

Impact of Proposed Reforms on Health Plans

Background Information Prepared for the Health Care Transformation Task Force By Minnesota Department of Health Staff

December 10, 2007

Members of the Health Care Transformation Task Force have requested information on how the reforms under consideration would affect health plan competition and health plan administrative costs in Minnesota. This background paper provides a brief summary of how market competition at the health plan level might change if the reforms that the Task Force is considering are adopted, and the potential savings from reducing some administrative functions.

Minnesota law requires health plans that are licensed as HMOs in the state to be organized as non-profits; however, the market share of HMOs has been declining for years. In 2006, about 417,000 Minnesotans were enrolled in commercial fully-insured HMO products. Enrollment in commercial HMO products in 2006 was about 60 percent lower than its peak of about 1 million Minnesotans a decade earlier. Despite the declining market share of HMOs in the fully-insured commercial market, the market is still dominated by three large companies that together hold an estimated 86% of the market.

Under current payment systems, health plans that can negotiate significant discounts with providers have a competitive advantage over other health plans. This situation makes it difficult for new health plans to enter the market, because they would be at a disadvantage in their ability to negotiate large provider discounts if they do not have a large customer base. The payment reform proposal that the Task Force is considering would eliminate the need for health plans to negotiate prices with providers, thus removing this barrier to health plan market entry.

The Task Force's payment reform and insurance market reform proposals would also change the role of health plans in other significant ways. For example, an individual mandate for coverage, guaranteed issue, modified community rating, and risk equalization payments across health plans would reduce incentives to try to attract only the healthiest enrollees; instead, health plans would be rewarded for enrolling a sicker population and managing it well. In addition, the health insurance exchange is expected to make it easier for employers and consumers to navigate the health insurance marketplace and understand their options; increased visibility of smaller plans through the health insurance exchange would be expected to make it easier for small health plans to be competitive with larger ones. Finally, plans would compete to innovate by creating products that engage consumers, encourage them to use better performing providers, and provide the best tools for consumers to make good health care choices based on quality and cost.

Sources of Potential Administrative Savings from Proposed Reforms

In 2006, underwriting costs accounted for 1.4% of total administrative spending reported to MDH by health plans. Guaranteed issue and the elimination of health status as an underwriting factor in the small group and individual health insurance markets will reduce health plans' underwriting costs. Under the assumption that underwriting costs would be reduced by 75% under the reform proposal, the potential savings would be approximately \$12.8 million in 2007, or 0.04% of total Minnesota health care spending.

Payment reforms that simplify provider pricing have the potential to reduce the costs that health plans and providers currently incur to negotiate reimbursement rates. In 2006, health plans reported 5.3% of their administrative spending was for provider relations and contracting. Information is unavailable on the amounts that providers spend on these activities. In order to provide a rough estimate of the total potential savings, we assumed that providers spend the same amount on contracting that the health plans do. Under the assumption that the costs of negotiation and contracting would be reduced by 50% under the reform proposal, the total potential savings would be approximately \$64.4 million in 2007, or 0.19% of total Minnesota health care spending.

Some other reforms that the Task Force is considering (such as expanded quality measurement/reporting, price transparency, and expanded use of information technology) would add administrative cost to the health care system, at least in the short term. We have not attempted to estimate these additional costs.