

# MERCER

Human Resource Consulting



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**NHFP**

**Preferred Provider  
Organizations:**

*The Employer Perspective*

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Marsh & McLennan Companies



# Today's Agenda

Challenges of the  
current system



A short history of the  
PPO

PPO Evolution - Where  
are we?

Purchaser  
Expectations

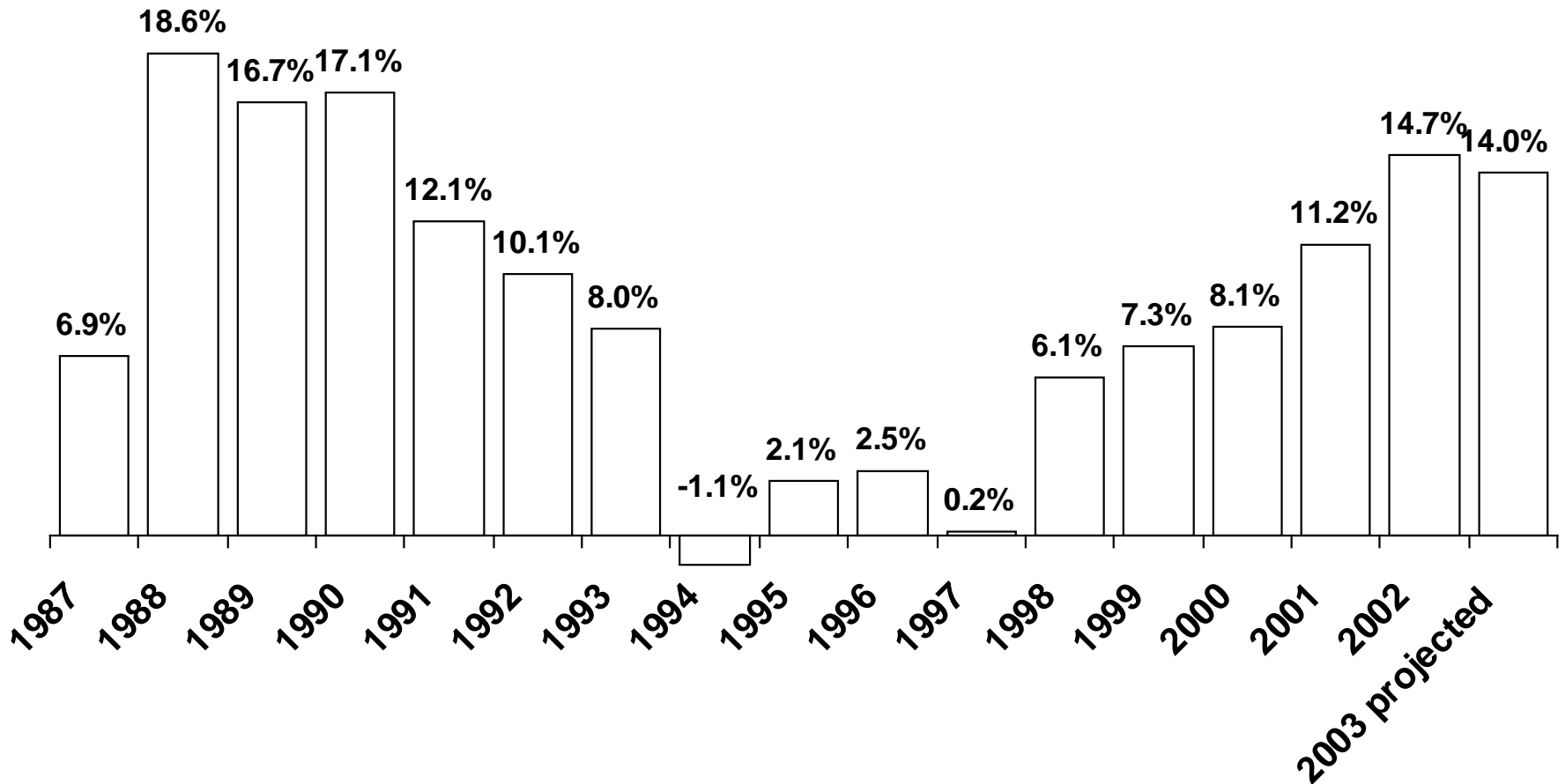


# Cost pressures are unrelenting

- Demographics – “baby boomers” raising average age of labor force
- Technology – medical costs rising as new diagnostic equipment, drug therapies and other treatments are introduced
- Providers – new-found negotiating strength
- Vendors – reduced competition and shareholder mentality

