

Where Have All the HMOs Gone? Consolidation and Competition in the Ohio Market

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Remember these airlines?

- Allegheny
- Braniff
- Ozark
- North Central
- Pan Am
- Eastern

Remember these HMOs?

- HealthSource
- TakeCare
- FHP
- MetraHealth
- InterGroup
- NYLCare
- Prudential?

Remember these Ohio HMOs?

- University Health Plan
- ChoiceCare
- MedChoice
- Personal Physician Care
- HealthPower
- North Coast

Questions for Today

- What is driving the disappearance of HMOs?
- How do developments in Ohio compare with other local markets?
- What is the potential impact of those changes on purchasers, providers and consumers?

Once A Growth Industry: Newly Licensed HMOs

Year	Ohio	Illinois	Texas
1994	5	3	1
1995	4	2	8
1995	3	4	12
1997	3	1	8

National HMOs Combine

- United Health Care buys MetraHealth
- Aetna buys U.S. Healthcare, then NYLCCare, then Prudential (still pending)
- FHP buys TakeCare, PacificCare buys FHP
- Foundation Health combines QualMed and HealthNet
- CIGNA acquires HealthSource

Blue Cross Blue Shield plans

- Consolidations within states: from five to one in Ohio
- Anthem, Wellpoint, Independence acquire Blues plans in other states, plus HMOs and insurers

Ohio HMOs Lost in Action

- Acquisitions: Humana buys ChoiceCare
- Failures: Personal Physician Care and HealthPower
- Merger: Paramount and Medical Value

Historic Economic Role of HMOs

- Package services for employers, including:
 - ✓ Risk management
 - ✓ Enrollment, claims and other administration
 - ✓ Contract/discounts with providers
- Distributor of patients to physicians

Changes in Purchasers, Changes in HMOs

- Purchasers decide to self-fund and manage their own risk
 - HMOs acquire insurers, develop multiple product lines
- Purchasers seek larger provider networks, easier access to specialists
 - HMOs offer out of network benefit; “classic” staff and group HMOs abandon their knitting

Have HMOs Lost Their Price Advantage?

- Enrollment growth has meant a growing number of HMO enrollees who are older and use more care
- Consolidation of providers has given them more leverage to resist deep discounting by HMOs
- New technology drives cost increases

Wall Street Loses Interest

- Investors drove up prices of HMO stocks (P/E ratios of 40!), then drove them down when HMOs couldn't sustain profit growth
- Hospitals have the money, but don't want to risk it on Medicare PSOs or related ventures

HMO Profitability in 1997

■ Colorado	0.9%
■ Florida	-0.7%
■ Illinois	0.9%
■ Michigan	-1.1%
■ Minnesota	-0.4%
■ Ohio	-1.8%
■ Texas	-4.1%

Changes in HMO Strategies

- From “acquire insurers and convert their groups to HMOs” → to “provide wide range of products to employers”
- From “focus on local strengths and relationships” → to “focus on getting big and gaining national position”
- From “buy market share at any cost” → to “exit markets if you can’t be in the top 3”

Medicaid Issues

- Still generates new HMOs as clinic plans come under more stringent requirements
- But, Medicaid enrollment is declining nationally, and
- Commercial HMOs are exiting, leaving the field to HMOs sponsored by safety-net providers and a few Medicaid entrepreneurs
- Counties in Minnesota and California

Changes in Purchaser Strategies: Three Directions

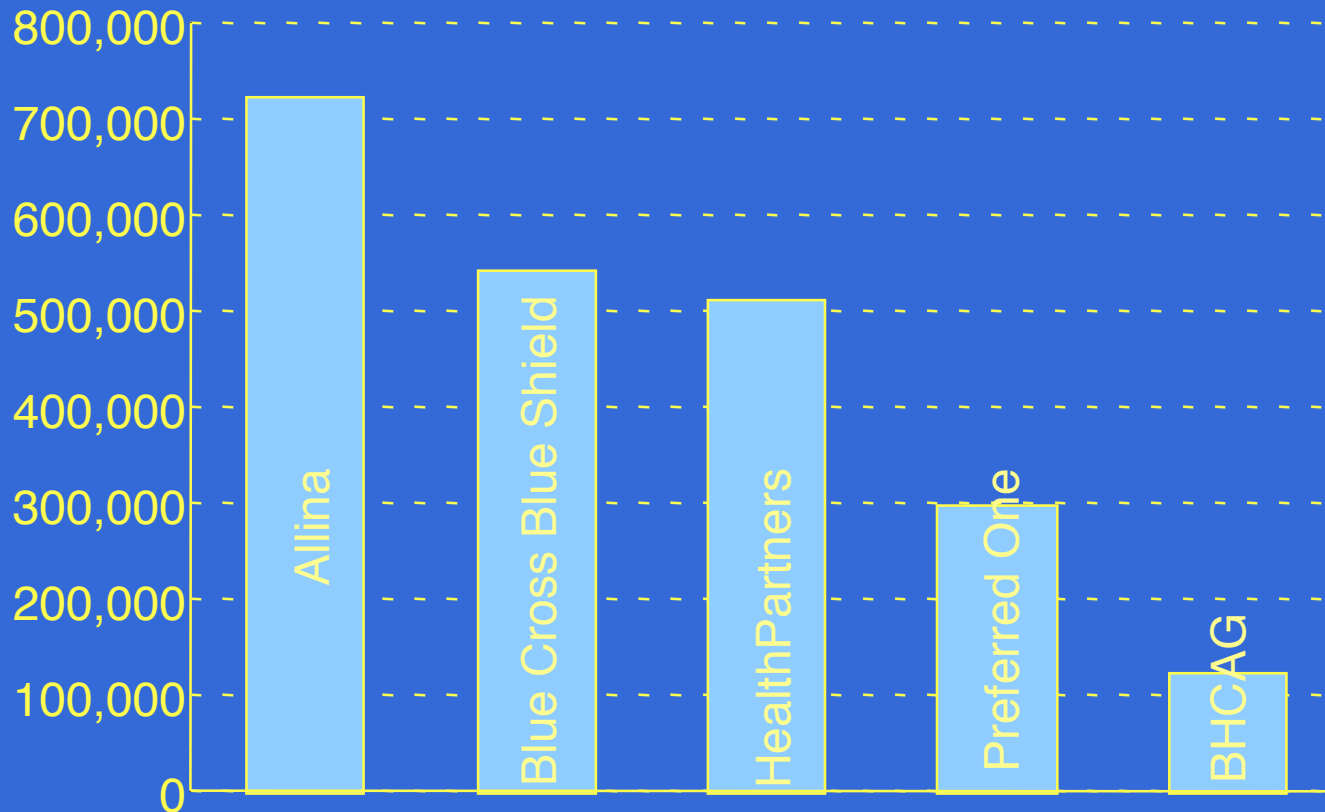
- Value purchasing - measure quality and bring business to the best providers
- Trying to ensure predictability and limits in benefit costs
- Direct contracting with providers, keeping HMO where it adds value and using off-the-shelf systems and vendors

