

# Cattaneo & Stroud, Inc.

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## HMOs: Turmoil Across the State

Managed care, to many synonymous with health care in California, is experiencing a radical transformation. For the first time in the six-year history of the Cattaneo & Stroud, Inc. HMO Survey, total enrollment in HMOs fell from the preceding year, despite population growth. In January, 2002, 84,000 seniors were affected when their Medicare HMO plans exited their area. Since completion of the 2002 survey, Health Plan of the Redwoods has filed for Chapter 11 Bankruptcy Protection, Lifeguard has been acquired by Blue Shield, National Health Plan has closed, Inter Valley Health Plan has exited the commercial line of business and CalPers has announced broad changes to their HMO coverage options.

### KEY FINDINGS OF THE 2002 CATTANEO & STROUD HMO SURVEY

- For the first time in the six-year history of the HMO survey, statewide enrollment levels fell from the previous year's figure.
- Commercial and Medicare plans experienced a combined enrollment loss of 5% from 2001 to 2002.
- Enrollment in Medi-Cal and Healthy Family plans increased a combined 14% over the past year.
- More than one-half of Californians continue to be enrolled in HMO plans.
- HMO enrollment is becoming more concentrated within the largest health plans as the HMO consolidation trend continues.

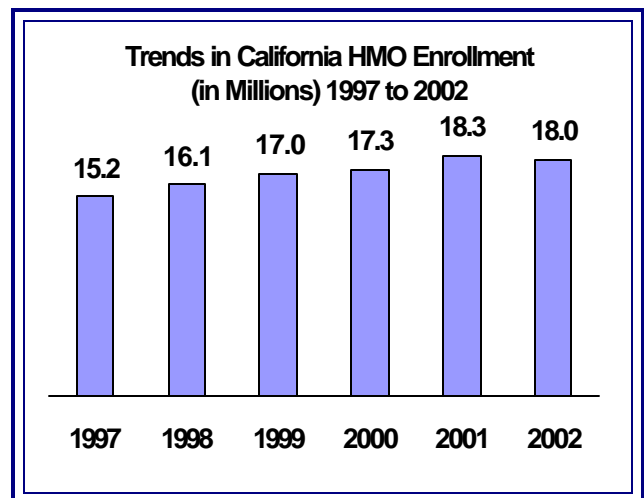
### THE CATTANEO & STROUD SURVEY

For the last six years, Cattaneo & Stroud, Inc. has surveyed HMOs active in California and analyzed enrollment by county and line of business (commercial, Medicare, Healthy Families, and Medi-Cal). Active plans include HMOs with a Knox-Keene license, Department of Health Services Medi-Cal plans, and CMS Medicare plans. Forty-six plans were included in this year's survey, using enrollment data from March 2002.

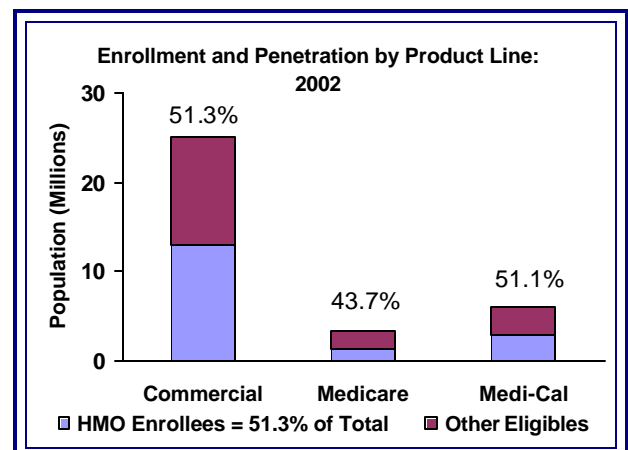
The C & S survey is the only known source of data on *county-specific* enrollment in California for all types of prepaid commercial, Healthy Families, Medi-Cal, and Medicare plans. Although HMOs in California are required to report enrollment to state regulators, they do not have to detail enrollment by county.

