file
-Competitor File

COMPETITOR ALERT

DATE: DECEMBER 30, 1994

TO: DISTRIBUTION

FROM: BRYANT HARNER, COMPETITOR ANALYST
MARKET RESEARCH DEPARTMENT

Development: Columbia/HCA Wins Renewal of Lee County Employer Group

Details: The Lee County Health Plan has extended its contract with Columbia/HCA Healthcare Corporation to provide health care for the county's employees for the next three years. The plan is the largest employer group in Lee County, located in southwest Florida. Fort Myers and Cape Coral are it's two largest cities. Until 1993, approximately two-thirds of the group were PPC policyholders, with the other one-third enrolled in Aetna's HMO. Using Executive Risk Consultants as the third party administrator for its network of physicians and hospitals, Columbia/HCA submitted a bid for the Lee County Health Plan coverage and won a one-year $10 million contract in October 1993.

Using its Southwest Florida Regional Medical Center and Gulf Coast Hospital, both in Fort Myers, Columbia/HCA provided health care for more than 6,000 people and claimed to have saved the county $2 million compared to the previous arrangement. The new three-year contract is worth $37.5 million. The county hopes to save an additional $1 million over the life of the contract.

Implications: The Lee County plan is one of a limited number of directly contracted arrangements between Columbia/HCA and employers. There are eight hospitals in Lee County and Columbia/HCA owns two of them. The company has the capacity to pursue similar arrangements in South Florida, the Panhandle area, and Orlando. The same scenario is possible in certain areas of Texas as well. The fear is that Columbia may begin directly contracting with employers on a statewide basis. The Lee County renewal will add fuel to those fears.

Development: Humana Prepares to Reapply for NCQA Accreditation

Details: Stung by a denial from the National Committee for Quality Accreditation (NCQA) in August, Humana-South Florida has undertaken several steps to improve its chances of accreditation. The plan had its NCQA site review in July 1993 and became the first big South Florida plan to be denied NCQA accreditation in August 1994. Since then, systems have been put in place for collecting better data on providers and their patient encounters. In addition, a new physician credentialing program has been implemented. Even though the NCQA only requires that physicians be recredentialed every two years, all Humana-South Florida providers are being required to fill out newer, more extensive credentialing forms.

One month after the NCQA rejection, Heatlh Care Financing Administration (HCFA) investigated Humana-South Florida's Gold Plus Medicare HMO plan to determine if existing compensation arrangements and utilization review procedures were resulting in under utilization and restricted access to care. Out of that investigation came an additional emphasis on monitoring and collecting encounter data as well.

Implications: The NCQA denial came largely as a result of problems in care monitoring systems rather than the quality of care itself. Areas of concern included the HMO's ability to track data, physician oversight, and member access. Humana is expected to receive accreditation when it reapplies to the NCQA. HCFA presented a much more serious problem for Humana's Gold Plus plan. If any egregious violations of Title 13 of the Public Health Service Act had been discovered, HCFA could have moved to sanction Humana. Thus far, no violations have been found.

Development: Aetna Details Its Future Strategies

Details: At a Blue Cross Blue Shield association strategic marketing conference held in Chicago November 9th and 10th, Aetna's Vice President of Sales Ken Malcolmson provided a candid look at long term strategic plans for Aetna Health Ways, the company's new venture.

HealthWays is the name of a new health delivery system in which Aetna owns and operates medical clinics. The doctors on staff are employees of the insurance company. Other carriers, including CIGNA, MetraHealth, New York Life subsidiary Sanus Corporation, and Blue Cross Blue Shield of New Jersey are pursuing similar programs by buying or developing physician practices. Aetna is making a $1 billion commitment in HealthWays to build and buy physician networks and open primary care medical clinics. The program is operational in Atlanta, Chicago, Baltimore, Washington DC, Charlotte, Cleveland, Houston and New Jersey.

By owning the physicians and clinics, Aetna has created a focused network with greater cost management. The HealthWays product is being targeted at small businesses that are willing to sacrifice a wider choice of doctors for lower premiums. The critical success factors for the medical clinics are a patient/customer focus, quality of the staff, good location, integration with Aetna's existing networks, cost management of medical and operating expenses, and growth in membership.

Aetna plans to market HealthWays through HMO, POS, and PPO plans of its own, but will also accept patient's from other fee-for-service and contracted plans. The ratio of PCPs to patients is 1 to 2,000, allowing for greater patient focus. Patients are asked to fill out questionnaires to determine whether they are pleased with their physicians, as well as other aspects of their care, such as how long they waited to see a doctor. If the amount of time a doctor spends with a patient becomes a key indicator of quality, Aetna will increase the patient-to-physician interface.

It's pricing strategy, which features a target cost structure 15% below existing IPA HMO models, results from efficient cost management. There will be considerable outcomes management and utilization monitoring. Promotional ideas include wellness plans, offering pre-employment physicals, coupons good for free health screening or waiver of deductible for office visits, direct mail leads, local media advertising, and an emphasis on the local aspect of the plan.

Overall, HealthWays represents a shift from distribution channels consisting of agents, brokers and consultants to producers and direct leads; from national advertising to advertising that is local in scope; from centralized product development to product development that is locally influenced, from centralized pricing development to a localized pricing structure, and from a target segment of large multi-site groups to segmentation that includes small and middle sized groups as well as large multi-site groups.

Implications: In an effort to further control costs, insurers are becoming increasingly involved in the delivery of health care while maintaining their traditional role as benefit payors. Several large insurers, such as Aetna, CIGNA, MetraHealth, Prudential and Foundation Health have pursued clinic development and physician practice acquisition. Those companies can make the large long term capital investments towards developing a network of medical centers that smaller insurers can't. CIGNA plans to spend $150 million to buy or open 400 centers. Insurers compete against firms such as PhyCor and Coastal Healthcare in vying for physician practices for building networks.