

**Providing Insights
that Contribute to
Better Health Policy**

Rising Costs Pressure Employers, Consumers in Northern New Jersey Health Care Market

by

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Preview of Findings

- Hospitals' financial health improves
- Financial threats pressure physicians to respond
- Health plans focus on profitability
- Employers seek relief, but see few options
- Safety net healthier, but tenuous

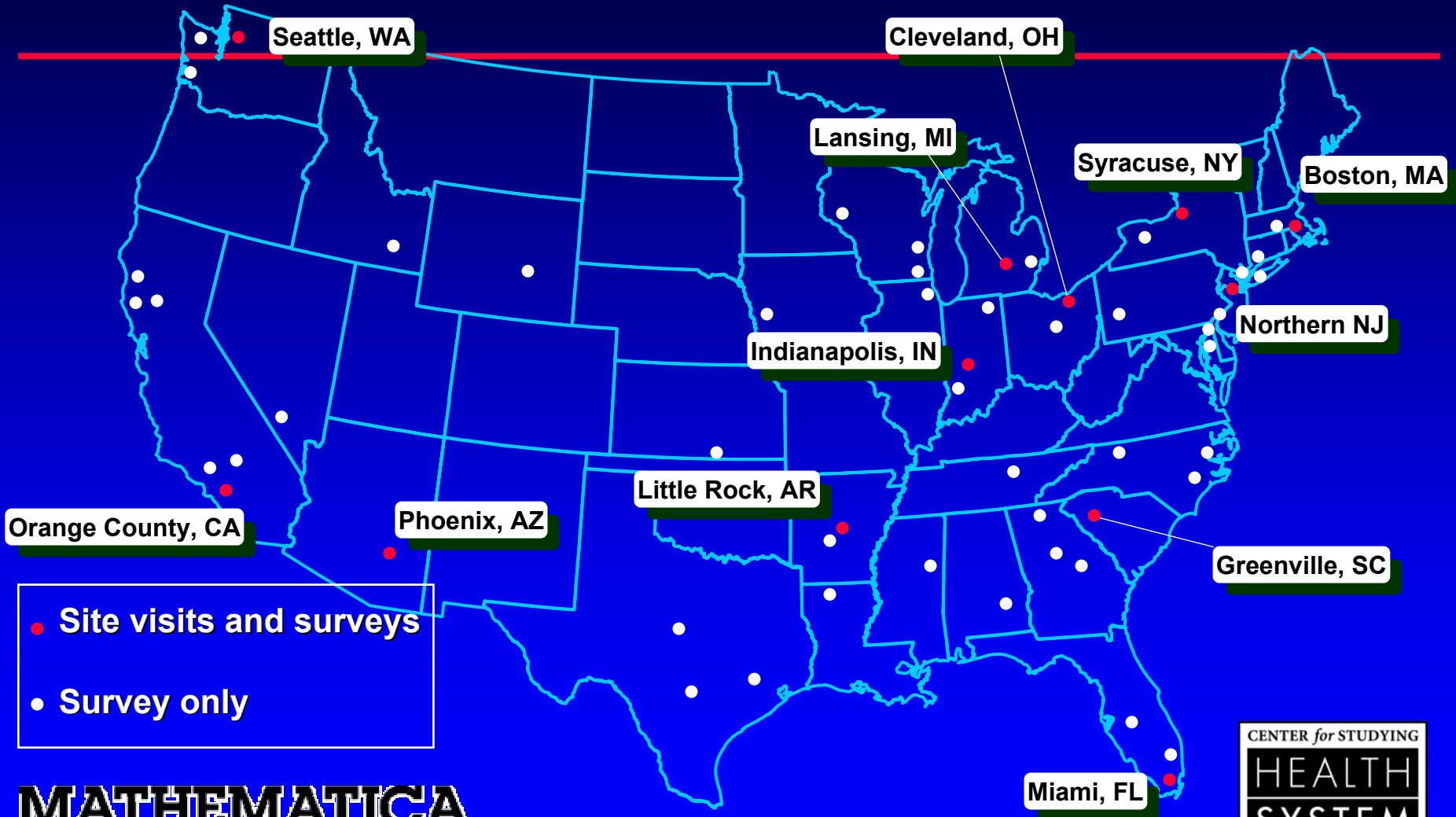
Presentation Overview

- **Methods**
- **Background/Longitudinal Context**
- **Findings/National Context**
- **Conclusions**
- **Issues to Track**
- **Questions**

Community Tracking Study

- Longitudinal design
- Multiple data sources
 - site visits
 - surveys (households, physicians, employers)
- Community focus
 - 60 nationally representative communities
 - 12 randomly selected site visit communities
- Support from the Robert Wood Johnson Foundation

Community Tracking Study Sites



Northern New Jersey Site Visit

- Site visit conducted October 14-18, 2002 (previous visits in 1997, 1999, and 2001)
- Market = Newark PMSA
- 8-person site visit team
- Approximately 80 interviews completed

Site Visit Team

- Debra A. Draper, MPR
- Jack F. Hoadley, Georgetown University
- Jessica Mittler, MPR
- Sylvia Kuo, MPR
- Gloria J. Bazzoli, Virginia Commonwealth University
- Peter Cunningham, HSC
- Len Nichols, HSC
- Taryn Eckstein, MPR