### SURVEY FINDINGS

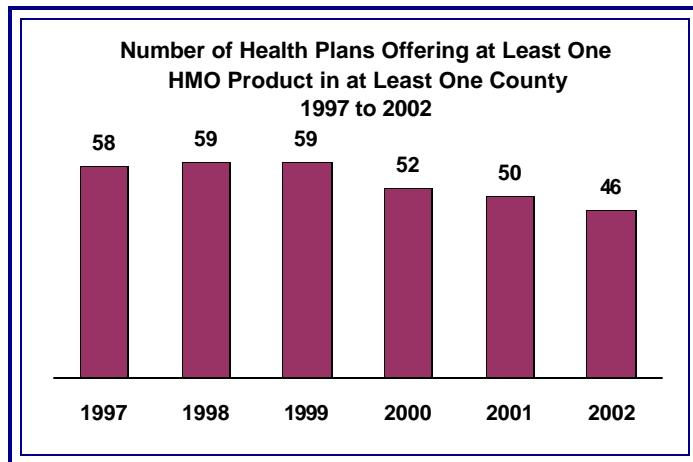
- Californians' enrollment in HMOs declined to 18.0 million residents in the Year 2002.



- More than one-half of Californians are enrolled in HMOs.



☐ **Reductions in the number of health plans offering coverage in the State continue.**



– Between March 2001 and March 2002, four health plans consolidated or closed (Maxicare, Prudential Health Care, San Diego Naval Base/TRICARE, and Tower Health Services). These plans had a combined membership of 397,382 in 2001.

☐ **This year's survey finds a decrease in the number of commercial enrollees over the past year reflecting widespread enrollment losses across the state.**

– Sixteen of the twenty-six plans offering commercial coverage experienced decreased enrollment levels over the past year and ten had enrollment increases. Overall commercial enrollment fell by 4.7%.

– Eighty percent of the fifty-eight counties experienced decreased enrollment in the commercial product segment.

– Across the five largest commercial plans, only Kaiser and Blue Shield had enrollment increases, while PacifiCare, Health Net and Blue Cross had combined losses of 274,613 members.

– Five fewer plans offered commercial coverage in March, 2002 as compared to March, 2001.

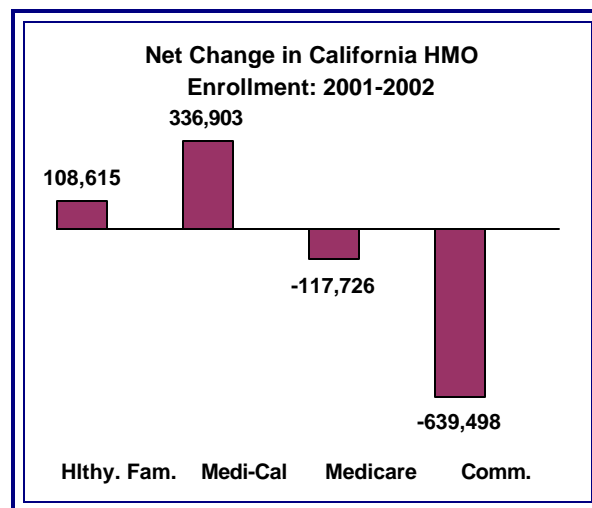
☐ **Membership losses were experienced in the Medicare segment reflecting changing strategies of HMOs.**

– The number of health plans offering a Medicare product decreased from twenty to sixteen between 2001 and 2002.

– Medicare HMO coverage is now offered in thirty-four counties; twelve of which provide only one Medicare HMO plan option.

– Four large health plans (PacifiCare, Health Net, Blue Shield and Aetna) experienced combined losses of 152,531 Medicare members.

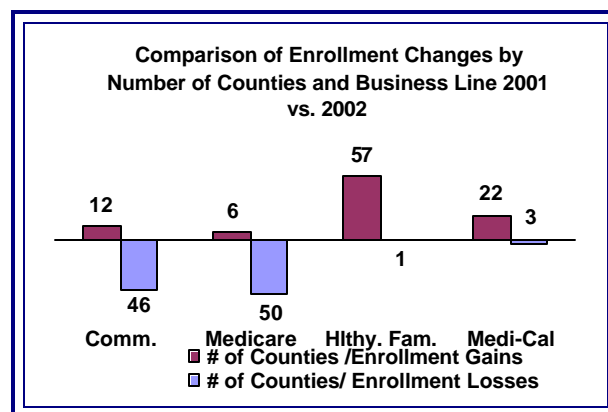
– While overall Medicare enrollment levels decreased 7.6%, Kaiser experienced an increase of 29,811 members and now has a 44% market share of Medicare eligibles statewide.



☐ **Growth in the Medi-Cal and Healthy Families programs has been relatively consistent across the state.**

– The Medi-Cal managed care program experienced enrollment growth in twenty-two counties and was served by thirty-three plans.

