

Competition among Health Plans

Jon Gabel

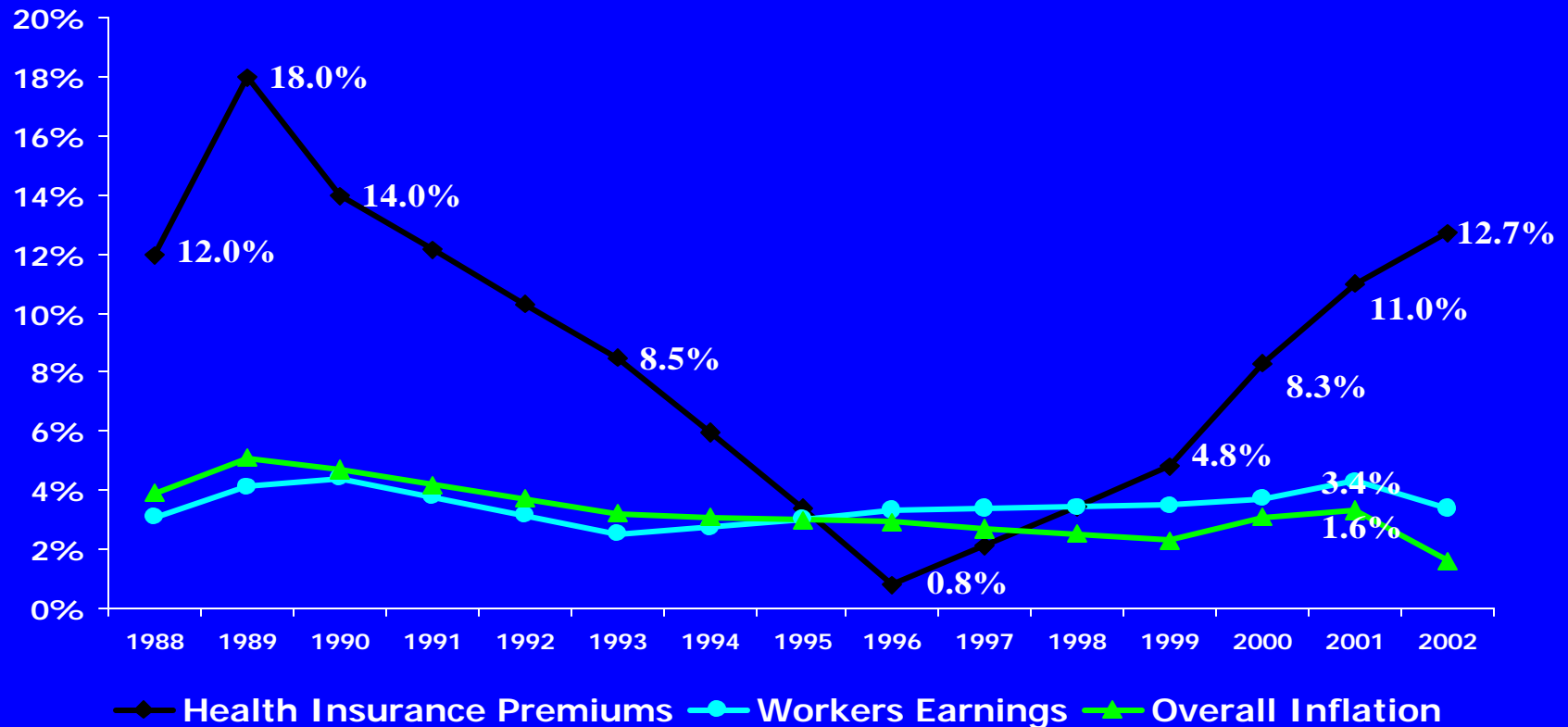
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Objectives

- To review recent trends in health care costs
- To examine the underwriting cycle in recent years
- To examine the pattern of entry into local insurance markets
- To assess why insurers have not entered markets in recent years

