

## IV. Purchasing Groups

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Participation in group purchasing in California continues to grow. The two most significant developments in 1999 were the final transfer of the Health Insurance Plan of California (HIPC) from the Managed Risk Medical Insurance Board (MRMIB) to the Pacific Business Group on Health (PBGH), where it has been renamed Pacific Health Advantage, and the rapid growth in enrollment of the Healthy Families pool for eligible children.

In 1999, six organizations were group-purchasing health insurance plans in California. These include:

- the Pacific Business Group on Health (PBGH) Negotiating Alliance for large employers (over 2,000 employees); and
- CalPERS for public employers;
- Pacific Health Advantage (Pac Advantage) for small employers (2-50 employees), which was formerly known as the HIPC and was transferred from MRMIB to the PBGH on July 1, 1999;
- California Choice for small firms (2-50 employees);
- the Healthy Families pool, created for children participating in the Healthy Families Program run by MRMIB;
- the state's high risk pool, known as the Major Risk Medical Insurance Program (MRMIP), run by MRMIB for Californians who have been denied private individual insurance, whose coverage has been involuntarily terminated by health insurers, or who have been offered coverage at premium rates higher than those charged by MRMIP.

### A. Market Analysis

Exhibit 90 presents the number of employers participating in purchasing by group, the total number of enrollees (includes employees, dependents, and retirees), and the numbers of HMO, PPO, and POS plans offered to employers and employees over the last five years. The decrease in the number of plans offered by purchasing groups is primarily a reflection of the large number of health plan mergers that have occurred in the state over the last four years, more than an indication that the groups have stopped contracting with certain plans. The groups, however, still offer a large choice of plans, particularly the major HMOs operating in California, so that the decreasing number of plans has had little impact on consumer choice.

PARTICIPATION IN  
GROUP PURCHASING  
CONTINUES TO GROW,  
ESPECIALLY AMONG  
SMALL EMPLOYERS

Exhibit 90: Characteristics of Purchasing Groups in California, 1996-1999

Purchasing Group	Year	Number of Employers	Total Enrollees	HMO Plans	POS Plans	PPO Plans	Total Plans
<i>PBGH Negotiating Alliance</i>	1996	17	345,000	15	0	0	15
	1997	20	500,000 <sup>2</sup>	13	0	0	13
	1998	21	500,000 <sup>2</sup>	15	0	0	15
	1999	21	410,000	11	0	0	11
<i>CalPERS</i>	1996	1,087	986,824	14	0	2	16
	1997	1,144	1,008,612 <sup>1</sup>	12	0	2	14
	1998	1,200	1,037,536 <sup>1</sup>	10	0	4	14
	1999	1,262	1,078,129	10	0	2	12
<i>HIPC</i>	1996	6,185	115,344	23	3	2	28
	1997	7,070	133,857	21	2	0	23
	1998	7,458	142,675	20	2	0	22
<i>Pacific Health Advantage</i>	1999	7,680	145,244	15	2	0	17
<i>California Choice</i>	1996	458	7,221	13	0	1	14
	1997	1,885	29,087	13	0	1	14
	1998	3,277	52,079	13	0	1	14
	1999	5,003	77,473	10	0	2	12
<i>Healthy Families</i>	1998	NA	32,969	25	0	1 (EPO)	26
	1999	NA	202,000	25	0	1 (EPO)	26
<i>High Risk Pool (MRMIP)</i>	1996	NA	10,000	4	0	2	6
	1997	NA	19,917	4	0	2	6
	1998	NA	21,900	4	0	2	6
	1999	NA	21,124	4	0	2	6

Source: UC Berkeley Surveys of California Purchasing Groups, 1996-1999

<sup>1</sup> Includes 205,478 retirees.

<sup>2</sup> Includes 50,000 retirees.

IN 1999, NEARLY 2 MILLION CALIFORNIANS, REPRESENTING 11% OF THE INSURED POPULATION WITH EMPLOYER-BASED INSURANCE, RECEIVED THEIR COVERAGE THROUGH A PURCHASING GROUP

In 1999, the four employer purchasing groups operating in California collectively covered nearly 2 million Californians, representing 11% of all non-elderly Californians with employer-based insurance. Exhibit 46 presents the changes in the number of employers and enrollees participating in group purchasing by firm size. Since 1996, the total number of employers participating in group purchasing has grown by 75%, with the number of enrollees increasing by 30%. The growth has been even higher in small firms, with the number of firms participating in group purchasing increasing by 90% and enrollment increasing by 82% over the last four years. Most of the increase has been among small employers participating in the HIPC/Pac Advantage and in California Choice.

