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Provider-sponsored health plans
Positioned to win the health insurance market shift

Executive summary

If you search for a list of area health plans offering insurance coverage, chances are good that you may see your health care provider's name among them. Spurred by the launch of health insurance marketplaces and the transition to value-based care (VBC), many health systems are developing strategies to establish or expand their own health plans. With this in mind, Deloitte's Center for Health Solutions sought to understand how these Provider-Sponsored Plans (PSPs) have performed financially in recent times.

We analyzed the financial and market performance of provider-sponsored Managed Care Organizations (MCOs) during 2012-2014. The two parts of our analysis included:

1. Financial benchmarking to identify top financially performing PSPs and benchmark their performance across lines of business (Medicare Advantage, Medicaid, and commercial) and against other health plans operating in the same states as the top PSPs;
2. Regression analysis to understand factors associated with profitability.

Our analysis yielded three primary findings:

PSPs can be financially successful — Top financially performing PSPs, on average, improved their underwriting margin from 2.4 percent in 2012 to 2.6 percent in 2014. Other health plans operating in the same states as the top PSPs lost money, on average, with an underwriting margin of -0.8 percent in 2014.

Core line of business[i] (LOB) can influence profitability — Medicare Advantage-focused PSPs performed well financially in 2012 and 2013. In 2014, the trend shifted towards Medicaid-focused PSPs, likely due to Medicaid expansion and lower utilization rates, as well as Medicare Advantage federal payment rate retrenchment. Five of the top 10 financially performing PSPs in 2014 were Medicaid-focused.

Scale and tenure can boost profitability — Longer-tenured health plans and those with greater market share and larger enrollment have higher profitability. Many of the top financially performing PSPs have sizeable enrollment (>100,000) in their core LOB.

We also analyzed the concentration of PSP activity across the states, finding that about half of the states have PSPs that, together, have at least five percent of total health plan enrollees. Five states have PSPs with at least 20 percent of health plan enrollees.

With market dynamics supporting the transition to more efficient and effective health care financing and delivery, PSPs' recent financial success may help to drive growth for this new model of care.

[i] An MCO's core LOB is the LOB with the greatest enrollment share as a percentage of the MCO's total enrollment.

Introduction

Health systems are increasingly moving to health insurance as a means to population health management. They are participating in VBC payment arrangements, where they can share savings if they reduce spending while meeting quality goals. But even greater savings potential exists if health systems assume full risk for all health care services for a defined population rather than share savings with a health plan.

Provider-Sponsored Plans (PSPs) are not new to the health plan market. While some PSPs are market leaders, many have not yet reached scale. Challenges around business focus, capital requirements, lack of actuarial expertise, and a fundamental paradox between a hospital's and a health plan's goals — fill beds for the former and keep costs down for the latter — have been major issues contributing to past challenges PSPs have faced.

What is different about today's market, however, is the recognition by many that care delivery and financing models need to fundamentally change, placing greater emphasis on patient care through population health rather than filling hospital beds. Concurrently, the insurance market for individual customers is growing dramatically. With the creation of federal and state health insurance exchanges, consolidated health systems now have a larger asset base and sufficient geographical footprint to possibly justify the necessary investment to reach scale. With competitive assets unmatched by other health plans, including a trusted brand and strong patient loyalty, PSPs could mount a formidable challenge to health plan market leaders.

Defining PSPs

PSPs are health plans financially sponsored by a provider (hospital, physician group, health system). We excluded from our analysis health plans which exclusively contract with certain providers but are not financially sponsored by them. We also excluded health plans which financially sponsor a health provider. Examples of such exclusions from our analysis are Kaiser Permanente and AmeriHealth Caritas.

PSPs have a mixed history but times are different

The number of PSPs grew rapidly in the 1980s and 1990s, but results were mixed.[1] In bids to diversify and control the full continuum of care, health systems sponsored Health Maintenance Organization (HMO) products or directly contracted with the Centers for Medicare and Medicaid Services (CMS) for Medicare through provider-sponsored organizations (PSOs).[2] A few health systems, including Carle Clinic, Mayo Clinic, and Marshfield Clinic, succeeded in their efforts by closely coordinating their PSP with the core multispecialty group, sound medical culture, and limited competition.[3] However, many health system-sponsored health plans failed.

