

Payments to providers: an inside look at carrier discounts

New Hampshire Insurance Department

January 28, 2010

Introduction and Background

One way by which insurance carriers compete with each other is through the reimbursement contracts they have with health care providers. Assuming all other things being equal, the less a carrier pays for health care, the more it can retain for administrative surplus or for minimizing 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 more significantly affect costs.

For example, if two carriers have a similar book of business, the same premiums, and a ninety percent loss ratio¹, and one carrier obtains an average discount of 31 percent vs. 34 percent for a competing insurance carrier, the administrative cost portion of the premium would need to be forty percent less for the second carrier to break even.

Embedded in the NH Insurance Department's (NHID) 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 a question of whether the market is competitive.

Provider Discounts

A provider discount for an insurance carrier is the difference between the charge rate for health care services and the contractually determined reimbursement rate. The discount from charges is important to the health care provider, the carrier, and the patient because it determines the amount that will be paid for the service. The patient's liability, through the deductible and/or coinsurance, 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.

Contract reimbursement rates are negotiated based on a number of factors, and a discussion of issues related to contract rates is beyond the scope of this analysis. However, the lowest payment rates are generally associated with HMO products and the highest with indemnity products. This results, in part, from the belief that patients enrolled in the most restrictive plan design can be directed to providers based on the preference of the insurance carrier. To avoid losing patients to a competitor based on network participation or preferred rates, health care providers agree to lower payment levels for HMO members. From a practical standpoint, the provider networks in NH are very similar among all carriers and there is little evidence that carriers have been successful in steering patients to specific providers.

¹ As observed in the 2008 Supplemental Report produced by the New Hampshire Insurance Department.

Summary of Findings

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 the payment for medical services can have a substantial impact on a carrier. In this analysis, the aggregate discounts are used to determine market competitiveness, with the simple average methodology and further breakdowns of data providing additional insight.

HMO Products

Currently, MVP, Anthem-NH, and Harvard Pilgrim Health Care (HPHC) have the most competitive contracts. Connecticut General Life Insurance (CGLI)/Cigna could be more competitive, but not without bringing some of their hospital contracts in line with the discounts that other payers have obtained. Despite specific rates that are frequently competitive, small insurers pay on average 31 percent more than the overall average (aggregate method). This is a gap too large to make up if they have member populations with a similar health status. The reason for this disadvantage is clearly their inability or failure to obtain competitive hospital contracts, despite having competitive rates with non-hospital providers.

POS Products

Anthem-NH has the clear advantage with these products, followed by HPHC. CGLI/Cigna and the small insurers take up third with discount rates that are similar to each other (no MVP data available). Although the carrier differences are smaller than in some of the other comparisons, between Anthem-NH and HPHC the difference means that HPHC will pay on average almost seven percent more than Anthem-NH for medical claims.

PPO Products

Anthem-NH and CGLI/Cigna are the leaders in this category, with HPHC and MVP paying four to six percent more. Other small carriers are not competitive with an average disadvantage of twelve percentage points.

Indemnity Products

Anthem-NH has the clear advantage here.

Additional Observations

Based on the claims data, the major carriers that have the largest discounts for a particular product line category also tend to have most of their members in products under that

product category. MVP is the exception. Anthem-NH and HPHC have most of their business under HMO, and CGLI/Cigna has the most under PPO. MVP has most of its members under PPO, but MVP is four percentage points off the leaders and has a less advantageous discount for its PPO products than HPHC. Smaller carriers under the All Other category have the most members under PPO products, but have not obtained an average discount that is competitive. Whether the better discounts caused the carrier to grow business under these products, or that the line of business was given preference in contract negotiations is not determined in this analysis.

The non-competitive hospital contracts are a major barrier to reaching a competitive position for smaller carriers, and handicaps new entrants into the NH market. Although the smaller carriers have been able to obtain competitive pricing for non-hospital services, hospitals represent too large a share of the total premium dollar to bring the smaller carriers into a competitive position.

Among the larger carriers, Anthem-NH maintained either a competitive or an advantageous average discount within every product type. This would allow Anthem-NH to offer an array of product types at competitive prices, and Anthem-NH has the largest share of the market for every product category. With the exception of MVP's discount for its HMO products, the carrier products with an average discount that is competitive with Anthem-NH are the products with most of the business. For example, HPHC is competitive with Anthem-NH for HMO discounts only, and HMO is the dominant product type for HPHC.² Another example is CGLI/Cigna, which has a competitive discount with Anthem-NH for the PPO product type, and PPO is the dominant product type for CGLI/Cigna. This evidence suggests that if a carrier wants to have a competitive product offering, it will need an overall discount that is competitive with Anthem-NH for that product offering.