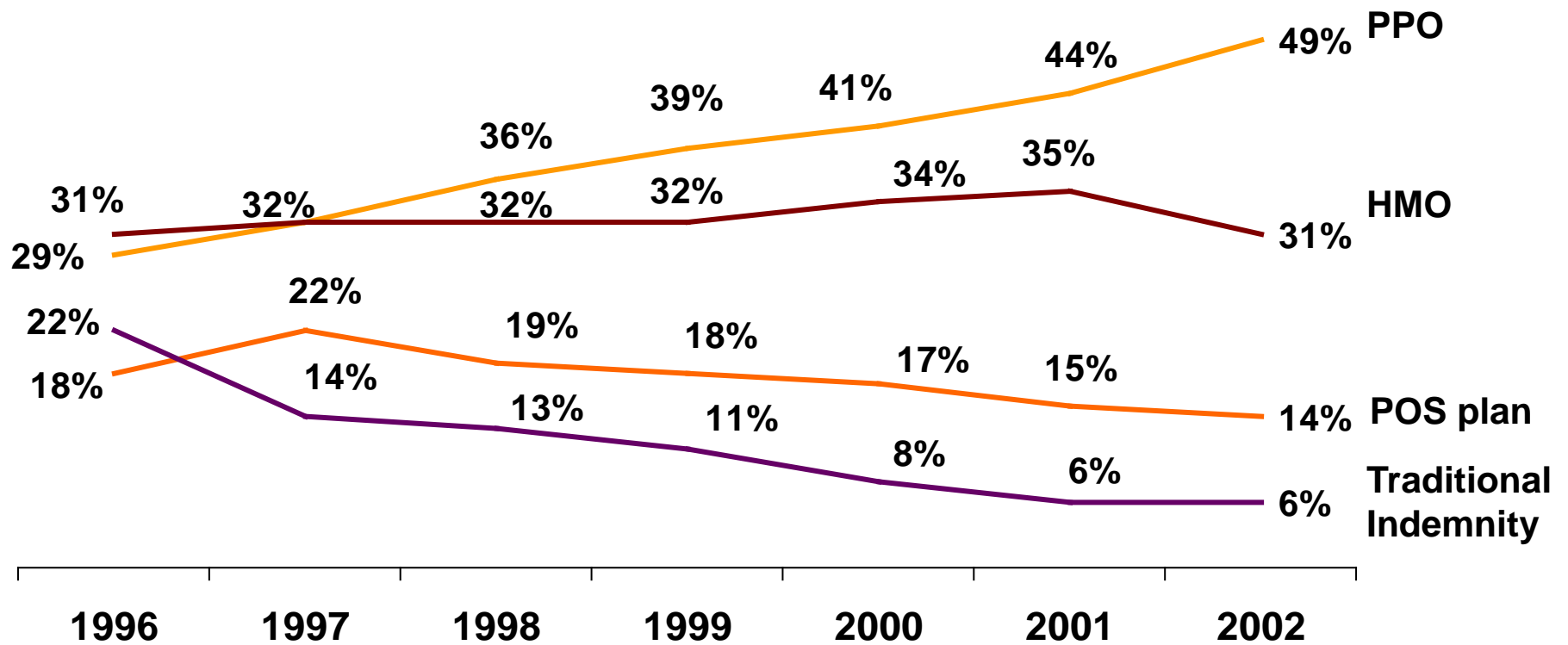


# Sharpest health care cost increase in over a decade...





# HMO enrollment drops to 1996's level; PPOs gain enrollment



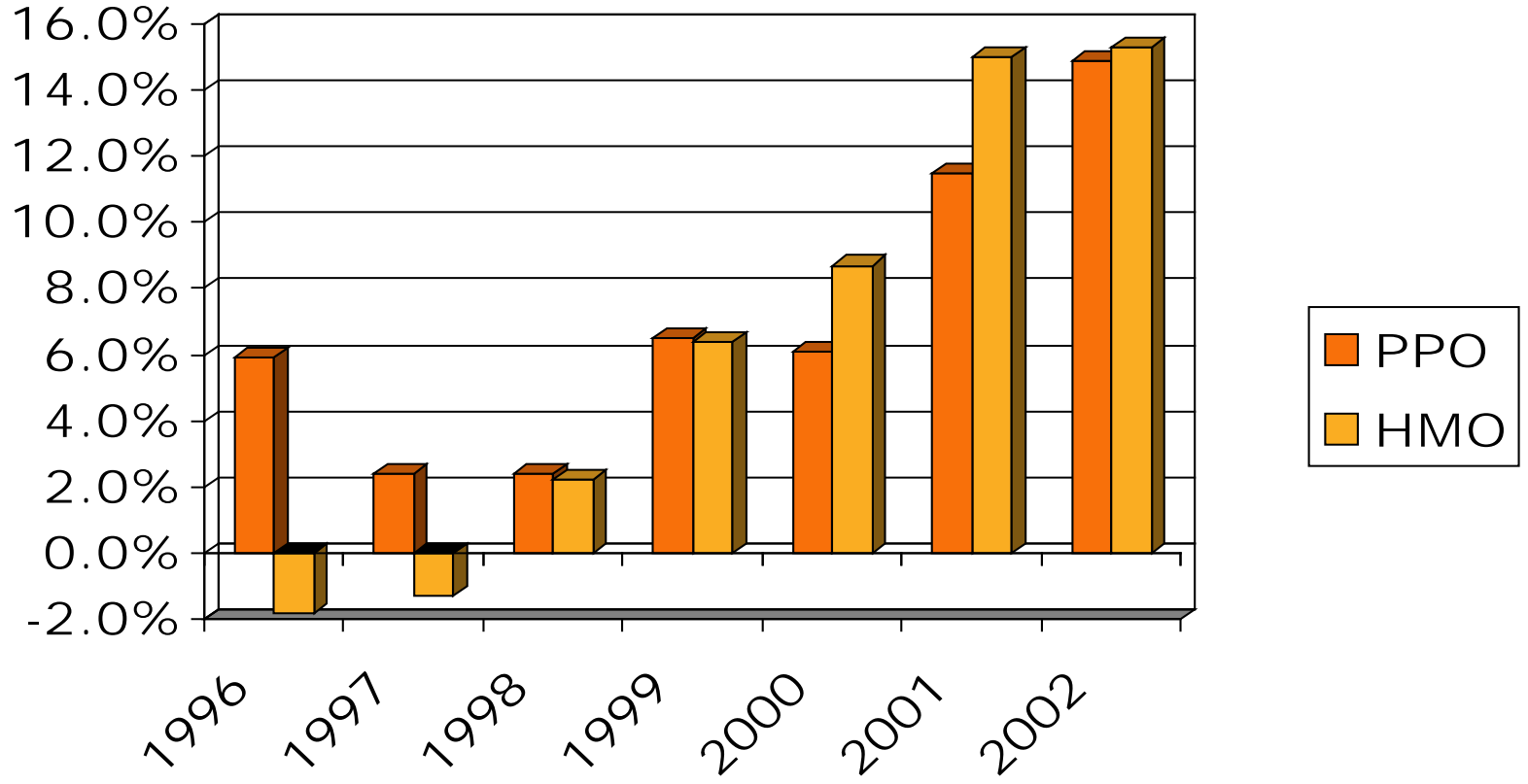


# What happened to the HMO enrollment?

- 46% of employers report network disruption over the past two years, affecting 24% of their employees
- Employers took steps to manage HMO cost in 2002
  - Reduced the number of HMOs offered
  - Raised physician, ER copays; added hospital deductibles
- Faced with HMO network disruption, dropped plans, greater cost sharing, employees voted with their feet and changed plans