Major internal factors contributing to these failures included:[4]

- Low capitalization
- Lack of actuarial expertise
- Lack of experience in health insurance marketing

Major external factors included:[5]

- Competition from larger players
- Challenges with physician partners
- Enrolling hire-risk patients

Provider sponsorship of health plans declined in the early 2000s, with only 10-15 percent of hospitals sponsoring an HMO plan, far below 1990s levels.[6]

Today, health plans' growing emphasis on VBC and continued expansion of managed care in Medicare and Medicaid have prompted more providers to launch PSPs. The same type of investments a provider might make to succeed as an accountable care organization (ACO) are required for a PSP: population health care models and tools, data analytics, clinical integration with physicians, scorecards, workflow across delivery sites, and care coordinators, among others.

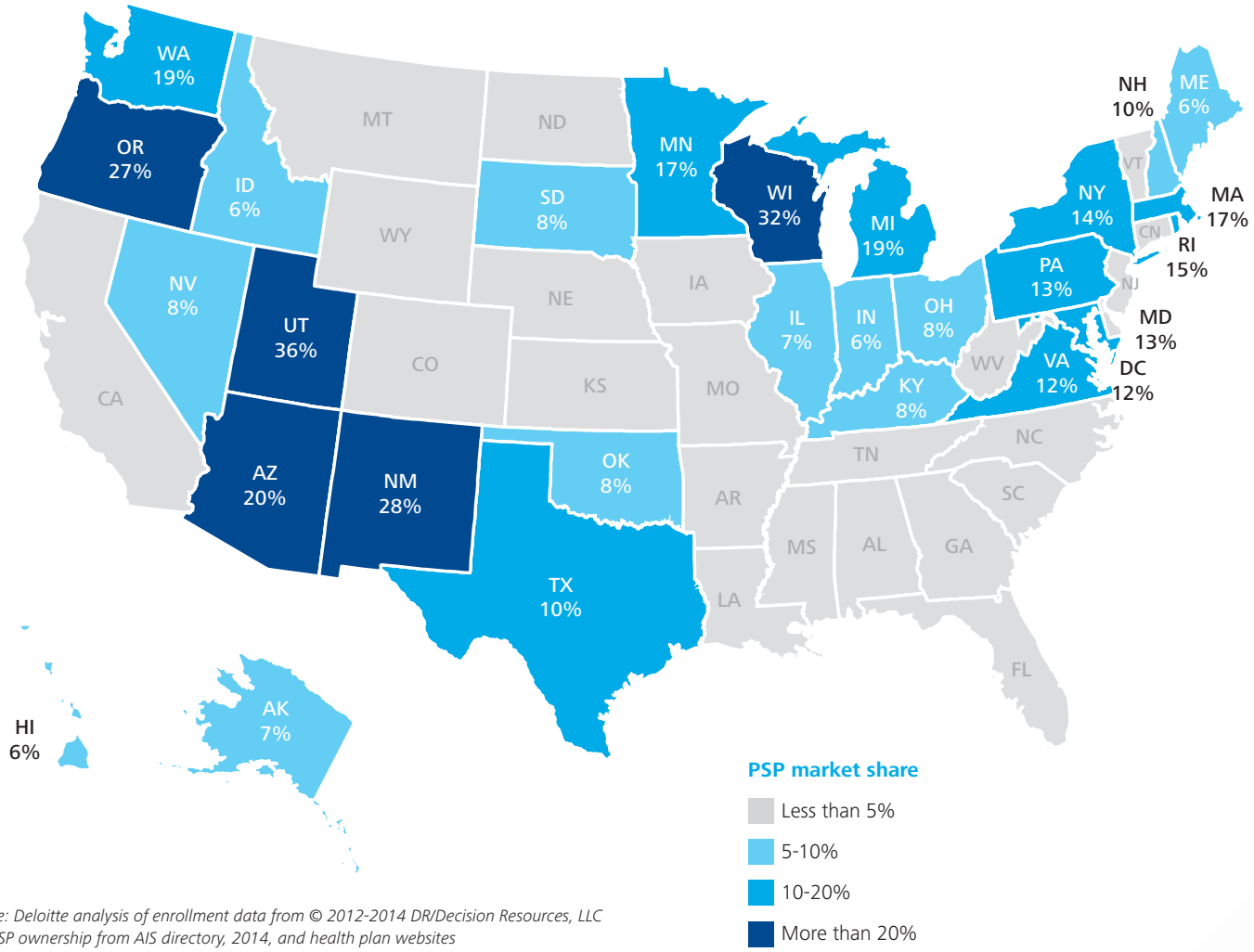
PSPs versus ACOs

Many health systems are participating in ACO initiatives, which offer incentives for population health management. ACOs and PSPs offer different opportunities and challenges

	ACO	PSP
Capital required	**Moderate** On average, an ACO requires start-up capital of $4 million[7]	**High** On average, a PSP requires start-up capital of $9 million[8]
Risk	**Low** Most arrangements have upside risk only	**High** The plan assumes all risk, which may also result in greater potential savings
Regulation	**Moderate** CMS and private plans are supporting ACO development[9]	**Intense** States regulate insurance, and Medicare and Medicaid programs have detailed regulation and oversight[10]
Data integration issues	**High** Health systems do not always know assigned enrollees' utilization patterns	**Moderate** Because the health system has a health plan, it holds clinical and utilization data

Currently, PSPs have a meaningful presence (greater than five percent share of total state health insurance enrollment) in 30 states (Figure 1). In Utah and New Mexico, a single PSP has greater than 15 percent market share. In other states (e.g., Wisconsin, Arizona, and Washington) enrollment is less concentrated; multiple PSPs combined have more than 20 percent health insurance market share.[11]

