Physicians and Consumers Moving Away from Managed Care:

- **How this is changing the way physicians practice**
- **How hospitals are helping them to cope**

By Walter Kopp, President, Medical Management Services

Physician practices are in transition and hospitals need to understand these changes and find ways to help them remain in practice. Physicians are moving their practices away from managed care and toward market approaches that will increase their compensation and decrease their hassle factor. Significant numbers of physicians are moving their practices away from HMO products toward PPO products and in some cases further down a path from these contracts to increased consumer payments and in rare cases retainer based monthly fees often referred to as "concierge medicine". Health plans have also moved their products in this direction resulting in higher deductibles and payments from consumers

The relative success of physicians at attempting these adjustments is based on several factors including their ability to influence patients to select new insurance products that pay them better. Physicians are learning new methods to market their practices and provide a better retail experience for patients who are willing to pay more. In a few cases this is resulting in better care for those who can afford it and access problems for those who cannot, forcing a market based multi-tiered health care system.

Research by the California Healthcare Foundation (CHCF) verifies these trends. Only 58% of practicing physicians in California are currently accepting HMO patients according to their research. The numbers of specialists refusing to accept HMO patients has increased. Physicians participating in IPAs has continued to drop PCPs are leading these market changes. Specialists have tended to accept all referrals fearing that if they cut off low revenue referrals that the PCPs will not send high revenue referrals.

Most patients perceive healthcare as a right. Because they are often not paying for it directly, they rarely appreciate its true cost. This is beginning to change. Health plans, attempting to keep costs down for their employer clients, are changing the way they relate to consumers, by altering their benefit structure to move more of the expense of healthcare to the patient. In a recent study by CHCF significant numbers of employers continue to increase the employee costs to get employees to better manage their healthcare expenditures and decrease excessive demand. Physicians are

beginning also to use this as an opportunity to teach patients the value of their services and to change their patients' expectations. Physicians now feel more comfortable telling their patients what is wrong with their current benefits and encouraging them to choose new policies. Physicians also feel freer to charge patients when their benefits do not cover the services they provide.

An indication of the shift in physician mind set is that physicians are beginning to charge for formerly free services such as phone calls, email access, completion of forms, copying of charts and other things. In the past physicians have felt that it was unprofessional to charge for some of their ancillary services. Some health plans are paying for emails and consumer payment for emails is on the rise. The growth of Medem and Relay Health are beginning to demonstrate the demand for physician email. In this way physicians are learning that they can charge more for the full range of services they and their offices render developing more revenue and a higher perception of patient value.

Some of these changes exacerbate the growing problem of access to physicians. These changes, combined with an aging physician population in some communities, are beginning to affect hospitals' performance. Consequently, hospitals are realizing that they must play a larger role in the development and stabilization of physician practices. They are often the default organization in a community responsible for maintaining access to physicians, for both the community's benefit and their own facility's utilization. Many hospitals recognize that they cannot leave this evolution of physician practices to normal market forces. Several hospitals that have not recognized this problem now experience physician access problems. This is occurring not only in Primary Care, but several key specialties such as Neurosurgery. Conversely, hospitals that have understood this problem have continued to invest in building physician support programs. These hospitals are now seeing the benefits of their long and difficult investments with stable physician communities.

How Hospitals are responding

Hospitals are finding that they must understand and respond to these changes that are affecting their physicians if they are to retain a vibrant

medical staff admitting to their hospital. We cover this topic in more detail in a separate paper. To view this article link to our web site at http://www.walterkopp.com/

Physicians moving away from managed care

Recent reductions in the numbers of physicians willing to accept managed care, combined with reductions in the employees with managed care policies, have created a growing population of patients who must pay a higher portion of their medical costs. Physicians are changing their practices to take advantage of this change. Physicians are experiencing various levels of success at these changes, depending on their initial practice status, their strategy for change, and their relative effectiveness in implementing their planned changes. There are specific evaluation criteria that must be considered when making this move. A series of techniques have worked in making this move successfully.

The evolving "Spectrum of Change" for physicians

Many physicians are moving slowly through the following "Spectrum of Changes".