Detailed 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 from prescription drug benefit costs) and determined the overall aggregate discount by carrier during the first six months of 2009:

Product Type	Distribution of Charges	Average Discount		Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	49%	41%		41%	25%	42%	45%	23%
POS	15%	39%		40%	30%	36%	*NA	32%
PPO	34%	33%		34%	34%	31%	30%	21%
Indemnity	2%	22%		23%	*NA	*NA	*NA	15%

*Missing fields indicate that the data do not exist, or are not reliable.

² See Appendix A.

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 will 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. If the product line distinction is not considered, the average discount rate by carrier is:

- 1) Anthem – NH = 38.6%
- 2) Harvard Pilgrim Health Care = 38.5%
- 3) Connecticut General Life Insurance/Cigna = 32.9%
- 4) MVP = 30.4%
- 5) All other insurance = 20.5%

Key Observations:

- Anthem-NH has obtained the deepest discounts overall, but has a substantial advantage in its discounts over other major payers with only the POS and Indemnity plan types.
- MVP pays providers as a percent of charge less than any other major carrier for HMO members, but HMO plans are a very small part of MVP’s business in NH.³
- Most carriers obtain the most aggressive discounts for their HMO products, followed by POS, PPO, and Indemnity. However, using the methodology above, CGLI/Cigna has the weakest discounts for HMO products.
- On average (in aggregate), payments for indemnity patients are 32 percent higher than for HMO patients.
- Compared to the average discount obtained among major carriers, the smallest carriers pay between nine and 31 percent more for medical services, with rates differing by plan type.

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

Hospital only average discounts:

Product Type	Distribution of Charges	Average Discount		Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	48%	40%		40%	7%	41%	46%	10%
POS	15%	36%		39%	19%	32%	NA	27%
PPO	35%	28%		28%	30%	29%	25%	15%
Indemnity	2%	10%		10%	NA	NA	NA	9%

³ See appendix A

Non-hospital provider discounts:

Product Type	Distribution of Charges	Average Discount		Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	50%	42%		41%	42%	43%	44%	48%
POS	16%	42%		42%	42%	42%	NA	39%
PPO	31%	47%		41%	40%	35%	36%	31%
Indemnity	2%	36%		39%	NA	NA	NA	23%

Key Observations:

- The smallest carriers (All Other) are least competitive with the major carriers for hospital services, but have obtained competitive discounts with non-hospital providers for HMO products.
- The range between the average discounts by carrier and product type is widest for hospital payments, but relatively narrow among non-hospital providers.
- The relatively weak CGLI/Cigna HMO discount is associated with hospital payments.
- The major payers obtain similar discounts among non-hospital providers without respect to product line, suggesting that professional fee schedules do not vary as frequently by product type, unlike hospital payments.

Separating non-hospital provider specialties show 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

Product Type	Distribution of Charges	Average Discount		Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	51%	25%		25%	29%	25%	32%	30%
POS	14%	24%		23%	30%	25%	NA	26%
PPO	34%	24%		23%	30%	21%	24%	25%
Indemnity	1%	27%		27%	NA	NA	NA	20%

General Internal Medicine

Product Type	Distribution of Charges	Average Discount		Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	53%	37%		37%	38%	38%	41%	50%
POS	16%	36%		35%	36%	35%	NA	29%
PPO	29%	36%		37%	38%	30%	36%	27%
Indemnity	2%	33%		34%	NA	NA	NA	19%

Orthopedic Surgery

Product Type	Distribution of Charges	Average Discount	Anthem -NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	47%	59%	58%	58%	60%	47%	56%
POS	16%	59%	59%	59%	61%	NA	47%
PPO	35%	58%	59%	58%	58%	53%	53%
Indemnity	2%	56%	57%	NA	NA	NA	50%

Radiology

Product Type	Distribution of Charges	Average Discount	Anthem-NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	49%	50%	51%	51%	46%	41%	54%
POS	15%	51%	51%	50%	42%	NA	26%
PPO	34%	47%	52%	51%	35%	42%	21%
Indemnity	2%	40%	43%	NA	NA	NA	14%

Obstetric/Gynecology

Product Type	Distribution of Charges	Average Discount	Anthem -NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	50%	38%	37%	35%	39%	49%	50%
POS	12%	36%	35%	40%	36%	NA	53%
PPO	36%	35%	38%	35%	29%	36%	32%
Indemnity	1%	36%	36%	NA	NA	NA	36%

Anesthesiology/Pain Management

Product Type	Distribution of Charges	Average Discount	Anthem -NH	CGLI/Cigna	HPHC	MVP	All Other
HMO	50%	43%	42%	40%	49%	37%	40%
POS	15%	42%	43%	38%	49%	NA	33%
PPO	34%	40%	42%	37%	41%	37%	37%
Indemnity	2%	38%	41%	NA	NA	NA	13%

Key Observations:

- The average discount by plan type and provider specialty ranges from 24 percent to 59 percent.
- 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.
- Discounts among major carriers product types are fairly consistent, but among smaller carriers variation is extensive. This may be partially due to different carriers within the All Other category focusing their business on a single product type, resulting in a carrier to carrier comparison.

