

HEALTH POLICY BULLETIN

FOCUS: HMOs IN THE RED

Slightly more than half of the nation's 626 HMO plans lost money last year. In Michigan their plight is even worse--16 of the 24 HMO plans operating here lost money in 1986. Altogether, Michigan HMOs reported losing a net \$11.1 million on revenues of \$1 billion. The plans served 1,315,428 people, one of every seven Michiganians.

Blue Cross and Blue Shield of Michigan is the largest operator of HMOs in the state. The seven Blues' plans enroll 441,433 subscribers, one-third of all HMO enrollees. According to reports filed with the insurance commissioner, the Blues' HMO operations suffered a net loss of \$10.8 million on revenues of \$348.3 million.

When asked if he had concerns about the solvency and stability of the Blues' HMOs, Gonzalo Llano, financial analyst for HMOs in the Insurance Bureau, said, "No, we are not any more worried about them than we are about anybody else who is losing money. They are not so far out of line--HMOs all over the United States are losing money, mainly because they are bumping heads with insurance carriers who can experience rate [base rates on the medical experience of the individual enrollee] rather than community rate [charge all enrollees the same rate regardless of their age, health, or other risk factors], and they're competing with other HMOs." Llano also noted that "rates were as low as possible, probably lower than they should be. Utilization is not on a rampage, but inflationary costs aren't being reflected in the rates. If the trend continues, we'll see fewer HMOs." Overstaffing, high administrative costs, and losses in individual Medicare Risk plans are also important factors in HMOs' financial problems.

Some employers believe that it is their youngest and healthiest employees who enroll in HMOs; because HMOs community rate, employers feel they are paying high dollars for low utilization. Hence, some businesses are clamoring for HMOs to change to experience ratings. With or without changes in rating policy, it is certain that HMOs will try to improve profitability by raising their rates in contracts they negotiate with employers this year.

FOCUS: FORD-UAW CONTRACT HEALTH BENEFITS

Auto industry and labor union observers expect the recent agreement between the United Auto Workers and the Ford Motor Company to set the pattern for the entire U.S. auto industry. According to a recent UAW newsletter, changes in the health benefits package are substantive and significant, and almost all are in the direction of expanding nonhospital benefits and developing pilot programs to improve quality of care and cost effectiveness.

Two major changes expanded the hospice services pilot program to national benefit status and initiated a pilot program in long-term care. Hospice programs will become available as providers are selected by Ford and the UAW. The objective of the long-term care pilot is to reduce institutionalization of severely impaired persons by expanding coverage for in-home and nursing care services.

Dental and eye care, mental health services, prescription drugs, psychological testing and evaluation, and special benefits for dependent children through age nineteen were all expanded. Company payment of Medicare Part B premiums has been

increased. Finally, retirees were given greater flexibility to switch company-paid insurance when they change permanent residences.

The Big Three and the UAW will continue to negotiate only with inpatient providers who can demonstrate that they provide both quality and cost-effective care.

OF INTEREST

According to Roger Smith, chairman and chief executive officer of General Motors, rumors of the demise of the Economic Alliance are premature. At a sparsely attended press conference on October 14, the Alliance announced its priorities: improving the business and labor climate in Michigan through health care cost containment and assuring the solvency of the Michigan Unemployment Insurance Trust Fund.

Elsewhere in health care, in the next thirty days, look for

- the legislative stalemate on the Medicaid budget to continue. House and Senate perspectives diverge widely. The House leadership argues that the budget depends on what revenues will be available to fund it. The Senate position is that the budget ought to be passed and adjustments made later if revenues are inadequate;
- the House Committee on Insurance to expand its work on Alzheimer's disease legislation to include a study of long-term care insurance benefits;
- behind-the-scenes negotiations between the MDPH and the MHA to produce agreement on certificate of need reforms. The real stumbling block could be selling the agreement to their respective constituencies;
- the Senate to debate occupational therapy (SB 293), counselor licensing (SBs 386-387), and anatomical gifts (SB 481) measures;
- the House Committee on Public Health to report out fetal alcohol syndrome bills (HBs 4644-4646).

Gloria Smith, Ph.D., director of the Michigan Department of Public Health, announced her resignation effective January 1, 1988. During her tenure, the department developed major state initiatives to reduce infant mortality and combat AIDS. Dr. Smith will become the Dean of the College of Nursing at Wayne State University.

If Governor Blanchard names an acting director while the search for a new permanent head is under way, he may follow past practice and name the highest ranking physician in the department; that person is Deputy Director James Harrison, M.D.

The Governor's Task Force on Access to Health Care met last week for the first time. Co-chairs Patrick Babcock, director of Michigan's Department Social Services, and Walter Maher, Chrysler Corporation's director of employee benefits, divided the task force into three subcommittee: Problem Identification and Needs Assessment; Current Program; and Finance and Delivery. All sectors, including payers, providers and consumers, will be represented on each subcommittee. The tentative charges to the subcommittees will be clarified and, if necessary, expanded by the members at their first meetings, which are likely to take place in early December.

--Frances L. Faverman
Editor