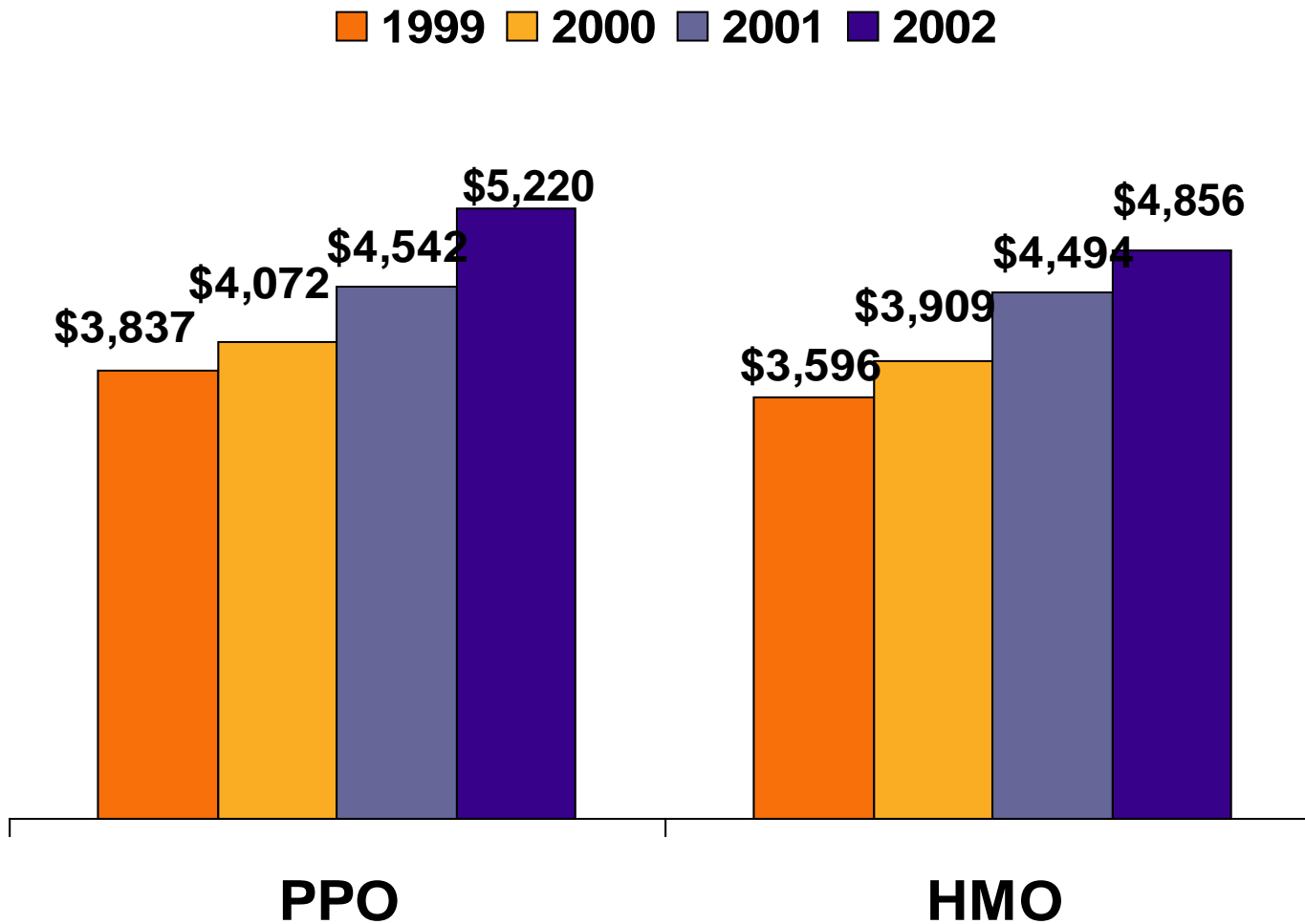


# HMO v. PPO Historical Trends





# PPO vs. HMO cost difference





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# Impetus For Early Growth

- Belief that HMO's "skimmed" the best risks
- Networks were larger and choice was the employee issue
- Employers were experiencing double-digit healthcare inflation
- Hospitals were willing to discount charges for patient steerage in competitive markets



# Changes in the '90's

- Steerage differentials expanded
- Fee schedules for doctors and risk-sharing for hospitals were introduced
- Physician and hospital credentialing became important
- Point-of-Service (POS) plans were introduced as a competing product
- HMO enrollment growth soared
- HMO consolidation began



## Late '90's

- Backlash against managed care
- PCP Gatekeeper concept questioned, as a solution in every market
- Cost differential between products (HMO, POS, PPO) eroded in many markets
- HMO's became media and politician "whipping-persons"
  - denied care v. quality of care
  - administrative v. clinical solutions
- The PPO (managed care lite) began reinventing itself



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# The market responds...

