

Payments to providers part II: another look at carrier discounts

Parousia

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Introduction & Background

In early 2010, the New Hampshire Insurance Department (NHID) performed an analysis of the health care provider discounts from charges obtained by health insurance companies, in order to assess the competitiveness of carriers operating in the state. This analysis is an update of that study. The original study can be found here: (http://www.nh.gov/insurance/reports/documents/pay_prov.pdf). Since this is an update to a prior study, the methodology and discussion sections are moved later in the report, beginning on page 11.

The NHID concluded that based on 2009 data, New Hampshire insurance market had a limited amount of competition and Anthem maintained discounts that were either equal to or better than the market segment leader. Carriers discounts were compared within plan types (or product lines), such as HMO, PPO, POS, and indemnity.

Summary Findings

Only three carriers, Anthem-New Hampshire, Harvard Pilgrim Health Care (HPHC), and Cigna/Connecticut General Life Insurance (Cigna/CGLI), have both substantial market share and competitive provider discounts. All remaining carriers will struggle to become significant players in the market unless they can substantially change their provider contracts or find a way to overcome what is often a ten to thirty percent disadvantage in their payment levels for health care services.

Anthem continues to hold the greatest market share and frequently some of the most favorable discounts across health insurance plan types, but the competitive advantage is not as pronounced as it was in the 2010 study. HMO and POS products are still very popular in New Hampshire, and Anthem is at or near the top in these markets. PPO products continue to be popular across New Hampshire, although less so than nationally. For PPO products, Anthem does not have the most favorable contracts, as both Cigna/CGLI and HPHC show deeper average discounts. Very few members are still enrolled in traditional indemnity health insurance products, but Anthem continues to have the most substantial discounts, although to a lesser degree than previously observed.

Company	Carrier Portion of HMO Charges	HMO Discount	Carrier Portion of POS Charges	POS Discount	Carrier Portion of PPO Charges	PPO Discount	Carrier Portion of Indemnity Charges	Indemnity Discount
Aetna	0%	25%	35%	25%	1%	24%	4%	17%
All Other Ins	NA		NA		1%	22%	27%	24%
Anthem - NH	67%	41%	55%	41%	27%	34%	69%	26%
CIGNA/CGLI			4%	27%	37%	37%	NA	
Harvard Pilgrim	31%	42%	4%	41%	23%	36%		
MVP	NA		NA		6%	30%		
NH Health Plan					3%	24%		
Tufts	2%	31%			NA			
United Healthcare			3%	27%	0%	39%		
Average Discount	41%		35%		35%		25%	

On the chart, the distribution of charges is shown as a proxy for market share. In most cases, bolded figures show the largest discounts from provider charges.¹

Anthem-NH

Anthem has the largest market share overall and frequently has the most favorable average discounts. Anthem is within one percentage point of HPHC for HMO services, tied with HPHC for POS services, and has the greatest discount for indemnity products. Anthem's discount trails Cigna/CGLI for PPO services by three percentage points, or about eight percent. This means Anthem will need to pay on average almost five percent more than Cigna/CGLI for health care services provided to PPO members.

HPHC

HPHC has a small advantage over Anthem for HMO plans and is even with Anthem for POS discounts. HPHC will pay about two percent more than Cigna for PPO services, but about three percent less than Anthem.

Cigna/CGLI

Cigna/CGLI has the most favorable discount for PPO products, but is not competitive with Anthem or HPHC for the POS products. With a 27 percent average discount as compared with 41 percent for Anthem/HPHC, Cigna/CGLI will need to pay on average 24 percent more for POS services than Anthem or HPHC.

MVP

While maintaining a relatively small portion of the market for PPO products, MVP will pay six percent more than Anthem and eleven percent more than Cigna for these health care services.

¹ One exception is United Healthcare and the PPO discount. Since United has less than 0.5% of the total PPO provider charges, the discount rate may not be comparable to that shown for other carriers.

