Primary Care Spending in Rhode Island

Health Insurer Compliance & Initial Policy Effects

September 2012

ABOUT THE REPORT

Primary Care Spending & OHIC's Affordability Standards

This report examines the actual and predicted performance of the state's three largest health insurers against their primary care spend targets, as required by the Office of the Health Insurance Commissioner's (OHIC) Affordability Standards, explained further on page 7. The report reviews data submitted by Blue Cross Blue Shield of Rhode Island (BCBSRI), Tufts Health Plan (Tufts), and United Healthcare (United). The data reflect the money the *insurers* spent on primary care; it does not include patients' share of payments.

The primary care spend standard represents a core component of OHIC's strategy to facilitate delivery system reform in Rhode Island by bolstering the state's primary care infrastructure and promoting more efficient, affordable health care.

The standard requires insurers to improve the state's primary care infrastructure by increasing the share of total medical payments made to primary care by one percentage point per year from 2010 to 2014. Insurers are not allowed to turn this new spending into higher premiums. OHIC also sets the percentage of primary care spending that must be paid through means other than fee for service (FFS) rate increases.

Key Findings

- Insurers are hitting their targets: In 2011, BCBSRI and United met their the primary care spending targets and are predicted to do so in 2012 as well. Though Tufts does not yet have a target, it spent roughly the same percentage on primary care as the other two companies did in 2011.
- Primary care spending is rising while total medical spending is falling: Total primary care spending for commercial members increased by 23% while total medical spending fell by 18% (2007-2011). In 2011, insurers spent 8.0% of medical claims dollars on primary care, up from 5.4% in 2007.
- Patient Centered Medical Homes (PCMHs) and other non-Fee for Service (FFS) methods drive the rise in primary care spending
- Primary care spending will continue to grow. in the years ahead We must be thoughtful about how we spend this money.

Key Terms

Primary care spending: the amount of total premiums that an insurer spends on internal medicine, family practice, and other preventive and basic health services.

Affordability Standards: four insurer-specific criteria that OHIC developed with its Advisory Council in 2010 to spur meaningful improvements in the healthcare system.

Fee for Service: a payment system in which insurers pay one fee for every service a provider performs or orders; the standard way providers are paid for their services.

Patient Centered Medical Home (PCMH): a health care setting that promotes partnerships and coordinated care between individual patients and their physicians.

About OHIC

The Office of the Health Insurance Commissioner (OHIC) was established by legislation in 2004 to broaden the accountability of health insurers operating in Rhode Island. Under this legislation, the Office is dedicated to:

1. Protecting consumers
2. Encouraging fair treatment of medical service providers
3. Ensuring solvency of health insurers
4. Improving the health care system's quality, accessibility, and affordability

The office sets and enforces standards for health insurers in each of these four areas. It is the only state agency in the country that specifically oversees health insurance.

Insurers are Investing More in Primary Care

Figure 1:
Primary Care Spending as
Percent of Total Medical Spending, 2007-12

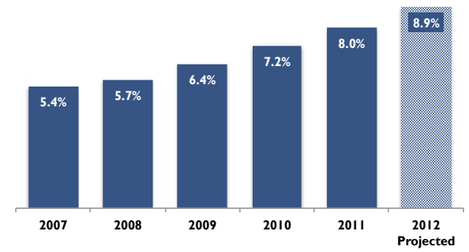


Figure 1 at the left shows primary care spending as a percent of total medical spending for the three largest commercial insurers. Data between 2007 and 2011 reflect actual spending while 2012 is a projection based on the first six months of this year.

The share of spending on primary care jumped by 52% between 2007 and 2011, moving from 5.4% to 8.0% *(projected 8.9% in 2012)* of total medical claims. In other words, insurers spent 8 cents of every fully insured commercial medical dollar on primary care services in 2011, compared to 5.4 cents in 2007.

