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EXCLUSIVE REPORTS

Colorado HMO membership off by 22 percent this year

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The number of people in health maintenance organizations (HMOs) in Colorado continues to fall, dropping by an unprecedented 338,000 members in 18 months.

From the end of 2001 through this June, Colorado HMOs lost 22 percent of their membership, according to Colorado Managed Care Review 2003, which was released this week. HMOs cover about 1.2 million Coloradans.

However, Colorado HMOs already have posted \$93 million in profits in the first half of 2003, a number fueled in part by four straight years of double-digit premium increases.

The cost of health insurance is a chief concern of Colorado companies. Nearly 60 percent of the state's small businesses saw health insurance premiums rise 20 percent or more in 2003, according to a recent survey by the National Federation of Independent Business.

The increasing popularity of preferred provider organizations, or PPOs, and the shift away from HMOs in government programs Medicare and Medicaid may be to blame for the drop in membership.

HMOs are the most restrictive form of health insurance because they limit members' choice of doctors and hospitals to those in the plans' network.

In recent years, employers have favored giving workers more choice, even opting for new, so-called consumer-driven plans where employees tap an employer-sponsored health spending account for, say, the first \$1,000 of care. When that is gone, they pay out of their own pockets for perhaps the next \$500 worth of care. Then managed-care coverage may kick in.

The use of HMOs in the health care system has gone through phases, said Westminster insurance broker Bobbi Carbaugh, and now it appears they are being phased out.

"Consumers don't like having health plans in control," Carbaugh said. "Then the HMOs came out with capitation and the doctors therefore were the ones that were in charge of containing cost, and that failed because a doctor doesn't want to make that kind of decision."

Under traditional risk -- or capitated -- arrangements, a managed-care company pays doctors and/or hospitals a set amount for treating a certain number of patients for a specified period. If the doctors or hospitals spend less to provide care, they keep the difference as profit. If they spend more, they lose money.

According to the report's author, Allan Baumgarten, there has been a sharp move away from capitation, which created incentives for providers to deliver care more efficiently. In 2002, about 18 percent of the payments to doctors and hospitals were through capitated contracts, down from nearly 38 percent in 2000.

"Now we are in the third phase, which is actually going back to the consumer, and the consumer now is making the decision," Carbaugh said. "The consumer directly is determining how they are going to spend their dollars."

In 2002, HMO enrollment in Colorado dropped 12 percent, to 1.38 million from 1.57 million, compared to 2001. In 2001, HMO enrollment dropped 3.8 percent compared to a year earlier.

"Employers are leaving their HMOs. Plans like Anthem and United are encouraging them to move to PPO and POS products," said Baumgarten, a Minneapolis-based health care consultant. "You have much more benefit flexibility ... you can pass on additional costs" that many states don't allow under HMO plans.

Employers are not the only ones backing away from HMOs.

Insurers have reduced their participation in Medicare HMOs, which serve people 65 and older, and the state has shifted away from HMOs in the Medicaid program, which serves children, the blind, the disabled and people eligible to receive federal income assistance. Only two HMOs still have contracts with the state to serve Medicaid patients.

Colorado HMOs made \$102 million in 2002, up from \$2.9 million in 2001.

In 2002, HMOs collected an average of \$189.55 in premium revenue per commercial member per month. That's up more than 20 percent from \$157.27 in 2001. Four years ago, plans collected an average \$122.79 per member per month.

"We are getting to a stage where premiums are moderating but I don't think we are ever going to see a situation like in the mid-'90s when we saw 0 percent to 2 percent increases," Baumgarten said. "They took risks in the mid-'90s to grow market share."

The data from his report is drawn from information HMOs submitted to the Colorado Division of Insurance. About one-third of Coloradans are covered by an insured HMO plan, but most receive benefits through PPOs and other plans for which there are not similar reporting requirements.

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