Managed care companies seek help, advice from reinsurers

A rapidly changing market for managed care companies is altering the relationship between medical reinsurers, reinsurance brokers and their clients.

As managed care companies deal with opportunities such as a reinvigorated Medicare market, they will need more help and advice from their reinsurance partners about how to make the best of those opportunities, reinsurers and brokers say.

And, they say, as the cost of medical treatments rise, managed care organizations are increasingly likely to turn to the experience and expertise of reinsurers to help them deal with issues such as catastrophic claims.

Health insurers also are reviewing how they buy their reinsurance coverage.

One of the biggest changes that managed care organizations will face over the next year is providing increased coverage for Medicare beneficiaries.

Starting next year, Medicare Advantage plans will have to provide more benefits, such as prescription drug coverage, and will have to demonstrate improvements in quality of care and cost savings to reap the financial rewards of this market. The Medicare Modernization Act of 2003 increased funding to Medicare Advantage plans by $1.3 billion over two years. That measure made it more attractive for HMOs to enter the market or return after having pulled out when Congress held base annual rate increases to 2%.

Medicare Advantage plans are health plans that contract with the federal government to provide coverage to beneficiaries who opt out of the traditional Medicare program. Nationwide, more than 400 Advantage plans either already exist or have been approved by the Centers for Medicare and Medicaid Services.

“I think what's happening is that managed care entities are going to be going through a pretty major shift due to the Medicare Act,” said Steven Abood, senior vp, underwriting manager, for American Re HealthCare in Princeton, N.J.

"The impact on some managed care entities will be dramatic," Mr. Abood said. "For the first time in a long time, these entities have an opportunity for growth and innovation."

There is one caveat to this sizzle in the market, however, said Mr. Abood. The CMS is creating special needs programs that allow HMOs to serve a specific market segment, be it “dual eligibles”-those eligible for both Medicare and Medicaid—or a population with a specific health problem, such as diabetics, Mr. Abood said. But “managed care entities don't have experience managing this type of risk," he said.

Bringing the health insurers up to speed on the new risks is part of the expanding role of medical reinsurers and reinsurance brokers and intermediaries. The HMOs need new strategies for navigating not only the Medicare segment but the entire marketplace in an era of medical inflation.
Large claims

In particular, reinsurers are helping managed care companies deal with the issue of infrequent large claims.

Michelle Fallahi, vp of medical and managed care reinsurance for ING Re in Minneapolis, said HMOs are using the approach that has been traditionally used in excess medical reinsurance contracts for indemnity plans. That approach is to set a high deductible, say $500,000, with a small coinsurance, Ms. Fallahi said.

"HMOs started on a different track," she said. Those plans told reinsurers that their rates should reflect the cost-saving contracts they negotiate with providers.

In response, reinsurers designed contracts with internal limits, such as a daily rate for inpatient days. But as HMOs started loosening their in-network rules to compete with preferred provider organizations or were hit with more catastrophic claims, the insurers weren't "getting the bottom-line protection they thought they would get," Ms. Fallahi said.

To ameliorate that situation, HMOs have started moving toward accepting a higher deductible in exchange for the removal of internal daily limits.

That change means they need more from their reinsurers and brokers. "We do try to impact outcomes and try to manage risks," Ms. Fallahi said. "We're always trying to manage this very unusual low-frequency, high-dollar claim. If you only have one heart-lung transplant every three years, you need help managing that."

Managing risks "takes a lot of communication between the broker and reinsurer," said Dave Kalb, vp of broker Evergreen Re in Minneapolis. The broker must go over the "nitty-gritty" terms of the insurance contract and ensure that in analyzing the risk, reinsurers use relevant data that correlates to the HMO's experience, Mr. Kalb said.

Tony Plampton, president of intermediary Re-Solutions in Minneapolis, said there is not "a real shift in how plans buy reinsurance," but he agrees that they want intermediaries, brokers and reinsurers to help manage large claims such as big-ticket prescription drugs.

That need is changing the intermediaries' role, Mr. Plampton said. "We need to become more consultative in our approach," he said. Toward that end, Re-Solutions has searched for vendors that can partner with clients in providing more cost-effective care.

The intermediary partners with Phoenix-based PBM-Partners Rx, which "uses the WellPoint Anthem PBM but builds an effective front-end interface," Mr. Plampton said. "There are no hidden deals" with PBM-Partners Rx, Mr. Plampton said. The PBM shares its results with the clients.

Re-Solutions also offers its clients the ITA Partners cancer management program. ITA works with insurers in identifying better cancer management protocols and centers of excellence.

These management programs provide a valuable national perspective to regional HMOs, Mr. Plampton said.

