DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 05/31/2012
BILL NUMBER: AB 2142
POSITION: Neutral
AUTHOR: Furutani, Warren
SPONSOR: California Public Employees' Retirement Association (CalPERS)

BILL SUMMARY: Public employees' health benefits: premiums.

This bill would allow CalPERS to adjust health care premiums as part of programs for health promotion and disease prevention. This bill also would give CalPERS authority to redistribute a portion of health care premiums across health plans to equalize rates in order to steer employees and retirees toward plans that are more cost effective for the state.

FISCAL SUMMARY

This bill would not result in additional administrative costs to CalPERS. In the long term, this measure may result in lower health care premiums and state costs than what is otherwise projected.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the original version are minor and do not alter our position.

COMMENTS

This bill would allow CalPERS to negotiate different health care design elements with potential carriers than what is currently permitted by statute. The bill stems from CalPERS' year-long examination of market trends, cost drivers, and best practices in the health care market. CalPERS is pursuing several initiatives to encourage competition among health providers, improve health outcomes, and slow the growth of health care costs as it prepares for the 2014 procurement of health carriers. This bill is the next step in that process.

Specifically, the bill would expand CalPERS's statutory authority to set and adjust health care premiums in the following two areas:

1. Health promotion and disease prevention programs, such as surcharges for smokers.
2. Risk adjustment, in which a portion of premiums would be redistributed across health plans. Health providers currently determine premiums based on the health of the population enrolled in the plan. Higher risk, older employees and retirees tend to elect more expensive PPO plans that allow greater provider choice, which causes premiums in the PPO to increase over time. Under risk adjustment, carriers would quote premiums assuming they cover the average risk of the entire covered population. Using a cost-neutral process, CalPERS would adjust the premiums across plans – providing a subsidy, of sorts – to steer more employees and retirees toward HMO plans that are more cost effective for the state to maintain. CalPERS suggests that PPO providers would no longer have the incentive to load premiums based on risk, which could foster more competition based on quality and service.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director — Date

Governor's Office: By: Date: Position Approved_______
Position Disapproved

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COMMENTS (continued)

The wellness programs and risk-adjustment process would be based on rules and regulations to be established by the CalPERS Board of Administration.

Though cost savings cannot be identified at this point, this bill is consistent with the Administration's effort to control health care costs for employees and retirees.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Fund Code
				(Fiscal Impact by Fiscal Year) (Dollars in Thousands)					
9650/Hlth&Dental	SO	No		----- No/Minor Fiscal Impact -----					0001