

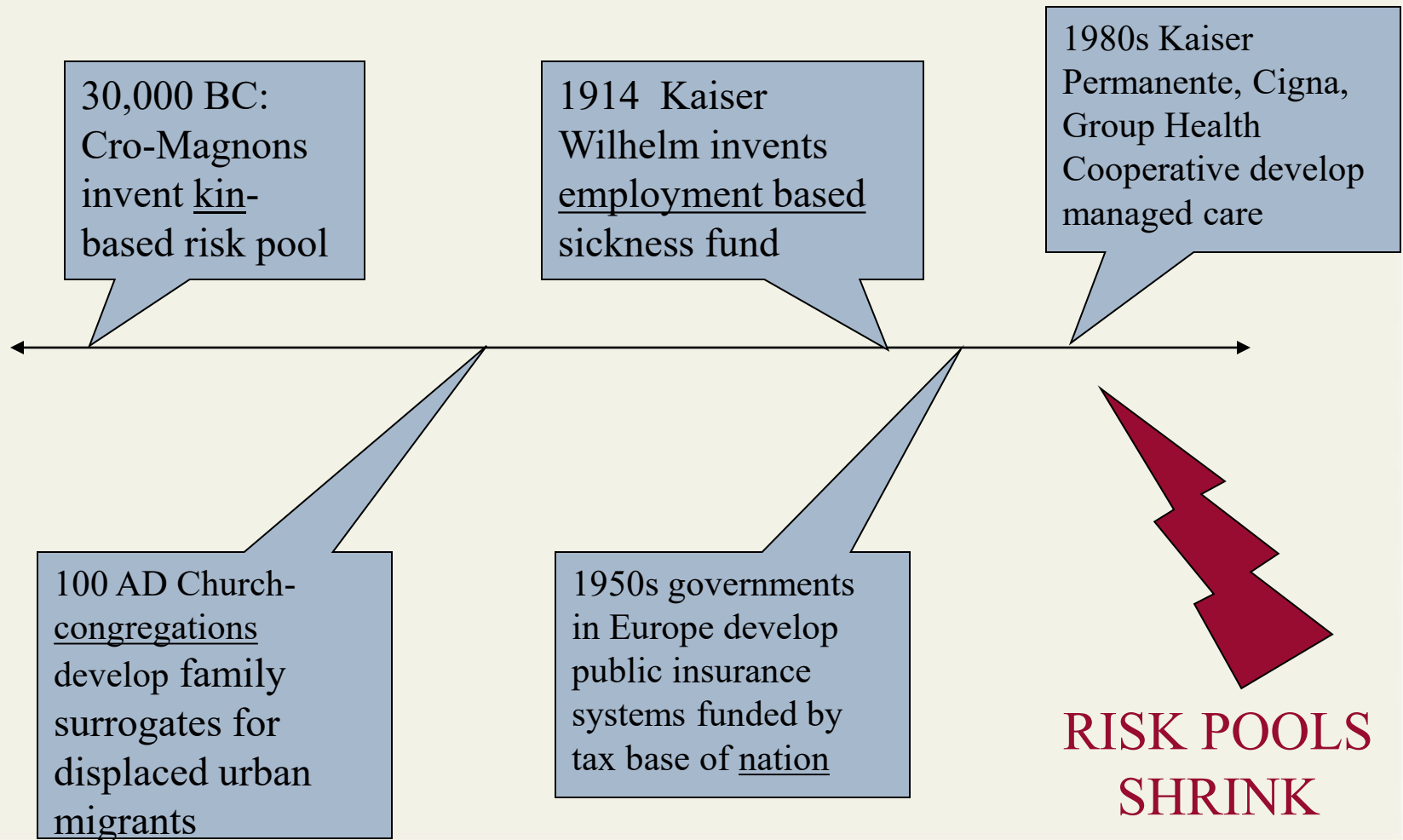
# Managed Care

## Health Economics Lecture 6

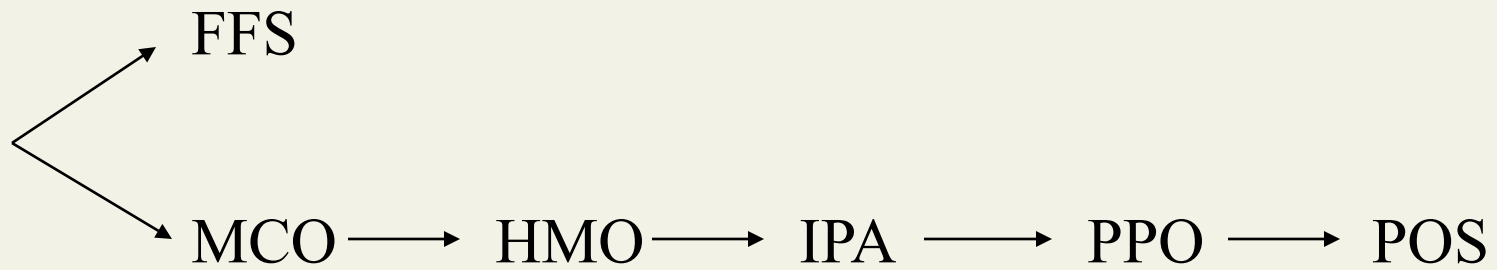
# Outline

- Historical tangent
- Taxonomy of managed care
  - Three letter abbreviations
- Theories of how managed care does it
  - Actually managing care
    - Gatekeeping
    - Second opinions
    - Managed formularies
  - Cherry picking healthier patients
  - Incentives
  - Consolidated purchasing power in bargaining with providers

# Milestones in Health Insurance



## Part 2: Taxonomy of managed care



# The Big Distinction

- FFS fee for service
  - Any provider submits claim for payment to insurer for each service rendered.
- MCO managed care organizations
  - Arrangement that is not FFS because 1)Not any provider is covered or 2)Claims not submitted because of capitation or because provider is integrated within the system

# Varieties of MCO

- HMO (Health Maintenance Organization)
  - Term used when MCOs first invented
  - Traditionally a vertically integrated system tying insurance to a chain of hospitals, salaried doctors, formularies.
    - For example Kaiser, CIGNA, Group Health Cooperative
- IPA (Independent Practice Association)
  - An HMO in which a single doctor group serves the HMO, but is not tied to a single HMO but sees patients from many insurance plans
- PPO (Preferred Provider Organization)
  - An IPA with multiple doctors, and doctor groups contracted to accept low fees
- POS (Point of Service)
  - A PPO where the doctors accept capitated rates

## Part 3: How MCOs do it

- Actually managing care +/-
- Capitation +
- Cherrypicking +
- Provider incentives +/-
- Hardball negotiating +++



# The Ideal: Actually Managing Care

- The Dream= “The business case for quality”
  - Keep people healthy and they won't cost money
- The Reality from the Rand Health Insurance Exp
  - No evidence that MCO causes better health
  - MCOs do have lower costs than FFS with no copays
  - MCOs have same costs as FFS with 20% copay



# Managing Care: The Reality

- Gatekeeping
  - Patients not allowed to see specialists without getting a referral
    - Internists prescribe Prozac rather than send to psychiatrist
    - Pediatricians give allergy shots after one visit to an allergist
  - Substitutes lower price 1<sup>o</sup> care for high priced consultant
- Second opinions for procedures
  - Limits supply induced demand
  - No evidence 2<sup>nd</sup> opinions save a lot of money