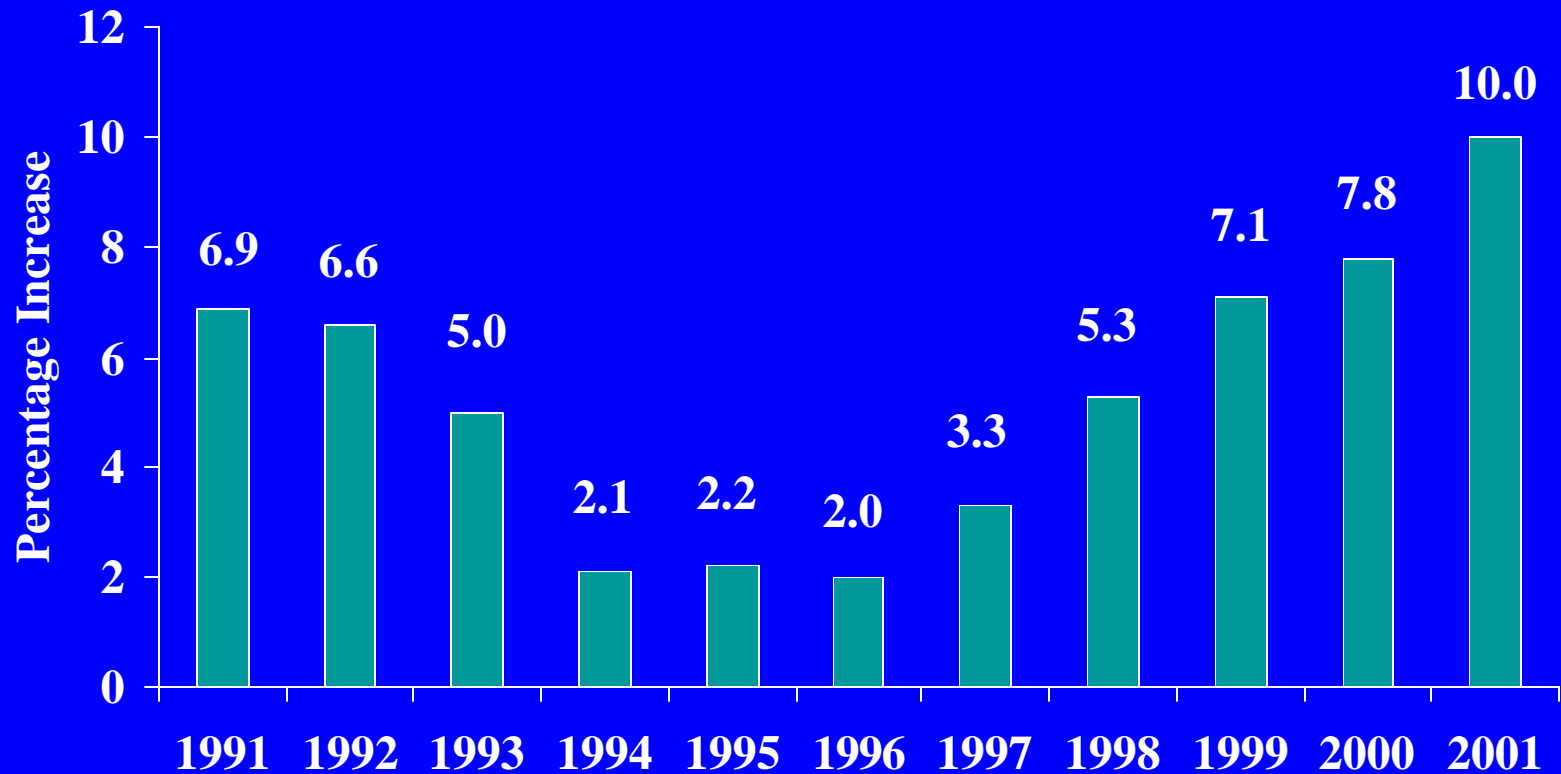
Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2002



Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1989, 1990, 1993, 1996.

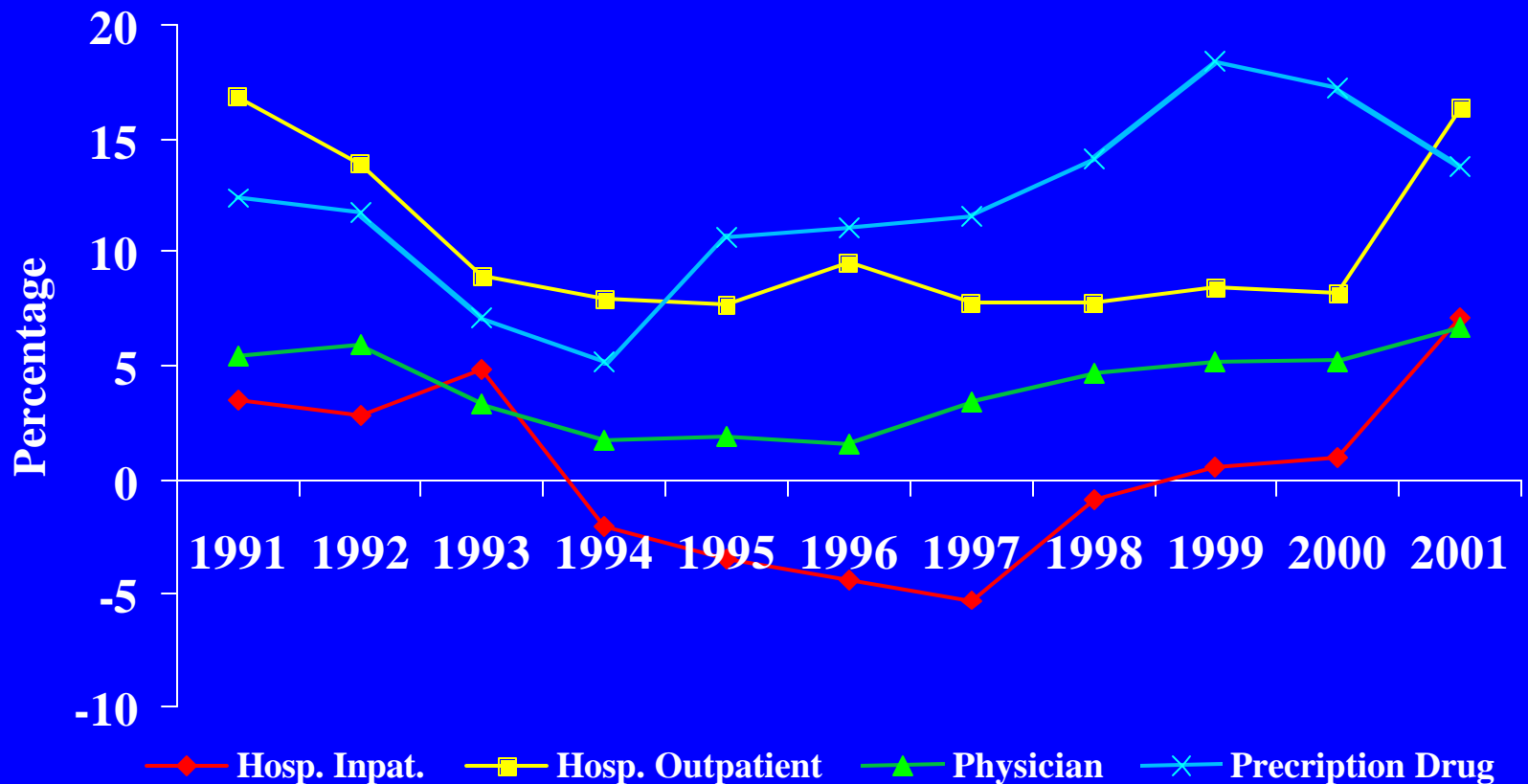
Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

