An Empty Toolbox? Changes in Health Plans’ Approaches for Managing Costs and Care

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Emerging Health Care Market Trends:
Insights from Communities
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Major Findings

- Decreasing reliance on the most restrictive managed care tools

Replaced with...

- Growing reliance on consumer cost sharing
- Experimentation with new provider networks, payment systems and referral practices
A Revolution Interrupted?

- **Consumer demand:** More choice, fewer restrictions
- **Employer pragmatism:** Demand for large and inclusive networks to attract workers
- **Provider pushback:** Higher rates, lower risk, less hassle
- **Policy activism:** Direct-access mandates, consumer and provider protection, HMO liability
Even as Cost Pressures Resume

- Rapid growth in underlying medical costs
- Steady upward trends in utilization
- Double-digit premium increases
- Slowing economy
Key Tools of Managed Care

Guiding philosophy: Tight management of a generous benefit package

- Selective contracting – *steer volume*
- Capitation – *transfer risk*
- Gatekeeping and utilization review – *block and tackle*
- Comprehensive benefits – *first-dollar coverage*
Selective Contracting Fades

**Trends**
- Larger physician and hospital networks
- Less-restrictive provider selection processes

**Drivers**
- Consumer and employer demand
- Lack of data to inform provider selection
- Provider consolidation and branding

**Implications**
- Diminishing ability to negotiate discounts
Risk Contracting Erodes

**Trends**
- Reduction in prevalence and/or scope of risk
- Return to fee schedules or partial risk deals

**Drivers**
- Lagging HMO enrollment
- Implosion of physician contracting entities
- Provider push-back against rising costs, losses

**Implications**
- Fewer incentives for efficient clinical practice
Gatekeeping and Utilization Management Weaken

Trends
- Relaxing prior approval restrictions in existing products
- Introducing new products with fewer restrictions

Drivers
- Consumer and physician dissatisfaction
- Administrative costs
- Direct-access mandates and liability concerns

Implications
- More choice, less coordination and accountability
Less Comprehensive Benefit Design

Trends
• Adding new copays/deductibles to HMO products
• Increasing existing copays and out-of-pocket limits
• Replacing fixed copays with coinsurance

Drivers
• Market pressure to constrain costs and premiums without limiting choice

Implications
• ↑ cost-conscious consumption, ↑ financial barriers?
## Variation in the Movement Away from Managed Care Tools

### Degree of Change

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Emerging Tools

- Tiered provider networks
- Information to steer patient volume within networks
- Expanded case management and disease management
- Expanded consumer choice among plan types and benefit packages
What This Means for Health Care

• Broader choice and self-determination for consumers
• Fewer administrative hassles for providers
• Fewer restraints on utilization and premium growth
Permanent or Passing Trends?

- Cost sharing is a limited tool for constraining utilization
- Not all plans have abandoned managed care tools
- Demand for tighter management may grow as the economy softens
Policy Implications

- Pressure for employers, employees to drop coverage
- Financial burdens for the chronically ill and other high users?
- Ensuring accountability and coordination of care?