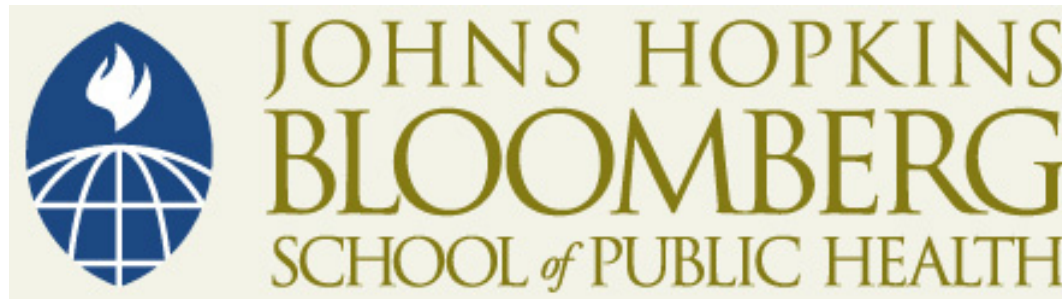


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Session 2

HMOs and Organized Delivery Systems

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The Health Insurance Models

- **Traditional (Fee-for-Service) Indemnity**
- **“Managed” Indemnity Plan**
- **Preferred Provider Organization (PPO)**
- **Health Maintenance Organization (HMO)**

The Approximate Market Share of Managed Care Plans in 2007

- About 85% of insured Americans are in some type of managed care plan
- About 35% are in HMOs or Point of Service (POS) plans
- About 45% are in PPOs
- About 5% are in managed indemnity plans & other non-HMO, Managed Care Organizations (MCOs)

(Note: See “Fact Sheet” in handout packet)

Market Share - *continued*

- **The 15 % non-managed care cohort is heavily comprised of Medicare patients.**
- **About 65% of Medicaid recipients are in managed care**
- **About 15% of Medicare recipients are in HMOs**

A Taxonomy for Determining the Type of Health Insurance Plan

| <u>Dimension</u> | <u>Type of Plan</u> | | | | | |
|---|---------------------|-----|-----|-----|-----|-----|
| | FFS | MIP | PPO | EPO | POS | HMO |
| Financial Risk for Payer | -/+ | -/+ | -/+ | -/+ | - | - |
| Financial Risk for Intermediary | +/- | +/- | +/- | +/- | + | + |
| Financial Risk for Physicians | - | - | - | - | + | + |
| Restriction on Consumer's Selection of Provider | - | - | +/- | + | +/- | + |