Aetna

Aetna has similar provider reimbursement rates regardless of the product line (HMO, POS, PPO, or indemnity products). Despite substantial medical claims in the POS market, Aetna does not have contracts that are competitive with HPHC or Anthem.

United Healthcare

United Healthcare appears to have the deepest discounts of all the major carriers in the PPO market. This may be due to favorable contracts with just a few select providers and an uneven distribution of members across the state. United Healthcare incurred almost \$3 million in charges for PPO, but this may not be enough to accurately compare the discount to other carriers. If the rate represents what United has been able to obtain from providers across the state, then United should be well positioned to expand their membership base. United's average discount is not competitive with Anthem or HPHC for POS products, and is similar to that of Cigna/CGLI and Aetna.

Comparisons to the 2010 NHID Study

The HPHC and Anthem discounts are very similar for HMO products. The earlier analysis showed that with a ten percent difference in the POS discount rate, HPHC was not competitive with Anthem. In the current analysis, HPHC has matched Anthem's POS discount rate. Likewise, HPHC has reversed a competitive disadvantage with Anthem in the PPO market and now has a moderate advantage.

Cigna was formerly tied with Anthem as the class leader for PPO products, and has since improved upon its position relative to Anthem.

MVP's standing relative to the major competitors in the PPO market is now weaker.

In the prior study, Aetna was included under the "all other" insurance category. Now shown separately, both Aetna and the "all other" insurance company category offer discounts for indemnity products that are closer to the Anthem discount, with the "all other" insurance discount fairly close to Anthem's rate.

In Depth Findings

Comparing Aggregate Charges and Payments

Using the New Hampshire Comprehensive Health Care Information System (NHCHIS), the NHID compared provider discounts for all medical care services (exclusive of prescription drug benefit costs) and determined the overall aggregate discount by carrier during the calendar year of 2011.

These discount rates are calculated by summing total charges and total payments (including member liability) and reflect the overall weighted average. Calculating discounts this way best represents the net financial impact to carriers. The rates may be influenced by relatively few contracts with large provider organizations, or contracts with deep discounts for very expensive services. For these reasons, the methodology does not necessarily reflect the most common contract rates. The data are stratified by product line, as reimbursement rates often vary by product line.

There are substantial differences in reimbursement rates by provider type, specifically between hospital and non-hospital providers.

Hospital only average discounts:

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	10%	13%	10%	19%
All Other Insurance	NA	NA	16%	16%
Anthem - NH	39%	39%	28%	14%
CIGNA	NA	16%	34%	
Harvard Pilgrim HC	41%	38%	33%	
MVP	NA		24%	NA
NH Health Plan		NA	23%	
Tufts Insurance Co	26%		NA	
United Healthcare	NA	20%	25%	
Average Discount	40%	29%	31%	14%

Non-hospital provider discounts:

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	44%	40%	37%	14%
All Other Insurance	NA	NA	32%	36%
Anthem - NH	43%	44%	42%	41%
CIGNA	NA	42%	42%	
Harvard Pilgrim	43%	46%	39%	
MVP	NA		38%	NA
NH Health Plan		NA	29%	
Tufts Insurance Co	36%		NA	
United Healthcare	NA	38%	46%	
Average Discount	43%	42%	41%	39%

Key Observations:

- Carriers tend to obtain deeper discounts from non-hospital providers than from hospitals.
- The smallest carriers are least competitive with the major carriers with discounts for hospital services, but in many cases have obtained competitive rates with non-hospital providers.
- The range between the average discounts by carrier and product type is widest for hospital payments, and comparatively narrow among non-hospital providers.

