

CENTER *for* STUDYING

HEALTH

SYSTEM

**CHANGE**

Providing Insights  
that Contribute to  
Better Health Policy

# **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

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- 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?

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- *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

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- Rapid growth in underlying medical costs
- Steady upward trends in utilization
- Double-digit premium increases
- Slowing economy

# Key Tools of Managed Care

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***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

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## 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

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## 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

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## Trends

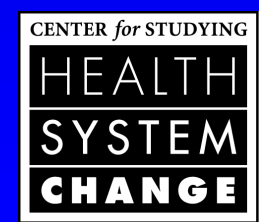
- Relaxing prior approval restrictions in existing products
- Introducing new products with fewer restrictions

## Drivers

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

## Implications

- More choice, less coordination and accountability





# Less Comprehensive Benefit Design

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## 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

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## Degree of Change

Low

High

Low

Indianapolis  
Little Rock  
Syracuse

Use of  
Tools in  
1998

High

Boston  
Orange County

Cleveland  
Lansing  
Miami  
Northern New Jersey  
Phoenix  
Seattle

# Emerging Tools

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- 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

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- Broader choice and self-determination for consumers
- Fewer administrative hassles for providers
- Fewer restraints on utilization and premium growth

# Permanent or Passing Trends?

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- 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

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