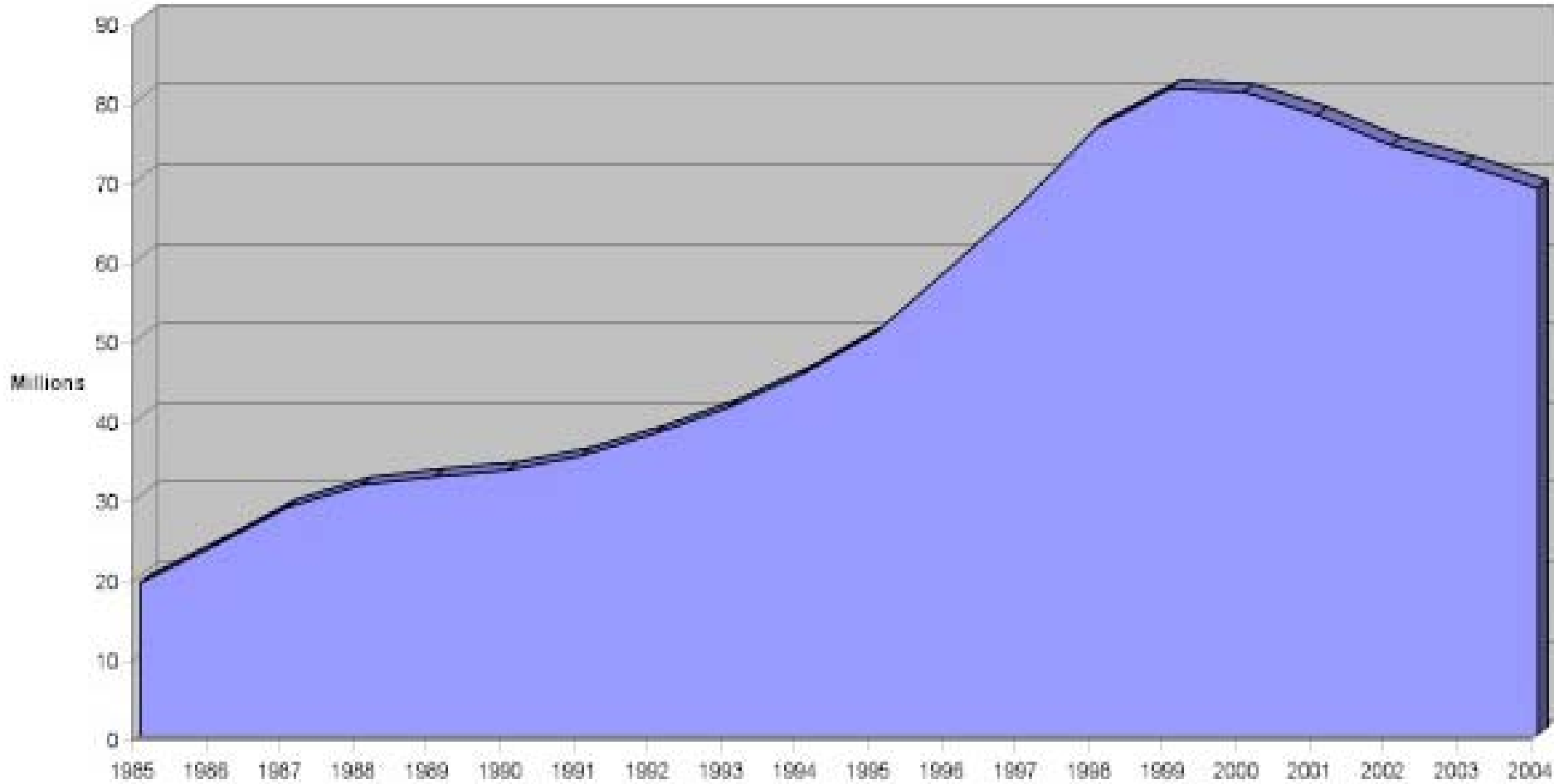
Taxonomy - *continued*

| <u>Dimension</u> | <u>Type of Plan</u> | | | | | |
|---|---------------------|-----|-----|-----|-----|-----|
| | FFS | MIP | PPO | EPO | POS | HMO |
| Significant Utilization Controls Placed on Provider's Practice | - | + | + | + | + | + |
| Plan Obligated to Arrange for Care Provision | - | - | +/- | + | + | + |

History of HMOs: Fact is Stranger than Fiction

- **Early HMOs were sponsored by labor movement**
- **Liberals/Conservatives supported “Pre-paid Group Practices” (PGPs)**
- **To compete with PGPs medical society formed “IPAs”**
- **1972 “HMO Act” (Where term was coined)**
- **Provided model for today’s corporate MCOs**

National HMO Enrollment : 1985-2004



Source: 2005 MCOL compiled from Interstudy and Aventis



The HMO Variants

Individual Practice Association (IPA) / Network Model HMOs

Health insurance plans that contract with existing group and solo private practitioners to care for patients either on a capitated or risk-sharing FFS basis. Participating IPA physicians usually contract with more than one managed care plan.

HMO Variants - continued

Staff/Group Model HMOs –

Staff model HMO physicians are hired either directly by the HMO or by a separate physician group formed exclusively to serve that HMO's patients.

In a group model plan, a large existing multi-specialty practice forms an exclusive relationship with one HMO. This practice continues to see FFS patients as well.

Doctors in staff/group model HMOs are paid mainly on a salary basis, with financial incentives.

Point-of-Service (HMO Plans) –

A type of plan where the enrollee can decide at the “point-of-service” whether they want to stay within the HMO network or get services covered at less generous levels from providers “outside” the network.

