

# RATE NEGOTIATIONS RESULT IN \$600 MILLION IN COST AVOIDANCE

Case Study

Employer

CalPERS

By arming itself with the same data as its health plans, CalPERS was able to level the playing field and negotiate better healthcare coverage for its members.

The State of California is second only to the Federal Government as the largest purchaser of health insurance in the United States. With a current bill of \$6 billion, the California Public Employees' Retirement System (CalPERS) coordinates healthcare services for over 1.3 million people, including state employees, their dependents, and approximately 1,100 local government and school district subscribers and dependents.

Every year, the CalPERS rate team sends quote requests, based on estimated future usage, to its health plans and negotiated rates for the following year. Proposed rate increases tended to vary widely, but the team didn't have the computing power to contest the rates they were given. In addition, an aging workforce and high dependent population were having an impact on the team's ability to negotiate affordable rates.

## COURSE OF ACTION

In 2003, CalPERS partnered with Thomson Reuters to develop a healthcare decision support system. Prior to this, analysts could only manipulate underwriting and actuarial data in the form of flat file Excel spreadsheets and Access databases that required time-consuming, manual data manipulation and scrubbing to detect errors.



Using the data in *Thomson Reuters Advantage Suite*®, CalPERS was able to access and analyze its own healthcare data — including medical and prescription claims, lab results, encounters, eligibility, and performance measures — independent of what the health plans were providing. According to Dr. Kathleen Donneson, who supervises the program, “Once we were armed with data, the playing field leveled, and we were able to have real negotiations with our health plans. In those first years, it gave us great insight into how we were spending our money.”

The data-driven reporting was also key in pinpointing health program cost drivers, validating member costs, and building performance-based administrative and clinical measures for compliance. As a result of the data warehouse, CalPERS could measure health plan performance and build targets for quality and costs right into the health plan contracts.

## CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

**Location:**  
Sacramento, CA

**Scope and services:**  
CalPERS manages health benefits for nearly 1.3 million members. It offers three health maintenance organization (HMO) plans, three preferred provider organization (PPO) plans, and three special PPOs for members who belong to specific employee associations.

**Solutions:**  
Advantage Suite  
Benefit Design Modeler  
DataProbe



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## RESULTS

The new system went live in 2004 and immediately, the staff started using the data for 2005 health plan contract negotiations. In the first year, CalPERS avoided \$37 million in health plan rate increases. Each year since then, the team has tracked how much has been saved in using the healthcare decision support system. "We calculate the costs that were avoided were \$19 million in 2006, \$25 million in 2007, and \$32 million in 2008," says Dr. Donneson. "Our 2010 health plan premium increases have been the lowest in 14 years and we saved \$600 million dollars from what we received in our initial health plan quotes to what was achieved for the final rates."

Beyond the financial savings, CalPERS believes that members receive a better standard of care as a result of its efforts. Because quality measurement capabilities are built into the decision support system, they can measure the quality provided to members and determine the value received for each dollar spent.

*"When you have a \$6 billion program and you can squeeze out even a quarter of a percent in a health plan rate negotiation, that's a lot of money. Thomson Reuters data gave us a big hand at the table."*

**Dr. Kathleen Donneson, CPHIT, CPEHR**

Assistant Chief  
Office of Health Policy & Program Support  
California Public Employees' Retirement System

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