



# Market Structure of Health Care Financing Little Rock, Arkansas

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# **Outline of Arkansas Blue Cross and Blue Shield's Perspectives on the Little Rock Market**

- Little Rock market characteristics which are relatively typical/mainstream of similar markets
- Attributes which are materially different for vast majority of other MSA markets
- General observations designed to add to the context of today's discussion

# **“Typical” Characteristics of the Little Rock Market**

- Little Rock MSA is not a discrete market
- Movement from “1990’s managed care” to more “open access” to specialist, virtually no pre-service certifications, and ever larger provider networks
- Shift away from strict HMO offerings to POS, PPO, and traditional indemnity
- Growing interest in non-network based defined contribution/consumer directed health care products (MSA, Section 125, Section 105)

# **“Nature and Mix of Competition”**

## **Little Rock Market**



- Traditional multi-line carriers who compete in virtually every product line and rely heavily upon scale economies and standardized product offerings as a competitive edge
- Specialty or “niche” competitors who differentiate themselves via some combination of lower price, greater product flexibility, highly individualized customer service, or unique provider affiliations/ sponsorships

# Inventory of “Mix of Competitors” Little Rock Market

- “Big three” national players (Aetna, Cigna, United)
- Two large local health plans (QualChoice and Blue Cross/  
Health Advantage)
- 64 in-state and out-of-state TPA’s (45-50% self-funded market)
- Seven statewide “provider rental networks”
- Two “unbranded” out-of-state Blue Cross competitors  
(WellPoint and Health Link)

# Inventory of “Mix of Competitors” Little Rock Market

*(continued)*

- 168 licensed insurance companies marketing health policies in Arkansas with over \$100 million in annual premiums (multi-state basis)
- Largest private employer in state – self-administers own claims and uses rental network
- Second largest private employer in state – maintains own provider network via direct contracts and uses TPA services of national health carrier
- Recent entry of new consumer directed health care competitors (Definity Health & Lumenos)

# Health Plan Operating Characteristics

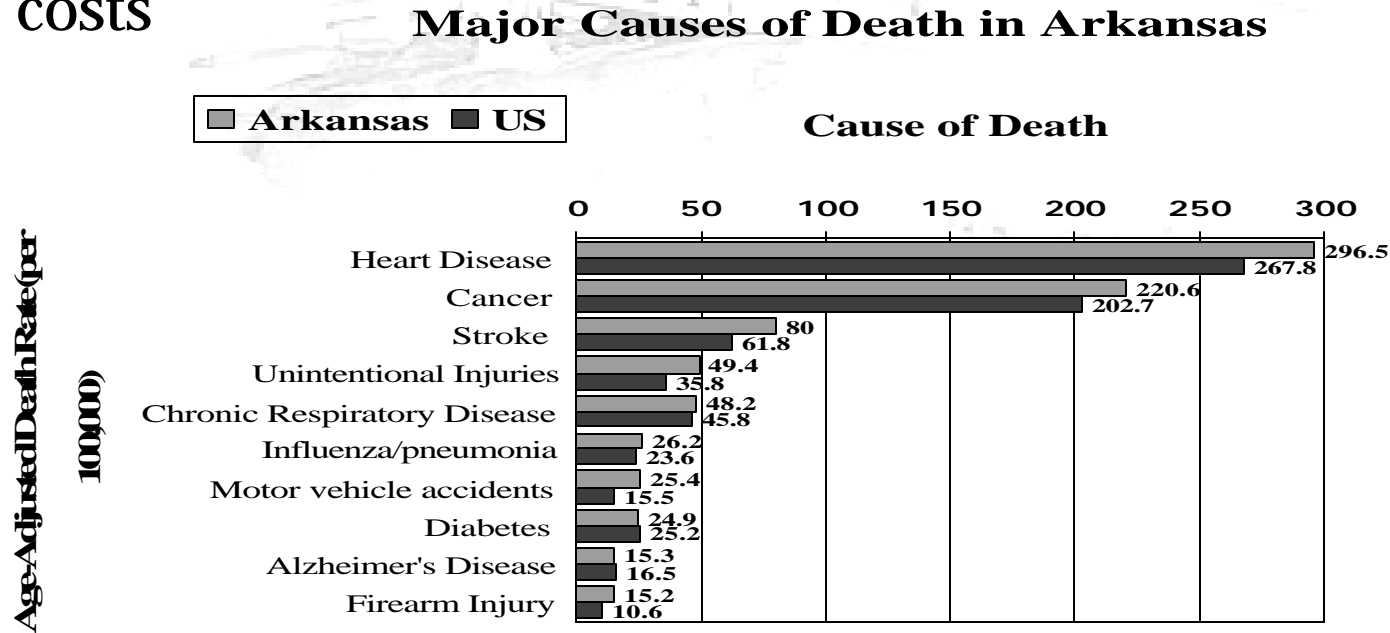
## Little Rock Market



- No direct ownership of physician practices
- Reimbursement largely discounted fee-for-service with DRG or per diem arrangements with hospitals common (little, if any, pure capitation)
- QualChoice and Health Advantage - IPA network models with equity ownership by hospital(s) and health insurer
- United – IPA network model with no joint equity
- Aetna and Cigna focus on PPO products, both fully insured and large employer self-funded accounts

# “Atypical” Features of Little Rock Market

- Extremely high “disease burden” (exceeds national averages in terms of heart disease, cancer, stroke and unintentional injuries) – higher per capita health care costs





# “Atypical” Features of Little Rock Market



- High level of uncompensated care resulting in cost shifts to privately insured patient population
  - Medicare/Medicaid contractual adjustments
  - Private patient non-collectibles
- Comparable “package” of PPO health benefits in Little Rock market averages 13% below the national average for like health insurance coverage

# General Observations

## Little Rock Market

| <b>Health Insurance Categories</b> | <b>Product Categories</b>                                  |
|------------------------------------|--|
| Commercial < 65 insured            | HMO,PPO, indemnity/AWP                                     |
| Commercial < 65 self-funded        | HMO, PPO, indemnity/AWP                                    |
| Medicaid                           | “Primary care model” with AWP discounted fee-for-service   |
| Medicare                           | AWP discounted fee-for-service (limited Medicare + Choice) |
| CHAMPUS                            | PPO (Health Net)   |

# General Observations

## Little Rock Market

| <b>Health Insurance Categories</b> | <b>Dollar Volumes**</b> |                         |
|------------------------------------|-------------------------|-------------------------|
|                                    | <b>Little Rock MSA</b>  | <b>Statewide</b>        |
| Commercial <65 insured             | \$899,000,000           | \$4,194,705,000         |
| Commercial <65 self-funded*        | \$488,000,000           | \$1,099,652,000         |
| Medicaid                           | \$421,000,000           | \$4,550,000,000         |
| Medicare                           | \$890,000,000           | \$5,155,530,000         |
| CHAMPUS*                           | \$107,000,000           | \$223,080,000           |
| <b>TOTAL</b>                       | <b>\$2,805,000,000</b>  | <b>\$15,222,967,000</b> |

\* Research Estimate

\*\*Billed Charges

# General Observations

## Little Rock Market



- Physician “cross participation” in multiple health plans is high
  - Little Rock market – 40% plus
  - Rural markets (single hospital communities) universal
- Final point – consumer safety nets in place
  - “High risk pool” for otherwise uninsurable
  - “Guaranty fund” protection against health insurance company insolvencies

*Note:* High risk pool shortfall and guaranty fund are entirely funded by assessments on active health insurance carriers