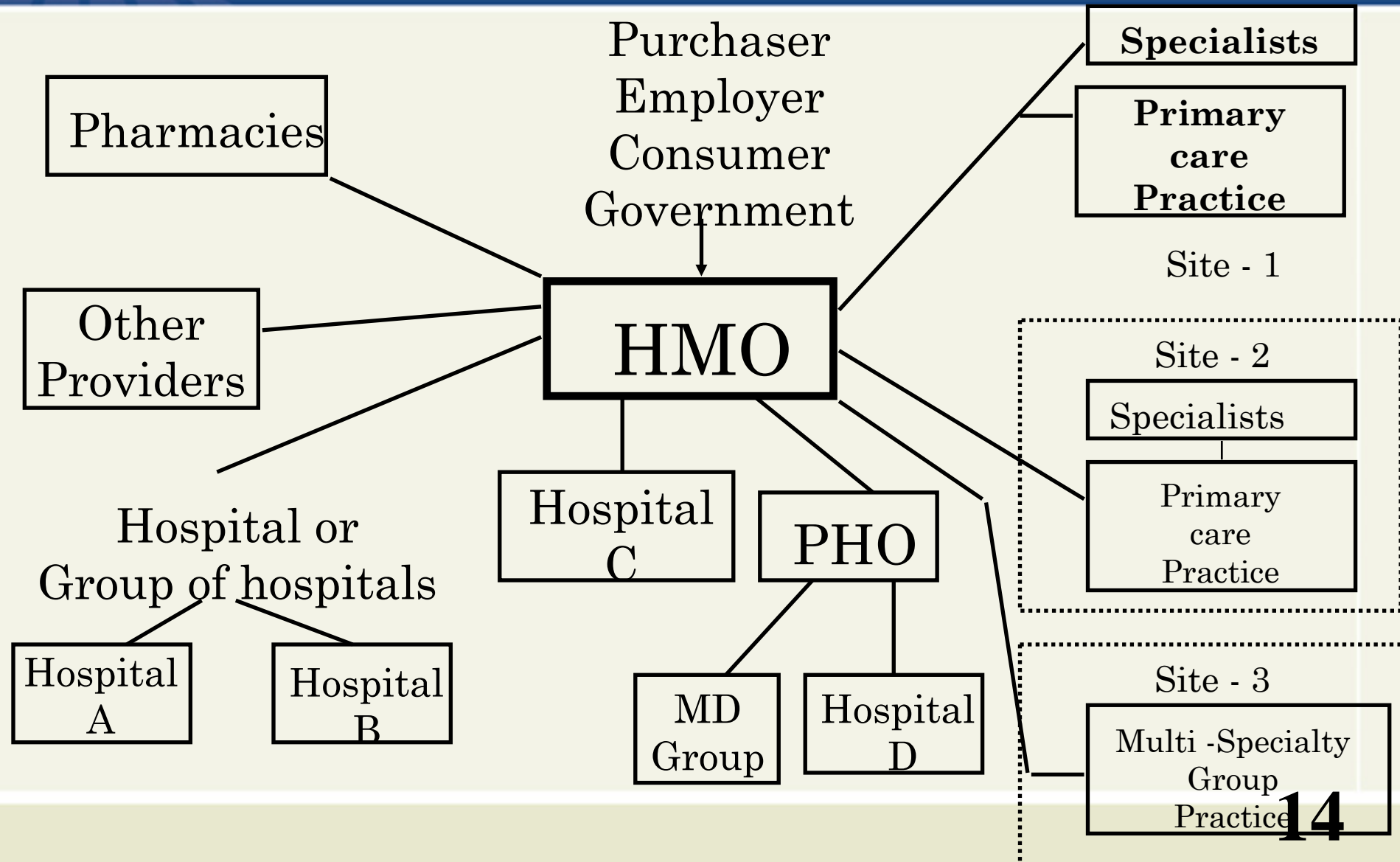
In an “open-ended HMO” enrollees choose between their HMO physician and any outside provider.