Figure 1: PSP enrollment share by state, 2014



Source: Deloitte analysis of enrollment data from © 2012-2014 DR/Decision Resources, LLC and PSP ownership from AIS directory, 2014, and health plan websites

PSPs, particularly Medicaid plans, perform financially as well as other health plans

The objectives of Deloitte's PSP financial benchmarking and regression analysis were to — 1) identify top financially performing PSPs and benchmark their performance across Lines of Business (LOB) and against other health plans operating in the same states as the top PSPs; and 2) identify the key characteristics of the superior financial outcomes. Our analysis found that leading PSPs' financial performance as a cohort is better, on average, than other health plans operating in their respective states. PSPs that have a higher percentage of government business, particularly Medicaid enrollees, had higher overall margins in 2014.

Deloitte PSP analysis methodology (See appendix for details)

Descriptive analysis (financial benchmarking): We short-listed the 86 largest PSPs from 27 states, which account for 90 percent of total PSP enrollment, and ranked them on key financial metrics of profitability, efficiency, and leverage. We benchmarked the financial performance of the top 25 financially performing PSPs: 1) Against all health plans in their respective states; 2) Across LOBs (Medicare Advantage, Medicaid, and commercial); and 3) Against market metrics (enrollment, market share).

Financial metrics		
Profitability	**Leverage**	**Efficiency**
Underwriting margin	Liabilities to capital and surplus ratio	Revenue to capital and surplus ratio
Net underwriting income divided by total revenue	Total liabilities divided by capital and surplus	Total revenue divided by capital and surplus

Source: NAIC filings through SNL Financial LLC (2012-2014)

Market metrics	
Enrollment	**Market share**
Total and LOB enrollment by state	MCO total and LOB enrollment divided by state total and LOB enrollment

Source: © 2012-2014 DR/Decision Resources, LLC

Regression Analysis: Among 286 health plans, we examined the association of variables such as PSP ownership, LOB mix, market share, and tenure with profitability.

