screening, and pregnancy care. Together, these measures target conditions that are key drivers of morbidity and mortality among our members and are actionable, outcomes-focused, and provide opportunities for improvement.

In this solicitation, we changed the financial penalty structure we use to help ensure our plans meet these new requirements. For each measure, we will compare health plan performance against national benchmarks. The financial penalties for not achieving these clinical measures changed from a percentage of the Administrative Services Fees (ASFs) at risk to repayment of a percentage of the total annual net premium. For Basic medical plans, the percentage will escalate over the first four years of the contract increasing 1% annually to a maximum of 4%. For comparison, the current penalty structure has \$43.8 million dollars at-risk for the 2023 plan year. We estimate that in year one of the new contract, \$72.8 million will be at-risk, and by year five, almost \$350 million at-risk. The goal is not to collect penalties for substandard performance, but to improve health and prevent premature death and disability among our members.

Along with quality, CalPERS added contractual requirements to advance health equity and to monitor the quality of behavioral health care for our members and integrate behavioral health with primary care services.

Solicitation Activities

CalPERS developed the solicitation using a two-phased approach that allowed for an iterative and collaborative process. CalPERS received eight proposals; seven from CalPERS existing HMO health plan carriers, Anthem Blue Cross of California (Anthem), Blue Shield of California (Blue Shield), Health Net of California (Health Net), Kaiser Permanente, Sharp Performance Plus (Sharp), UnitedHealthcare of California (UHC), Western Health Advantage, and one from Valley Health Plan. Following Confidential Discussions held in October 2022 where CalPERS shared additional information about our health plan goals, expectations, and objectives, Valley Health Plan withdrew from the solicitation process.

With this solicitation, the CalPERS team required firms to submit four Fee Proposals for each product. Proposals included the ASFs that the health plans charge CalPERS on a per member per month (PMPM) basis to administer the plans under flex-funded and fully insured arrangements, as well as proposals with and without an integrated pharmacy benefit.

CalPERS received proposals for 13 Basic products and eight Medicare products from the seven firms on December 16, 2023. A team from the health and actuarial offices evaluated and scored the Technical and Fee Proposals.

Basic plan proposals had a total of 1,000 points available. Firms submitting Basic plan proposals had to achieve a minimum score of 700 points to advance to Competitive Negotiations. For firms submitting both Basic and Medicare plan proposals, a total of 1,100 points was available. These firms had to achieve 770 points to advance to Competitive Negotiations. See Attachment 2 for points available for evaluation.

Rate Development Process Submission

In preparation for Competitive Negotiations, we required firms to submit 2024 medical and pharmacy pricing. The CalPERS team reviewed rate submissions and identified areas needing pricing improvements for the new contract and will continue to negotiate with the firms during the 2024 Rate Development Process. Also, as a part of this process, the team continues to negotiate ASFs with the plans and will inform the Board through rate development updates.

Financial Proposals

The CalPERS team evaluated financial proposals that included two types of funding arrangements; flex-funded and fully insured.

Flex-funded is an arrangement where a health plan bears financial risk if the cost of healthcare provided to CalPERS members exceeds the contracted amount of the projected capitated services and fee-for-service payments. Under a flex-funded payment model, CalPERS reimburses the plan for monthly capitated services, fee-for-service payments, and pays administrative services fees. If actual capitated or fee-for-service costs are below projections, CalPERS retains those funds in the Health Care Fund and may use them to reduce future healthcare costs for the plan generating the surplus, which may lower projected premiums for this plan. If actual costs are higher than projected, the health plans are responsible to cover them, as CalPERS only reimburses up to the contracted amounts.

A fully insured financial model is an arrangement where a health plan bears the financial risk for the cost of healthcare provided to CalPERS members, regardless if actual costs are higher or lower than projected during the annual rate development process. Under a fully insured model, CalPERS pays the plan the monthly premium, including administrative services fees, minus CalPERS' administrative expenses. If actual costs are lower than projected, the health plan retains the excess funds that they may use to reduce future healthcare costs. However, if actual costs are higher than projected, the health plan is responsible for covering those costs.

Administrative Services Fees (ASFs)

To further ensure we have health plans with efficient and cost-effective operations in our program, we are trying to negotiate a no more than 2% annual increase for Basic Plan ASFs. The proposed ASFs are preliminary, and negotiations will continue through the Rate Development Process.

Service Area Proposals

Several plans proposed service area expansions or contractions.

Service Area Expansions

- Anthem Blue Cross Traditional proposed expansion into Amador, Calaveras, Del Norte, Lake, Monterey, San Diego, Sutter, Tuolumne, and Yuba counties
- Blue Shield Access+ EPO proposed expansion into Del Norte and San Benito counties
- Kaiser Permanente Senior Advantage Summit proposed expansion into eight regions outside of California: Colorado, Georgia, Hawaii, Maryland, Oregon, Washington, Washington D.C., and Virginia
- UnitedHealthcare SignatureValue Alliance proposed expansion into the following counties for Public Agencies and Schools: Alameda, Contra Costa, Marin, Merced, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, Sonoma; and Stanislaus
- UnitedHealthcare SignatureValue Harmony proposed expansion into Santa Clara and Santa Cruz counties
- Western Health Advantage MyCare Select Medicare Advantage proposed expansion into Humboldt County

Service Area Exits

- Anthem Blue Cross Traditional proposed exiting Glenn County
- Health Net SmartCare proposed exiting Alameda, Contra Costa, Marin, Napa, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma counties

Proposals with No Changes to Service Areas

- Anthem Blue Cross Select
- Anthem Blue Cross Medicare Preferred
- Blue Shield Trio
- Blue Shield Access+
- Blue Shield Medicare
- Health Net Salud y Más
- Kaiser Permanente
- Kaiser Permanente Out of State
- Kaiser Permanente Senior Advantage
- Sharp Performance Plus
- Sharp Direct Advantage
- UnitedHealthcare Group Medicare Advantage
- United Healthcare Group Medicare Advantage Edge
- Western Health Advantage

Budget and Fiscal Impacts

If approved, the proposed health plans, coverage area changes, and funding arrangement changes will impact premiums and health plan contracts for the plan years 2024-28.

Next Steps

Upon Board approval, the CalPERS team will continue to negotiate 2024 health plan premiums. Concurrently, the team will begin close out activities for the 2019-23 HMO health plan contracts and begin implementation of the 2024-28 contracts.

Benefits and Risks

There are several risks and benefits for the Committee to consider, however, the CalPERS team believes the firms have demonstrated a willingness to work cooperatively through the rate development process and that CalPERS can successfully manage potential disruptions.

Benefits:

- Improve quality, access, and equity with aligned performance measures and financial penalty structure
- Strengthen compliance with new contract language to align with CalPERS strategic plan and objectives
- Potentially eliminate low value plan offerings from the CalPERS portfolio
- Improve overall plan pricing

Risks:

- Potential member disruption when transitioning members from exiting health plans or service areas
- Challenging timelines for rate development process, system changes, enrollment, and member communication

Attachments

Attachments will be provided under separate cover just prior to the PHBC Open Session on March 14, 2023.

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