- Initiating group visits for HMO patients
- Closing or limiting their practices to new, or to any, HMO patients
- Encouraging their patients to join PPOs
- Eliminating their capitated IPAs to force patients to choose PPO products
- Closing or limiting their practices to new PPO patients only
- Closing their practices to PPO contracts and accepting only fee-for-service payments directly from patients.
- Forcing patients to pay at the door and requiring patients to deal with their insurance companies
- Charging additional fees for services like email
- Limiting the number of Medicare patients
- Not accepting assignment for Medicare
- Offering special access for patients who pay a monthly access fee or limiting their practices to only those patients who pay a monthly access fee.

- Leaving their practice to work for Kaiser Permanente Medical Group or a Medical Foundation
- Leaving the active practice of medicine or leaving the area

While few physicians can move their practices to the access fee model, a growing number of physicians are experimenting with ways to gently move their practices out of Managed Care and develop new kinds of relationships and expectations with their patients.

Factors influencing physicians' willingness to limit their practices

External factors

- Level of competition among physicians in their local market
- The affluence of the market that they serve
- Few increases in revenue in the past several years.
- Increasing expectations of patients
- Growth of defined contribution, high deductible and high co-pay policies in the market

Internal factors

- Increasing costs of operating a medical office
- Hassle factor of HMO patients and their medical group's ability to help with this
- The size and sophistication of their medical group and their ability to negotiate or deal with HMO requirements or medical management.
- Capacity of a group to analyze their practice and make changes
- The stress on physicians and their staff to meet these expectations.
- The willingness of physicians to change
- Physicians' view of the type of practice they want. Concierge medicine may mean some lack of esteem among colleagues.

Factors influencing physicians' success in limiting their practices

- Popularity of physician
- Ability of the practice to provide a retail service experience attractive to patients
- Length of current time to get an appointment
- Long term relationship with patient
- Affluence of community
- Existence of a strong trusting relationship between patient and physician
- Physician gender. Female physicians have an advantage because of the demand for their services
- Competition in the market for high paying patients
- Percentage of patients with individual vs. group insurance plans that allow them to change insurers, if necessary, to remain with their doctors. The vast majority of Medicare patients have individual insurance plans, which makes it one of the first groups to address.
- Percentage of patients enrolled in group plans that allow patients to go "out-of-network"
- The out-of-pocket cost to such patients of going out-of-network
- The skill and care with which the practice explains and introduces the change in policy
- Assistance the practice provides patients finding insurance arrangements that allow patients to remain with the practice, such as Medigap (as mentioned above) or high deductible indemnity plans, with or without MSA accounts for patients under age 65

Physicians are evaluating how far and how quickly they want to move down this path. By evaluating their practice and their market carefully and correctly, they can decide how best to re-position themselves.

Increased financial performance for physicians

Many physicians have reported significant financial benefit and decreased hassles from adopting these new methods and moving away from HMO contracts. A very small number of Physicians are finding new revenue sources by charging patients access fees.

Physicians are increasingly refusing to provide free assistance to patients in dealing with their insurance companies. Many physicians are requiring patients to do the leg work for obtaining and signing forms, particularly prescriptions when over the counter alternatives are available.

By gradually moving their practice down this path of change physicians are increasing what they charge each patient. Physicians need to understand the cash flow effect of making some of these changes. Moving from a capitated contract to a fee for service contract will dramatically reduce cash flow in the short term but can increase income over time. Physicians leaving private practice and going to a salaried position will experience the opposite effect. They will continue to collect their outstanding Accounts Receivable while they are also receiving a paycheck for a limited time.

Physicians need to make sure that the PPO contracts are better than the current capitated contracts they are leaving. Many PPO contracts have not been renegotiated for many years and in some cases the rates are very low. Physicians need to analyze their practice patterns first and understand where they make money and where they don't. For an efficient, capitated practice, physicians can make up to 150% of RBRVS, while payments under some PPOs are typically 60-70% of RBRVS equivalents.

In some cases physicians are finding that jumping too fast down this path can have serious ramifications. Physicians have reported the loss of significant portions of their patients when dropping out of capitated programs. If other physicians are available, some long-term patients will look for a new physician, rather than switch from an HMO.

Some physicians have found that they must operate more like a retail operation. If they are going to charge more, patients are going to demand better service and better access to the physicians. After years of frustration with HMOs, physicians must offer a consumer friendly service that is courteous and focuses on the needs of the consumer. Some physician offices are having some difficulty adjusting to this.

How medical groups are dealing with these changes

Many Medical groups are having a difficult time adjusting to these changes. Some groups are helping their physicians to deal with capitation, but not offering PPO contracting assistance to keep physicians focused on their HMO products.