Exhibit 91: Trends in Employer Group Purchasing, California, 1999

Participation in Group Purchasing	1996	1997	1998	1999	% Change 1996-1999
<i>Total number of employers</i>	7,974	10,125	11,975	13,966	75%
<i>Total number of enrollees</i>	1,456,989	1,674,556	1,771,684	1,889,230	30%
<i>Total number of small firms (2-50 employees)</i>	6,670	9,055	10,735	12,683	90%
<i>Total number of enrollees, small firms</i>	122,565	162,944	194,759	222,717	82%
<i>Total number of large firms (2,000 or more employees)</i>	17	20	21	21	24%
<i>Total number of enrollees, large firms</i>	345,000	500,000	500,000	410,000	19%

Source: UC Berkeley Surveys of California Purchasing Groups, 1996-1999

## B. Small Employer Awareness of Group Purchasing Options

Small employers (2 to 50 employees) in California have two group purchasing options providing a wide range of health plan choices to their employees. They can join Pac Advantage (formerly the HIPC) or obtain coverage through California Choice. While participation in group purchasing among small employers in California has nearly doubled over the last four years, the 12,683 small firms participating as of December 1999 represent only a tiny fraction (<2%) of the nearly 700,000 small firms operating in the state.

VERY FEW SMALL EMPLOYERS IN THE STATE HAVE EVER HEARD OF THE HIPC OR CALIFORNIA CHOICE AS GROUP PURCHASING OPTIONS

As part of the survey of California employer health benefits, we asked small firms if they were familiar with the HIPC and if they had considered purchasing health insurance through the HIPC. We also asked them if they were familiar with California Choice. Exhibit 92 presents our findings. Fewer than one-quarter (21%) of firms with 3-9 employees and only one-third (33%) of firms with 10-50 employees were familiar with the HIPC. However, a higher proportion of the smallest firms (3-9 employees) had considered purchasing health benefits for their employees through the HIPC than small firms of 10-50 employees. Small firms were somewhat less familiar with California Choice than with the HIPC.

Exhibit 92: Percentage of Firms That Are Familiar with the HIPC and California Choice Purchasing Groups by Firm Size, California, 1999

Number of Employees	Familiar with HIPC	Considered Purchasing Through HIPC	Familiar with California Choice
<i>3 to 9 Employees</i>	21%	13%	13%
<i>10 to 50 Employees</i>	33%	9%	27%

Source: Kaiser/HRET/UC Berkeley Survey of Employer-Sponsored Health Benefits, 1999

It would appear that one of the major barriers to increasing the participation rate of small firms in group purchasing in California is simply their lack of awareness of group purchasing options. A great deal more effort needs to be made to increase the awareness in small firms of their group purchasing options and the benefits for their employees, most importantly providing affordable coverage with a choice of health plans.

### C. Premiums in California's Employer Purchasing Groups

For the second year in a row, the HMO premiums negotiated between employer purchasing groups and health plans in California increased, this year by 8% to 10% (Exhibit 93). This is the first increase in the double digits we have observed since we began tracking negotiated premiums in 1995. The increasing costs of prescription drugs, new technology, and health care cost inflation are all cited as reasons for these cost increases. In addition, many believe that premium prices in California have been held artificially low and that premium prices needed to increase to reflect the real costs of delivering care. Finally, increasing pressures from physicians and medical groups, who complain that the capitation payments they receive from the health plans are too low to cover the care patients need, has also pushed up premium prices.

