Purchasing Pools in Montana

A presentation to the SJR 22 Subcommittee on Health Care and Health Insurance
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Introduction:

This presentation is about a Montana employer association's attempt to establish a purchasing pool in Montana. I will attempt to recap this experience in the hope that it may shed some light on the potential for workable Purchasing Pools in the Montana health insurance market and the conditions that must be met to make them work. With the short notice given, I am not prepared to present information on purchasing pool successes or failures and factors contributing to success or failure in other states.

Current Perspective on Market-based approaches to controlling Health Care costs:

After 15 years of attempting to control health care costs in the State of Montana I have concluded that typical market-based approaches often don't work. While health care is delivered as a commodity, it is viewed as a right. This limits use of market-based approaches that successfully control the costs of other goods and services.

The Purchasing Pool Market-Based approach:

A. Types of Purchasing Pools:

1. **Pools to purchase whole health plans.** Since the health plans, not the employers, bear the risk, employers too small to self-insure and bear the risk of their employees' claims costs can participate.
2. **Pools to directly purchase health care and administrative services for self-insured health plans.** These are restricted to large employers who can self-insure their plans.
3. **MEWAs (Multiple Employer Welfare Arrangements) – a pool of employers who share risk and, in some respects, act as a large self-insured plan.**

I will concentrate on Type 1 since this is the type of purchasing pool encouraged by 33-22-1815 MCA to assist small employers obtain affordable insurance. I will touch on Type 2 because it is the type of pool that has produced the most success. I will not discuss MEWAs because MEWAs are considered "out-law" plans by the insurance industry since they operate outside many insurance statutes.

B. History:

Several large employers and trade associations formed the Montana Association of Health Care Purchasers in 1993. This is a non-profit organization devoted to information sharing and cooperative efforts to control health care costs and improve the quality of health care services. This group was comprised of both private and public sector employers including the State of Montana, the Montana University System, Montana Power, First Interstate Banc System, The Auto Dealers Association, and the Montana Logging Association.

This group recognized that controlling health care costs for small employers and expanding insurance coverage was critical to stemming cost shifting and increased costs

to large employers. It, consequently, participated in crafting the voluntary purchasing pool legislation passed in 1995 (designed to primarily benefit small employers) and undertook formation of the State's first purchasing pool for both large and small employers.

MAHCP created a subsidiary purchasing cooperative, called Community Health Options (CHO) in 1997 and offered its first health plan, Yellowstone Community Health Plan, to its members, in 1998. The intent was to first establish the pool for large employers who had sufficient numbers of employees to attract participating health plans and, once established, to bring in small employers. CHO was never able to bring in small employers and CHO has proven problematic for large employers.

C. Features and Objectives of CHO

CHO Features -- Typical of purchasing pools:

1. A standard benefit package
2. Competition between health plans based on their efficiency and resulting price (premium) to provide the standard benefits package -- as well as their quality of service, provider networks, and customer service.
3. A choice of participating health plans by each individual employee.
4. Central administration of choice offerings, enrollment, and billings by the purchasing pool to minimize the burden on small employers of multiple-plans.

CHO objectives:

1. Increased health plan value for both large and small employers – expansion of insurance coverage.
2. Individual choice by employees rather than employers
3. Increased usage (and increased development in Montana) of more efficient health plan models -- HMOs and other managed care plans. While a single HMO with a limited panel of providers may not be acceptable to a small employer and his or her employees, competing HMOs with different panels of providers may be because employees can pick the HMO, which offers their preferred providers.

D Challenges faced:

A purchasing pool is a major restructuring of the health insurance market. To be successful a purchasing pool must induce more than one health plan to compete based on their efficiency and quality of care– how well they coordinate and manage care, their provider contracts, administrative and customer service systems – not based on (a) minor differences in the benefits package they offer (b) their ability to attract good risks and limit adverse ones or (c) their control and inducements to agent networks. This is achieved by:

- standardizing the benefit package – so it is the same for all participating health plans
- standardizing the rating structure – so the base rates each participating plan offers are adjusted uniformly (on the same basis) to reflect the health risks of each employee group to whom the plans are offered.

  Explanation: A purchasing pool cannot be community rate – offer the same rate to all participating employer groups -- when it operates in an insurance market

without community or modified community rating requirements. If a purchasing pool did that, healthy, low-risk groups could find lower prices in the open market and would not join – leaving only higher risk groups in the purchasing pool. The best a purchasing pool in this environment can hope for is to use some of the savings achieved to narrow the spread between rates offered to high-risk groups and low-risk groups.

- standardizing the sales or agent force so that the purchasing pool has its own agents to market the entire purchasing pool product – choice of multiple health plans – rather than a single plan.

E. Outcomes of the CHO Effort:

- **CHO was unsuccessful in inducing at least two broad-based health plans to participate** – despite offering the carrot of a large formerly self-insured employee base. Yellowstone Community Plan participated in 1998, 1999 and 2000 until it merged with Blue Cross and Blue Shield. The then newly formed New West Health Plan participated in 1999 and again in 2000 but lost money in 2000 and declined to participate in 2001. Big Sky health plan participated in 2000 and 2001 but is only available in the Butte area. Blue Cross and Blue Shield has consistently declined to participate in a purchasing pool involving small employer groups.

- **Future prospects for inducing the State's two largest health plans to participate in a small employer purchasing pool now appear to be dead -- and with them the prospects for a small employer purchasing pool in Montana.** The State's largest health insurer, Blue Cross and Blue Shield has expressed fundamental problems with purchasing pool features that CHO and its consultants consider critical to successfully including small employers in a purchasing pool:
  1. A standardized rating structure, and
  2. Purchasing pool agents to market the product.

  Blue Cross and Blue Shield has also expressed doubts that savings can offset the administration costs of a purchasing pool. Doubts about a purchasing pool involving small employers have also been expressed by the New West Health Plan.

  Without the commitment and participation of these two plans, a purchasing pool cannot achieve its primary objective – offering broad-based competing plans to its members. Since CHO and its consultants have put a lot of time and resources into attempting to negotiate the details of a standardized rating structure with Montana Health Plans (and have offered additional protections such a rear-end premium adjustment for plans which picked up more than their share of risk) it, consequently now appears that at least Blue Cross and Blue Shield finds the above features of a purchasing pool unacceptable in any form. I encourage the Committee to invite Blue Cross and Blue Shield to comment on this question.

- **A Whole-plan purchasing pool (that could include small employers) is proving less suitable to large employers than a pool devoted to purchasing health care and administrative services for their self-insured plans.**
  When fully insured plans are offered to employees of large employers along side an employer-sponsored self-insured plan, the insured plan or HMO is competing with

the self-insured plan. While competition is desirable, employers and health plans tend to fund their plans differently. Employers tend to use accumulated reserves to smooth rate changes. This means that a health plan's rates can rise sharply as soon indicated by rising claims costs and be uncompetitive with the rates of a self-insured plan which delays or spreads out increases. Premiums that are too disparate create concerns about adverse selection and a situation in which the health plan may drop out as New West did in the case of the State in 2000.

Large employers can create a more stable situation by self-insuring all plans offered to their employees so the same funding approach applies to all and adverse selection against one plan is offset by favorable selection for another.

MAHCP has been successful in combining large employer purchasing power to achieve savings in the purchase of many benefits and services including: prescription drug benefits, HMO managed care services and administration, hospital services, and auditing services – but currently sees no way to extend the benefit of these efforts to small employers who are not self-insured.