Study suggests private insurers control health care spending better than Medicare

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Private insurers appear to be more effective in controlling health care spending differences between two Texas cities than Medicare, according to researchers from The University of Texas Health Science Center at Houston (UTHealth) School of Public Health. Researchers found that sharp disparities in per-capita Medicare healthcare spending between McAllen and El Paso were significantly diminished when private insurance paid for health care costs in the under-65 population.

"For a number of reasons, insurers generally are reluctant to intrude on medical service decision-making," said study lead author, Luisa Franzini, Ph.D., associate professor at the UTHealth School of Public Health. "But the fact that utilization management mechanisms exist for private insurers may prompt some physicians, who might otherwise overuse certain services, to exercise more restraint," said Franzini.

Co-authors of the study were Osama Mikhail, Ph.D., director of the UTHealth Fleming Center for Healthcare Management and Jonathan Skinner of Dartmouth College. The study is published in the December issue of *Health Affairs*.

Private insurance companies have utilization management mechanisms in place which require preauthorization of elective inpatient admissions and they encourage management of chronic conditions through a variety of condition-specific management programs, according to Franzini. "Catastrophic events or high claims could send a red flag in the system which activates a case management process of reviewing alternative

treatment plans," said Franzini.

According to the authors, the study cannot explain definitively why variations in health care spending drop under private coverage but suggest utilization management mechanisms.

The study is a follow-up to a 2009 New Yorker article by Atul Gawande. The article used data from the Dartmouth Atlas of Health Care on variations in Medicare spending to show that per capita spending in McAllen was 86 percent higher than in El Paso.

In the Health Affairs study, Medicare spending in McAllen was 63 percent higher than in El Paso for inpatient care, 32 percent higher for outpatient care and 65 percent higher for Part B professional services.The largest difference was for home health care:McAllen was nearly five times greater than the average in El Paso and 7.14 times the national average. On the other hand, hospice spending in McAllen was just a quarter of the level in El Paso and the national averages. Medicare enrollees in McAllen were far more likely to be admitted to the hospital and to die in the hospital than they were in El Paso. They were also much more likely to be seen near the end of life by more than 10 physicians.

Researchers sought to determine whether those same health care providers would demonstrate similar patterns of care for people under age 65. Using 2008 claims data from Blue Cross and Blue Shield of Texas, the state's largest commercial health insurer, they analyzed spending patterns for people under age 65.

For the under-65 population insured by Blue Cross and Blue Shield of Texas, total spending per member per year in McAllen was 7 percent lower than in El Paso. Spending on professional and inpatient services was similar in both cities, and spending for outpatient services in

McAllen was 31 percent less. Use of medical services was also similar or slightly lower in McAllen compared to El Paso. Inpatient admissions in McAllen were 84 percent of admissions in El Paso; professional and outpatient services in McAllen were 94 percent and 72 percent, respectively, of those in El Paso.

However, within the under 65 population, for those aged 50-64, inpatient admissions were 89 percent higher in McAllen than El Paso and per-patient inpatient spending was 117 percent higher. But outpatient medical service spending was 22 percent lower, leaving overall spending for this age group 23 percent above those in El Paso, still significantly below the 86 percent Medicare difference.

Researchers explored several potential explanations for their findings. Neither differences in health care prices nor population disease burden between the two cities accounted for these spending variations.

The most probable explanation, they speculate, has to do with which payers are better at controlling costs around what Mikhail calls the "grey zone of treatment" – areas where legitimate medical judgments can be quite variable. According to Mikhail, health care needs and service use generally increase as the population ages, thereby expanding "the grey zone of treatment and opening the door to greater variation," which could explain greater variability in private insurance spending for the over 50 population (compared to the under-50) in McAllen versus in El Paso. Medicare exercises very little utilization management, whereas private insurers, such as Blue Cross Blue Shield of Texas, can be more active about controlling service use.

For example, Blue Cross and Blue Shield of Texas encourages members with costly "big ticket" conditions to participate in a disease management program. Other mechanisms encourage providers to practice evidence-based, cost-effective care. In addition, all elective inpatient admissions

must be preauthorized. Pre-admission and post-discharge counseling are used to establish postoperative goals and identify discharge planning needs.

"We are pleased to participate in a study that sheds some light on the cost of care and how utilization/disease management and other initiatives can help to control costs," says Darren Rodgers, president of Blue Cross and Blue Shield of Texas.

"We've launched a range of initiatives to fight the rise in health care costs, plus we encourage our members to be smart consumers of health care by knowing how their coverage works, providing cost and quality information about their choice of providers, and – above all – by staying healthy," said Rodgers. "Our wellness programs all promote the fact that exercising, eating right, and managing chronic conditions can significantly reduce the need for hospital care – and lower medical costs."

"Variation in and of itself isn't necessarily bad," Franzini said. "Some variations may be justified on medical grounds but large variations may be a signal that something else is going on as well." Franzini and her colleagues are currently working with Blue Cross and Blue Shield of Texas to examine spending variations across Texas.

Provided by University of Texas Health Science Center at Houston