Percentage Increase in Underlying Health Care Spending, 1991-2001, for All Services

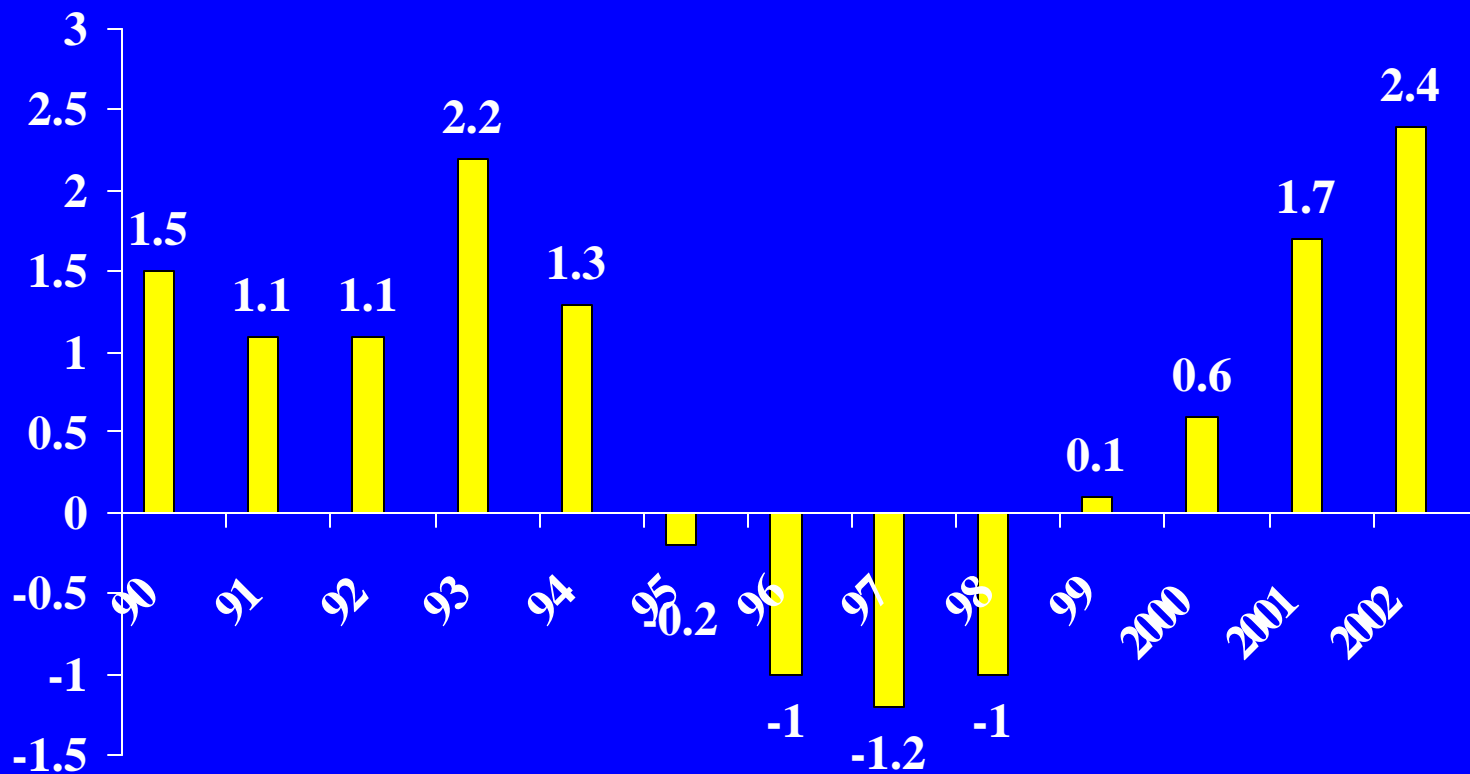


Source: Strunk, Ginsburg and Gabel, *Health Affairs*, 2002

Trends in Provider Revenues from Non-Medicare Patients, 1991 – 2001, (Annual Percent Change Per Capita)

