In October, HMSA sent to participating physicians a “fee update” memorandum summarizing payment changes for 2008. As mentioned in the communication, we are increasing overall payments to physicians for professional services by 4.3 percent for commercial plans. We’re adopting five levels of payment for common visit services, and boosting total fees for established patient visits by 7.6 percent. In addition, we are raising the total payout under the Practitioner Quality and Service Recognition Program to a projected $11 million.

In this issue of Physician Focus, we address physician reimbursement from a broader perspective, covering healthcare and healthcare-spending trends, projections and other information that we believe participating physicians will find useful. In upcoming issues, we will focus on healthcare spending from such perspectives as disease management and incentive-based physician reimbursement.

The importance of 93|7
Since HMSA’s founding in 1938, an average of 93 cents of every dues dollar has been paid for healthcare services. HMSA’s 7 percent administrative expense rate is not only less than the national average, it is among the lowest in the nation. We engage in constant cost-containment activities to keep our operations lean. As a result, we continue to maximize the proportion of our premium income paid directly to healthcare providers.
Spending for medical services
Over the last 10 years, HMSA’s payments for medical services (including prescription drugs) have risen 125.5 percent, from nearly $686 million to more than $1.5 billion. During that same period, HMSA distributed an additional $113 million in payments to practitioners and hospitals under the Practitioner Quality and Service Recognition Program and the Hospital Quality and Service Recognition Program. Medical practitioners’ payments continue to represent the largest category of health-care expenditures by HMSA. Payments to medical practitioners rose from $268.6 million in 1996 to $484 million in 2006, an 80.2 percent increase.

While there has been a substantial shift of facility services from the inpatient to outpatient setting, overall payments for facility services have risen at a higher rate (117.2 percent) than have payments for professional services. New high-cost technologies remain a major driver of cost increases for facility services.

Spending for prescription drugs
Spending for prescription drugs increased nearly 270 percent over the last 10 years, a result of both increased utilization and higher drug costs, particularly for specialty drugs. Physicians’ assistance in encouraging patients to use generics and preferred-brand drugs helped prevent the rate of increase from being much higher.

HMSA’s payments for prescription drugs in 2006 constituted a larger portion of overall spending for medical services than payments for drugs did nationally.
Payments for physician and non-physician professional services
Benefits for professional services are grouped into those paid to physicians and those paid to other healthcare practitioners, including physician assistants, nurse midwives, APRNs, CRNAs, rehabilitation therapists, audiologists, optometrists and psychologists.

Payments to practitioners in 2006 included nearly $10.8 million distributed to physicians, psychologists and optometrists participating in HMSA’s Practitioner Quality and Service Recognition (PQSR) Program. Of that amount, more than $10.2 million was paid to physicians.

Impact of high-cost cases on healthcare spending
Large proportions of HMSA’s benefit payments are for services rendered to small segments of HMSA’s membership. In 2006 payments for services to the top 1 percent of healthcare utilizers represented 18 percent of all benefit costs. This underscores the need for HMSA and participating physicians to continue collaborating in efforts to manage chronic diseases and to prevent their onset in now-healthy patients.
Hawaii’s aging population
In 2006, HMSA members age 65 or older made up 16.3 percent of the overall membership (excluding HMSA’s Plan for QUEST Members). Of overall benefit expense, 30.6 percent was for services rendered to the 65-and-older group.

HMSA’s senior membership increased by 28.5 percent from 1990 to 2006, and the older seniors composed a significantly larger proportion of the overall senior membership in 2006 than they did in 1990.

Statewide, residents age 65 or older were estimated to make up 13.4 percent of the population in 2006, and projected to compose 14.3 percent of Hawaii’s population in 2010 and 18.7 percent in 2020, according to the U.S. Census Bureau.

HMSA, participating physicians and members currently work together in various ways to prevent and manage major chronic illnesses. HMSA’s Care Connection programs have resulted in smaller increases in utilization by members with diseases managed through the programs. Despite these efforts, actual utilization rates will continue to rise as Hawaii’s population ages further.

Outlook for the future
HMSA anticipates that the current trends in healthcare spending will continue. The increasing healthcare needs of the aging population, combined with greater demand for and utilization of new technologies and specialty drugs, will result in facility services and prescription drugs accounting for larger slices of the healthcare spending pie, but overall payments to physicians will continue to increase.

Large infusions of additional funds into the healthcare system are unlikely. Consequently, HMSA and participating physicians must continue to work together to ensure that patients receive high-quality, appropriate care. Collaboration is essential if we are to meet members’ healthcare needs, keep employers’ premiums as affordable as possible, and reimburse physicians fairly and adequately for their services.

As always, we invite participating physicians to share their comments and suggestions with us.