The following sections detail three primary findings from our descriptive and regression analysis.

Ownership doesn't impact profitability, and top PSPs financially outperform other health plans in their respective states

Deloitte's regression analysis reveals that PSPs have fared about as well or better compared to other health plans. As we evaluate the factors associated with higher profitability, we find that tenure, market share, and a focus on government programs have a stronger association with profitability than whether or not the plan is provider-sponsored. Over the last three years, a focus on government markets — Medicaid in the most recent data — is associated with greater profitability.

In financial benchmarking, we find that among the top 25 financially performing PSPs compared with all other health plans in their respective states (Figure 2):

- PSPs, on average, have improved margins over the years 2012-2014, while several other health plans have incurred losses during the same timeframe.
- PSPs also generate higher revenue per dollar of capital invested, on average, than other health plans in their respective states (more so than the national health plans) and PSPs tend to operate at a lower level of risk-based capital (RBC).

The RBC ratio is generally used as a measure to understand an organization's liquidity. However, it is also a key measure of capital efficiency, especially for PSPs. With health systems paying themselves through the PSPs and using both plan and provider assets, PSPs are able to have lower RBC ratios using less capital when compared to other health plans in their respective states (Figure 3).

Figure 2: Financial benchmarking of PSPs versus other health plans

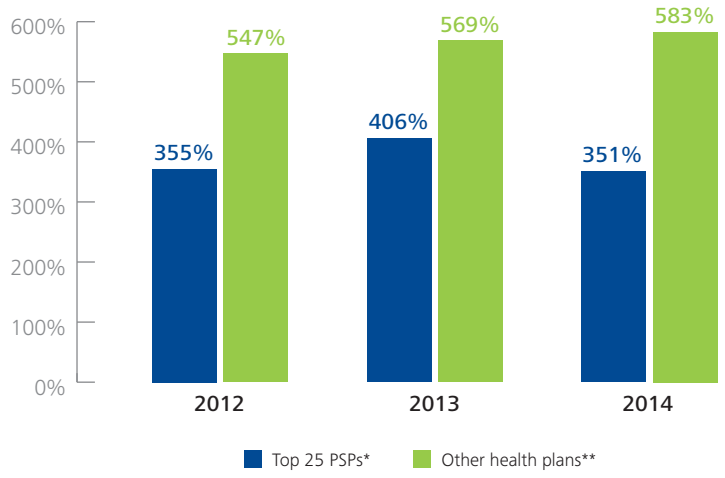
	2012		2013		2014	
Average financial metrics	Top PSPs*	Other health plans**	Top PSPs*	Other health plans**	Top PSPs*	Other health plans**
Underwriting margin	2.4%	2.5%	2.5%	–1.1%	2.6%	–0.8%
Revenue/ capital and surplus	9.6	7.9	9.6	7.3	10.4	8.1
Liabilities/ capital and surplus	1.4	1.3	1.5	1.3	1.7	1.6

Better performing among top PSPs and other health plans for that particular metric

* Top 25 financially performing PSPs
** Other health plans in states of top-25 financially performing PSPs

Source: Deloitte analysis of financial data from NAIC filings through SNL Financial LLC (2012-2014) and PSP ownership from AIS directory, 2014 and health plan websites

Figure 3: Average risk-based capital ratio — top PSPs versus other health plans in their states



RBC ratio definition: The RBC ratio shown is the "Authorized Control Level" standard which equates to total adjusted capital (TAC) as a percent of authorized control level risk-based capital (TAC)/(ACL RBC).

* RBC ratio of top 25 financially performing PSPs. Excludes RBC ratio of one PSP for 2013, which was unusually high and influenced the averages

** RBC ratio of health plans in the states of the top 25 PSPs. Excludes RBC ratio of a few health plans who did not report their adjusted capital and risk-based capital levels in their NAIC filings

Source: Deloitte analysis of financial data from NAIC filings through SNL Financial LLC (2012-2014) and PSP ownership from AIS directory, 2014 and health plan websites

LOB influences profitability, with Medicaid PSPs achieving better margins in 2014

Using the most recent available data, we find in our regression and descriptive analysis that MCOs with primary enrollment in Medicaid had the highest margin levels in 2014. Five of the top 10 PSPs are Medicaid PSPs, and they had improved financial performance in 2014. Medicare Advantage PSPs performed well on key financial metrics in 2012 and 2013 but the trend shifted towards Medicaid PSPs in 2014 (Figure 4).

