Medicare Risk Contracting/ Medicare Contracting Risk –- A Multi-Year View

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• 1996-1997: Rising enthusiasm
• 1998-1999: Interest stalls as BBA effects realized and private market forces drive change in plan strategy; withdrawals start
• 2000-2001: Momentum for growth lost and withdrawals continue
• View from local markets: Legislative remedies have been unsuccessful in stopping decline
Study Timeline for a Turbulent Period

Round 1 Visits
1996----------1997
BBA
First Wave Withdrawals Announced and Occur

Round 2 Visits
BBRA
Second Wave Withdrawals Announced and Occur

Round 3 Visits
BIPA
Third Wave Withdrawals Announced and Occur

BIPA
Fourth Wave Withdrawals Announced
Number of Medicare HMOs by Market Penetration Clusters, 1996-2000
Round 1, 1996-1997 – Exhilarating Climb

- **Policy** – Medicare risk premium increases exceed trend in commercial rates and health care cost growth

- **Plan Strategy** – Membership/revenue growth of paramount concern; Medicare a target market

- **Operational Experience** – Providers see growth as likely; risk arrangements in vogue; additional benefits draw in new members

Sources: Commercial trends (for employers with > 200 employees) and health care costs are from Strunk, et al., *Health Affairs*, 2001; Medicare Payment rates from CMS, 2001.
1996-1997 Market Patterns

- **High** – Zero premium standard, competition among existing plans principal source of growth
- **Moderate** – Targeted by national plans for growth, local plans respond to competition
- **Limited/Minimal** – Positioning and exploration by market leaders among plans and providers
Round 2, 1998-1999 – Unnerving Leveling Off

- **Policy** – Rate increase declines but still greater than commercial; BBA has abrupt, negative effects

- **Plan Strategy** – Many plans retreat or abort entry; others hope for early repair; general plan retrenchment to restore profitability

- **Operational Experience** – Costs on rise, especially pharmacy; risk arrangements threatened by small rate increases; benefits erosion anticipated
1998-1999 Market Patterns

- **High** – Limits on increases felt immediately; jeopardize percent-of-premium deals

- **Moderate** – Nationals quickly pull back; local plans slow marketing/silent withdrawals; momentum with providers weakens

- **Limited/Minimal** – Interest fades among plans and providers
Round 3, 2000-2001 – Steep Decline

- **Policy** – Premium increases well below rising costs; repair legislation not meaningful, so far

- **Plan Strategy** – Retrenchment continues, large commercial rate increases; further trimming of poor performing lines; provider negotiations grow factious and most momentum in Medicare lost

- **Operational Experience** – Benefit deterioration/rising premiums, member anxiety grows
2000-2001 Market Patterns

• **High** – Zero premiums disappearing, pharmacy benefit curtailed, provider risk deals collapsing, product remains profitable for now

• **Moderate** – Some plans maneuver with providers to salvage products; sharp benefits erosion and premium increases in remaining plans

• **Limited** – BIPA floor = some limited reconsideration

• **Minimal** – Interest is virtually nil
Free-falling?

- General view at the local market level is that Medicare+Choice remains in perilous condition.
- Medicare’s problems with HMO strategy appear to be both self-inflicted and the consequence of broader market trends.
- Difficult to see what policy changes can reverse negative trends and perceptions.
Lessons/Implications

- Medicare managed care is inherently risky business for plans and policy makers, made more risky by Medicare and commercial trends being out of sync.
- Medicare HMO strategy is hostage to local health plan strategic aims/adaptation.
- Medicare policy initiatives to expand beneficiary access to HMOs and additional private plan options have not been successful.
Lessons/Implications, cont’d

- Severe relationship damage has been done and will impede any efforts at turnaround
- Medicare administrative inflexibility is significant impediment (or anchor) in face of transitioning markets
- Broader market trends may justify reconsideration of what managed care can now contribute to Medicare