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E-NEWS UPDATE

Dear Valued Broker,

There has been much speculation regarding how the Medical Loss Ratio/Spending Limit requirements mandated by Healthcare Reform will impact local health plans. Please click on the link below for an article that was featured in the February edition of Managed Healthcare Executive magazine. President and CEO of Cox HealthPlans, Jeff Bond, responded with his thoughts on the coming changes.

[Managed Health Care Executive Article](#)



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Local plans leverage close ties for system transformation

Economies of scale aren't the only keys to long-term stability

MATT BOLCH
MHE CONTRIBUTOR

NATIONAL REPORTS—Federal mandates that cap administrative expenses in health plans have left many wondering whether a wave of consolidations will take place as smaller health plans seek economies of scale.

However, smaller plans believe they may be in better positions than regional and national players because of the relationships in the markets they serve and a spirit of innovation in how healthcare is delivered.

“Small plans that execute well can continue to do just fine in the market,” says Douglas Sherlock, senior healthcare analyst at Sherlock Company, which assists health plans with financial functions. Sherlock Company analysis suggests that only 20% of all administrative expenses are subject to economies of scale in such areas as actuarial costs, finance and governance. So if the administrative cost for a single member is \$25 a month, only \$5 of that would be affected by any consolidation, with savings available of \$1.

“While \$1 represents 4% of the administrative expense—and certainly is not nothing—that amount doesn't say to the market that consolidation is the way to go,” Sherlock says.

Jeffrey C. Bond, president and CEO at Cox HealthPlans, believes that the value proposition of smaller plans is to help local systems deliver care in innovative fashions. Based in Springfield, Mo., Cox HealthPlans is a division of

Cox Health, the third largest health system in the state. The company covers southwest Missouri and serves 42,000 covered lives, with \$100 million in revenue.

“In the health insurance business, the number of lives doesn't tell the story,” says Bond. “The provider-owned plans in existence today are generally very well run and very stable.”

Bond says his company is in the top 10% in financial performance and operates at a 5% margin.

HEALTHCARE IS LOCAL

John Bennett, MD, CEO of Capital District Physicians' Health Plan (CDPHP) in Albany, N.Y., also believes in the strength of smaller plans. CDPHP

20%

Administrative costs subject to economies of scale

operates in 24 counties in upstate New York, with 360,000 covered lives and annual revenue of \$1.4 billion.

“At the end of the day, all healthcare is local,” says Dr. Bennett. “Regional health plans are very relevant in local markets, and true healthcare delivery system reform will come from local changes.”

Both systems boast strong relationships with local hospitals, providers and employer groups and are focusing efforts on improving the delivery of healthcare and claims processing.

Cox HealthPlans has worked with claims system vendor TriZetto on an embedded payment project and also on

the Prometheus Payment model that uses an evidence-informed case rate to pay for care based on the severity of a patient's chronic condition.

“It's incredibly important for health plans to help health systems adapt to payment reform strategies,” Bond says.

He believes that health reform will put pressure on providers to move away from a fee-for-service model to one that takes a more holistic approach to medicine. Working on pilot projects not only helps the plan understand the potential changes, it also can strengthen ties to its provider network.

CDPHP has a robust population health component, which has become more valuable in the face of health reform. The nonprofit participated in the Institute for Healthcare Improvement's Triple Aim project, which seeks to improve the health of the population, enhance the patient care experience and control or reduce the per capita cost of care.

The plan also is looking to partner with local hospitals on payment reform initiatives that can benefit participants.

“We can be more nimble in changing behavior,” Dr. Bennett says of smaller plans. “Clearly, government has the most relevance, but local plans don't have to deal with national politics.”

To examine new initiatives around quality, claims or payment, executives at a smaller plan generally can get the key stakeholders to the table with relative ease, a feat that would be unprecedented for a regional or national plan.

Regardless of the direction health reform will take, the input of smaller plans on various improvement efforts will be vital.

“The future of provider-owned plans is very bright,” Bond says. “What makes us successful is we know our markets better than national and super-regional plans.” **MHE**