Separating non-hospital provider specialties shows inconsistencies among carriers that are not evident when provider specialties are combined. Below are the top professional specialties (based on total spend) and the corresponding discounts:

Family/General Practice

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	30%	27%	30%	18%
All Other Insurance	NA	NA	28%	29%
Anthem - NH	27%	26%	26%	32%
CIGNA	NA	33%	31%	NA
Harvard Pilgrim	26%	26%	23%	
MVP	NA	NA	23%	
NH Health Plan	NA	NA	29%	
Tufts Insurance Co	19%	NA	NA	
United Healthcare	NA	26%	25%	
Average Discount	26%	27%	27%	30%

General Internal Medicine

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	41%	34%	34%	3%
All Other Insurance	NA	NA	30%	29%
Anthem - NH	37%	36%	37%	38%
CIGNA	NA	42%	39%	NA
Harvard Pilgrim	37%	33%	33%	
MVP	NA	NA	35%	
NH Health Plan	NA	NA	26%	
Tufts Insurance Co	30%	NA	NA	
United Healthcare	NA	32%	31%	
Average Discount	37%	35%	36%	35%

Orthopedic Surgery

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	69%	62%	54%	18%
All Other Insurance	NA	NA	49%	53%
Anthem - NH	62%	63%	61%	60%
CIGNA	NA	60%	61%	NA
Harvard Pilgrim HC	64%	68%	61%	
MVP	NA	NA	55%	
NH Health Plan	NA	NA	38%	
Tufts Insurance Co	59%	NA	NA	
United Healthcare	NA	58%	66%	
Average Discount	63%	63%	59%	58%

Radiology

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	45%	41%	39%	14%
All Other Insurance	NA	NA	22%	34%
Anthem - NH	49%	51%	53%	42%
CIGNA	NA	51%	50%	NA
Harvard Pilgrim HC	47%	46%	44%	
MVP	NA	NA	37%	
NH Health Plan	NA	NA	16%	
Tufts Insurance Co	46%	NA	NA	
United Healthcare	NA	31%	26%	
Average Discount	48%	46%	47%	39%

Obstetric/Gynecology

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	40%	32%	28%	5%
All Other Insurance	NA	NA	33%	32%
Anthem - NH	37%	38%	39%	33%
CIGNA	NA	39%	37%	NA
Harvard Pilgrim	37%	37%	34%	
MVP	NA	NA	34%	
NH Health Plan	NA	NA	29%	
Tufts Insurance Co	35%	NA	NA	
United Healthcare	NA	32%	35%	
Average Discount	37%	35%	36%	32%

Anesthesiology/Pain Management

Company	HMO Discount	POS Discount	PPO Discount	Indemnity Discount
Aetna	41%	40%	39%	4%
All Other Insurance	NA	NA	26%	37%
Anthem - NH	42%	44%	44%	43%
CIGNA	NA	35%	36%	
Harvard Pilgrim HC	45%	44%	43%	
MVP			32%	
NH Health Plan	NA	NA	20%	NA
Tufts Insurance Co	36%		NA	
United Healthcare	NA	38%	33%	
Average Discount	43%	42%	39%	40%

Key Observations:

- Average discount varies greatly among specialties. Among those shown above, discounts are smallest within the Family/General Practice specialty, and largest in the Orthopedic Surgery specialty.

Limitations of Aggregation

The discounts reported above are important because they provide information about how contract rates influence overall payments to providers. However, aggregating data to calculate an overall discount does not adequately reveal how individual contract rates differ. A small number of contracts - with the hospitals that receive most of the health care dollars - will greatly influence the overall discounts reported above.

Simple Averaging and Statistical Differences

The next section uses the calculated discount rate for provider charges and payments for a particular day, and tracks them as a single observation. This reduces the impact of a relatively few expensive cases, but does not go down to the level of detail that exists on a per claim basis. This is because on a particular day, multiple claims may exist for lab and radiology services, and summarizing these claims will reduce the overly specific effect of multiple small claims in a day with different discounts. By tracking in this manner, we can measure what the average discount rate is, weighting encounters equally. This allows for a more precise measurement of the differences among carriers. Information is displayed separately for HMO, POS, PPO, and Indemnity. Averages are reported, as well as upper and lower confidence intervals (at the .05 level). If there is no overlap between the confidence interval (CI) of different carriers, there is a statistical difference between the two being compared. When there is not a statistical difference, variation between rates may be due to chance alone.