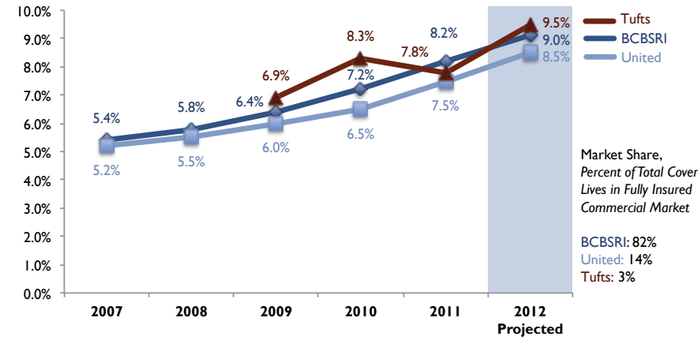
The office combined the data from each insurer's submission and calculated this display of market-wide trends. Each company also provides its own projection of total expected spending both on primary care and overall medical services, which the office combines to calculate the final projected figure.

How does primary care spending differ by company?

In Figure 2 to the right, we see the share of each insurer's medical spending dedicated to primary care between 2007 and 2011 (actual) and 2012 (projected).

As Figure 1 above demonstrated, insurers are spending more of their total medical dollars on primary care. What Figure 2 shows is that this increase is across the board: every insurer is committing more dollars to primary care.

Figure 2:
Primary Care Spending as Percent of Total Health Spending by Company,
2007-2011 (Actual) and 2012 (Projected)



The first Affordability Standard requires companies to increase primary care's share of total medical spending by one percentage point per year between 2010 and 2014. Indeed, BCBSRI grew from 7.2% in 2010 to 8.2% in 2011, and projects 9.0% in 2012. United spent 6.5% of its dollars on primary care in 2010, 7.5% in 2011 and projects 8.5% in 2012. Tufts, a new market entrant and without sufficient volume to establish a realistic target for the first year, has increased its primary care share from 6.9% in 2009 to a projection of 9.5% -- the highest of the three companies -- in 2012.

An insurer's spending on primary care as a percentage of total medical spending may increase for two reasons: either spending on total medical care falls faster than primary care, or primary care spending rises faster than total medical spending, as is the case here (see page 4 for more detail).

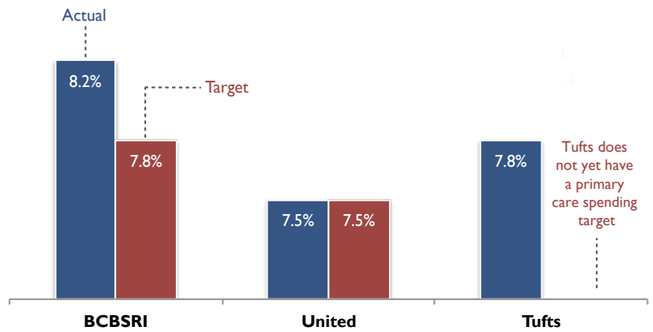
Insurers are hitting their primary care spending targets

The primary care spend standard requires each commercial insurer to increase the percent of total medical dollars that it spends on primary care for its fully insured members by one point per year from 2010 through 2014, over its 2008 base year level.

Figure 3 compares the each insurer's spending on primary care relative to total medical spending against its target. Tufts does not have a specified target for reasons explained below. OHIC monitors each issuer's primary care spending on a quarterly basis.

The primary care spending targets are designed to bolster the state's primary care infrastructure and bring primary care's share of total commercial medical payments to the level of comparable high performing health care systems.

Figure 3: Comparison to Primary Care Spending Targets:
Primary Care's Share of Medical Spending versus OHIC Standard (2011)



How did each insurer perform in 2011? What are their projections for 2012?