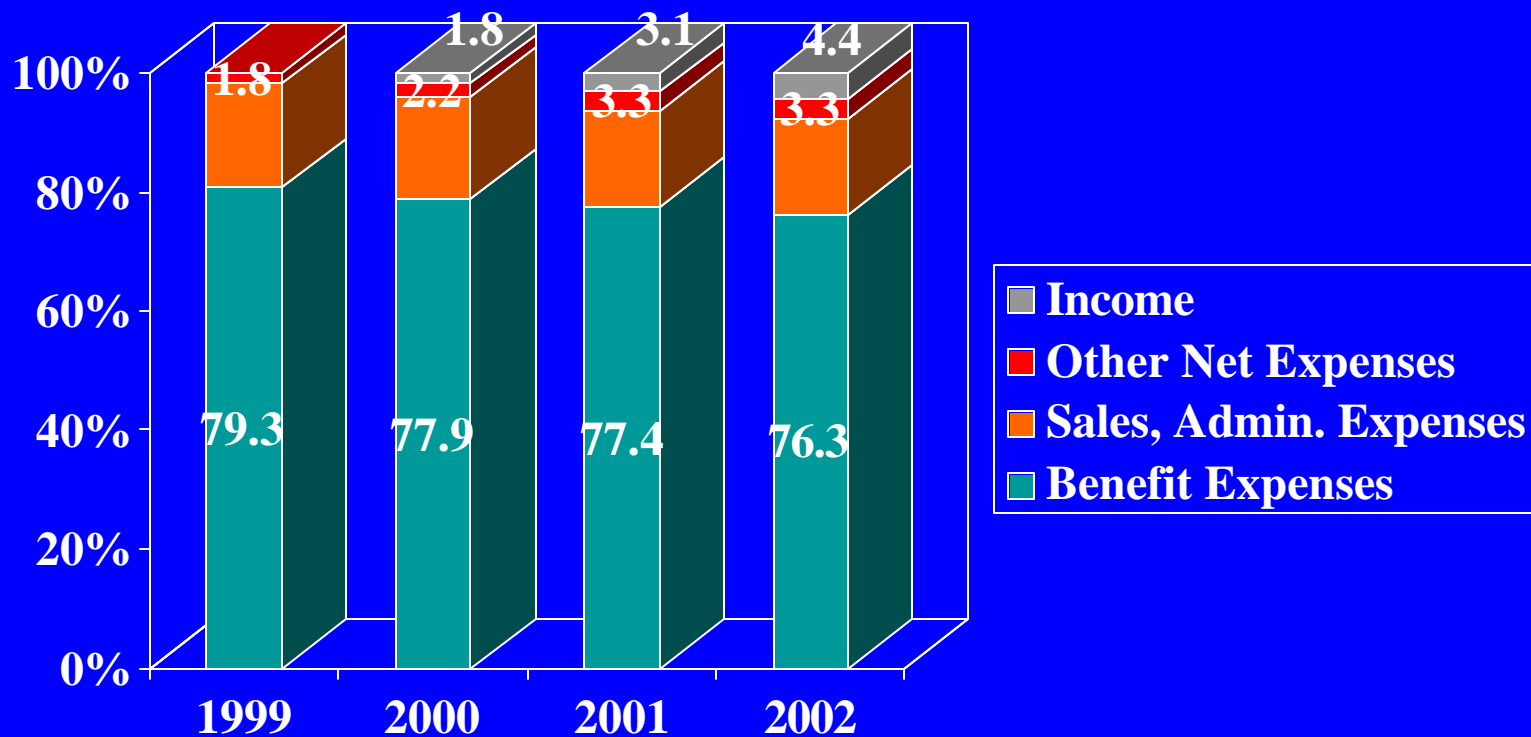


Blue Cross-Blue Shield Underwriting Gains and Losses, 1990-2002 (in percentages of revenue)