The discount results differ between methodologies, highlighting the fact that the distribution of the most aggressive discounts is not consistent across provider types, or between carriers and product types.

HMO – All Providers Included

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	2,582	31.0%	30.2%	31.8%
Anthem - NH	1,151,625	33.1%	33.1%	33.1%
Harvard Pilgrim HC	592,126	32.0%	31.9%	32.0%
Tufts Insurance Co	34,968	26.7%	26.5%	26.9%

HMO – Hospitals Only

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	549	19.9%	18.8%	21.0%
Anthem - NH	222,249	38.1%	38.0%	38.2%
Harvard Pilgrim HC	111,163	39.5%	39.4%	39.6%
Tufts Insurance Co	6,053	29.7%	29.4%	30.1%

HMO – No Hospitals

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	2,033	34.0%	33.1%	35.0%
Anthem - NH	929,376	31.9%	31.9%	31.9%
Harvard Pilgrim HC	480,963	30.2%	30.2%	30.3%
Tufts Insurance Co	28,915	26.1%	25.9%	26.3%

POS – All Providers

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	250,464	29.6%	29.5%	29.7%
Anthem - NH	372,449	32.9%	32.9%	33.0%
CIGNA	27,159	33.5%	33.2%	33.7%
Harvard Pilgrim HC	27,614	31.3%	31.1%	31.6%
United Healthcare	19,245	27.5%	27.2%	27.8%

POS – Hospitals Only

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	46,356	22%	22%	22%
Anthem - NH	69,629	38%	38%	38%
CIGNA	7,150	36%	35%	36%
Harvard Pilgrim HC	5,137	33%	32%	33%
United Healthcare	4,209	20%	20%	21%

POS – No Hospitals

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	204,108	31.4%	31.3%	31.5%
Anthem - NH	302,820	31.7%	31.7%	31.8%
CIGNA	20,009	32.7%	32.4%	33.0%
Harvard Pilgrim HC	22,477	31.0%	30.7%	31.2%
United Healthcare	15,036	29.4%	29.1%	29.8%

PPO – All Providers

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	28,829	31.9%	31.6%	32.1%
All Other Insurance	20,608	24.7%	24.4%	24.9%
Anthem - NH	398,216	30.7%	30.6%	30.7%
CIGNA	558,207	33.6%	33.5%	33.6%
Harvard Pilgrim HC	328,844	29.9%	29.8%	30.0%
MVP	95,865	25.7%	25.6%	25.9%
NH Health Plan	19,028	24.4%	24.2%	24.6%
United Healthcare	6,266	32.1%	31.6%	32.5%

PPO – Hospitals Only

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	3,430	18.9%	18.4%	19.4%
All Other Insurance	4,571	14.8%	14.4%	15.1%
Anthem - NH	83,123	29.3%	29.2%	29.5%
CIGNA	151,615	35.5%	35.4%	35.6%
Harvard Pilgrim HC	64,868	31.1%	31.0%	31.2%
MVP	20,623	23.2%	23.0%	23.3%
NH Health Plan	4,686	21.1%	20.8%	21.3%
United Healthcare	460	22.2%	20.8%	23.6%

PPO – No Hospitals

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	25,399	33.6%	33.4%	33.9%
All Other Insurance	16,037	27.5%	27.2%	27.8%
Anthem - NH	315,093	31.0%	30.9%	31.1%
CIGNA	406,592	32.9%	32.8%	32.9%
Harvard Pilgrim HC	263,976	29.6%	29.6%	29.7%
MVP	75,242	26.4%	26.3%	26.6%
NH Health Plan	14,342	25.5%	25.2%	25.7%
United Healthcare	5,806	32.9%	32.4%	33.3%