BCBSRI | In 2011, BCBSRI dedicated 8.2% of its commercial fully insured medical expenses to primary care, exceeding its target of 7.8%. If the company meets its 2012 projection of 9.0%, it will have exceeded its target in all three years of the standard's existence. BCBSRI's non-FFS portion of primary care spending rose from 13.5% in 2009 to 29% in 2011 (and projected 37.6% in 2012), driven largely by its investment in patient centered medical homes (PCMHs). In 2010-2012, 50% or more of BCBSRI's non-FFS investments in primary care went or will go toward PCMH development and expansion. In 2011, BCBSRI spent $1.3m on 16 Rhode Island Chronic Care Sustainability Initiaive (RI-CSI) sites, comprised of 78 providers. These funds include per member per month incentive payments, support for nurse care managers, and project management payments. The company will also spend $7.8m on its own, separate PCMH project, which encompasses 67 sites and 280 providers.

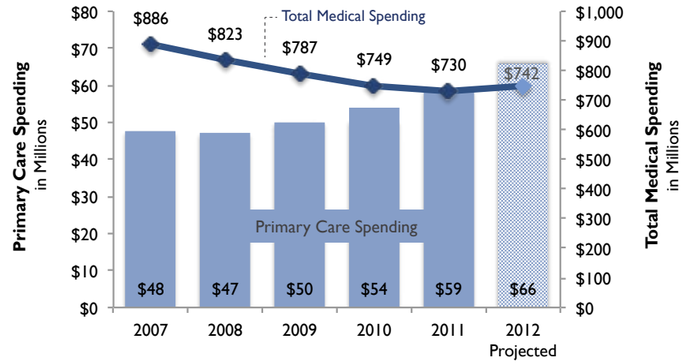
United | In 2011, United spent its target amount of 7.5% of its commercial medical expenses on primary care. The company projects this percentage to increase to 8.5% in 2012, which would again meet its target. The non-FFS proportion of United's primary care spending has increased from 5.9% in 2009 to 23.8% in 2011 (projected 32.6% in 2012), driven by investments in PCMHs. United provided $571,623 to 13 RI-CSI sites, representing 60 providers, and will provide $1m to separate PCMH programs in 2012. Other spending will include about $600,000 in the state's health information exchange.

Tufts | Tufts spent 7.8% of its commercial medical spending on primary care in 2011. Due to Tufts' recent entry into the Rhode Island market and comparatively low enrollment, it does not yet have spending targets. However, Tufts' proportion of primary care spending is comparable to United and BCBSRI on a percentage basis. Tufts' non-FFS investments in primary care rose from 0% of primary care spending in 2009 to 13.9% in 2011 and 2012, the lowest percentage of the three insurers. In 2012, Tufts spent $50,000 on 16 RI CSI PCMH sites representing 59 providers.

The companies have some latitude in how they meet their primary care spending targets. Consequently, the types of payment—FFS vs. non-FFS—and the structures that these payments support (PCMHs, electronic medical records, etc.) will vary with their relative importance within each insurer. See Tables 1 to 4 in the Appendix for a breakdown of non-FFS investments by

Primary Care Spending is Growing While Total Medical Spending is Falling

Figure 4:
Total Medical Spending and Total Primary Care Spending
2007-2011 (Actual) and 2012 (Projected)



As Figure 4 shows, primary care spending grew from $48m in 2007 to $59m in 2011 and $66m (projected) in 2012, despite the fall in total medical spending among privately insured members.

This overall decline in medical spending has several roots:

- The dampening effect of the recession and slow economic recovery on spending,
- The popularity among employers and members of leaner, cheaper benefit packages that shift more costs to the member and,
- The shift to self-insurance (which is not part of this report),

As Tables 1a and 1b show, higher primary care spending and falling overall medical spending in the fully insured commercial market together account for primary care's rising share of total medical dollars. Between 2007 and 2011, total primary care spending grew by 23% (for an annual growth rate of 5.3%), while overall medical spending fell by 17.6% (-4.7% annually). Companies predict the gap will widen in 2012: projections show that primary care spending will grow by another 13% while total medical spending will only grow by 1.6%

The 2012 primary care projections are significantly larger than previous spending, a welcome sign for the state's primary care infrastructure. As evidence, if we limit the analysis to actual spending only -- 2007 through 2011 -- insurers only grew their primary care spending by 5.3% annually, versus 6.8% if we include the 2012 projections.