## **HMOs become more like PPOs...**

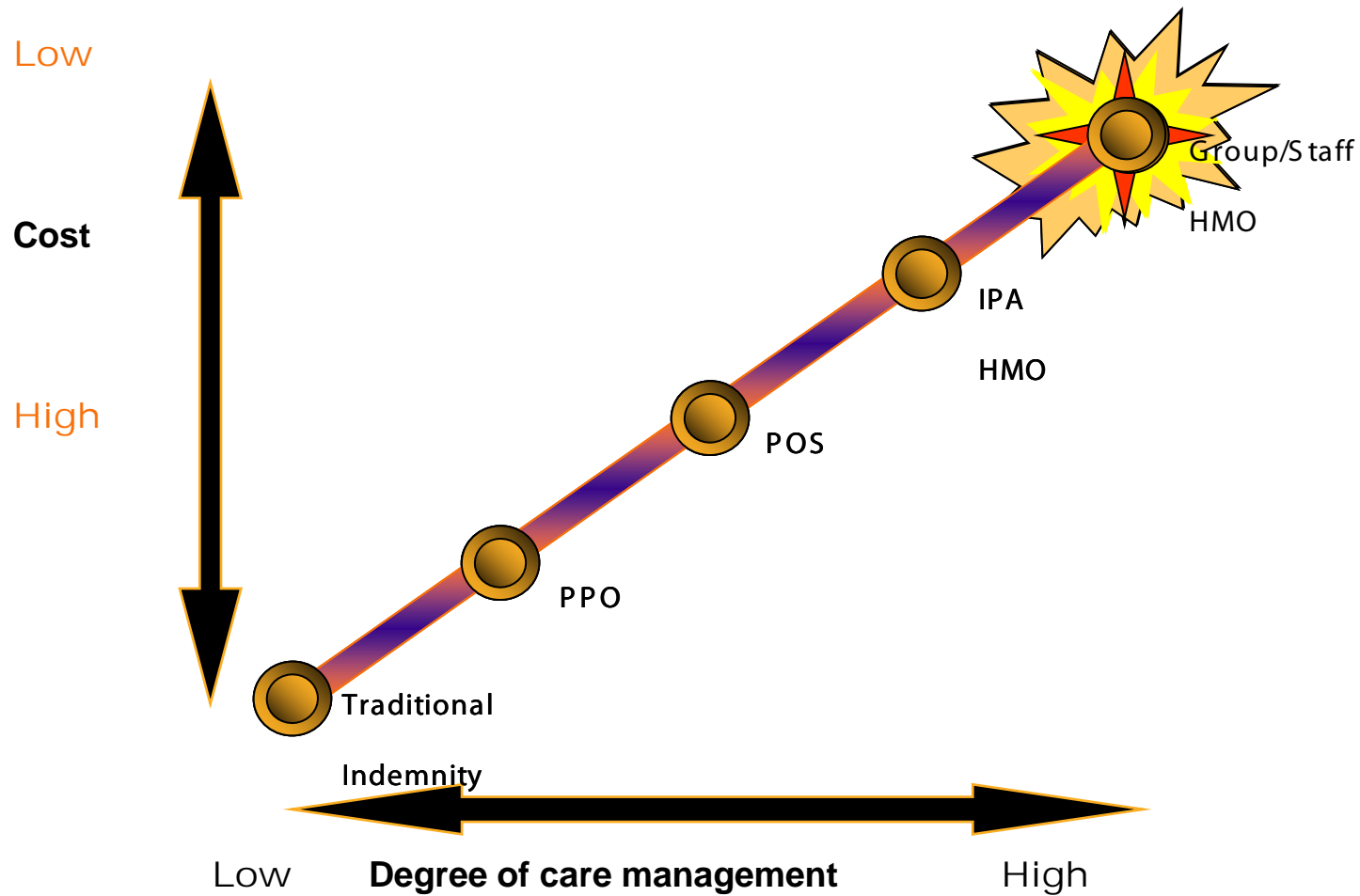
- First step was introduction of “open-ended” product – the POS plan
- “Open-access” products on the rise – offered by about 25% of employers
- Major HMO drops medical necessity prospective review

## **PPOs become more like HMOs...**

- Risk-sharing arrangements with hospitals increasingly common
- Rapidly adopting disease management programs
- In-network physician copays have become the rule (85% of plans)