Things are Getting More Confusing

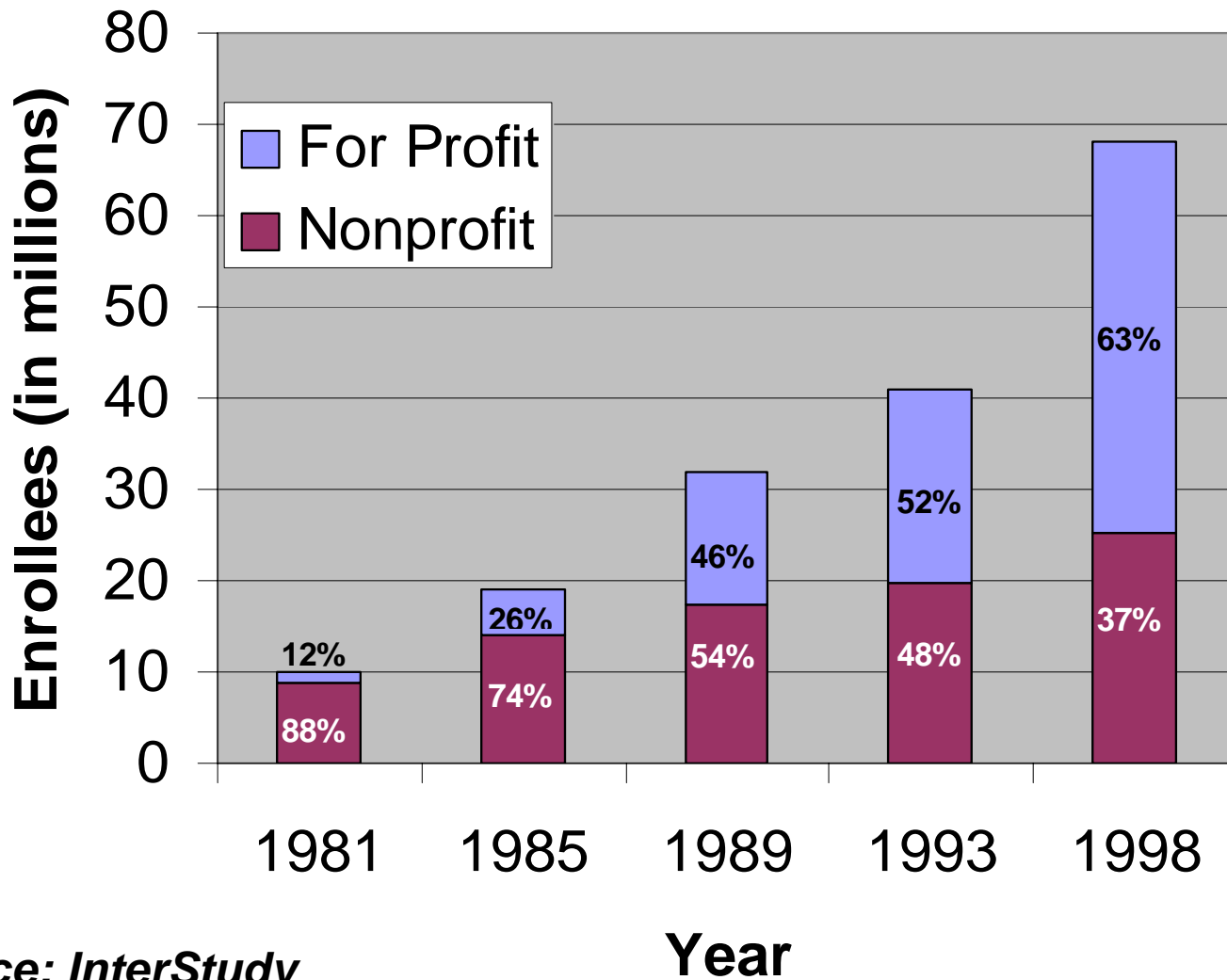
Risk bearing non-HMO MCOs are increasing. Most are “direct contracts” Medicaid or self-insured employers with “integrated delivery systems” – IDSs (aka physician hospital organizations).

Most Consumer Defined Health Plans are within PPOs, but some are within HMOs as well (more on CDHPs later).

