

California Health Care Purchaser Rejects HSAs

CalPERS' chief says dropping hospitals, physician practices will save millions for members, taxpayers.

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WASHINGTON — Despite their growing popularity, health savings accounts are not a good solution to the problem of rising health care costs, at least not for California state employees and retirees, Fred Buenrostro said at a health care congress sponsored by the Wall Street Journal and CNBC.

Mr. Buenrostro is chief executive officer at the California Public Employees' Retirement System (CalPERS), which is the second largest health care purchaser in the country.

CalPERS, based in Sacramento, provides health benefits to more than 1.2 million employees, retirees, and family members. In California, out-of-pocket health care premiums have nearly tripled in 5 years, and Gov. Arnold Schwarzenegger (R) is seeking to cut the amount of premium assistance the state gives to employees and retirees.

So "CalPERS, like other employers, is hearing the call of consumer-driven health care," including health savings accounts. "We are resisting it because we don't want our highway workers, our police of-

ficers, our firefighters, our office workers, to switch from our defined benefits health care model to a defined contribution model," he said. "We oppose putting our members at risk in such a complex, broken market."

Under a defined benefit plan like those that offered by CalPERS, employers agree to pay for a particular level of benefits, no matter what the cost of the plan is.

But under a defined contribution plan, the employer pays only a certain amount toward the cost of an insurance policy; any additional costs must be paid by the enrollee. So CalPERS is trying other ways to cut health care costs. One technique is to avoid doing business with providers that the plan perceives to be too high cost. "Two years ago, we dropped two big HMO partners because their prices went over the top," Mr. Buenrostro said.

The plan is also using generic drugs in 95% of cases, and giving members incentives to buy mail-order drugs.

CalPERS has extended the length of its PPO contracts to improve its negotiating position, and is encouraging members to use "centers of excellence" for various procedures. CalPERS also is talking with other purchasers about price inequities of health care in local markets, and plans to convene a conference of purchasers on this issue later in the year.

One big part of controlling CalPERS' costs has been getting the best price for hospital services. Between 2001 and 2003, hospital prices rose 60%, which was "just unaffordable," he said. CalPERS partnered with California Blue Shield to do an analysis of the costs, Mr. Buenrostro said.

"Blue Shield came up with what was then a shocking discovery: In many cases there was no correlation between price and quality," Mr. Buenrostro continued. "I thought they were kidding."

For example, Blue Shield found that the cost of chemotherapy could range from \$135,000 to \$300,000.

As a result of the analysis, CalPERS notified 38 hospitals and 17 physician practices that they were in danger of being dropped from the CalPERS provider net-

work unless they dropped their costs and agreed to undergo performance assessments.

The proposed change would have saved the plan \$36 million in the first year and \$50 million for the next few years.

After negotiations with the hospitals and scrutiny from the state insurance department, CalPERS ended up dropping 24 hospitals and several physician practices as of January.

The result? About 32,000 members were forced to switch their primary care physicians. The move resulted in complaints from CalPERS members as well as from some California legislators.

Despite those complaints, Mr. Buenrostro said he has no regrets. "It will save tens of millions of dollars for our members and the taxpayers [who pay our salaries]," he said.

In addition, the decision helped CalPERS keep its HMO and PPO premium increases for members under 65 at 9.9% "without any takeaways or any increases in copays or deductibles. We're pretty proud of that."

Despite CalPERS' success, the state of California, like other employers, is not able to solve the long-range health care cost problem by acting on its own, Mr. Buenrostro said.

"We can only solve this problem if we get a national solution." ■

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