# Before: Accepted ideal was evolution to group/staff HMOs





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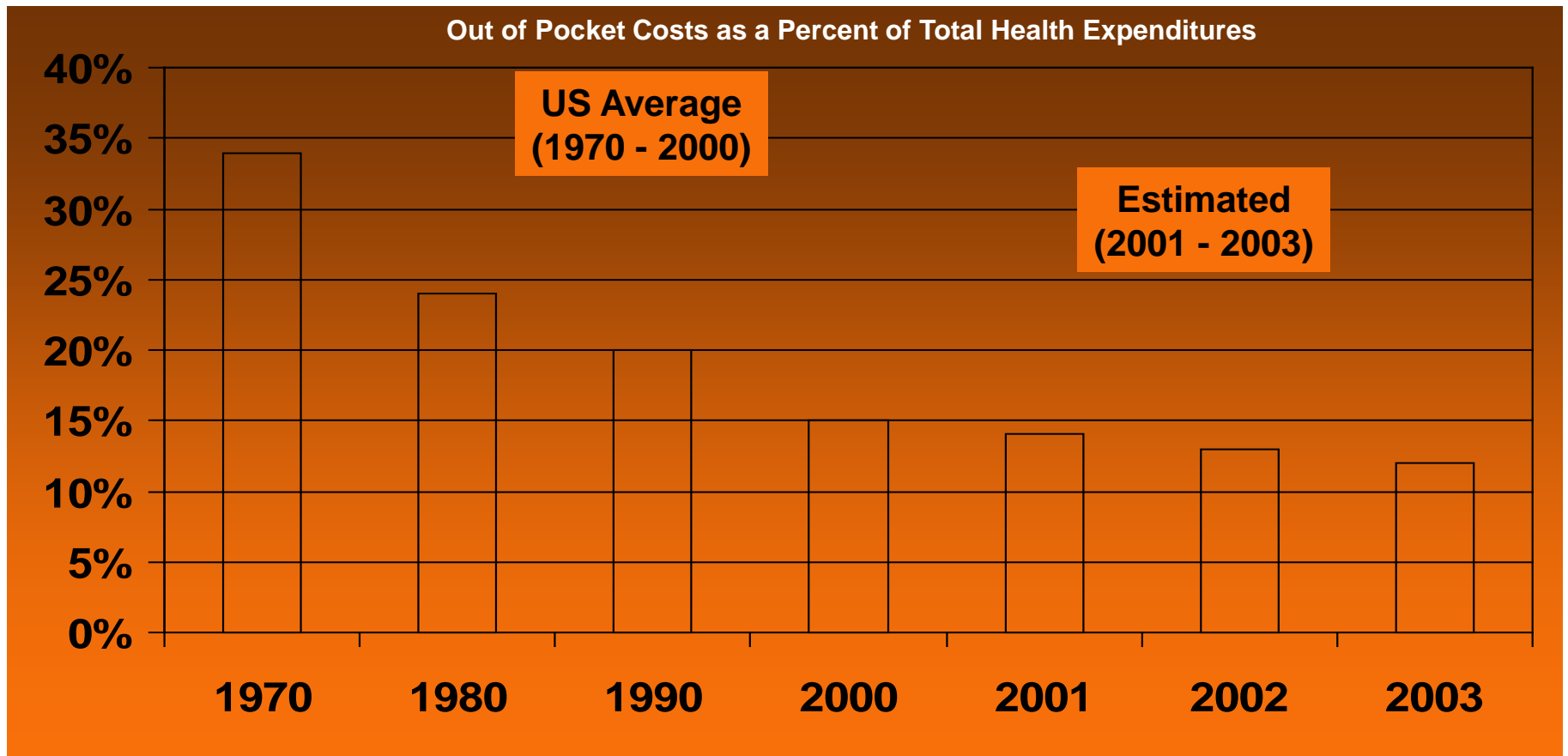
Purchaser  
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# Health Care Marketplace Environment

