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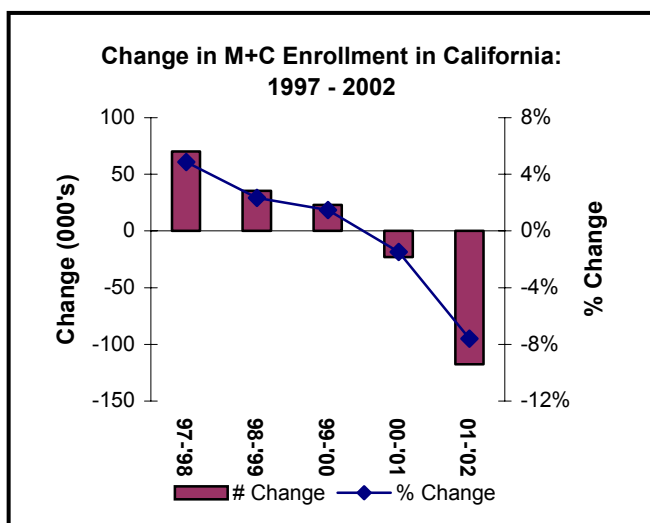
Spring 2003

## Prospects for Medicare Managed Care

The Centers for Medicare and Medicaid Services has had a long-standing interest in Medicare HMOs as a way to control and limit federal expenditures. California, however, is demonstrating that local market dynamics drive enrollment. The economic terms and incentives for health plans and physicians are having greater impact on enrollment than consumer preferences or federal prodding.

### Enrollment Trends

Following years of steady increases, enrollment in Medicare+Choice plans in California began declining in 2001 with even greater decreases experienced in 2002. The decline occurred as a result of both health plans and providers exiting participation.



Source: C & S HMO Surveys; Centers for Medicare & Medicaid Services (CMS)

Only one HMO with statewide coverage, Kaiser, was able to increase Medicare enrollment in each of the last two years:

- Kaiser Foundation Health Plan achieved 5% growth in both 2001 and 2002 and is the only statewide plan to grow every year since 1997. In 2003, Kaiser is offering its Medicare product in 30 of the 33 counties that offer at least one Medicare HMO plan.
- Blue Shield and Blue Cross each had increased enrollment in only one of the last two years.

- PacifiCare, HealthNet and Aetna US Healthcare all lost enrollment in both 2001 and 2002.

Changes in enrollment over the last two years reflect significant moves by some of the major health plans to limit the market areas where they offer coverage. In 2001, 54,000 Californians were forced to seek other insurance arrangements when their health plan withdrew coverage in their county. The number of individuals in California affected by withdrawals grew to 84,000 in 2002.

### Geographic Coverage

The trend in geographic coverage of Medicare+Choice plans in California is toward urban areas; also fewer counties have multiple plans available. Twenty-five of California's fifty-eight counties have no Medicare+Choice plan available and thirteen have only one plan offered.

The majority of California Medicare beneficiaries live in a county with more than one Medicare+Choice plan available. Sixty-five percent of the Medicare-eligible population lives in ten counties with four or more plans offered.

# OF PLANS PER COUNTY	# OF COUNTIES	% OF MEDICARE ELIGIBLES
0	25	7%
1	13	9%
2	5	7%
3	5	12%
4+	10	65%

Source: CMS Statistics of eligibles as of 12/02; plans per county from CMS as of Sept. 2002 to be effective 1/03.

The threatened plan withdrawals for 2002 in San Mateo County added a nuance to the uncertainties of geographic coverage. Although later rescinded, HealthNet and PacifiCare announced in late 2001 that their coverage of San Mateo County would change in 2002 at the zip code level. If these plans had proceeded, only three zip codes in the county would have been covered by both plans. During a hearing of the California Senate Insurance Committee, a representative of PacifiCare testified that the plan would be withdrawing coverage from those zip codes where PacifiCare was unable to reach contract agreements with the local IPA.

In 2003, the withdrawal activity has decreased substantially. Less than 28,000 Medicare beneficiaries in California were affected by the changes – of which 40% were the result of the closure of Health Plan of the Redwoods.