Table 1a: Primary care spending by insurer, 2007-2011, projected spending in 2012

	2007 (actual)	2011 (actual)	2012 (projected)	% Change 2007-2011
BCBSRI	$38,303,868	$43,853,014	$50,547,324	14.5%
United	$9,296,316	$11,263,316	$11,753,378	21.2%
Tufts (2009)	*$2,524,630*	$3,513,889	$3,954,277	39.2%
Total	**$47,600,184** *(BCBSRI and United)*	**$58,630,219**	**$66,236,979**	**23.2%** *annual growth rate: 5.3%*

Table 1b: Total medical care spending by insurer, 2007-2011, projected spending in 2012

	2007 (actual)	2011 (actual)	2012 (projected)	% Change 2007-2011
BCBSRI	$708,861,592	$535,186,852	$561,740,023	-24.5%
United	$177,297,295	$150,048,226	$138,653,925	-15.4%
Tufts (2009)	*$36,716,117*	$45,209,103	$41,753,647	23.1%
Total	$886,158,887 *(BCBSRI and United)*	$730,444,181	$742,147,595	-17.6% *annual growth rate: -4.7%*

Insurers are spending more on non-FFS types of primary care investments

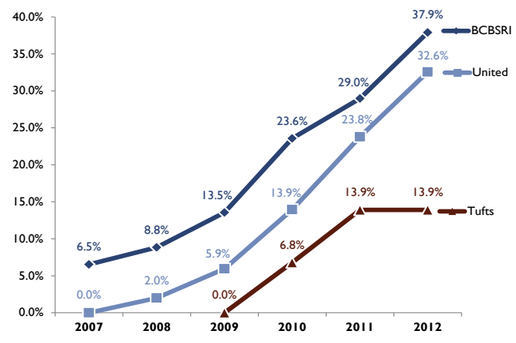
In addition to primary care spending's increase -- both overall and relative to total medical costs -- the spending is shifting in content. Between 2007 and 2012, the balance between fee for service (FFS) and non-FFS payments -- which reward the quality, rather than the quantity of care -- has shifted.

Figure 5 shows the proportion of each insurer's primary care payments that support non-FFS methods, discussed more in the "What is Fee For Service?" box below. Since 2007, non-FFS payments for primary care increased nearly ten times over, from $2.5 million in 2007 to a projected $23.4 million in 2012.

This shift to non-FFS payment supports comprehensive payment reforms across the health care system and reflects rising financial support for innovative medical care delivery, including patient-centered medical homes (PCMHs) and health information technology, the focus of the second and third Affordability Standards.

These non-FFS investments are significant because evidence suggests that PCMHs deliver higher quality care and cost savings relative to traditional practices. Preliminary evidence from the RI-CSI, the state's all payer medical home, showed better delivery of preventive care, increased patient satisfaction through enhanced access to providers and staff, and reduced use of high cost services. For example, rates of hospitalization fell 6% when compared with non-PCMH practices.

Percent of Primary Care Payments
Dedicated to Non Fee-For-Service Investments



Breakdown of Non-FFS Payments

Table 2 below shows the different types of non-FFS spending in 2011. While FFS payments, which generally involve enhanced rates to primary care physicians, are an essential component of a thriving primary care field, non-FFS spending is an investment in the foundation of a more coordinated, patient-centered primary care system.

As Figure 5 above shows, the portion of primary care spending dedicated to non-FFS methods is rising and is dominated by practice fees and infrastructure payments for PCMHs and incentive payments to providers. Together, these two categories represent 81% of non-FFS spending.

Other major types of non-FFS spending include grants to physicians for developing electronic medical records; investment in Health Information Technology (HIT); loan forgiveness for primary care physicians in training; and walk-in primary care clinics.

