Public Employee Post-Employment Benefits Commission
Rancho Cucamonga, CA
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Jarvio Grevious
Deputy Executive Officer
California Public Employees’ Retirement System
Basic Facts

• Nation’s 3rd largest health care purchaser
  - No. 1: Federal Government
  - No. 2: General Motors

• Spend $5 billion per year for health benefits
  - State government
  - 1,100 contracting public agencies
Membership

- 1.2 million enrollees
  - Actives
  - Retirees
  - Their family members
- 75% actives; 25% retirees
- 61% State; 39% public agencies & schools
- 69% in HMO; 25% in PPO; 6% in Assoc. Plan
Health Plan Offerings

- Two Statewide HMOs
  - Kaiser
  - Blue Shield
- One Regional HMO
  - Western Health Advantage
- Two Self-Funded PPOs
- Some public safety officer association plans
Statutory Authority

• Public Employees’ Medical and Hospital Care Act (PEMHCA)
  • In 1962 – established CalPERS Health Benefits Program for State employees
  • In 1967 – expanded to include other public employers
  • Requires employer contribution for health care for both active and retired employees
PEMHCA Employer Requirements

- Provide opportunity for employees to enroll in a CalPERS health plan
- Contribute toward health premiums
Program History

• Mid-1980s – 25+ health plan offerings
• Late-1980s -- standardized HMO benefits, pushed plans for premium decrease
• 1999 – premiums started rising again
• 2003 – premiums increased by about 25% over previous year
### Selected CalPERS Cost Savings Measures Since 2002

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<tr>
<th>ACTION</th>
<th>COMMENT</th>
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<td>Ended relationship with Health Net and PacifiCare Health Maintenance Organizations (HMOs) in 2003</td>
<td>Avoided $77 million cost increase for state and local health programs.</td>
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<td>Raised office visit co-payments to $10 in 2002, as well as other co-payment increases.</td>
<td>First changes in co-payments for HMO members since 1993.</td>
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<td>Eliminated high-cost hospitals from Blue Shield provider network beginning in 2005.</td>
<td>Saved an estimated $45 million.</td>
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<td>Adopted regional pricing.</td>
<td>Prevented large-scale exodus of local participants in Southern California, which would have diminished health plan’s bargaining power.</td>
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<td>Provided incentives to purchase over-the-counter drugs and refill prescriptions by mail.</td>
<td>Saved an estimated $27 million.</td>
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<td>Moved certain age 65 and older members from Basic to Medicare plans.</td>
<td>Saved an estimated $19 million.</td>
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<td>Building large purchaser coalition, Partnership for Change, to enhance bargaining power.</td>
<td>May produce uniform standards for hospital quality and pricing.</td>
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<td>Encouraging health plan partners’ disease management programs.</td>
<td>May produce savings and improved care for conditions like diabetes and asthma.</td>
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Source: LAO Report 2/17/06

$168 million saved
Recent Premiums

- 2005 & 2006 – single-digit, below market trend
- 2007 – started rising again
  - 12% overall increase
  - 11.6% Basic HMO increase
Quality of Care Initiatives

- Health Care Purchasers’ Coalition
- Partnership for Change
  - CA Hospital Assessment and Reporting Taskforce (CHART)
  - Hospital Value Initiative
Cost Containment Challenge

• Health care cost drivers
  - Chronic disease
  - New technology
  - Drugs
  - Hospital and physician variations
  - Lack of incentives for hospitals
  - 6.5 million uninsured Californians
Profit Margin for BSC Hospitals

Uninsured, -59.2%
Medi-Cal, -21.6%
Medicare, -18.6%
Commercial, 27.2%
All Payers, 3.2%

Source: Based on hospitals' self-reported OSHPD quarterly data from Q3, 2004 to Q2, 2005 for Blue Shield's network choice 8 (NC8) facilities only

Potential 9.5% - 15% Reduction in Premiums
CA Employers’ Retiree Benefit Trust Fund

- Launched March 1, 2007
- PEMHCA employers can make regular contributions
- Income from investment earnings helps pay for retiree health benefit costs
- AB 554 (in Legislature)
Benefits of Pre-funding

- Reduced OPEB costs as result of investment earnings
- Higher discount rate assumptions
- Reduced liability on balance sheet
- Impact on bond rating
- Improved financial and health security for employees
City of Thousand Oaks

- First employer to join CA Employers’ Retiree Benefit Trust Fund
- 2007-08 OPEB liability prior to pre-funding: $25 million
- Liability reduced to $17 million by pre-funding
Health Care Reform in CA

- Opportunities for positive change
- Many plans on the table
  - Gov. Schwarzenegger
  - Sen. Perata
  - Assembly Speaker Nunez
Federal Health Care Initiatives

- Supporting legislation to provide for generic approval process for biopharmaceuticals
- Supporting legislation to promote use of health IT
Structural Reform is Needed
To Protect Health Security
For Everyone