BLUEFIELD HEALTH PLAN©

Bluefield Health Plan is a managed care company that provides and finances health care services for employees of Arc Electric, Inc. Approximately 5,000 employees at Arc are currently enrolled in Bluefield's health insurance plan. The number of enrollees has increased over the past year as Arc Electric continued to expand its workforce, and more and more Arc employees have elected to receive this benefit.

Arc currently pays Bluefield the full cost of health insurance for its employees. This insurance provides comprehensive coverage for inpatient and outpatient hospital care, surgical services, physician office visits, and other services (e.g., x-rays). The only cost to employees is a $15 copayment for each physician office visit.

Louis Pasture is the Director of Strategic Planning and Forecasting at Bluefield Health Plan. His key function is to direct the overall development and analysis of all strategic financial planning initiatives relating to Bluefield's managed care programs. His staff is involved in many activities, including preparing periodic reports of the costs incurred under the Arc Electric account. Every time an Arc Electric employee uses health care services, information about the type of service and the relevant costs are recorded in a database. Mr. Pasture recently directed his staff to perform a financial analysis of the current utilization and costs incurred under the Arc Electric account.

Bad News

Marie Curry personally delivered her summary of utilization on the Arc Electric account to Mr. Pasture (See Exhibit 1). The data, he noted, indicated a sharp increase in number of physician office visits over the past month. He remarked, "The Arc employees' use of outpatient physician services has been going up for the past six months. What's going on?" He asked Ms. Curry to provide him with the enrollment numbers to see if the increase in utilization of physician services was primarily due to the change in the number of employees enrolled in the health plan. "No problem," she replied. "I have already put the last six months' weekly statistics into a spreadsheet."

Mr. Pasture was concerned about Bluefield's profitability. Last year, Bluefield negotiated with Arc Electric to charge a fixed premium of $250 per employee per month. The total premium revenue is allocated as follows: 55% to hospital and surgical services, 30% to physician visits, and 15% for other services, administration, and profit. These allocations are used to establish budgets in the different departments at Bluefield. The Arc Electric contract would expire next month, at which time Bluefield would need to renegotiate the terms of its contract with Arc Electric. Mr. Pasture feared that Bluefield would have to request a sharp rate increase to remain profitable. Bluefield's monthly cost of administering the health plan was fixed, but the increases in the use of health care services were eroding Bluefield's profits. He suspected that other health plans were planning to increase premiums by 5-10 percent, which was reasonable given the recent statistics on national health expenditures. A report from 2004, the most recent he could find, indicated that total national health expenditures rose 7.9 percent from 2003 to 2004 -- over three times the rate of inflation.

Mr. Pasture called in the rest of his staff to assist him in devising a strategy for renegotiating the Arc account. "If possible, I would like to figure out how we can continue providing this service for the rate we established last year. I'm afraid if we attempt to increase the per member premium, Arc will contract with another health insurer. What other options do we have?"

Alex Langdon, who works in Membership Marketing, reported that he recently conducted a survey of cost control mechanisms used by other health plans.

increasing their use of these mechanisms, which include copayments, waiting periods, preauthorization requirements, and exclusions on certain health care services.

“One of the problems, in my opinion, is that the Arc Electric employees have nearly full coverage for all their health care services,” remarked Langdon. “The Arc employees should pay some part of their health care services out-of-pocket, so that they share an incentive to stay healthy. Bluefield only charges a $15 copayment, but many other health insurance plans require that enrollees pay $20 – 25 for each physician office visit. A higher copayment will help us reduce the use of physician services.” He showed them the results from a national study that showed a significant relationship between the amount of a copayment and the number of visits to a physician (See Exhibit 3), and recommended that Mr. Pasture consider implementing a larger copayment for each physician visit when the contract with Arc is renegotiated.

Faith Monroe, who works in Provider Relations, disagreed. “I don’t think a higher copayment is going to reduce the level of physician visits. The demand for health care services is a derived demand because it depends on the demand for good health. People don’t necessarily *want* to visit their physician, but they often *have to* in order to stay healthy. If we want to cut our costs, we will have to figure out how to pay the health care providers less.” Bluefield currently pays for health care services on a fee-for-service basis. Most of the area hospitals and physicians “participate” in Bluefield’s health insurance plan. When Arc employees obtain health care services from participating health care providers, the providers are reimbursed for their costs directly by Bluefield. Several factors have increased health care costs over time, including the growing availability of medical technology, such as magnetic resonance imaging (MRI), and increased medical malpractice litigation.

Ms. Monroe suggested that Mr. Pasture consider negotiating with physicians to lower the costs of the services provided. “I’ve heard that some managed care plans have cut deals with physicians to lower their charges by 10-25 percent,” she said. “Physicians have accepted these deals because if they don’t, they could be cut out of the health insurance plan and they could lose all their patients.” Mr. Langdon conceded that this might be possible, but expressed his concern that if participating physicians accepted a lower amount per visit, they might reduce the quality of care they provide to Bluefield’s members.

Mr. Pasture dismissed his staff. Eager to resolve this issue, he phoned your consulting company for assistance. Bluefield’s executives would need a full report of the current situation and evaluation of his staff’s suggestions to either (a) increase the copayment, or (b) implement a reduction in charges for physician office visits.

Required:

Prepare a report of Bluefield’s current financial situation and include an evaluation of the two options for controlling costs on the Arc Electric account. Use the guidelines for writing a report on the course web site.

You may wish to review the following LDC Concepts: Microeconomics 3 and 5, SOM 1, 4, and 7.

Exhibit 1
Monthly Report of Health Care Utilization
Total Costs Incurred - Arc Electric, Inc.

Category of Service	**July 2006**	**August 2006**
Hospital Services– Inpatient	203,425	212,250
Hospital Services – Outpatient	182,440	180,700
Surgical Services	101,250	103,400
Physician Office Visits	337,900	391,450
Administrative Expenses	90,000	90,000
TOTAL	915,015	977,800

Number of members, July 31, 2006: 3912
Number of members, August 31, 2006: 4137

Exhibit 2
healthcare.xls- will be provided on the course website.

Exhibit 3
Sample Means for Annual Use of Health Care Services

Copayment Level	**Physician Visits Per Capita**
$10	6.3
$15	6.0
$20	5.7
$25	5.4
$30	5.1
$35	4.8

Source: "Demand for Health Care Services at Different Copayment Levels: Results Based on a National Study of Health Insurance Enrollees"