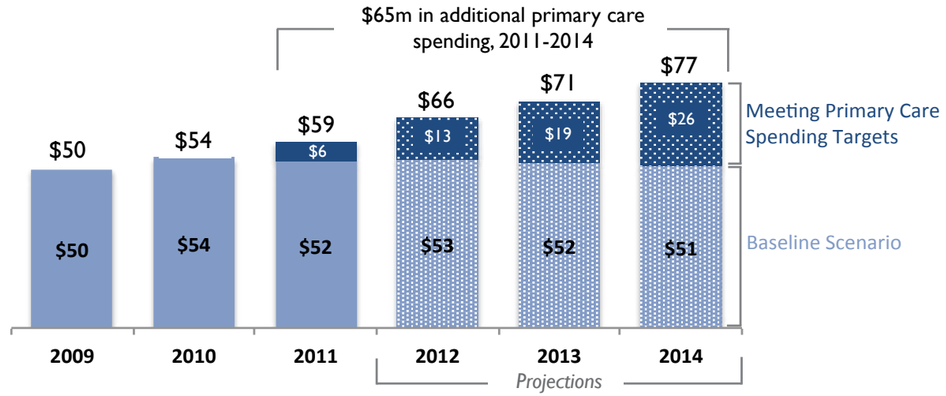
Each issuer contributes to the RI-CSI all-payer PCMH initiative. BCBSRI's medical home data also reflects spending on its own separate medical home project. Insurers also periodically make contributions to Rhode Island's loan forgiveness program for physicians, but did not do so in 2011. "Other" non-FFS expenses include quality incentive payments, behavior health investments, provider reporting, and other approved expenses.

Table 2: Types of Non Fee For Service Investments
2011 Spending and Contribution to Total Non Fee For Service Spending

		Medical Home	HIT	Loan Forgiveness	Incentive Payments to Providers	Practice Coaches	Primary Care Clinics	Flu Clinic	Other	**Total**
BCBSRI	2011 Spending	$6,471,208	$267,289	$0	$4,002,110	$661,000	$0	$0	$1,304,450	*$12,706,058*
	% of Non-FFS	*51%*	*2%*	*0%*	*32%*	*5%*	*0%*	*0%*	*10%*	
United	2011 Spending	$571,623	$102,000	$0	$1,820,000	$0	$186,000	$0	$0	*$2,679,623*
	% of Non FFS	*21%*	*4%*	*0%*	*68%*	*0%*	*7%*	*0%*	*0%*	
Tufts	2011 Spending	$38,329	$179,250	$0	$0	$0	$0	$0	$271,000	*$488,579*
	% of Non-FFS	*8%*	*37%*	*0%*	*0%*	*0%*	*0%*	*0%*	*55%*	
Total	*2011 Spending*	$7,081,160	$548,539	$0.00	$5,822,110	$661,000	$186,000	$0.00	$1,575,450	**$15,874,260**

Future primary care spending should further prioritize non-FFS investments

Total Primary Care Spending in Millions
Baseline Scenario vs. Meeting Primary Care Target



Baseline Scenario is actual or projected total premiums multiplied by primary care's market wide share in 2010

Through 2014, insurers will have dedicated $65 million more dollars to primary care than if they had continued spending at their 2010 rates. To meet the first of OHIC's Affordability Standards, described further below, insurers have raised the portion of premiums they spend on primary care services by one percentage point each year between 2010 and 2014.

This additional investment in our primary care system supports both higher rates to providers -- Fee For Service investments -- and enhanced care coordination through Patient Centered Medical Homes, electronic health records, loan forgiveness, and investments in the state's health information exchange, Currentcare.

It is critical that we consider how best to deploy these resources in the future, particularly in 2013 and 2014. From an affordability and quality standpoint, what is the most effective use of the health care dollar? As the chart on page 5 shows, insurance companies are increasingly prioritizing non-FFS investments, many of which have the potential to transform our healthcare system.

