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Already Rocky Provider-Payer Relationships Are Likely to Grow Even More Contentious (with Chart: Better Rates Are Top Contracting Priority, Hospital Execs Say)

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By Steve Davis, Managing Editor - March 7, 2011 - Volume 21 Issue 8

Pressure from employers to keep rates low — combined with increased scrutiny from state regulators — could force health plans to get tougher during contract negotiations with health systems. Faced with the prospect of lower reimbursement and new payment models called for by the reform law, some hospital systems are consolidating and bringing physicians on board as employees.

“When provider organizations face uncertainty and economic constraints, the typical reaction is to consolidate,” says Carl King, a 25-year veteran at Aetna Inc., who has headed the company’s network contracting efforts for the past eight months. King tells *HPW* that he has seen “a significant uptick” in physicians seeking employment relationships either with larger medical groups or hospitals. While consolidation offers the promise of improved cost and quality through integrated systems, King says rates tend to increase when hospitals consolidate. “Health plans and integrated systems need to work together to shift the paradigm from fighting over unit costs to agreeing on clinical improvement opportunities,” he says.

Brandon Edwards, president and founder of Revive Public Relations, disagrees. While he admits there has been an increase in provider consolidation recently, he doesn’t buy the argument that the trend is hurting the bargaining clout of health insurers. “I think it’s a very clever thing for health plans to say. But if you look at any health plan in almost any market, the concentration of contracting leverage on the provider side doesn’t come close to the leverage on the payer side,” he asserts. Edwards says there has been far more consolidation on the payer side. The top five health plans 10 years ago represented 25% of the market, and today they represent 50%, he says. “While all of the trends point to a need for better coordination and partnership between health plans and hospitals, what we’re seeing instead is that health plans are taking this opportunity to push down provider rates,” he contends.

Among other things, Revive specializes in communication strategies for contracting disputes between providers and health insurers.

Plans Face Pressure to Contain Premiums

Greater oversight from regulatory agencies has made it difficult for health plans to boost premiums significantly. “And when payers can’t boost premiums, they have to get tougher on providers,” says Ronald Hellstern, M.D., a principal at Hospital Practice Consultants, LLC, which helps negotiate contracts between hospitals, medical practices and health insurers.

Industry consultant Joseph Paduda says he’s noticed a recent push by health insurers to “pit health systems against each other in a winner-take-all strategy, albeit for limited blocks of business.” Over the next few years, he suggests, there will be closer alliances between provider systems and specific payers, “which will force smaller, weaker health insurers to the sidelines.”

And contract negotiations could grow even more contentious as millions of now uninsured individuals gain coverage through the expanding Medicaid program. “The margins from the private sector are quite handsome for hospitals compared to government payers,” says King. “So the natural reaction is to continue to look to the private sector for financial relief. It’s ironic that at a time when the government was struggling to pay for Medicare and Medicaid that they expanded their commitments under each program. The commercial sector can’t continue to absorb more cost shifting.”

Prior to the economic downturn, Aetna’s employer clients encouraged the health plan operator to expand its provider networks to improve access. But the still-struggling economy and rising coverage costs have made employers more willing to consider smaller networks if they reduce costs. “The net effect is that...we are going to be reducing the rate of increase in our provider contracts, and that will inevitably lead to some contentious negotiations in certain markets,” he tells *HPW*. King says Aetna is piloting new products that offer higher benefits for members who seek care from doctors and hospitals that Aetna has identified as “superior performers.”

But Edwards contends that health insurers will be inclined to reduce reimbursement rates to all hospitals, not just those that are rated as having lower quality.

Hospital Systems Bulk Up for Reform

The two largest hospital systems in Greenville and Spartanburg, S.C., have significantly increased employment of physicians in hopes of boosting referrals and admissions, according to a report released Feb. 28 by the Center for Studying Health System Change (HSC). While the hospital systems say the strategy will improve quality, care coordination and safety, there is concern among health insurers there that the increased hospital-physician alignment could give the hospitals leverage to negotiate higher payment rates from health plans, which would cause coverage costs to increase, according to the study. This strategy could help hospitals position themselves for expected reimbursement changes under the health reform law, according to HSC President Paul Ginsburg, Ph.D.

According to HSC, while BlueCross BlueShield of South Carolina has about 60% of the state’s commercial insurance market, BCBS and other health plans in the state contend they are losing leverage in payment rate negotiations as higher costs and the economic downturn lead employers to trim health benefits.