The Prototypical HMO Network



HMOs used to be mainly non-profit



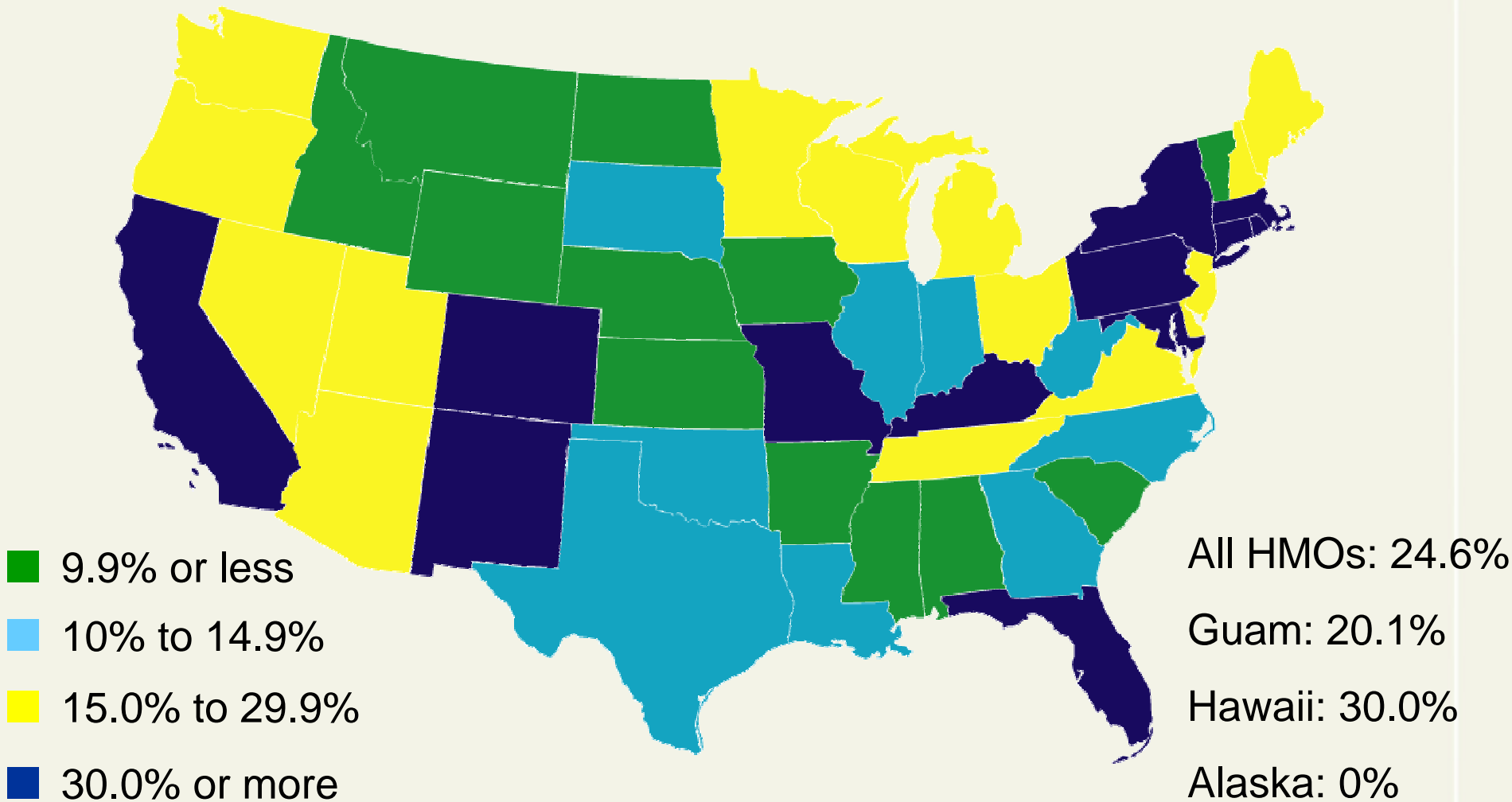
Source: InterStudy

Estimated HMO Characteristics 2005

| | <u># Plans</u> | <u>Enrollees (in millions)</u> |
|---|----------------|--------------------------------|
| IPA | 255 | 38 |
| Network | 153 | 22 |
| Group | 35 | 16 |
| Staff | 13 | 2 |
| Total –HMO | 456 | 78M |
| % POS Option | | 17% |
| % Not for Profit | | 40% |
| Enrollment in HMO – like Medicaid “MCOs” | | 9.0 M |

Source: Aventis 2006, Interstudy 2004 (All figures are approximate)

HMO Enrollment Varies By State



The Seven Largest HMO Chains, By Enrollment -2005

| | 2004 Total Enrollment | 2005 Total Enrollment | Enrollment Change (2004–2005) | % Total Enrollment (76,720,549) |
|---|------------------------------|------------------------------|--------------------------------------|--|
| Blue Cross/Blue Shield Association | 20,558,888 | 19,942,966 | –3% | 26.0% |
| Kaiser Foundation Health Plans | 8,472,994 | 8,429,343 | –1% | 11.0% |
| UnitedHealthcare* | 6,488,368 | 9,940,016 | +53% | 13.0% |
| Aetna Inc. | 4,058,462 | 3,951,802 | –3% | 5.2% |
| Health Net | 3,397,476 | 3,019,132 | –11% | 3.9% |
| CIGNA Healthcare | 2,854,082 | 2,504,041 | –12% | 3.3% |
| Coventry Healthcare Corporation | 2,395,728 | 2,291,269 | –4% | 3.0% |
| TOTAL | 48,225,998 | 50,078,569 | +3.8% | 65.3% |

(Source Aventis 2006)

Comparison of Care Characteristics: HMO vs. non-HMO

| | <u>HMO</u> | <u>non-HMO</u> |
|--------------------------------------|------------|----------------|
| Hospital Days | | +6% |
| MD Visits | +9% | |
| Specialists Visits | | +20% |
| Mammography | +10% | |
| Proportion very satisfied overall | | +9% |

Source: National Survey by Center for HS Change - 2000