Another example of the expanded services intermediaries are offering is Re-Solutions' medical management advisory program, which is a group of services that, among other things, examines health plans' internal case management procedures. "What we're trying to do is bring (clients) the tools," Mr. Plampton said. Intermediaries "don't get down in the trenches," he said, but we are involved in so many different areas" of the health care market. "We get a good feel for the industry as a whole and what's proving to be effective and what isn't," he said.

Wider experience

The broad perspective of brokers and reinsurers is crucial in this era of medical inflation. Managed care plans "want an organization that can better predict and manage their risks in providing health care services," said Carl Adamek, president, Health Products Division, Allianz Life Insurance Division of North America in
"Large-dollar events do happen with regularity," Mr. Adamek said, citing organ transplants as an example. Allianz works with insurers by negotiating contracts with what the reinsurer considers the best organ transplant facilities. "The program we do is not a carve-out program. It's integrated into the reinsurance program as a true value-added at no cost to the managed care organization," Mr. Adamek said. The reinsurer also partners with other disease management and neonatal care companies.

It's important for insurers to have a long-term reinsurance partner. "What we do is take a long-term approach in looking at their risk," Mr. Adamek said. "When you have a long-term view, it is not necessary to react by raising rates the first time there's a (catastrophic) claim."

In addition to the catastrophic claims, HMOs and their brokers have taken steps to control their overall costs through more comprehensive coverage and negotiating other terms with reinsurers.

The combination of higher deductibles with no internal limits not only keeps rates stable but enables managed care organizations "to more accurately predict their recoverables," said Ms. Fallahi of ING Re. That trend is increasing but still is not employed by most HMOs, said Evergreen Re's Mr. Kalb. About "70% of plans still have internal limits, but that's down from 100%," he said. The problem with traditional HMO reinsurance is that out of network claims, which account for a significant amount of an HMO's covered expenses, are not eligible for reinsurance. Additionally, coverage based on site of service can fall tremendously short. The gap can be huge when covering many high-cost injectables used in chemotherapy, kidney dialysis or in treating Gaucher's disease, for which enzyme replacement therapy can cost up to $40,000 a treatment, Mr. Kalb said.

"There always has been a lot of incongruity between what the health plan pays and what reinsurers allow," he said.

Reinsurers wanted to keep low internal limits to make their costs more predictable, Mr. Kalb said. "They were concerned that the companies that wanted the limits removed were the companies that were not managing their cases and costs as well."

Now, reinsurers are responding to the need for higher-dollar coverage, Mr. Kalb said. "About four years ago, we'd be lucky to get one company to offer full coverage. Now there are five," he said. Now those that still impose limits will go up to $8,000 or even $10,000, up from $5,000 the broker said.

Profit sharing

In addition to greater capacity and removal of low internal limits, HMOs also are looking for contracts that allow them to share in the reinsurers' profits, said Allianz's Mr. Adamek. Under such an agreement, if an HMO's claims for a given year are better than expected, they get some money back.

Another strategy that some see increasing is the use of carve-out programs to more effectively manage such high-cost generators as transplants and neonatal and trauma care. A carve-out program is one that handles a specific type of high cost risk. "The possibility of seeing cases over $1 million is getting statistically greater," Mr. Kalb said. "The reality is that the cost side is going through the roof and putting more risk onto the health plans." General HMOs don't have the expertise to analyze or manage costs in these areas as well as specialty centers of excellence, he said.

Not everyone agrees that carve-outs do the job.

"I think what it's going to boil down to is, can you get some cost-benefit from the carve-out?" said Mr. Plampton of Re-Solutions.

Carve-outs are a wash in terms of cost control, said Jeff Argotsinger, product leader at GE Insurance.
If you pay for the carve-out and pay for reinsurance, the move is likely to be cost-neutral, Mr. Argotsinger said. "You haven't really done anything except move cost to another vendor."

Reinsurers have to sort out the new risks to set rates. Mr. Plampton expects insurers to pay reinsurance rate increases of between 10% and 20% at the next renewal and find their reinsurers tightening terms. In 2004 and 2005, medical inflation outpaced reinsurance rate increases. "There is definitely going to be a push that health insurers get an increase in line with medical inflation," he said.

Mr. Adamek said he expects pricing will be competitive going into 2006. The leveraged trend for catastrophic reinsurance, which means the impact of inflation on the reinsurer's excess of loss liability, is more than 15%. Based on that, Mr. Adamek expects the industry to average 8% premium hikes on reinsurance renewals.

With the challenges managed care companies are facing, "the types of services that reinsurers can offer will be ever more important," said Ms. Fallahi of ING Re, which currently is doing a case-management benchmarking survey at clients' request.

"The days of a once-a-year reinsurance transaction are over," she said.