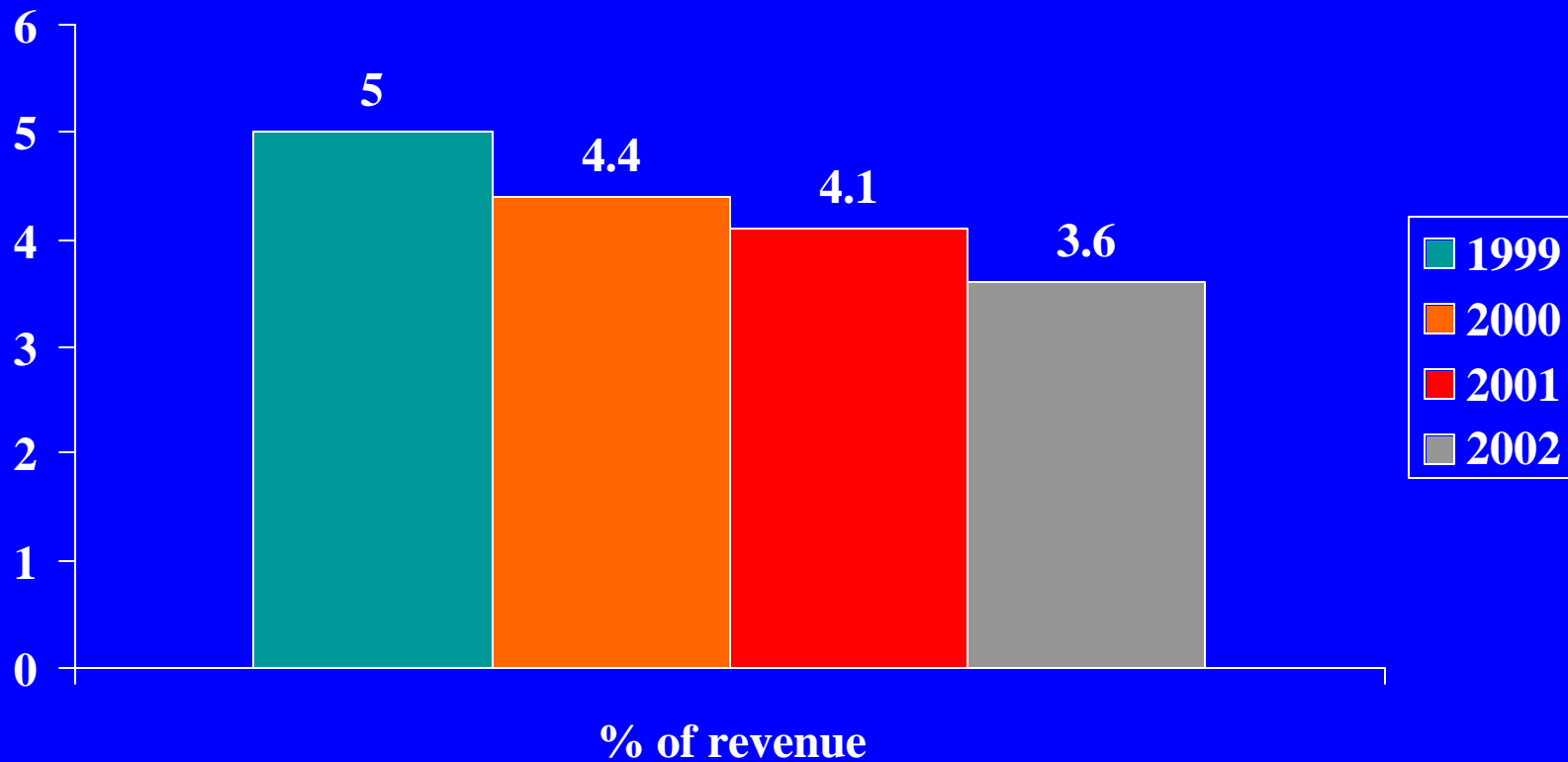


Source: Author's analysis of unpublished data provided by the Blue Cross-Blue Shield Association

