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HEALTH

SYSTEM

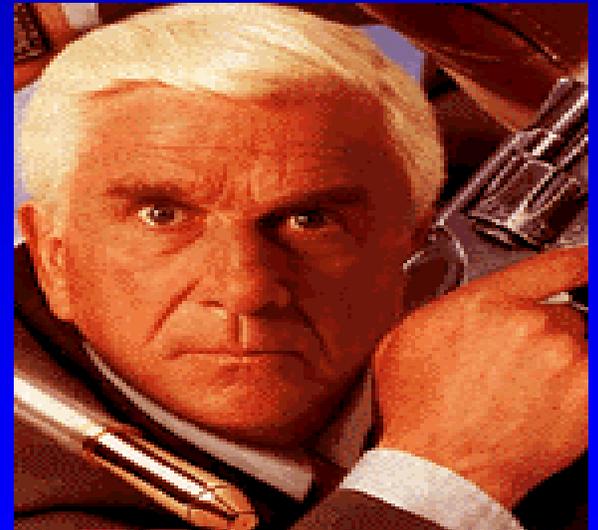
CHANGE

Providing Insights
that Contribute to
Better Health Policy

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

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*Emerging Health Care Market Trends:
Insights from Communities*
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A Half-Decade Roller-Coaster Ride – 1996 to 2001