Indemnity – All Providers

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	1,474	8.5%	7.6%	9.3%
All Other Insurance	13,186	26.9%	26.5%	27.2%
Anthem - NH	36,789	29.2%	29.0%	29.4%

Indemnity – Hospitals Only

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	248	13.3%	11.7%	14.9%
All Other Insurance	2,767	16.8%	16.3%	17.4%
Anthem - NH	6,716	15.3%	15.0%	15.5%

Indemnity – No Hospitals

Company	Observations	Average Discount	Lower CI	Upper CI
Aetna	1,226	7.5%	6.6%	8.4%
All Other Insurance	10,419	29.5%	29.1%	30.0%
Anthem - NH	30,073	32.3%	32.1%	32.5%

Discussion

One way insurance carriers compete with each other is through the reimbursement contracts they have with health care providers. All other things being equal, the less a carrier pays for health care, the more it can retain for administrative surplus or for reducing future premium increases.

Health insurance carriers use many tools to control health care costs, including utilization and disease management programs, benefit designs with targeted cost sharing, health cost transparency tools, and alternative reimbursement methodologies that are intended to

create provider incentives for more cost efficient care. Each of these mechanisms may reduce costs to some degree, but contract rates that determine provider payments are comparatively simple to measure.

For example, if two carriers have a similar book of business, the same premiums, and a ninety percent loss ratio, but one carrier obtains an average discount of 31 percent while its competitor obtains a 34 percent discount, the administrative cost portion of the premium would need to be forty percent less for the first carrier to break even.

The Insurance Department's mission is to promote and protect the public good by ensuring the existence of a competitive insurance market. Evidence of substantial differences among carrier contracts raises the question of whether the market is competitive.

Provider Discounts

For an insurance carrier, a provider discount is the difference between the charge rate for health care services and the contractually determined reimbursement rate. Because it determines the amount that will be paid for the service, the discount from charges is important to the health care provider, the carrier and the patient. The patient's cost sharing liability will be based on the discounted rate. Even when the terms of a reimbursement contract are not based on the charge rate, an equivalent discount from charges can be calculated for the purposes of comparison and analysis.

Contractually agreed-upon reimbursement rates are based on a number of factors, and a discussion of the broader issues related to contract rates is beyond the scope of this analysis. Historically, the lowest payment rates were associated with HMO products and the highest with indemnity products. This difference results from the theory that patients enrolled in the most restrictive plan design can be directed to specific providers based on the preference of the insurance carrier. To avoid losing patients to a competitor, health care providers agree to lower payment levels for HMO members. From a practical standpoint, provider networks in New Hampshire are similar across carriers, and there is limited evidence that carriers have been highly successful in steering patients to specific providers.

There are substantial differences among carriers in the reimbursement rates paid to healthcare providers. Reviewing the data using multiple methods allows for the identification of differences in contracting outcomes that have a dramatic impact on carrier competitiveness. Whether a carrier will remain competitive is affected in part by other factors beyond reimbursement contracts, but small differences in payment rates for medical services can have a substantial impact on a carrier. In this analysis, aggregate discounts are used to determine market competitiveness, with the simple average methodology and further breakdowns of data providing additional insight.

Methodology and Limitations

Data used for this analysis come from the NHCHIS using dates of service during calendar year 2011. Only New Hampshire providers are included, with members coming from New Hampshire or out of state. The distribution of carrier charges among product lines is shown in Appendix A.

Rates are provided only when the carrier had at least \$1.5 million in provider charges.

Discounts are calculated by: $(\text{charges} - \text{total payments}) / \text{charges}$. Differences in payment levels are calculated by converting the discount rate to a percent of charges and calculating the difference as a percent of the lower paying carrier.

For example, Carrier A's discount is equal to 33 percent and Carrier B's is 21 percent:

1. Carrier A: $100\% \text{ of charges} - 33\% \text{ discount} = 67\% \text{ of charges}$
2. Carrier B: $100\% \text{ of charges} - 21\% \text{ discount} = 79\% \text{ of charges}$
3. $79 - 67 = 12 \text{ percentage points}$
4. $12/67 = .179 \text{ or } 18\%$
5. Carrier B pays 18 percent more than Carrier A.