Of the thirteen California counties with only one Medicare+Choice plan available, eleven are served by Kaiser Foundation Health Plan.

Health plans now appear to make decisions about geographic coverage based on the availability of contracting medical groups and hospitals in each local area.

### Medicare Payment Rates and Premiums

The disparity in rates (adjusted average per capita cost or AAPCC) across the state derives from the CMS formulae, which is based upon historical costs of care, a factor driven both by provider costs and utilization. The wide disparity has been given as justification by many providers for existing participation in low premium markets. Justification for continuing the rate differentials is not readily apparent.

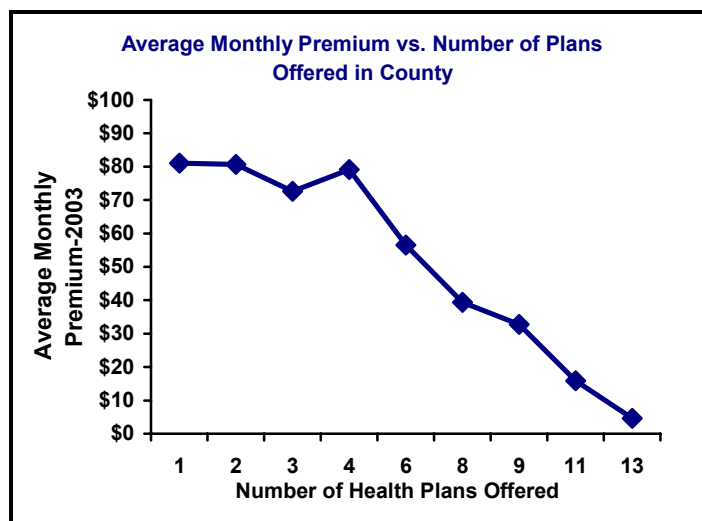
	<u>MONTHLY PAYMENT</u>			
		<u>HIGH</u>		<u>LOW</u>
<b>NO. CALIF</b>	Contra Costa	\$661	San Mateo	\$553
	Alameda	\$649	Santa Clara	\$571
<b>SO. CALIF</b>	Los Angeles	\$694	Imperial	\$503
	Orange	\$640	Santa Barbara	\$553

Source: CMS

Not surprisingly, ten plans are offered in Los Angeles County where the payment rates are the highest in California.

The differences in rates often make a significant difference in physicians' capitation revenue. For example, a primary care physician with 120 Medicare+Choice patients in Los Angeles County would expect to earn \$25,000 *more* than the primary care physician with the same number of Medicare+Choice patients in San Mateo County or Santa Barbara County.

In many CMS markets, payment rates are supplemented by monthly premiums. The premium levels appear related more to the market competition among plans than to the cost in local economies. There are no zero premium plans or low premium plans in counties with only a single plan available.



Source: California HealthCare Foundation; average monthly premium not weighted by plan membership in county

Health Plan premium amounts vary depending on the level of competition.

<b>EXAMPLES OF PREMIUM VARIATIONS: 2003</b>		
	<u>SINGLE PLAN COUNTY</u>	<u>MULTI-PLAN COUNTY</u>
KAISER	\$80 (El Dorado)	\$35 (Los Angeles)
PACIFICARE	\$75 (San Luis Obispo)	\$0 (Los Angeles)

Source: California HealthCare Foundation

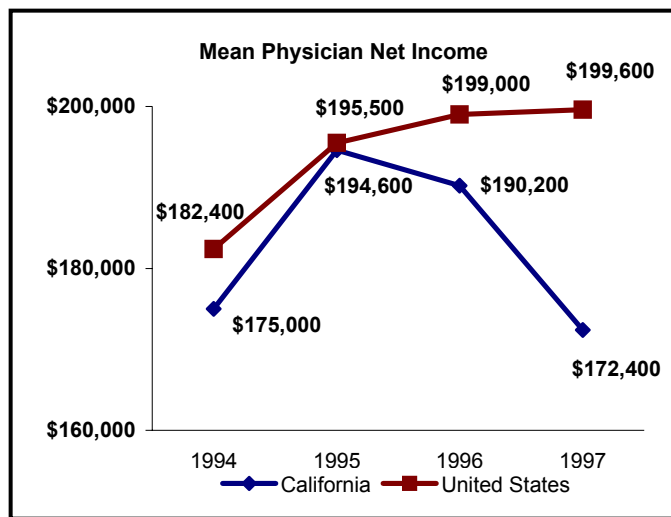
### Impact on Physician Supply and Demand