NEGOTIATED HMO PREMIUMS ROSE BETWEEN 8% AND 10% IN 1999

**Exhibit 93: Changes in HMO Premiums in Employer Group Purchasing, California, 1999**

Purchasing Groups	1994 to '95	1995 to '96	1996 to '97	1997 to '98	1998 to '99	1999 to '00	Net Change 1994-2000
<i>PBGH</i>	-9.4%	-4.3%	0.0%	+1.0%	+8.0%	+10.3%	+4.3%
<i>CalPERS</i>	-1.4%	-5.3%	-2.6%	+2.7%	+7.3%	+9.7%	+9.9%
<i>HIPC/Pac Advantage</i>	-3.7% <sup>1</sup>	-3.4%	-0.2%	+2.5%	+7.7%	+8%	+10.7%

Source: UC Berkeley Surveys of California Purchasing Groups, 1996-1999

<sup>1</sup>This figure for the HIPC represents the change in the weighted average premium for all plans offered by the HIPC from 1993-1994 to 1994-95. Data on the change in premiums for HMOs only was not available for the HIPC for this time period.

Unfortunately, all of the gains from prior years' premium reductions negotiated by the purchasing groups in California have been wiped out with these latest increases, with the cumulative effect of the most recent negotiations on HMO premiums resulting in a 4.3% increase over five years for PBGH, an increase of 9.9% for CalPERS, and a 10.7% increase for the HIPC. While these increases represent a reversal of prior rate reductions, the overall level of increase in premium rates over five years still remains far below the national trend for HMOs during the same period.

## **D. Key Developments in Group Purchasing in 1999**

### **1. The Pacific Business Group on Health Negotiating Alliance**

PBGH celebrated ten years of operations in California, where it has been a leader in promoting quality of care and value-based purchasing; increasing the availability and accuracy of data and information; and partnering with other purchasers, health plans, providers, government, consumer groups, and others to achieve common goals. In 1999, PBGH had an annual operating budget exceeding \$20 million; represented more than 3 million employees, dependents, and retirees; and had \$3.5 billion in annual health care expenditures.

PBGH is involved in a broad array of quality initiatives, including:<sup>18</sup>

1) the California Cooperative Healthcare Reporting Initiative (CCHRI), which collects and reports annually on health plan performance on the Health Plan Employer Data and Information Set (HEDIS), health plan member satisfaction and experience, and physician group ratings of health plan performance;

2) the hospital assessment and reporting program addressing mortality rates following CABG surgery, Caesarian section rates, newborn readmissions, and perinatal quality of care;

<sup>18</sup> This information was obtained from [www.healthscope.org](http://www.healthscope.org).

3) the physician group assessment and reporting program addressing management of adult asthma and diabetes, mammography tracking, the Physician Value Check Survey, and the CCHRI physician group level reporting of HEDIS data; and

4) the consumer education project, including the dissemination of comparative quality information through the HealthScope website, as well as through an electronic provider directory and print brochures, and a Health Risk Assessment tool.

Additional information about the PBGH quality initiatives can be found on its website at [www.healthscope.org](http://www.healthscope.org).

As part of PBGH's work on data and information, it received a grant in 1997 to fund the CALINX initiative, under which health plans, physician groups, hospital organizations, and purchasers have agreed to a set of standards and rules for the electronic exchange of health care data. As part of the CALINX effort, PBGH is developing online transmission of standardized enrollment data.

The most recent development for the Negotiating Alliance is that for plan year 2000, PBGH will collaborate with eight other health coalitions and the three big United States auto makers to develop and issue a core request for information/request for proposals (RFI/RFP) from health plans.

## **2. Pacific Health Advantage**

The Health Insurance Plan of California (HIPC) was the small employer purchasing pool created by AB 1672 that joined small businesses (2-50 employees) together to leverage their purchasing power to make coverage more affordable and accessible. Over 140,000 Californians and 7,400 businesses participate in this purchasing pool for small businesses, and the number grows each month. The average business purchasing coverage through the group has ten employees and learned about the pool through its insurance agent. Participation in the HIPC is voluntary for employers and insurers.

As of July 1, 1999, the HIPC was fully transferred to PBGH, following a successful competitive bidding process. PBGH met all of its milestones, including negotiating a contract with an administrator by December 1, 1998, and fully executing health and dental plan contracts by March 15, 1999, for the July 1 start-up date. By April 1, PBGH had prepared and printed applications and program brochures for open enrollment. PBGH renamed the HIPC the Pacific Health Advantage or Pac Advantage.