The Flaw with Aggregation

The discounts reported above are important because they provide information about how contract rates influence overall payments to providers. However, aggregating data so that an overall discount is calculated does not adequately reveal how individual contract rates differ. A few 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. In doing so, 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, identifying that the distribution of the most aggressive discounts is not consistent across provider types, or between carriers and product types. Also, in many cases the discount using the simple averaging method is lower than the aggregated (weighted) average, indicating that some of the deepest discounts are for some of the most expensive services.

Insurance carriers are ranked from the largest average discount to the smallest.

HMO – All Providers Included

Carrier	Observations	Average Discount	Lower CI	Upper CI
All Other Insurance	2,281	34.3%	33.4%	35.2%
CGLI/Cigna	11,079	34.1%	33.8%	34.5%
Anthem - NH	590,534	31.2%	31.2%	31.3%
Harvard Pilgrim HC	240,825	30.2%	30.1%	30.3%
MVP	303	30.1%	27.8%	32.5%

HMO – Hospitals Only

Carrier	Observations	Average Discount	Lower CI	Upper CI
Anthem - NH	106,527	38.6%	38.5%	38.8%
Harvard Pilgrim HC	48,330	36.0%	35.8%	36.1%
CGLI/Cigna	2,064	34.1%	33.5%	34.8%
MVP	69	22.4%	19.5%	25.4%
All Other Insurance	435	21.5%	20.1%	22.8%

HMO – No Hospitals

Carrier	Observations	Average Discount	Lower CI	Upper CI
All Other Insurance	1,846	37.3%	36.4%	38.3%
CGLI/Cigna	9,015	34.1%	33.7%	34.5%
MVP	234	32.4%	29.5%	35.2%
Anthem - NH	484,007	29.6%	29.5%	29.6%
Harvard Pilgrim HC	192,495	28.8%	28.7%	28.9%

Key HMO Observations:

- CGLI/Cigna’s weak hospital discount identified in the aggregate method approach (for HMO), is not apparent using the simple averaging method, suggesting that competitively weak hospital contracts are limited to relatively infrequent, expensive services.
- MVP’s apparent HMO advantage when the data are aggregated is neutralized when the simple average method is used: suggests that MVP has particularly favorable contracts for some of the relatively infrequent, but expensive health care services. The consistent differences between hospital and non-hospital providers show that the contract rates are similarly competitive in both provider categories.
- The carriers in the All Other category have the deepest HMO discounts with non-hospital providers, but the most unfavorable contracts with hospital providers

(possible exception when compared to MVP, since there is no statistical difference).

POS – All Providers

Carrier	Observations	Average Discount	Lower CI	Upper CI
CGLI/Cigna	32,824	32.6%	32.4%	32.8%
Anthem - NH	202,062	31.3%	31.2%	31.4%
Harvard Pilgrim HC	10,678	28.9%	28.5%	29.3%
All Other Insurance	2,118	28.5%	27.6%	29.4%

POS – Hospitals Only

Carrier	Observations	Average Discount	Lower CI	Upper CI
Anthem - NH	36,269	37.5%	37.3%	37.7%
CGLI/Cigna	7,641	35.0%	34.7%	35.4%
Harvard Pilgrim HC	2,185	27.0%	26.4%	27.6%
All Other Insurance	461	24.8%	23.3%	26.4%

POS – No Hospitals

Carrier	Observations	Average Discount	Lower CI	Upper CI
CGLI/Cigna	25,183	31.8%	31.6%	32.0%
Anthem - NH	165,793	29.9%	29.8%	30.0%
All Other Insurance	1,657	29.6%	28.5%	30.6%
Harvard Pilgrim HC	8,493	29.4%	28.9%	29.8%

Key POS Observations:

- CGLI/Cigna has obtained the deepest discounts overall and with non-hospital providers.
- Except for CCLI/Cigna, there is no statistical difference in the discounts among carriers within the non-hospital providers category.
- Anthem-NH has deepest discounts within the hospital providers category.