The question we must answer is not *whether* we should emphasize non-FFS investments, but rather *which* non-FFS investment should receive priority support to maximize the potential before us to build a system centered on affordable and coordinated care.

The Affordability Standards

Beginning in 2010, OHIC directed commercial health insurance companies to comply with a set of four criteria, collectively termed the Affordability Standards, aimed at improving the affordability of health care in Rhode Island. Companies are required to:

1. Expand and improve the primary care infrastructure
2. Spread the adoption of the patient-centered medical home
3. Standardize electronic medical record incentives
4. Work toward comprehensive payment reform across the delivery system

APPENDIX

The following tables show primary care spending for each insurer from 2009 through its 2012 projections. 2010 marked the first year of Affordability Standards implementation. The tables provide three pieces of data: (1) a comparison of each insurer's actual percent of total medical dollars dedicated to primary care to their target for the given year; (2) a breakdown of total primary care spending for a given year into FFS and non-FFS components; and (3) a breakdown of non-FFS investments into specific categories monitored by OHIC. The breakdown of non-FFS investments within each year shows the raw dollar expenditures for each category and the percentage contribution of each category to total non-FFS expenditures in the given year.

Appendix Table 1
Fully Insured Commercial Market

Year	2009	2010	2011	2012 *projected*	2009-2011 % Change	2009-2011 Average Annual Growth	2009-2012 % Change	2009-2012 Average Annual Growth
Primary Care Share of Total Medical								
Actual %	6.4%	7.2%	8.0%	8.9%	26%	12%	40%	12%
Primary Care Spending by Method of Payment								
Primary Care Spending	$50,088,832	$53,559,932	$58,630,219	$66,236,979	17%	8%	32%	10%
FFS	$44,311,802	$42,317,638	$42,755,961	$43,554,640	-4%	-2%	-2%	-1%
Non-FFS	$5,777,030	$11,242,294	$15,874,260	$23,359,059	175%	66%	304%	59%
(% of Total Primary Care)	*13%*	*27%*	*37%*	*54%*				
Breakdown of Non-FFS Investments								
Medical Home-CSI	$1,005,972	$1,755,346	$1,878,824	$1,919,100	87%	37%	91%	24%
(% of Total non-FFS)	*17%*	*16%*	*12%*	*8%*				
Medical Home-Other	$0	$4,735,768	$5,202,336	$8,786,039				
	0%	*42%*	*33%*	*38%*				
EHR grant/HIE	$264,000	$622,136	$548,539	$1,150,000	108%	44%	336%	63%
	5%	*6%*	*3%*	*5%*				
Loan Forgiveness	$500,000	$250,000	$0	$0	-100%	-100%	-100%	-100%
	9%	*2%*	*0%*	*0%*				
Other Allowable	$4,007,058	$3,879,044	$8,244,560	$11,153,920	106%	43%	178%	41%
	69%	*35%*	*52%*	*48%*				

Appendix Table 2
Blue Cross Blue Shield of Rhode Island

Year	2009	2010	2011	2012 *projected*	2009-2011 % Change	2009-2011 Average Annual Growth	2009-2012 % Change	2009-2012 Average Annual Growth
Primary Care Share of Total Medical								
Actual %	6.4%	7.2%	8.2%	9.0%	28%	13%	41%	12%
Target %	N/A	6.8%	7.8%	8.8%				
Primary Care Spending by Method of Payment								
Primary Care Spending	$38,845,352	$41,678,819	$43,853,014	$50,547,324	13%	6%	30%	9%
FFS	$33,585,352	$31,854,244	$31,146,957	$31,566,669	-7%	-4%	-6%	-2%
Non-FFS	$5,260,000	$9,824,575	$12,706,058	$18,980,655	142%	55%	261%	53%
(% of Total Primary Care)	*14%*	*24%*	*29%*	*38%*				
Breakdown of Non-FFS Investments								
Medical Home-CSI	$750,000	$1,244,672	$1,268,872	$ 1,276,196	69%	30%	70%	19%
(% of Total non-FFS)	*14%*	*13%*	*10%*	*7%*				
Medical Home-Other	$0	$4,735,768	$5,202,336	$ 7,786,039				
	0%	*48%*	*41%*	*41%*				
EHR grant/HIE	$110,000	$259,636	$267,289	$ 300,000	143%	56%	173%	40%
	2%	*3%*	*2%*	*2%*				
Loan Forgiveness	$500,000	$0	$0	$0	-100%	-100%	-100%	-100%
	10%	*0%*	*0%*	*0%*				
Other Allowable	$3,900,000	$3,584,499	$5,967,560	$ 9,268,420	53%	24%	138%	33%
	74%	*36%*	*47%*	*49%*				