## **3. California Choice**

California Choice continues its customer-oriented focus and has a member's bill of rights and other materials to help enrollees choose a benefit design, primary care doctor, and HMO on its website ([www.calchoice.com](http://www.calchoice.com)). The newest addition to the website is information on health plan drug formularies, which enables users to search by condition and by drug name, providing information on whether or not specific drugs are included in each plan's formulary and on any restrictions on coverage.

IN 1999 THE HIPC WAS  
PRIVATIZED INTO  
PACIFIC HEALTH  
ADVANTAGE,  
ADMINISTERED BY  
PBGH

ENROLLMENT IN THE HEALTHY FAMILIES PROGRAM HAS GROWN EVERY MONTH SINCE THE PROGRAM STARTED IN JULY 1998

#### 4. Healthy Families

The Healthy Families Program is a state- and federally-funded health coverage program for children with family incomes above the level eligible for no-cost Medi-Cal and below 250% of the federal poverty guidelines (\$34,700 for a family of three). The Healthy Families Program (HFP) provides low-cost health, dental, and vision coverage to children aged 1 to 19 in low-wage families. Families participating in the program choose their health, dental, and vision plans. Families pay premiums of \$4-\$9 per child per month (maximum of \$27 per family) to participate in the program. In 1999, children enrolled in the Healthy Families Program had a choice of up to nine different health plans, depending on their county of residence. The program offers families an economic incentive, in the form of a lower premium contribution, to choose the plan that has done the best job of including traditional and safety net providers in its network.

ENROLLMENT IN HFP HAS INCREASED STEADILY EACH MONTH THROUGHOUT 1999, WITH MORE THAN 200,000 CHILDREN ENROLLED BY THE END OF DECEMBER 1999

As of December 1999, every county in California had enrolled children in the Healthy Families Program. However, enrollment is heavily concentrated (52%) in four counties: Los Angeles County (62,878), followed by Orange County (17,194), San Diego County (14,367), and San Bernardino County (11,962). Enrollment is also heavily concentrated (62%) in four health plans: Blue Cross HMO (22%), Blue Cross EPO (17%), Kaiser Permanente (12%), and Health Net (11%). However, in four of the nine counties with Local Initiative (LI) health plans, Healthy Families enrollment in the LI plans exceeds that of all other commercial plans combined (Exhibit 94). More detailed information about Healthy Families enrollment can be found on their website at [www.mrmib.ca.gov/MRMIB/HFP](http://www.mrmib.ca.gov/MRMIB/HFP).

ENROLLMENT IN HFP IS HEAVILY CONCENTRATED IN A FEW COUNTIES AND THREE FOR-PROFIT HEALTH PLANS

Exhibit 94: Enrollment in the Healthy Families Program by Plan Type in Two-Plan Counties, December, 1999

Counties with Local Initiative Plans	Total HFP Enrollment <sup>1</sup>	% HFP Enrollment in Local Initiative Plan	% HFP Enrollment in Commercial Plans
<i>Alameda</i>	4,337	55%	45%
<i>Contra Costa</i>	2,238	28%	72%
<i>Kern</i>	4,556	35%	65%
<i>Los Angeles</i>	62,878	5%	95%
<i>Riverside</i>	10,287	15%	85%
<i>San Bernardino</i>	11,962	20%	80%
<i>San Francisco</i>	6,249	63%	37%
<i>San Joaquin</i>	5,778	74%	26%
<i>Santa Clara</i>	5,590	62%	38%

Source: [www.mrmib.ca.gov/MRMIB/HFP](http://www.mrmib.ca.gov/MRMIB/HFP)

1: Enrollment in Healthy Families as of December 10, 1999.

## 5. The State High Risk Pool, MRMIP

The Major Risk Medical Insurance Program (MRMIP) is the state's high-risk health insurance pool established in January 1991 to increase access for Californians without employer-sponsored coverage who could not find private, individual insurance for themselves or their families because of pre-existing medical conditions.<sup>19</sup> Enrollees in MRMIP are offered a choice of six health plans, including Kaiser Permanente, Blue Cross Prudent Buyer PPO, Blue Shield Access+ HMO, Blue Shield PPO, Maxicare, and Contra Costa Health Plan. Approximately 23% of MRMIP enrollees had insurance at some point during the two years prior to enrolling, and 22% had been without insurance for more than two years. For 39%, their prior health insurance coverage had been cancelled.