PPO – All Providers

Carrier	Observations	Average Discount	Lower CI	Upper CI
CGLI/Cigna	133,055	31.8%	31.7%	31.9%
Anthem - NH	213,621	29.1%	29.1%	29.2%
Harvard Pilgrim HC	100,361	27.3%	27.2%	27.5%
MVP	61,450	25.5%	25.4%	25.7%
All Other Insurance	12,447	22.2%	21.9%	22.4%

PPO – Hospitals Only

Carrier	Observations	Average Discount	Lower CI	Upper CI
CGLI/Cigna	31,548	34.4%	34.2%	34.6%
Anthem - NH	41,386	27.9%	27.7%	28.1%
Harvard Pilgrim HC	18,891	26.4%	26.2%	26.6%
MVP	12,088	22.1%	21.9%	22.3%
All Other Insurance	2,717	13.3%	12.9%	13.7%

PPO – No Hospitals

Carrier	Observations	Average Discount	Lower CI	Upper CI
CGLI/Cigna	101,507	31.0%	30.8%	31.1%
Anthem - NH	172,235	29.5%	29.4%	29.5%
Harvard Pilgrim HC	81,470	27.6%	27.4%	27.7%
MVP	49,362	26.4%	26.2%	26.5%
All Other Insurance	9,730	24.6%	24.3%	25.0%

Key PPO Observations:

- The carrier rankings are consistent among the overall, hospital only, and non-hospital provider categories and each rate difference is statistically significant.
- The other insurance carriers and MVP have the smallest discounts from charges, and this is consistent with the prior results using the aggregate (weighted) methodology.
- CGLI/Cigna has the largest PPO discounts, regardless of the methodology.

Indemnity – All Providers

Carrier	Observations	Average Discount	Lower CI	Upper CI
Anthem - NH	26,912	27.2%	26.9%	27.4%
All Other Insurance	4,306	18.4%	17.8%	19.0%

Indemnity – Hospitals Only

Carrier	Observations	Average Discount	Lower CI	Upper CI
Anthem - NH	4,970	12.6%	12.3%	12.8%
All Other Insurance	1,255	10.4%	9.8%	11.0%

Indemnity – No Hospitals

Carrier	Observations	Average Discount	Lower CI	Upper CI
Anthem - NH	21,942	30.5%	30.2%	30.8%
All Other Insurance	3,051	21.7%	20.9%	22.4%

Key Indemnity Observations:

- Anthem consistently has better discounts than the average of all other small carriers, regardless of the methodology.

Methodology and Limitations

Data used for this analysis come from the NHCHIS using dates of service during the first six months of 2009. Only New Hampshire providers are included, with members coming from New Hampshire or out of state.

Discounts are calculated by: (charges-total payments)/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 discount is equal to 33 percent and Carrier B is 21 percent:

1. Carrier A: 100% of charges – 33% discount = 67% of charges
2. Carrier B: 100% of charges – 21% discount = 79% of charges
3. 79 – 67 = 12 percentage points
4. 12/67 = .179 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.

MVP and CGLI offer EPO products, which are similar to PPO. For the purposes of this analysis, EPO products are classified as PPO.

Summarizing carrier discount rates is consistent with the purpose of this analysis: to determine if the discount rates support a competitive insurance marketplace. However, health insurance is purchased locally, and summarizing charges and payments across the state will hide dramatic differences between payer contracts at any single organization. Hospital specific contract differences are likely to result in some carriers 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-insured accounts are included in these data with fully insured accounts and the results include both. In practice, there are likely to be some differences between payment levels to some providers (particularly hospitals) for self-insured accounts. Typically, the payment rate is higher for self-insured accounts. The result is that a carrier's underwritten reimbursement discount rate may be larger than reported, and the discount applied to self insured members would 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 provide a competitive advantage to some carriers.

The health status and medical care needs of populations will 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 between 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.

The results of this analysis reflect the claims data during the first half of 2009. To the extent that payments were made incorrectly, or inconsistent with the terms of the provider-carrier contract, this analysis will not reflect contractual agreements. Patient liabilities, employer account charges (for self-insured accounts), and premiums to an extent, will be based on the claims paid, regardless of carrier-provider contract terms.

The NHCHIS data used in this analysis may not include all commercial insurance payments made to NH 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, 2009 – June 30, 2009, no completion factors used.

Carrier	Plan Type	Charges	Percent of Carrier's Charges
Anthem - NH	HMO	\$398,003,762	55%
	Indemnity	\$21,416,440	3%
	PPO	\$155,961,645	22%
	POS	\$147,629,884	20%
Total		\$723,011,731	
CGLI/Cigna	HMO	\$6,355,042	6%
	PPO	\$87,517,728	77%
	POS	\$20,424,862	18%
Total		\$114,297,632	
Harvard Pilgrim HC	HMO	\$161,274,265	67%
	PPO	\$73,297,015	30%
	POS	\$6,810,709	3%
Total		\$241,381,990	
MVP	HMO	\$485,297	1%
	PPO	\$67,488,940	99%
Total		\$67,974,238	
All Other Insurance	HMO	\$2,211,208	13%
	Indemnity	\$4,169,854	24%
	PPO	\$9,310,073	55%
	POS	\$1,383,975	8%
Total		\$17,075,110	

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