Medicaid PSPs also improved their margins because they have lower administrative costs: Their Administrative Loss Ratio (ALR) in 2014 was six percent compared to Medicare Advantage PSPs at nine percent and commercial PSPs at 10 percent. In capital efficiency measures, Medicare Advantage-focused PSPs generated the highest revenue per dollar of capital invested in 2012 and 2013 but Medicaid-focused PSPs were more capital-efficient in 2014, likely due to Medicaid expansion programs.

Figure 4: Financial benchmarking of PSPs by LOB

2012				
Average financial metrics	Overall (25 plans)	Commercial (10 plans)	Medicaid (11 plans)	Medicare (4 plans)
Underwriting margin	2.4%	1.3%	3.1%	3.3%
Revenue/ capital and surplus	9.6	9.7	7.3	15.3
Liabilities/ capital and surplus	1.4	1.2	1.3	1.7

2013				
Average financial metrics	Overall (25 plans)	Commercial (10 plans)	Medicaid (11 plans)	Medicare (4 plans)
Underwriting margin	2.5%	1.6%	2.7%	4.1%
Revenue/ capital and surplus	9.6	9.5	8.9	11.9
Liabilities/ capital and surplus	1.5	1.3	1.7	1.3

2014				
Average financial metrics	Overall (25 plans)	Commercial (10 plans)	Medicaid (11 plans)	Medicare (4 plans)
Underwriting margin	2.6%	1.3%	3.9%	2.2%
Revenue/ capital and surplus	10.4	9.8	10.9	10.6
Liabilities/ capital and surplus	1.7	1.4	2.3	1.2

Best performing LOB for that particular metric

Source: Deloitte analysis of financial data from NAIC filings through SNL Financial LLC (2012-2014) and PSP ownership from AIS directory, 2014 and health plan websites

McLaren Health Plan, Michigan

McLaren Health Plan (MHP), a PSP sponsored by Michigan-based McLaren Health, is among the top financially performing Medicaid plans, according to our analysis. MHP's revenue grew 26 percent annually from 2012 to 2014, to $723 million, and capital efficiency (measured as revenue divided by capital and surplus) increased from 10.7 in 2012 to 13.9 in 2014.[12]

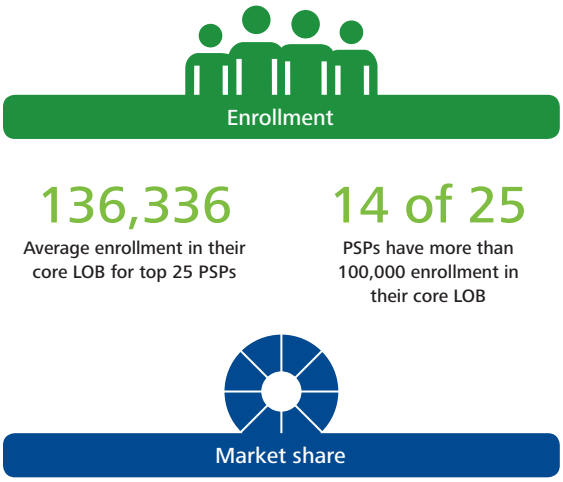
MHP is one of the largest participants in the state's Medicaid program, with 10 percent of the state's Medicaid managed care enrollment in 2014.[13] MHP acquired CareSource of Michigan in 2012, which allowed access to 25 additional counties.[14] Between 2012 and 2014, MHP's Medicaid enrollment grew by 18 percent annually,[15] driven by the acquisition, products with added benefits such as dental and preventive care services, and the expansion of the state Medicaid program.[16]

Being a PSP has helped MHP. The plan attributes success to focusing on preventive care, leveraging PCP awareness of members' utilization patterns, developing physician profiles for its members, and implementing a population health predictive modeling program.[17]

Market share drives profitability, and several top financially performing PSPs are also good market performers

Our regression analysis shows a significant relationship between market share and profitability. Analysis of the top 25 financially performing PSPs' market performance (Figure 5) is consistent with the regression results. Fourteen of the top 25 PSPs have more than 100,000 enrollees in their core LOBs and 12 PSPs have more than five percent market share in their core LOBs.