Selected Demographics

Demographic	Northern New Jersey	Large Metropolitan Areas
Persons > Age 65	12%	11%
Median Family Income	\$37,636	\$31,883
Persons Living in Poverty	10%	12%
Persons Without Health Insurance	12%	13%

Health Plans

- **12 plans currently operate in the market**
- **Enrollment leaders: Horizon BCBS, Aetna, Health Net, AmeriChoice, and Oxford**
- **3 Medicaid-focused plans – AmeriChoice, Amerigroup, and Centene**
- **Less restrictive products (e.g., PPO) are dominant**

HMO Penetration

Year	Northern New Jersey	Large Metropolitan Areas
2001	31%	37%
1999	25%	38%
1997	17%	35%

Providers

- 2 large suburban-based hospital systems dominant – Atlantic and St. Barnabas
- 3 urban-based safety net systems – Trinitas, Cathedral, and University Hospital
- Not-for-profit
- Fragmented physician market

Selected Hospital Statistics

Statistic	Northern New Jersey	Large Metropolitan Areas
Staffed beds/1,000	4.00	2.52
Adjusted I/P admission/1,000	202.87	180.43
O/P visits/1,000	1809.46	1697.43
Occupancy rate	64.37	64.70

Selected Physician Statistics

Statistic	Northern New Jersey	Large Metropolitan Areas
Physicians/1000	2.21	Not Available
% physicians in 1-2 physician group	56.11	35.52
% physicians in 3+ physician group	25.48	28.79

Employers/Purchasers

- Generally passive and unorganized
- Preferences for broad and inclusive provider networks; flexibility and choice for workers
- Strong union presence
- Faltering economy

Safety Net

- Key institutional safety net providers are Cathedral Health System and University Hospital
- Community health centers
- Public health insurance expansions
- \$381 million charity care pool (statewide)

Regulatory Environment

- New Jersey is a heavily regulated state
- Insurance mandates are prevalent

Hospitals' Financial Health Improves

- **Urban-suburban differences remain**
- **Hospital consolidation results in leverage gains and higher payment rates**
- **Capacity expansions, despite health care personnel shortage**

Across CTS Markets...

- **Providers, particularly hospitals, win higher payment rates due to consolidation, demand for inclusive networks, and capacity constraints**
- **Providers look to health plans to make up declines in Medicare and Medicaid reimbursement**
- **Capacity expands across markets, despite widespread shortages of health care personnel**

Financial Threats Pressure Physicians to Respond

- Medical malpractice insurance issues
- Higher payment rates from plans sought, but physicians lack the clout necessary to win significant gains
- New financial opportunities are sought by physicians to shore up their revenue – e.g., investment in specialty facilities

Across CTS Markets...

- **Medical malpractice insurance issues vary in intensity across states**
- **Concerns of eventual impact on access/network stability**
- **Specialty service competition between hospitals and physicians increase**

Health Plans Focus on Profitability

- Aggressive underwriting; exiting unprofitable lines of business
- Movement away from risk arrangements
- Re-implementation of selected utilization and cost containment strategies
- More intensive care management

Across CTS Markets...

- Health plan profitability increases
- Exits from M+C and Medicaid continue
- Markets move away from risk-based payment and focus more on incentive-based arrangements
- PPOs emerge as the platform of choice for health insurance products

Across CTS Markets (cont'd)...

- Plans dabble in new product development (e.g., tiered networks), but limited take-up as yet
- Product customization increases
- Utilization and cost management strategies remain weak
- Care management strategies focus on the sickest members

Employers Seek Relief, But See Few Options

- **Low cost-sharing requirements**
- **Strong union influence limits employers' ability to cost shift to workers**
- **Market preferences for broad networks and less restrictive insurance products limits employers' response to premium increases**

Across CTS Markets...

- Double-digit health insurance premium increases are commonplace
- Employers shifting more health care costs to their workers
- Labor markets are looser
- Employers look to new consumerism movement to help control health care costs

Safety Net Healthier, But Tenuous

- Extensive expansion of public health insurance programs (e.g., Family Care)
- Institutional providers show financial improvement
- Changing demand for charity care services
- State budget deficit may force rollbacks

Across CTS Markets...

- **Safety net providers are stronger and more stable, but states' budget crises threaten gains**
- **Extensive public health insurance expansions have helped bolster the safety net**
- **Limited new federal monies have aided CHC expansion efforts**

Other Notable Findings

- **Horizon BCBS positions itself for conversion to for-profit status**
- **Horizon BCBS and Aetna introduce M+C PPOs**
- **Publicly-traded Medicaid plans move into the market – Centene, Amerigroup, and AmeriChoice (United)**

Summary of Key Conclusions

- Health care costs escalate
- Hospitals use leverage to gain higher payment rates; physician fragmentation fails to yield similar results
- Physician-hospital competition increases
- Health plans focus on improving profitability
- Employers absorb majority of cost increases
- Safety net improvements are tenuous in light of state budget crisis

Key Issues to Track

- **Leverage – who will have it and how will they use it? What effect will it have on the market?**
- **How will rising medical malpractice insurance premiums and Medicare payment cuts ultimately affect physician supply?**
- **What steps will employers take in response to escalating costs? What will be the impact on workers?**

Key Issues to Track (cont'd)

- **How will the state's budget crisis play out? What will be the impact on the state's public health insurance programs? The safety net?**
- **What impact will the conversion of Horizon BCBS have on the market?**