Average Expenses and Profits for Publicly Traded Managed Care Companies



Decline in Investment Income, 1999-2002

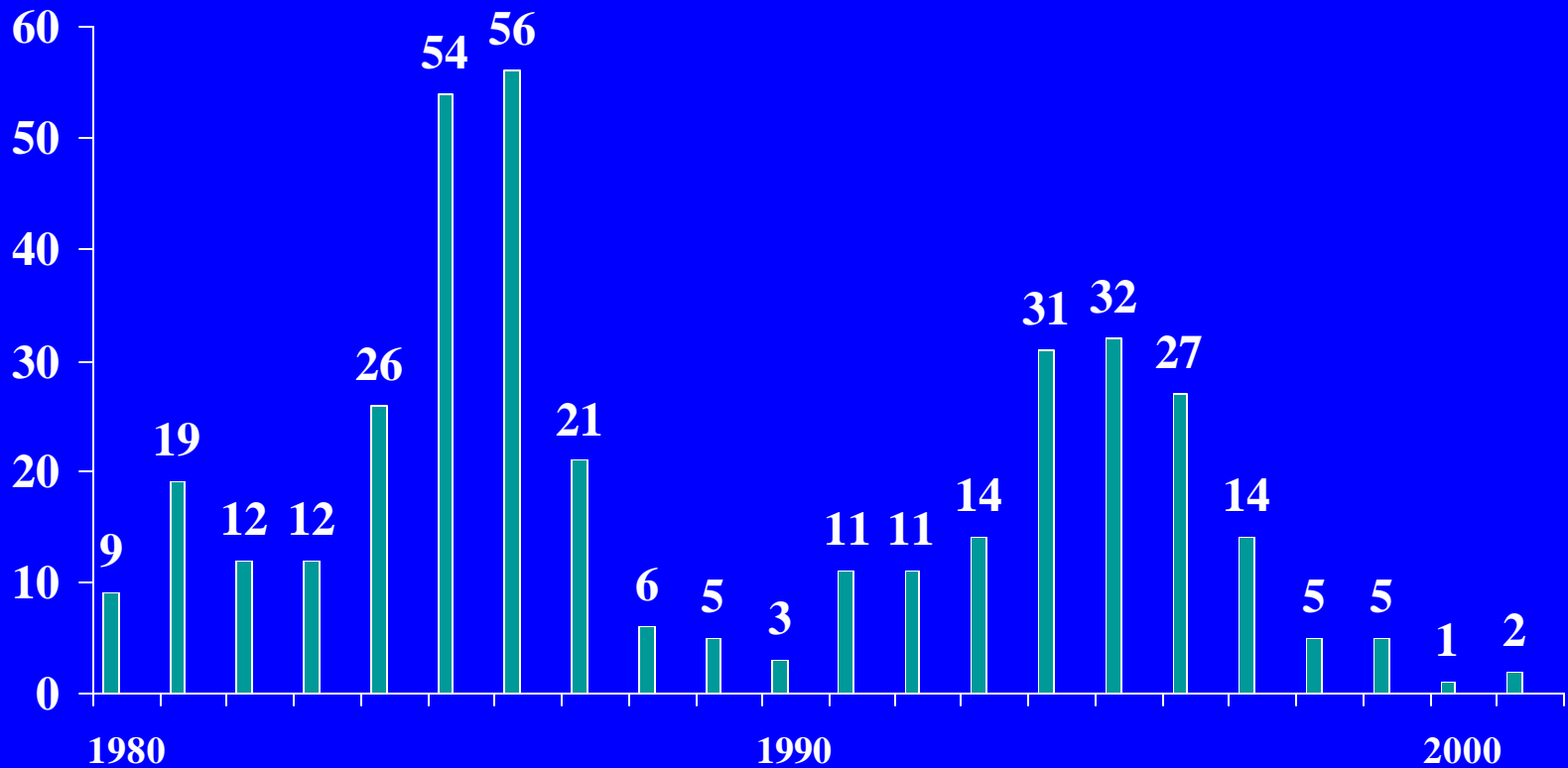


Source: Lehman Brothers

A Quick Summary of the Literature about HMO Market Structure and Performance

- Greater numbers of HMOs in local markets are associated with lower premiums (Wholey, Feldman and Christianson, 1995).
- Economies of scale apply up to enrollment of 115,000 (Given, 1996).
- Period of 1994-1997, despite national mergers, was characterized by increased competition in local markets (Christianson et al, 1997).
- Concentration in the HMO industry is growing nationally, (Feldman, Wholey and Christianson, 1999) but it is local markets that determine level of competition.