Figure 5: Market performance of high-performing PSPs



Source: Deloitte analysis of enrollment data from © 2012-2014 DR/ Decision Resources, LLC and PSP ownership from AIS directory, 2014 and health plan websites

Presbyterian Health Plan (PHP) New Mexico

Presbyterian Health Services' (PHS)-sponsored plan, PHP, is one of the largest health plans in New Mexico, with presence in Medicaid, Medicare Advantage, and commercial LOBs. Revenue grew 15 percent annually between 2012 and 2014 to reach $1.6 billion. In the same period, margin increased by four percentage points to seven percent in 2014,[18] making PHP one of the top financially performing PSPs in our descriptive analysis.

PHP was launched in the early 1980s as "HealthPlus," a commercial HMO primarily for members using PHS facilities. PHS's reputation helped grow membership for "HealthPlus" in 1990s. In 1995, "HealthPlus" was rebranded as PHP to more closely associate the two entities. When New Mexico began a Medicaid managed care program in 1997, PHP was awarded a contract and eventually enrolled over half of the qualifying individuals. In 1998, PHP bought out another company to expand its Medicare Advantage LOB.[19] Today, PHP has over 25 percent state market share in each of the three LOBs[20] and sustained financial growth.

The catalyst for a new model of care

Health systems recognize that operating their own health plans gives them more control over health care dollars which, in turn, can be an innovation catalyst for population health-based care models. Deloitte's analysis finds that PSPs can be as financially successful as other health plans, especially at a scale of greater than 100,000 lives. Based on our findings, it appears that some of the most challenging populations to serve, the elderly and low income populations, can be successfully managed more efficiently in a PSP.

An integrated health care financing and care delivery model also has several advantages not available to health plans that are not provider-sponsored. More likely than not, the PSP members are the same people that health system clinicians see every day in their offices. In addition, the strength of the health system PSP brand will be more familiar to the communities it serves than other health plans' brands. Also, PSPs are able to break the constraints of fee-for-service (FFS) payment models and use premium and prepaid revenue to address their patients' needs in a more efficient manner using virtual and team-based care. PSP payment incentives are better aligned for investing in preventive care and quality management, as well.

PSPs can derive strategic and operational insights from numerous sources, including patient demographics, behaviors, and preferences; clinical and claims data; and competitive knowledge of health plans and providers. These insights may help health systems generate medical cost savings and better retention rates than other health plans. Health systems also could share these savings with their customers to create a pricing advantage that other market-leading health plans may not be able to match.

While the PSP model may not appeal to all customers, especially large employers who self-fund health benefits, it does offer the potential to better serve the individual consumer purchasing insurance through the state and federal exchanges, Medicare Advantage, and Medicaid.

Our analysis suggests that PSPs' recent successful performance is evidence of their emergence as a potentially disruptive industry innovator.

Appendix

Financial benchmarking methodology
Deloitte conducted financial benchmarking of top PSPs: 1) Against other all other health plans in their respective states; 2) Across LOBs (Medicare Advantage, Medicaid, and commercial); and 3) Against market performance (enrollment, market share).

Short-listing:

- Short-listed 86 PSPs representing approximately 90 percent of total PSP enrollment in 2014, covering 27 states.
- Identified 88 other health plans (including multi-state plans) that are present in the 27 states.