    - Tacit collusion
- Managed formularies--Emphasize generics
- Co-pays—Flat \$5 to \$20 copays to lower admin costs

# Market Segmentation (Cherry Picking)

- New enrollees in MCOs “happened” to have incurred 20-30% lower costs in the prior year
  - Last year’s utilization is best predictor of next year’s expenditure
- Explanations
  - MCOs target the healthy
    - Advertisements in “Fitness Magazine”
    - Special rates when insuring aerobics instructors
  - The healthy target the MCOs
    - People who know they are going to be sick don’t want the MCO hassle
    - Self-select to FFS despite higher premium
    - “Adverse Selection”



# Provider incentives

- Physician profiling
  - Infosystems enable tracking physician practice styles
    - Delivery of quality
    - Restraint of costs
- Incentivizing lower costs
  - Holdbacks: MCO “holds back” 15% of annual payments unless provider group meets cost target
  - Selecting lower cost providers to contract with
- Incentivizing better quality
  - Bonuses for process quality measures
  - Selecting providers based on quality

# PPOs—Latest Success Story

- How to start a PPO
  - Promise premiums that are 10% lower than competition
  - Amass 10,000 patients from biggest employers in region
  - Tell doctors and hospitals that you won't sign with them unless they give you a 20% reduction in fees. Play hardball
- Lower premiums → more patients → more bargaining power → lower fees → lower premiums etc.

## Questions about PPOs

- Do they use bargaining power to negotiate for better quality or just lower fees?
- Why don't we see more doctor groups consolidating their bargaining power?
  - Amass 10,000 patients who love their doctors at Wyman Park Physicians
  - Tell insurers, we will tell our patients not to sign with your company unless we get fees that are 10% higher
  - Antitrust or Trade Association?

# Summary

- MCOs (esp PPOs) dominate American health insurance market
  - FFS is all but gone in US
  - With MCOs, customer ties self to the mast.
- Success in cost control due to
  - Attracting healthier patients (willing to tie self to mast)
  - Accumulated marketing power from lower premia
    - Capitate payments to providers shed risk
    - Negotiate lower fees
- Success in quality improvement
  - The HMO traditional reputation, little evidence
  - Incentivized payment for quality is the current and coming wave. Expect good news soon.