New Commercial HMOs: National Figures, 1980-2001

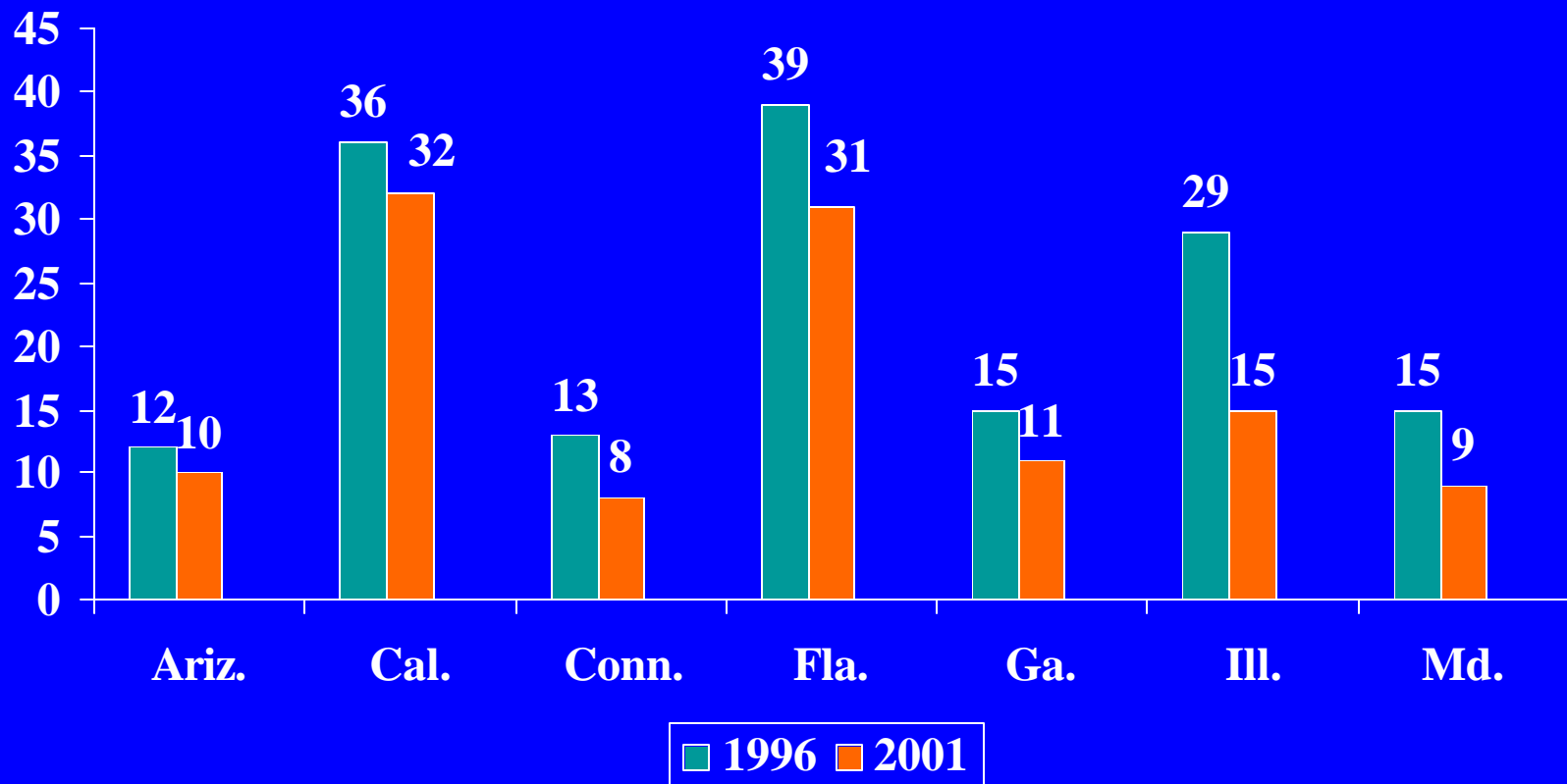


Source: Interstudy

Why HMO Entry at Local Markets Should Be on the Rise

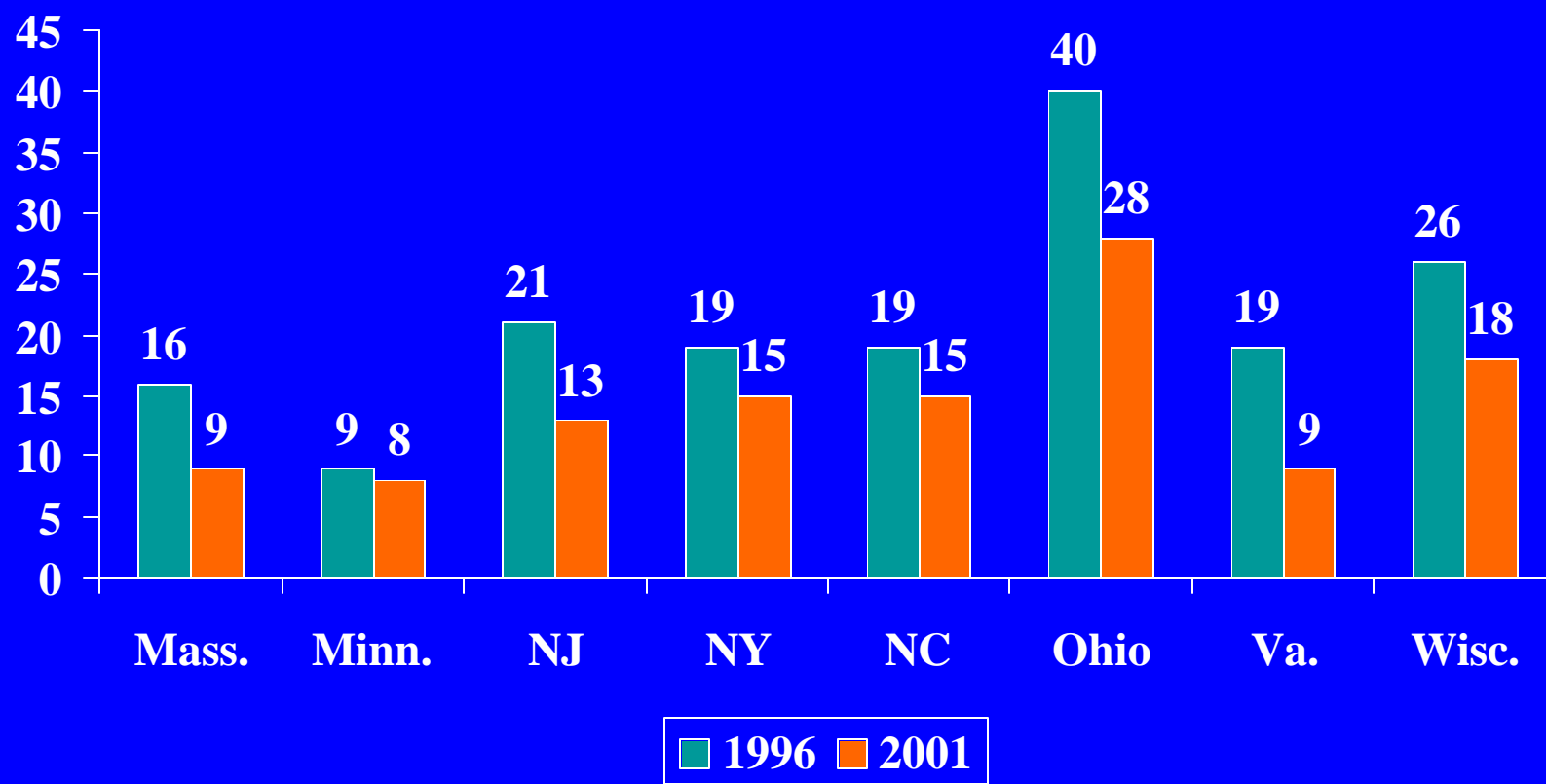
- Four years of underwriting profits
- Growing profitability among publicly traded MCOs
- Limited number of competitors in many local markets – I.e. Norfolk, Va.