Data preparation:

- Obtained financial data from the NAIC filings of the PSPs and other health plans for the past three years (2012-2014) from SNL Financial LLC. Excluded health plans which had partial yearly data.
- Obtained enrollment data by state and by LOB from the © 2012-2014 DR/Decision Resources, LLC for the past three years (2012-2014).
- Identified the core LOB of the PSPs and other health plans based on the LOB enrollment mix.

Metrics selection:

- For financial metrics, started with over 25 financial metrics and selected three metrics widely acknowledged as the representatives of profitability (underwriting margin), efficiency (revenue/capital), and leverage (liabilities/capital).
- For market metrics, selected enrollment and market share at the state level (overall and by LOB) as key metrics.

MCO ranking and benchmarking:

- Ranked all MCOs on each financial metric for each year. Aggregated rank for each year with 2x weight for underwriting margin.
- Obtained a combined rank for three years with 50 percent weight to 2014, 30 percent weight to 2013 and 20 percent weight to 2012.
- Identified top 25 financially performing PSPs based on this combined financial rank.
- Benchmarked the average financial and market metrics of these 25 financially performing PSPs against the other health plans in their respective states.

Regression analysis methodology

Deloitte analyzed data of all 286 health plans in the US, which had data availability, to: 1) examine how plan profitability is correlated with other variables; in particular, check if PSP/other health plan status provides better margins; and 2) assess degree of association between profitability and correlated variables.

- Dependent variable: Overall underwriting margin
- Independent variables: Tenure, PSP dummy (1 for PSP and 0 for other health plan), Commercial LOB mix, Medicaid LOB mix, Medicare Advantage LOB mix, Total market share, Commercial market share, Medicaid market share, Medicare Advantage market share, State dummies
- Unit of measurement: Health plan dataset by state
- Metrics: 3-year weighted averages for 2012-2014

With low R-square, the regression model is used only as regression ANOVA to test the statistical significance of independent variables with margins. The variables Tenure, LOB mix, and overall market share have a significant association with margins. PSP dummy is not statistically significant. This suggests ownership status has no association with profitability.

	Key variables (reg symbol)	Definition
1	Underwriting margin (UwMrgn)	Weighted average (2012-2014) of underwriting margins
2	Tenure (EstYears)	Establishment years till date
3	PSP dummy (PSPDm)	1 if PSP and 0 is non-PSP
4	Commercial LOB mix (CommMix)	Weighted average of 3 years of commercial LOB share in plan's total engagement
5	Medicaid LOB mix (MdMix)	Weighted average of 3 years of Medicaid LOB share in plan's total engagement
6	Medicare LOB mix (MrMix)	Weighted average of 3 years of Medicare LOB share in plan's total engagement
7	Total market share (TotalMktShr)	State market share in total enrollment of health plans

Controlling for variety of market factors, tenure, market share, and a focus on government programs have a stronger association with profitability than whether or not the plan is provider-sponsored.

Model summary statistics	
R-Square	0.11
Adjusted R-Square	0.09
Root Mean Square Error	0.049
Observations	232

ANOVA Results

	df	SS	MS	F- statistic	p-value
Regression Model	5	0.07	0.014	5.86	0.00
Residual	226	0.54	0.002		
Total	231	0.61			

Regression Model Coefficients

Model	Coefficient	Std. Error	t statistic	p-value	Lower Bound	Upper Bound
Intercept	-0.011	0.0099	-1.19	0.237	-0.31	0.007
EstYears	0.00047	0.0002	2.01	0.046	0.0000094	0.0009
CommMix	-0.028	0.012	-2.21	0.028	-0.053	-0.003
MdMix	0.024	0.011	2.25	0.025	0.003	0.046
MrMix	0.0068	0.0036	1.87	0.062	-0.0003	0.0139
TotalMktShr	0.065	0.032	1.99	0.047	0.0007	0.1301

95% Confidence Interval

Source: Deloitte analysis of enrollment data from © 2012-2014 DR/ Decision Resources, LLC, financial data from NAIC filings through SNL Financial LLC (2012-2014), and PSP ownership from AIS directory, 2014 and health plan websites

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