Other groups are losing physicians and in some cases their patients when the physicians leave the capitated Medical Group and push their patients to PPO products.

Some groups are actively negotiating PPO contracts to help physicians to reposition themselves. In some cases these medical groups are having a difficult time positioning the group for PPO contracting in a legal and effective manner. Some integrated groups are starting "Boutique" clinics.

We are also seeing some Medical Societies encouraging their physicians to leave IPAs to join Society sponsored super-messenger models that negotiate contracts at a higher rate with no medical management. This is resulting in higher revenue for physicians and significantly higher costs for health plans because of increased rates and less utilization management.

One Medical group closed their IPA to all capitated patients without planning or warning their patients in an attempt to force patients to move to PPOs. Several physicians lost patients to other capitated physicians in a competing IPA when the patients were block transferred. The Department of Managed Healthcare in California has a policy not to allow block transfers back to medical groups that negotiate contracts after the termination date.

How are health plans dealing with these changes

There are product changes that Health Plans are making, but they have not been able to assist physicians because they do not have enough of any one physician's patient base to benefit from their investment. Some plans that over relied upon capitation are struggling to adapt to the new market and are not certain how to relate to changing consumers and employer demands, while others are adapting well.

Many Plans responding to frustration from employers about high premium costs are rapidly changing their products to offer high deductible/ high copay plans to help lower demand and employer costs.

Many plans are converting their current members to higher deductible products to help control costs and increase patient payment so they can compete with Defined Contribution Products. These products that allow an employer to pay a flat fee per month for employees could undermine traditional insurance products if they get a foothold.

Some plans are contracting with Medical groups to provide local medical management services to their PPO patients. This gives the health plans the benefit of the local Medical Management within the PPO products. Several Health Plans are beginning to compare providers based on Quality indicators as compared to costs and are paying providers based on their Quality Scores. Pay for Performance sponsored by IHA is one of these programs.

Implications for the industry

To analyze these issues, MMS has been monitoring these changes in several key Northern California markets. We have estimated the number of physicians who have made these changes by county in the San Francisco Bay Area. We have also tracked the number of physicians who maintain open practices in the health plans. We have continued to see a drop in the

number of physicians with open practices in several key communities. It appears that the last areas to adopt Managed Care are the first to leave. Monterey, Shasta, Napa and other rural communities dropped out of Managed Care over the past few years. Marin, Sonoma and San Mateo counties have experienced large drops in HMO enrollment and physicians who are willing to accept these contracts. Please contact us if you would like to know more about this research.

We have helped physicians and hospitals to quantify the relative ability of interested physicians to successfully reposition themselves. By analyzing several characteristics of physicians and their markets we have been able to assist physicians to correctly identify where they belong on this spectrum and make sure that they move in the best manner to minimize patient loss and maximize compensation.

- Physicians need support to improve their office operations and billing
- Hospitals can play a role in supporting physicians in the management of their practices
- Hospitals need to engage in active succession planning for their medical staffs
- Physicians need to reevaluate where they are in this spectrum if they are to optimize their financial position.
- These trends have continued over the past few years and are driving the transition to consumer driven healthcare and national healthcare reform

Conclusion

Market changes are forcing physicians to decide between joining organized groups or moving to a more upscale, consumer-driven, service-oriented retail model. Hospitals need to understand the rapid changes that are occurring with physicians in their market, and position their hospitals to deal with these changes. Physicians need assistance in repositioning their practices and appreciate when their hospital partners are aware of these issues and are willing to assist them.

If the current trends continue, this could result in a divided medical community with employed physicians working for groups and other physicians serving the needs of a limited consumer-focused system. Hospitals with effective strategies in both of these markets will find that they can serve a broader segment of the market.

Once consumers are playing a larger role in the healthcare financial decision-making, it is not clear what services they will actually choose. Patients have a difficult time understanding value in healthcare. With discretionary healthcare funds patients may choose ineffective forms of care and then not have the funds necessary for care when it is needed. Physicians and hospitals need to better understand the new retail model to compete. These choices will make significant changes in how care is delivered and in the physician/ patient relationship.

Walter Kopp is the President of Medical Management Services and a member of Clinical Integration Associates a consulting group that assists hospitals and physicians to deal with the rapid changes occurring in the market. MMS has worked with many healthcare systems and medical groups to help them evaluate their opportunities and determine the best way to proceed given the characteristics of their practice and their market. To learn more about our work please check out our web site at www.walterkopp.com.