*Consumers are insensitive to costs*



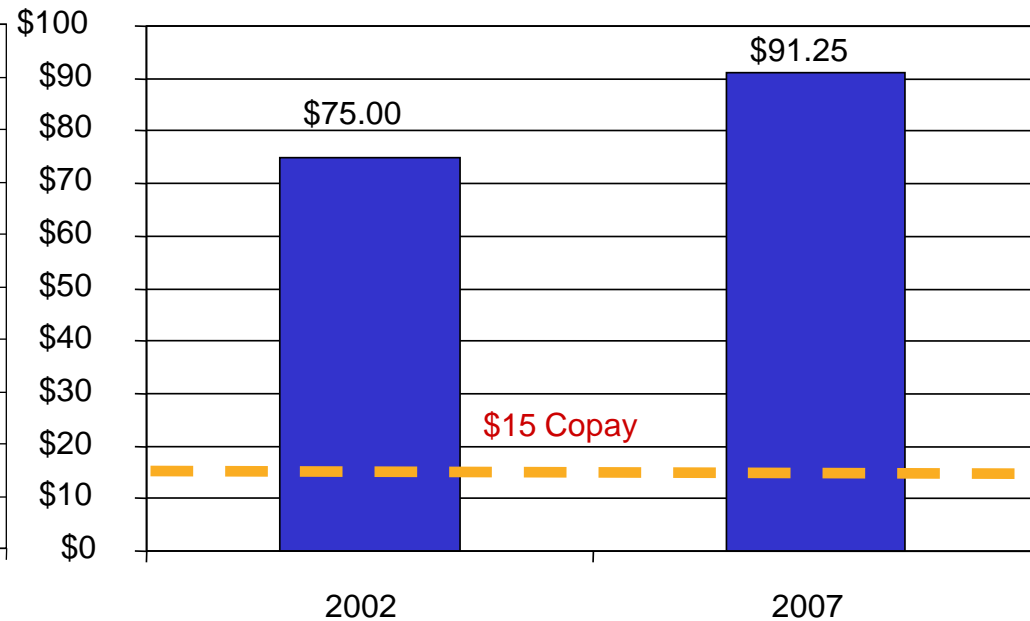
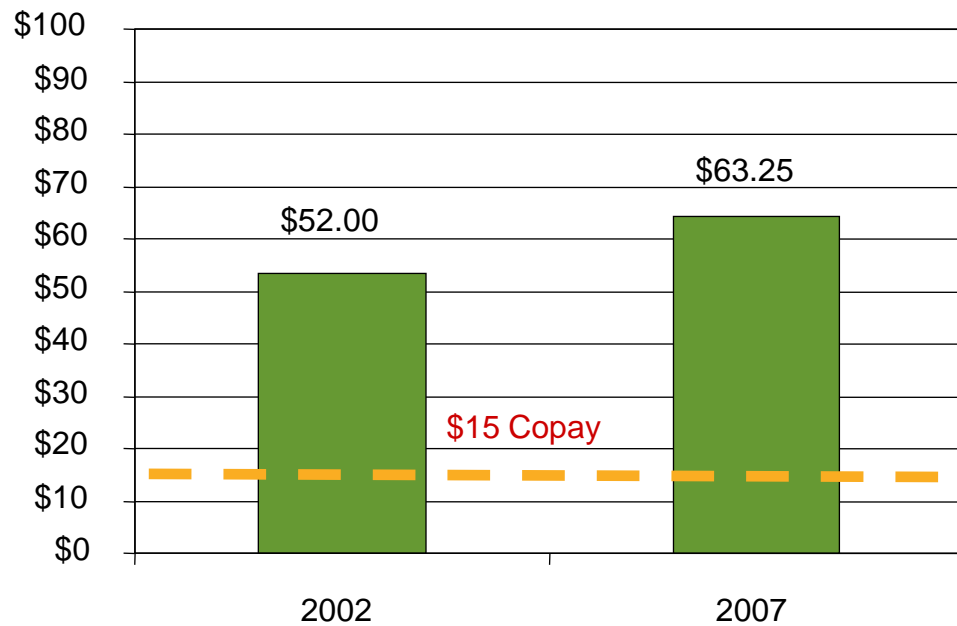


