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NHFP Preferred Provider Organizations: The Employer Perspective

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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...

- 18.6%
- 16.7% 17.1%
- 12.1%
- 10.1%
- 8.0%
- -1.1%
- 2.1%
- 2.5%
- 0.2%
- 6.1%
- 7.3%
- 8.1%
- 11.2%
- 14.7%
- 14.0%

2003 projected
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
PPO vs. HMO cost difference

- 1999
- 2000
- 2001
- 2002

### PPO
- 1999: $3,837
- 2000: $4,072
- 2001: $4,542
- 2002: $5,220

### HMO
- 1999: $3,596
- 2000: $3,909
- 2001: $4,494
- 2002: $4,856

$5,220 - $4,856 = $364

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2002 National Survey of Employer-Sponsored Health Plans
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PPO Evolution - Where are we?

Purchaser Expectations...
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 credentialling 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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Purchaser Expectations
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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Health Care Marketplace Environment

Consumers are insensitive to costs

Out of Pocket Costs as a Percent of Total Health Expenditures


1970: 35%
1980: 25%
1990: 20%
2000: 15%
2001: 10%
2002: 10%
2003: 10%
Co-payments popular -- but not the answer to cost management...

Routine Office Visits: Established Patients

<table>
<thead>
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<th>Year</th>
<th>Primary Care</th>
<th>Specialty Care</th>
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<tr>
<td>2002</td>
<td>$52.00</td>
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<td>2007</td>
<td>$63.25</td>
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$15 Copay
Perceptions about managed care have changed...

Source: Harris Interactive
Demand – What drives health care resource consumption?

Determinants of Health

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Access to Care</th>
<th>Genetics</th>
<th>Environment</th>
<th>Behavior</th>
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<tbody>
<tr>
<td></td>
<td>10%</td>
<td>20%</td>
<td>20%</td>
<td>50%</td>
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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