- 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

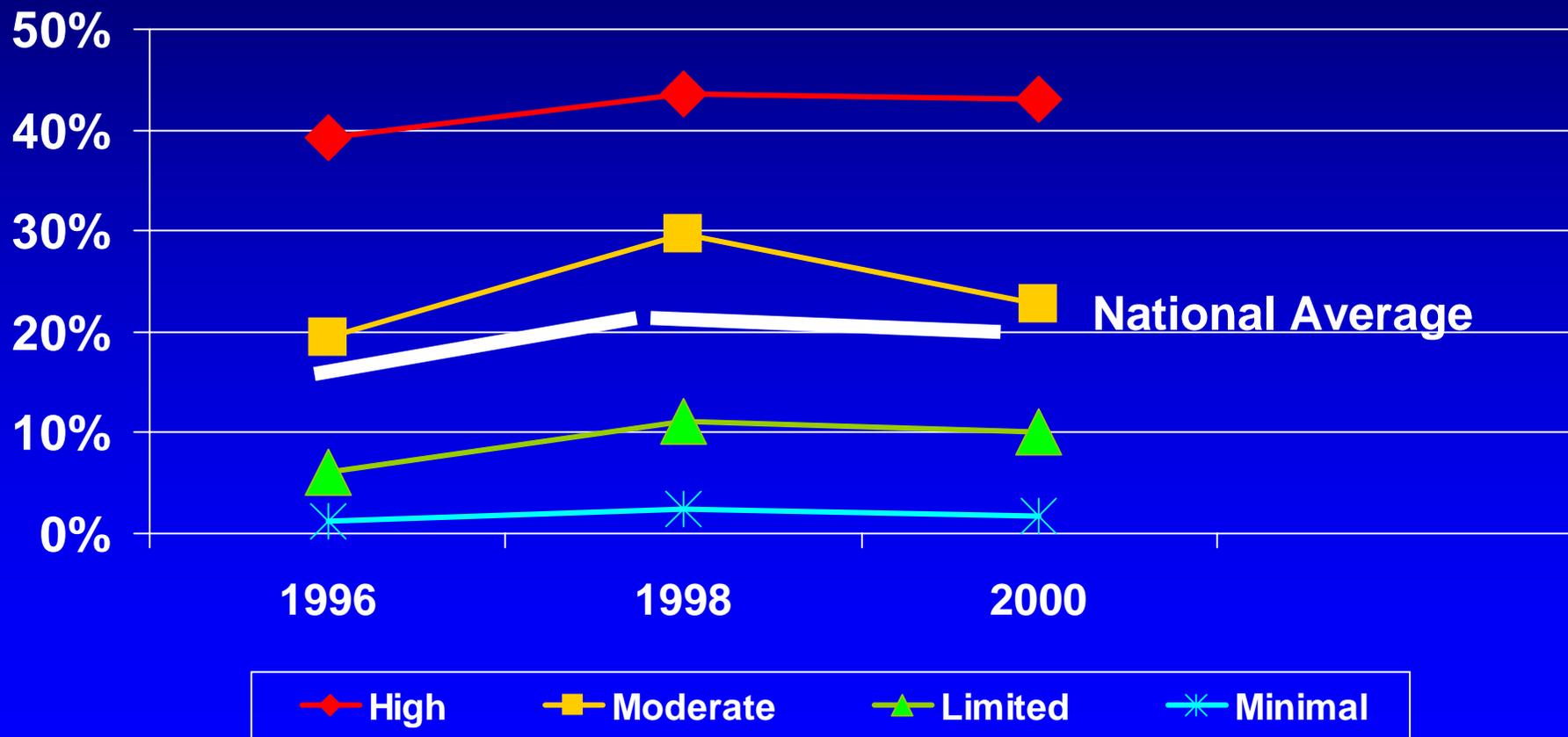
Round 1 Visits

Round 2 Visits

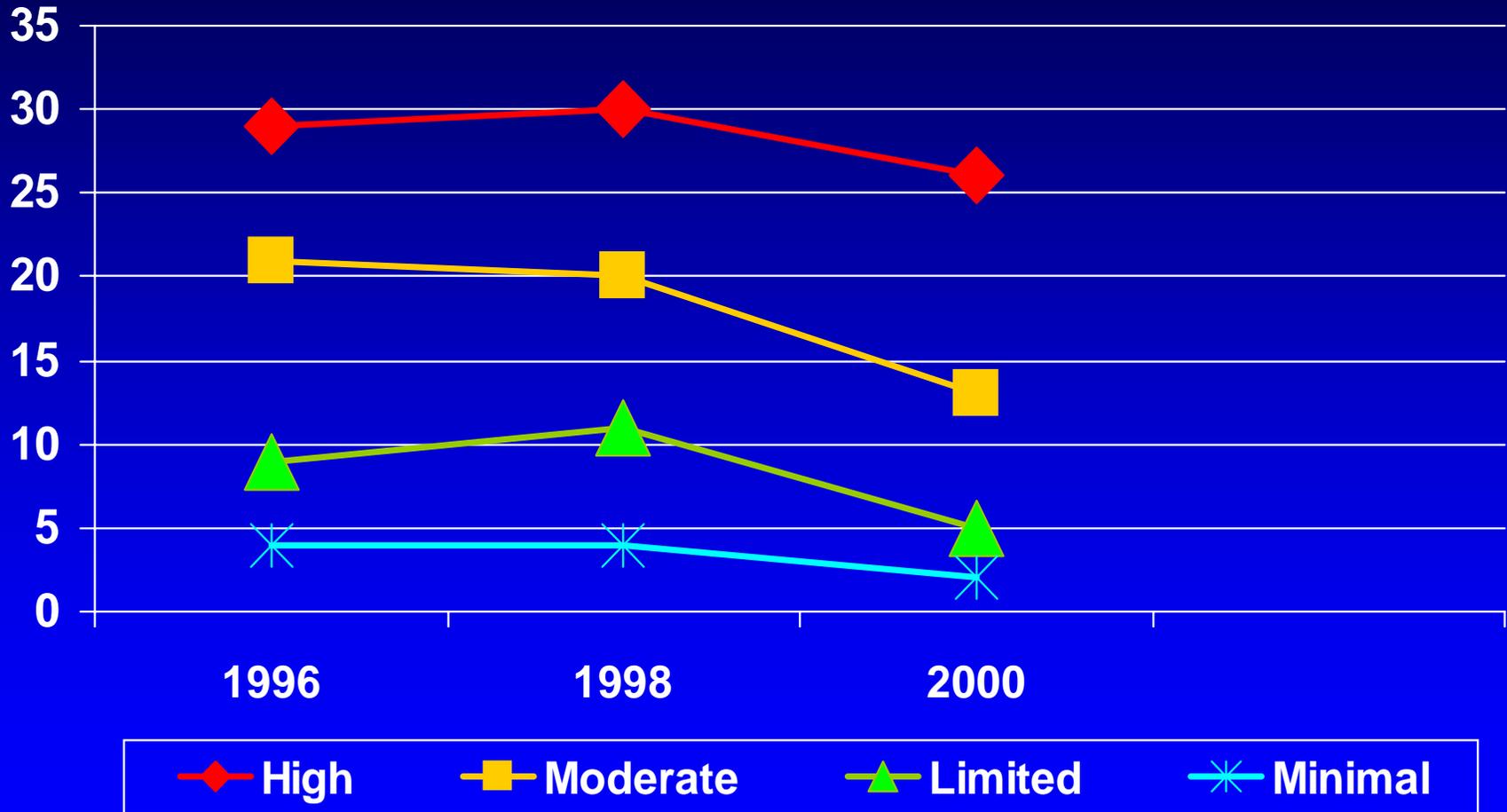
Round 3 Visits



Mean Medicare HMO Penetration by Market Clusters, 1996-2000



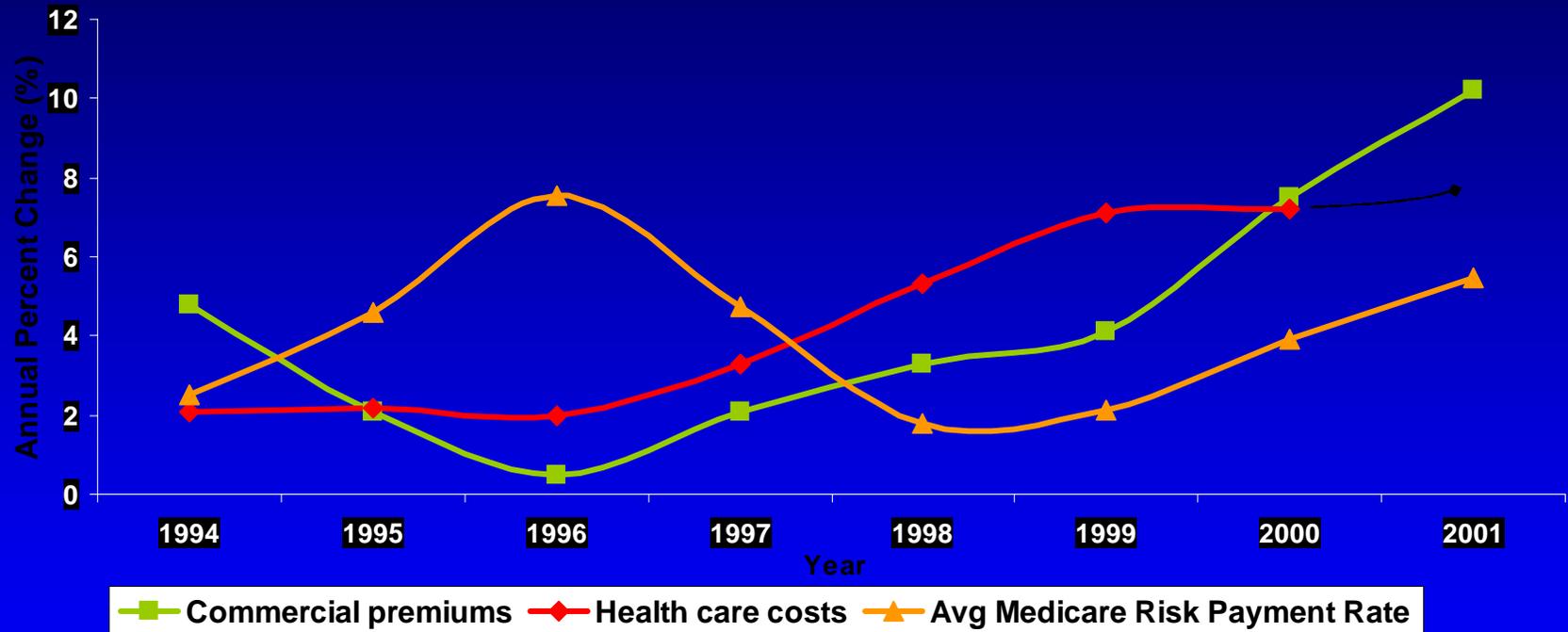
Number of Medicare HMOs by Market Penetration Clusters, 1996-2000



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

Trends in Public and Private Payments to Health Plans and Health Care Costs – 1994-2001



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