# Co-payments popular -- but not the answer to cost management...

## *Routine Office Visits: Established Patients*

Primary Care

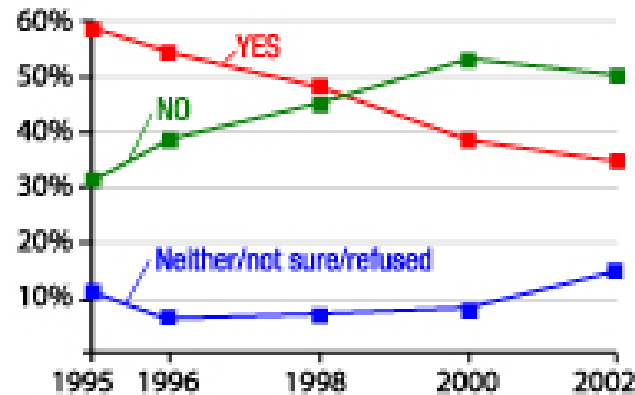
Specialty Care



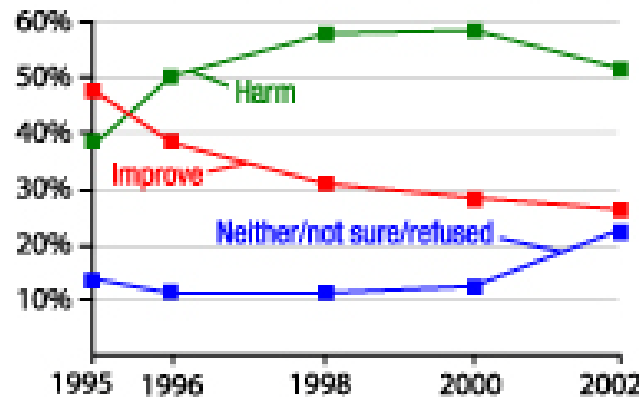


# Perceptions about managed care have changed...

## Will more managed care help contain costs?

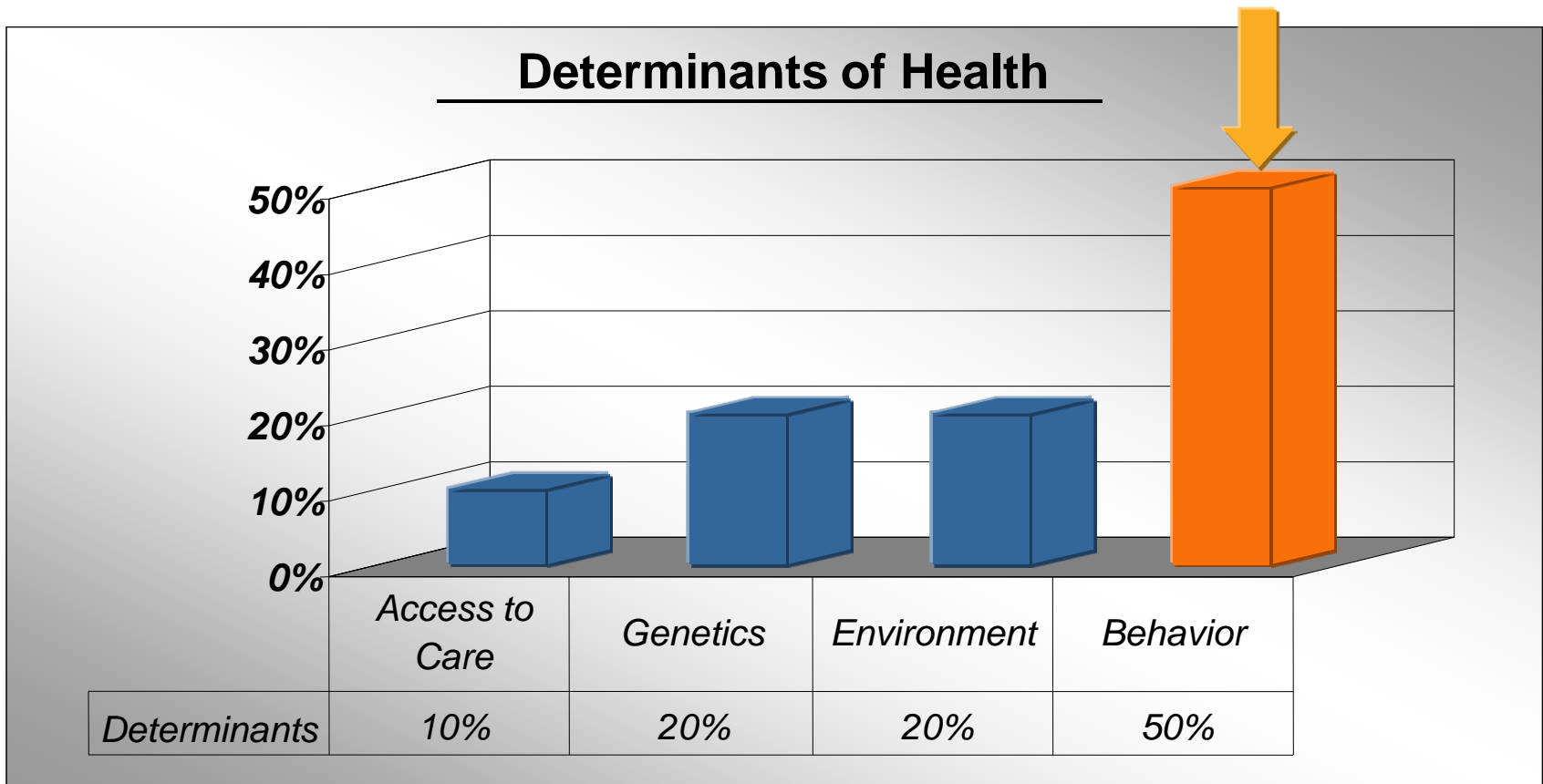


## Improve or harm quality?



Source: Harris Interactive

# Demand – What drives health care resource consumption?



Source: IFTF, Centers for Disease Control and Prevention



# Is the PPO the plan model for the future?

- Employers not happy with 15% trend numbers
- Physician leverage is network participation; plays havoc with members
- Current plan designs not inflation proof

## What are employers doing?

- changing to plan designs that require “skin in the game”
- promoting tools to support consumerism
- using their own data to identify focus areas for initiatives
- implementing a health advocate for those with chronic conditions
- supporting programs to promote good health