Enrollment in the program has been capped based on the funding made available by the state. Demand for the program has always been greater than the available capacity, resulting in long waiting lists for new subscribers. The waiting list as of September 31, 1999, was 3,899. In 1991, the program was capped at 10,000 enrollees, and it has gradually increased to 21,900 in 1998. Total state costs for the program are up to \$40 million per year. Over the life of the program, the maximum annual and lifetime benefits have increased from \$50,000 and \$500,000, respectively, in 1991 to \$75,000 and \$750,000, respectively, in 1999. In 1999, for the first time, enrollment capacity in MRMIP was decreased (to 21,124) due to the higher costs associated with the increased benefit levels and health care cost inflation, combined with the fixed appropriation levels. In 1999, the California HealthCare Foundation provided one-time funding of \$2 million to help preserve 448 enrollment spaces in MRMIP. Further decreases in the number of persons to be served by the program are expected.

The price of the premiums for the health plans participating in MRMIP is multiplied by a factor of between 125% and 137.5%. Subscribers contributed 53% of total revenue in premiums in FY 1998-99, with Proposition 99 Cigarette Tax revenues subsidizing 47% of the cost. The average premium paid by MRMIP subscribers in 1998 was \$255 per month. At this price, it is not surprising that approximately 66% of MRMIP subscribers have incomes of 300% or more of the federal poverty level, and another 20% have incomes above 500% of poverty.

In 1994, Blue Cross established a "look-alike" program for persons on the waiting list, which allowed applicants to purchase individual insurance coverage at unsubsidized rates. In 1997, Blue Shield introduced a similar, unsubsidized "look-alike" program. Approximately 80% of individuals on the MRMIP waiting list purchase one of these "look-alike" plans.

The MRMIP program does not begin to meet the needs of uninsured Californians. Recent estimates suggest that between 157,000 and 300,000 Californians

LIMITED FUNDING FOR THE STATE'S HIGH RISK POOL MEANS THAT IT IS NOT ACCESSIBLE TO MOST CALIFORNIANS WHO HAVE BEEN DENIED PRIVATE INSURANCE COVERAGE BECAUSE OF PRE-EXISTING HEALTH CONDITIONS

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<sup>19</sup> Managed Risk Medical Insurance Board, California Major Risk Medical Insurance Program 1999 Fact Book, Sacramento, CA: The California Managed Risk Medical Insurance Board, August 1999.

may be uninsurable, uninsured, and eligible for the State's high-risk pool.<sup>20, 21</sup> A recent report by the board's actuarial consultant estimates that approximately 125,000 uninsured Californians who are likely to seek coverage in the individual insurance market are considered "uninsurable" by the industry and have household incomes sufficient to permit their enrollment in MRMIP. But without additional sources of revenue to fund the high risk pool and without subsidies for lower-income eligible individuals, enrollment in the pool is likely to decrease, thus decreasing access to health insurance for those most in need of coverage.

### **E. Gaps in the Marketplace**

Participating in group purchasing is still not an option for millions of Californians. There is no pool for individuals, for adults who are under 200% of the federal poverty level and do not qualify for Medi-Cal, and for single-employee and mid-size firms. Without reform in the individual and small group markets, subsidies for low-income uninsured individuals, and expansions to the state's high risk pool, many Californians who do not meet the eligibility requirements for government-sponsored health insurance programs (Medicare, Medi-Cal, Healthy Families, Access for Infants and Mothers or AIM) will have little or no choice of available and affordable health insurance.

Changes could also be made in the Medi-Cal managed care program to increase the choice of health plans available to enrollees in the two-plan county models and in other counties throughout the state. Like the Healthy Families Program, Medi-Cal could negotiate statewide contracts with health plans to enroll Medi-Cal recipients, giving them a much greater choice of plans and access to the same coverage as individuals with employer-sponsored health benefits.

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<sup>20</sup> Schauffler HS, Testimony before the California Senate Insurance Committee, Individual Market Reforms, April 21, 1999.

<sup>21</sup> Communicating for Agriculture. Comprehensive Health Insurance for High Risk Individuals. Twelfth Edition, Inc., 1998, p. 6.