Buyers Health Care Action Group

■ Key elements

- ✓ Self-funded employers
- ✓ Contracting with competing “care systems”
- ✓ Primary care physicians participate in only one care system
- ✓ Contribution policies influence consumer choice; risk adjustment removes incentive to cherry pick

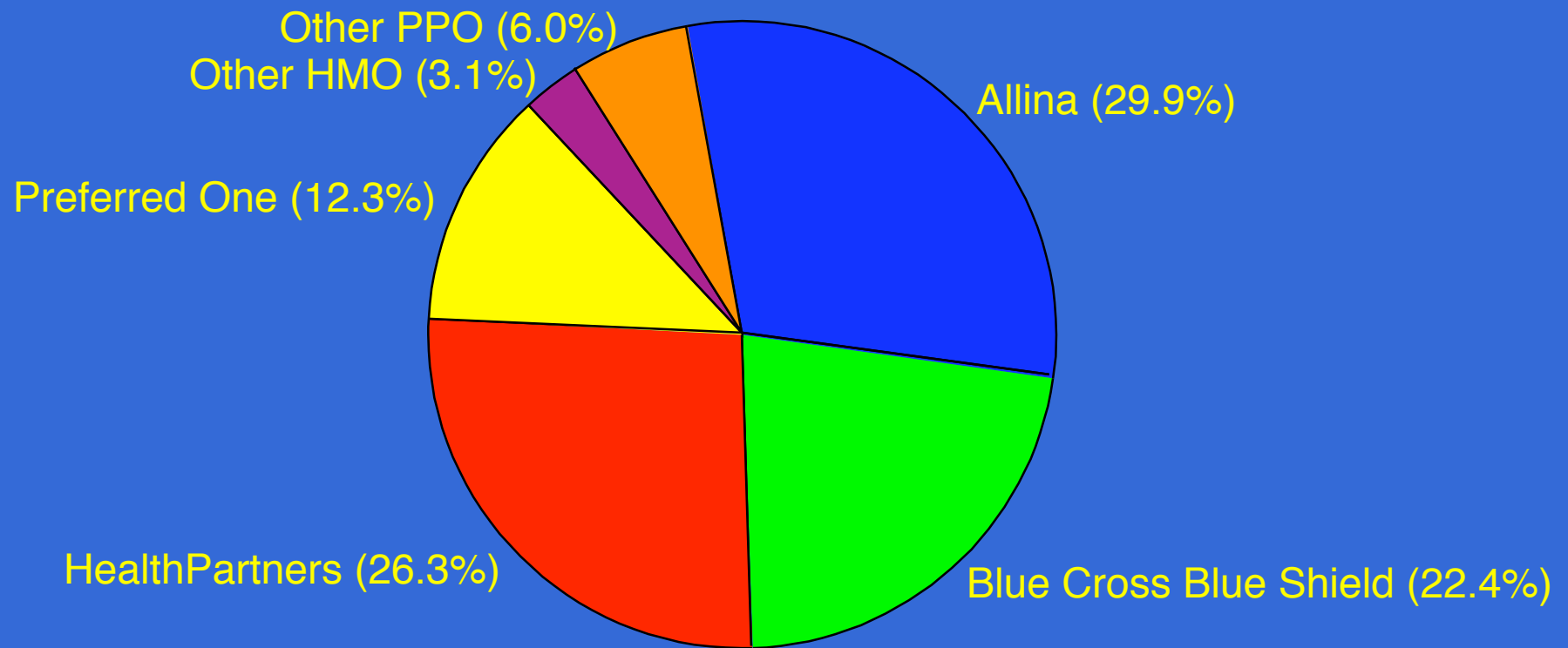
Wholesalers of Covered Lives



Implications

- When does the health plan market become too concentrated?
- Will anyone put the “managed” back into managed care?
- What happens if the economy crashes?

Concentration in Twin Cities



Future Scenarios

■ A few HMOs hold the economic cards?

- ✓ Control access to more covered lives
- ✓ Provide data to providers, purchasers and consumers to make a competitive market

■ A post-HMO era?

- ✓ Providers and purchasers deal, and HMOs become super TPAs
- ✓ Technology eliminates the paper chase
- ✓ Consumers drive the system, allocating their dollars as they prefer

For additional information

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