Connecticut General Life Insurance (CGLI) and Cigna are not treated as separate companies, and their data are combined under the name: CGLI/Cigna.

HPHC and Health Plans Inc. are combined under HPHC.

Anthem-NH and Matthew Thornton Health Plan are combined under Anthem.

Summarizing carrier discount rates is consistent with the purpose of this analysis, which is to determine if the discount rates show evidence of a competitive insurance market. However, health insurance is purchased locally, and summarizing charges and payments across the state will hide dramatic differences between a payer and any single organization. Hospital specific contract differences are likely to result in some carriers being unable to offer premiums to a specific employer at the same price as a competitor that has a more aggressive discount with the local hospital or delivery system. By analyzing the results at the state level, determinations can be made about a carrier's overall competitive position in the state, but not within communities. Unpublished NHID analyses have shown dramatic differences in payment rates among carriers and specific providers.

Self-funded accounts are included in these data with fully insured accounts, and the results include both types of accounts. In practice, there are likely to be differences between payment levels to some providers (particularly hospitals) for self-funded accounts, and typically the payment rate is higher for self-funded accounts. As a result, a

carrier's underwritten reimbursement discount rate may be larger than reported, and the discount applied to self funded members may be smaller than reported.

The discounts for prescription benefit medication costs were not included in this analysis due to data limitations. This is a significant portion of the premium for most accounts, and the prescription drug payment differences may give some carriers a competitive advantage.

Differences in the health status and medical care needs of populations can have a substantial impact on medical costs, and may explain why some carriers can sell health insurance at competitive premium levels, despite uncompetitive reimbursement contracts.

A similar service mix and use of providers is assumed among carriers. Carriers have a different share of the market in different parts of the state and different member health care needs, and these differences may impact the average discounts calculated.

This analysis reflects the claims data during the 2011 calendar year. To the extent that payments were made incorrectly, or were inconsistent with the terms of the provider-carrier contract, this analysis will not reflect contractual agreements. Patient liabilities, employer account charges (for self-funded accounts), and to some extent even premiums, will be based on the claims paid, regardless of carrier-provider contract terms.

The NHCHIS data used in this analysis does not include all commercial insurance payments made to New Hampshire providers for health care services. Patients obtaining health insurance out-of-state are not included.

Appendix A

Carrier Product Distribution

Dates of service January 1, 2011 – December 31, 2011.

Company	Plan Type	Charges	Percent of Carrier's Provider Charges in Claims Database
Aetna	HMO	\$2,147,763	1%
	Indemnity	\$1,732,067	1%
	PPO	\$16,277,477	8%
	POS	\$185,942,639	90%
Total		\$206,099,946	
All Other Insurance	Indemnity	\$11,487,304	41%
	PPO	\$16,465,280	59%
Total		\$27,952,584	
Anthem - NH	HMO	\$881,335,141	57%
	Indemnity	\$29,378,612	2%
	PPO	\$330,009,373	22%
	POS	\$294,085,577	19%
Total		\$1,534,808,703	
CIGNA	PPO	\$445,998,526	96%
	POS	\$18,853,328	4%
Total		\$464,851,855	
Harvard Pilgrim HC	HMO	\$407,389,483	57%
	PPO	\$282,896,035	40%
	POS	\$20,381,482	3%
Total		\$710,667,000	
MVP	PPO	\$75,544,715	100%
NH Health Plan	PPO	\$34,817,887	100%
Tufts Insurance Co	HMO	\$21,349,024	100%
United Healthcare	PPO	\$2,786,486	17%
	POS	\$14,099,355	83%
Total		\$16,885,841	

Please direct questions or comments to Tyler Brannen, Health Policy Analyst:
tyler.brannen@ins.nh.gov.