Fewer Commercial HMOs Compete per State, 1996-2001



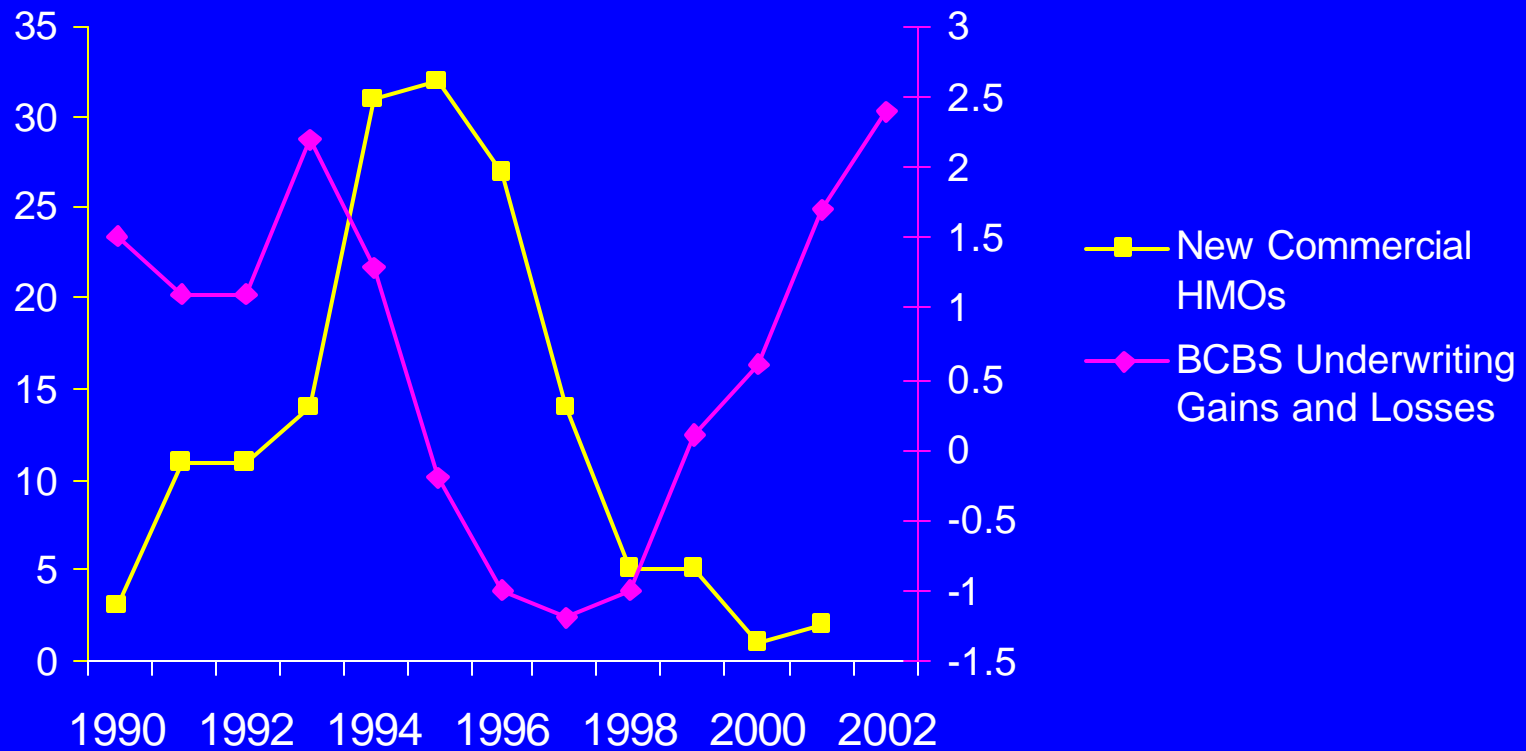
Source: InterStudy

Fewer Commercial HMOs Compete per State, 1996-2001 (Continued)



Source: InterStudy

BCBS Underwriting Gains and Losses and Number of New Commercial HMOs



Why Insurers and HMOs Are Not Entering Local Markets

- Most were badly burned by the fierce price competition of the mid 1990s.
- Wall Street is leery of MCOs with aggressive entry strategy.

Cost of entry is greater today.

- Employers want wide networks.
- This requires greater purchasing power.
- Provider pushback makes it more difficult to secure broad networks with substantial discounts.
- Capital investments in better information systems make entry more difficult to finance.

Conclusion

- Depart with a question rather than an answer.
- If HMOs do not enter new markets, the current round of inflation is likely to:
 - Last longer
 - Less innovation
 - Less aggressive in controlling costs