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Appendix Table 3
United Health Care

Year	2009	2010	2011	2012 *projected*	2009-2011 % Change	2009-2011 Average Annual Growth	2009-2012 % Change	2009-2012 Average Annual Growth
Primary Care Share of Total Medical								
Actual %	6.0%	6.5%	7.5%	8.5%	25%	12%	41%	12%
Target %	N/A	6.5%	7.5%	8.5%				
Primary Care Spending by Method of Payment								
Primary Care Spending	$8,718,850	$8,542,826	$11,263,316	$11,735,378	29%	14%	35%	10%
FFS	$8,201,820	$7,351,381	$8,583,694	$7,906,974	5%	2%	-4%	-1%
Non-FFS	$517,030	$1,191,445	$2,679,623	$3,828,404	418%	128%	640%	95%
(% of Total Primary Care)	*6%*	*14%*	*24%*	*33%*				
Breakdown of Non-FFS Investments								
Medical Home-CSI	$255,972	$471,900	$571,623	$ 592,904	123%	49%	132%	32%
(% of Total non-FFS)	*50%*	*40%*	*21%*	*15%*				
Medical Home-Other	$0	$0	$0	$ 1,000,000				
	0%	*0%*	*0%*	*26%*				
EHR grant/HIE	$154,000	$175,000	$102,000	$ 600,000	-34%	-19%	290%	57%
	30%	*15%*	*4%*	*16%*				
Loan Forgiveness	$0	$250,000	$0	$0				
	0%	*21%*	*0%*	*0%*				
Other Allowable	$107,058	$294,545	$2,006,000	$ 1,635,500	1774%	333%	1428%	148%
	21%	*25%*	*75%*	*43%*				

Appendix Table 4
Tufts Health Plan

Year	2009	2010	2011	2012 *projected*	2009-2011 % Change	2009-2011 Average Annual Growth	2009-2012 % Change	2009-2012 Average Annual Growth
Primary Care Share of Total Medical								
Actual %	6.9%	8.3%	7.8%	9.5%	13%	6%	37%	11%
Target %	N/A	N/A	N/A	N/A				
Primary Care Spending by Method of Payment								
Primary Care Spending	$2,524,630	$3,338,287	$3,513,889	$3,954,277	39%	18%	57%	16%
FFS	$2,524,630	$3,112,013	$3,025,310	$3,404,277	20%	9%	35%	10%
Non-FFS	$0	$226,274	$488,579	$550,000				
(% of Total Primary Care)	*0%*	*7%*	*14%*	*14%*				
Breakdown of Non-FFS Investments								
Medical Home-CSI	$0	$38,774	$38,329	$ 50,000				
(% of Total Non-FFS)		*17%*	*8%*	*9%*				
Medical Home-Other	$0	$0	$0	$ -				
		0%	*0%*	*0%*				
EHR grant/HIE	$0	$187,500	$179,250	$ 250,000				
		83%	*37%*	*45%*				
Loan Forgiveness	$0	$0	$0	$0				
		0%	*0%*	*0%*				
Other Allowable	$0	$0	$271,000	$ 250,000				
		0%	*55%*	*45%*				