– The Healthy Families Program, served by twenty-four health plans statewide, enrolled 108,615 additional children over the past year.

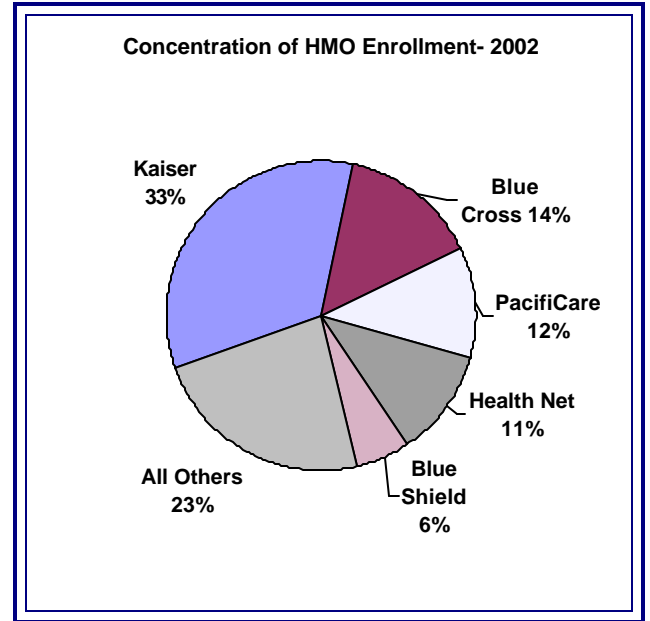


- Each of the nine counties with the largest HMO enrollment levels have lower HMO penetration than the past year.

**HMO MARKET PENETRATION: NINE COUNTIES WITH LARGEST HMO ENROLLMENT LEVELS (HMO ENROLLMENT AS % OF POPULATION)**

	<u>2001</u>	<u>2002</u>
Sacramento	72%	71%
Contra Costa	67%	64%
Santa Clara	61%	55%
Alameda	66%	62%
San Bernardino	59%	58%
Riverside	56%	54%
San Diego	55%	53%
Orange	56%	53%
Los Angeles	54%	53%

- The nine counties with the largest HMO enrollment experienced a combined loss of 154,003 members between 2001 and 2002. These counties account for 70% of the State's population and 76% of statewide HMO enrollment.
- Membership losses were greater in the remaining forty-nine counties. These counties account for 30% of the State's population and experienced a combined HMO enrollment loss of 161,228 members (51% of statewide membership losses).
- HMO enrollment remains highly concentrated in five health plans.**
  - Overall, five plans account for 77% of California's HMO enrollment: Kaiser, Blue Cross/CaliforniaCare, PacifiCare/FHP, Health Net/Foundation, and Blue Shield/Care America.
  - Since 1997, the percent of health plan lives held by the top five plans has increased from 73% to 77%.
  - Of the five top HMO plans in 2002, only Kaiser and Blue Cross experienced enrollment growth between 2001 and 2002, with a combined enrollment growth of 248,014 members.
  - PacifiCare, Health Net and Blue Shield had combined enrollment losses of 269,421 over the past year.



**OBSERVATIONS AND DISCUSSION**

The C & S HMO Survey can be used for a variety of planning, marketing, and managed care contracting processes. It provides a wide range of detailed and specific information that is fundamental to each sector of the health care industry.

The survey also raises some interesting questions about the future of managed care.

- Does the loss of enrollment in the commercial product segment reflect changing interests on the part of health plans, health care providers, employers, or consumers?
- What impact might disruption in Medicare and commercial HMO plan options have upon consumers' interest in remaining in or re-joining HMOs in the future?
- Will the federal government act to provide additional funding for Medicare HMOs to achieve the stated policy direction of enrolling seniors in prepaid health plans?
- Does the flight from HMOs imply increased use of physicians and hospitals?
- Is the aging and shrinking supply of physicians in select California markets hindering the ability of health plans to attract provider panels at prices they can afford?

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Cattaneo & Stroud, Inc. wishes to thank the California Healthcare Foundation for funding the Year 2002 HMO survey, for providing technical guidance in developing new reports, and for assisting in the addition of the Healthy Families product line. We also wish to acknowledge the assistance provided by California HMOs, California Department of Health Services, California Association of Health Plans, and the Major Risk Medical Insurance Board. Please visit our website for further information regarding the Cattaneo & Stroud, Inc. Year 2002 HMO Survey.

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

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