The supply and demand of physicians in California has likely impacted the prevalence of managed care; it also appears to be the driver of the success of managed care in the past.

- According to a report of the Kaiser Family Foundation, California's physician per 100,000 population ratio was 22% above national averages in 1975. By 1997 the California ratio was virtually the same as the national average.
- The majority of physicians surveyed by CMA have found medical practice to be less satisfying in the last five years and report low reimbursement and managed care hassles as the greatest sources of dissatisfaction.
- The same CMA survey also reports that three in five physicians report difficulty recruiting new physicians to their practice.

There are predictions that California is moving toward a lower per capita ratio of physicians to population due to the pressure on income and frustration from managed care.

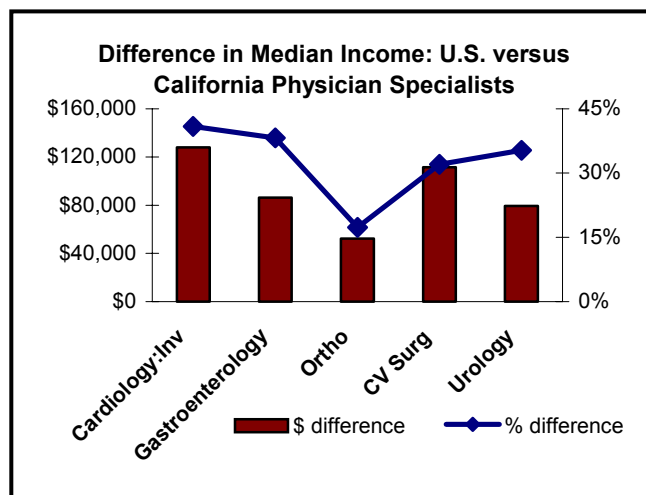
In the mid-1990s, the disparity in physician incomes between California and the rest of the country began to increase.



Source: Kaiser Family Foundation: Health Care Trends and Indicators in California and the United States. June 2000.

A Kaiser Family Foundation study reported that California primary care physicians' mean income of \$140,500 was about \$20,000 less than primary care physicians nationwide in 1997. Medical groups' and IPAs' efforts to increase support for primary care physicians may be succeeding. The Medical Group Management Association reports little difference between California primary care and national averages in 2002.

Specialists in California continue to lag significantly behind their cohorts in other states.



Source: MGMA

With these disparities, it is not surprising that it is difficult to recruit physicians to California, nor is it surprising that established physicians are rejecting managed care. According to a recent survey by UCSF, only 58% of California doctors are accepting new HMO patients.

Ironically, large group practices are more successful in recruiting physicians despite their frequent reliance on managed care. The San Francisco Chronicle recently reported that Kaiser Permanente in Northern California recruited 575 physicians in 2002. Large groups have recruitment advantages, including stable, guaranteed incomes, assistance in the business aspects of practice and worklife quality advantages. Advantages include the ability to afford the technology and expertise required to effectively manage the risks of capitation as well as the infrastructure to implement managed care.

### Concluding Observations

- The dynamics of physician supply, compensation and payment rates impact the availability of Medicare HMOs and enrollment. These local factors result in large variations across the state.
- Meaningful changes in Medicare are unlikely before 2005 given the war, economy and political campaigns in 2004.
- Enrollment in 2003 will be an important indicator for the future of Medicare HMOs for California. Look for the summer edition of our newsletter for a report on the 2003 HMO enrollment survey.

To learn more about Cattaneo & Stroud, Inc., visit our web site:

[www.cattaneostroud.com](http://www.cattaneostroud.com)

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