On Feb. 25, the Dept. of Justice (DOJ) said it had reached a settlement with United Regional Health Care System of Wichita Falls, Kan. — the region’s dominant hospital system — that prohibits it from entering into contracts that bar commercial health insurers from contracting with competing hospitals.

United Regional has about 90% of the region’s general acute-care inpatient hospital services and about 65% of outpatient surgical services. The health system’s average per-day rate for inpatient hospital services charged to commercial health insurers is about 70% higher than its closest competitor, according to DOJ. Moreover, it is the region’s only provider of certain services such as cardiac surgery, obstetrics and high-level trauma care. According to the complaint, the hospital system required most commercial health plans to agree to contracts that prohibited them from contracting with United Regional’s competitors. “As a result, competing hospitals and facilities could not obtain contracts with most insurers and were less able to compete, helping United Regional maintain its monopoly,” according to a prepared statement from DOJ.

Reform May Prompt Lower Rates

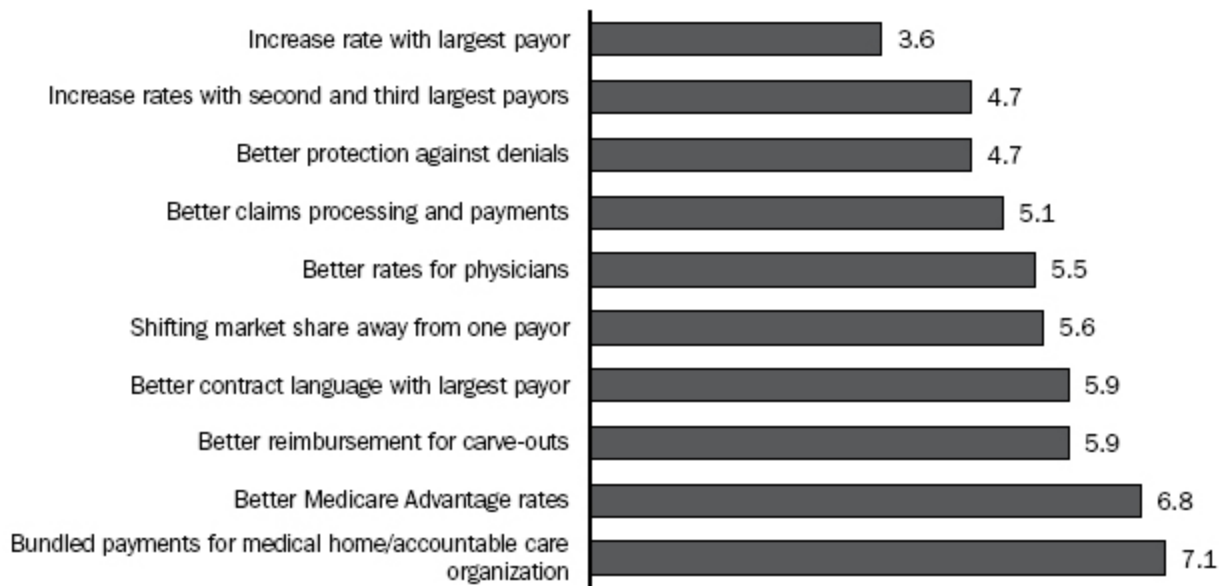
Future reimbursement mechanisms prompted by the health reform law — such as bundled payments or accountable care organizations (ACOs) — will shift more financial risk to providers. *Case in point:* More than 70% of recently surveyed hospital CEOs, chief financial officers and payer relations executives expect that the reform law will lead to lower reimbursements from private payers. And nearly half of those surveyed said the law would give health insurers more negotiating power over the next two to three years. The study, released Feb. 24 by Revive, is based on survey responses from 258 hospitals. Respondents represent 28% of all U.S. hospitals (see chart, below).

The survey results also indicated that hospital executives overwhelmingly have a negative view of health reform payment models, such as ACOs. “There seems to be a general assumption that these changes are inevitable...The only thing they know for sure is that it’s going to be worse for them,” says Edwards. “The more [the reform law] unfolds, the more negative view they have about the impact.”

Better Rates Are Top Contracting Priority, Hospital Execs Say

Securing higher rates from health plans is a top priority for hospitals, according to a recent survey of executives who are

involved in contract negotiations. Here's a look at the top 10 contracting priorities for the year ahead — on a scale of 1 to 10 with 1 being most important — cited by hospital leaders who negotiate contracts with health insurers:



SOURCE AND METHODOLOGY: Revive Public Relations. Based on online and telephone survey responses from 258 hospital CEOs, chief financial officers and other executives responsible for contract negotiations. Respondents represent 28% of all U.S. hospitals. March 2011.

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