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HMO premium increases up to 8% loom for CalPERS

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Hundreds of thousands of California state workers and their employers will pay up to 8 percent more for health insurance next year under the terms of new contracts passed by a key state pension fund committee on Wednesday.

The tentative 2009 health premiums negotiated by the California Public Employees' Retirement System with Kaiser Permanente and Blue Shield of California affect about 862,000 of the fund's members enrolled in a health maintenance organization, or HMO.

But the impact of the news goes well beyond that. CalPERS is the nation's third-largest purchaser of health benefits behind the federal government and General Motors. Its health care premiums for the coming year are widely viewed as an early indicator of what medical insurance will cost companies nationwide. About 158 million Americans get their health care coverage through work.

"Large health care buyers watch CalPERS to see what kind of deal they might get," said Marian Mulkey, senior program officer with the California Healthcare Foundation, an Oakland-based nonprofit that tracks health industry trends. "And for the last several years, small employers have watched CalPERS and think, 'If they can't get a better deal than this, I'm really in trouble.' "

CalPERS premium increases have closely tracked with national trends for several years. Despite its huge membership – 1.2 million state workers, retirees and their families get medical insurance through the fund – it has struggled to tame runaway health care costs.

From 2002 to 2007, CalPERS' statistics show its overall health insurance premiums for state workers rose a total of 80.8 percent. Meanwhile, premiums across the United States during that same period rose 78.5 percent, according to the California HealthCare Foundation. California premiums overall rose 86.3 percent.

CalPERS, the nation's largest public pension fund with \$241 billion in assets, runs up a \$5 billion health care bill each year. To fight escalating costs, it has dumped HMO coverage at hospitals it deemed too expensive, cut health care options for members in rural counties and axed health networks that wouldn't lower premiums.

At the same time it has encouraged members to embrace healthy lifestyles, choose lower-cost drugs and pick cost-efficient doctors and hospitals.

Assuming its board approves the contracts today, CalPERS' basic HMO rates for state workers will increase from 3.75 percent for Blue Shield's low-cost NetValue plan to 8.16 percent for Kaiser members living in California.

HMO premiums for members employed by local governments vary by location. In Sacramento and the Bay Area, NetValue premiums will increase 3.61 percent while Kaiser members will see a 7.99 percent increase.

CalPERS' HMO premiums last year rose an average 7.4 percent.

Medicare premiums for Blue Shield members are unchanged for 2009. Kaiser Medicare member premiums will go up 2.49 percent.

Several health committee members complained that Kaiser's premiums should have been lower, especially given CalPERS' vast membership and its push to get them to live more healthy lifestyles.

CalPERS health plan chief Gregory Franklin said that Kaiser's basic HMO increase is in line with the 7 percent to 8 1/2 percent premium hikes common throughout the industry now, but committee member Tricia Wynne, who represented state Treasurer Bill Lockyer, said "industry standards shouldn't be applied. The treasurer doesn't want to support the Kaiser rates."

Kaiser spokeswoman Kathleen McKenna said that Kaiser's premium increase reflects the nonprofit organization's costs.

"We have to make sure that we're getting enough revenue to serve their members," McKenna said shortly after the committee passed the new premium contract.

Kaiser has negotiating leverage, said Mulkey, the health care expert, with a loyal following and a "wide and deep footprint" of 6.6 million members in California. And even with the larger percentage increase, Kaiser's premiums still cost less than Blue Shield's Access+, she noted.

"These things are always a calculated risk. Insurers take their best guess on medical cost trends for the coming year and then price their premiums," Mulkey said. "The art is striking a price that's not so low that you lose money or so high that you lose business."

CalPERS said that Blue Shield's premium increases are lower because it saved more than \$200 million last year by removing the highest-cost hospitals from the HMO network, adding the lower-cost NetValue health plan and extending the Blue Shield contract through 2010.

Blue Shield also gave CalPERS a one-time credit because it based premiums for 2007 and 2008 on what turned out to be an overestimation of how much members would use their insurance.

The fund would not disclose the rebate's dollar value, but without it Blue Shield's premium increase for 2009 would have averaged 8.3 percent, said Franklin, the CalPERS official.

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