CalPERS

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December 10, 2010

The Honorable Kathleen Sebelius, Secretary
U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Secretary Sebelius:

As the nation's largest non-federal purchaser of health care, the California Public Employees' Retirement System (CalPERS) has a keen interest in national health care reform. From the beginning, CalPERS supported the reform necessary to contain costs for employers and their employees while maintaining quality health care.

Many health care elements we have championed, such as guaranteed issue policies; eliminating co-pays for preventive services; bans on pre-existing conditions; stabilizing health premiums; supporting innovative delivery system reforms; and patient protection against medical bankruptcies are now major components of health care reform.

We believe that key elements of national health care reform represent a fundamental and positive shift in the way health care will be purchased and delivered in the United States. Together, they will dramatically shape the future of health care in our country and ultimately benefit everyone.

During our recent open enrollment period, CalPERS emphasized the benefits of many health care reform provisions—including extension of dependent coverage, elimination of lifetime limits, and the Early Retiree Reinsurance Program. We are writing to share some of our implementation successes.

**1) Extension Of Dependent Coverage to Age 26**

In recognition of young adults' need for health care coverage, CalPERS launched a massive communication effort to educate and inform employers and members of the extended dependent coverage benefit. We developed special enrollment teams, published communication materials, posted information on our website, and issued press releases highlighting this new health care reform provision.

Our efforts successfully resulted in more than 27,000 young adults being added to their parents' health plans effective January 1, 2011. Best of all, adding them to our program resulted in a 2011 health insurance premium increase of less than 1 percent. Families can now rest easier in these uncertain economic times knowing their dependents, regardless of marital status, can be covered up to age 26.

**2) Removal of Lifetime Limits**

Most CalPERS health insurance plans have never included lifetime limits on the dollar value of benefits. Further, we proactively monitored our members who were enrolled in the few health plans that did include lifetime limits, so we could work with them to change plans when they approached these limits.

As a result of health care reform, CalPERS has removed lifetime limits from all our plans that had included them, and now our members enjoy more health plan options and less financial risk.

**3) Early Retiree Reinsurance Program (ERRP)**

For years, CalPERS health plans have included wellness and disease management programs that promote prevention and manage chronic conditions. These programs, now required of ERRP participants, mitigate the on-going fiscal impact of caring for an older population. It's encouraging that these programs can reduce costs.

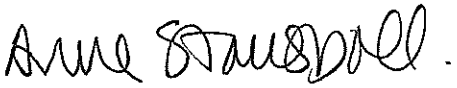
Notwithstanding this success, approximately 24 percent of our non-Medicare medical and pharmaceutical costs are associated with early retiree health liability. Recognizing this, the Affordable Care Act included much needed provisions for relief from these costs. CalPERS 2010 health premium rates reflected the lowest increase in 14 years.

In anticipation of the Department of Health and Human Services certifying our ERRP application, CalPERS proactively negotiated 2011 health plan contracts that reduced premium increases by more than 3 percent for our non-Medicare plans. We estimate ERRP will provide premium savings of approximately $200 million based on reimbursement related to more than 115,000 early retirees and their spouses, surviving spouses, and dependents.

We thank you for expeditiously implementing important health care reform provisions and we are committed to being a collaborative partner in ensuring the smooth and successful implementation in the months and years ahead.

If you have any questions regarding our program, please contact me at (916) 795-3818.

Sincerely,



ANNE STAUSBOLL
Chief Executive Officer

cc: CalPERS Board of Administration
Ann Boynton
Kathleen Billingsley