Perception vs. Deception:

The Truth Behind Discounts for Self-Funded Groups

by Jeff McPeters, CPA, CLU, ChFC, REBC
Partner, Group & Pension Administrators Inc.
Richardson, TX

"Our PPO is better because it's a national insurance carrier, not a rental network, and therefore offers the most extensive and deepest discounts in the market. In fact, our discounts are 20% greater than your current PPO, so you need to go with our carrier."

Does this dialogue sound familiar to you? If you're a benefits manager, you have probably heard it —or something very similar— countless times. If you're a broker, you may have even used it yourself to help sell an account. But is it true? Is there proof?

Regrettably, the answer is "no" on both counts. Misleading statements are made all too often in the health insurance industry and some national insurance carriers are the worst offenders. The reality is that most PPO comparisons are not only greatly exaggerated, but erroneous as well.

A fundamental part of the problem is the definition of the word *discount*. Selling a discount based on percentage gives carriers wide berth to manipulate the numbers to their advantage. In fact, it's

mathematically possible to calculate an array of discount percentages simply by changing the ineligible and discount amounts, as illustrated in the following example.

Submitted Charges	$1,000,000	$1,000,000	$1,000,000
Ineligible Claims	$300,000	$200,000	$100,000
Eligible Claims	$700,000	$800,000	$900,000
Discounts	$300,000	$400,000	$500,000
Net Paid Claims	$400,000	$400,000	$400,000
	43%	**50%**	**56%**

As you can see, the submitted charges and net paid claims stay the same. But by changing ineligible claims and discount amounts, the range can vary as much as 13%.

Some national carriers even guarantee a discount percentage at the end of the year. In light of the ease with which such "funny numbers" can be calculated, it's easy to understand how. The fact is, there is only one way to guarantee a true discount. That is to dismiss percentage discounts altogether and guarantee the amount of expected paid claims.

Manipulating the Numbers

The issue of discounts becomes even clearer when you view the industry as basically being divided into two camps. There are those who use proprietary PPOs and pay a fee to gain access, and there are the national carriers that have their own PPO. In the latter case, the carriers have the ability to look at all the data on claims, including the deductibles, ineligible charges and out-of-pocket costs. But because the proprietary PPOs are not payers, they don't have access to this data. After all, it is not information that is necessary to discount a claim.

All of this discussion would be academic, of course, if it weren't for the sad fact that many client companies are buying into the game. National carriers are using the discount comparison as a tool to help sell. Since HMOs are on the decline and have basically proven to be cost-prohibitive, the exaggeration seems to be a last-ditch effort.

Take a look at the following comparison.

	National Carrier	Proprietary PPO
Inpatient	52%	42%
Outpatient	50%	32%
Physician	47%	26%

The major problem with this is comparison is a lack of supporting empirical evidence. Are these numbers accurate? Where did they come from? Who did the study? While most agents and consultants send out questionnaires to PPOs asking them what their average discounts are according to geographical area, there is absolutely no way to compare the discounts because there isn't a common starting point.

Let's look at an example of how *proprietary PPOs* calculate their discounts.

Submitted Charge	$100,000	A
Discount Savings	$ 45,000	B
Percentage Discount:	**(B ÷ A) = 45%**	

Now let's look at a *national carrier t*hat calculates its percentage discount by first netting out ineligible charges, as well as some that take out employee deductibles and out-of-pocket costs.

Submitted Charges	$100,000	
Ineligible Charges	- $10,000	
EE Deductible & Out-of-Pocket Costs	- $15,000	
Eligible Charges	$75,000	A
Discount Savings	$45,000	B
Percentage Discount	**(B ÷ A) = 60%**	

Notice how we started with the same submitted charge ($100,000) but the percentage discount from the national carrier is stated as 15% higher (60% vs. 45%). Yet the actual discounted savings of $45,000 is the same in both cases! Such is the power of numerical manipulation.

This is not to say that every proprietary PPO is as strong as some national carriers. To make that assertion would be wrong. The lesson here is to underscore the point that PPOs negotiate discounts based on the size of their membership; the bigger they are, the larger the discount. Employers would do well to keep this in mind and understand that the top five managed care organizations are usually very close when it comes to discounts.

A Way to Mislead

Another area of deception is the subject of thresholds—or, as the hospitals call them, "stop loss." For example, a PPO might state that its inpatient discount is 54%. What it fails to mention is that the discount will radically change once the threshold is exceeded.

Consider the case of Acme Hospital. It gives a PPO a 54% discount for all claims, but only up to $60,000. When the bill goes over this threshold, the discount changes to 20% off billed charges, back to dollar one. Thus, if you had a claim of $100,000, you would get only $20,000 off the bill, a 20% discount. That's a lot less appealing than 54%.

It is impossible to compare PPOs because every hospital gives each PPO a different threshold. It all depends on the level of discount they want to achieve.

Employers can be misled in still other ways. A national carrier was recently

overheard boasting about inpatient per-diem discounts. At first, these discounts sounded phenomenal. But after a little investigation it came to light that the per-diem discount was only for a three-day hospital stay. After that, the discount dropped precipitously. Painting only a part of the picture—providing only part of the information—remains the easiest way to distort true costs or available discounts.

A Deceiving Comparison

If average discounts are being manipulated and cannot be accurately evaluated, is there another way to evaluate a network? One way might be to compare actual CPT (Current Procedural Terminology) codes and ICD-9 (International Classification of Diseases) codes for hospitals. Unfortunately, this won't work either because in many metropolitan areas, PPOs use multiple fee schedules. In other words, different doctors are on different contracts.

If a doctor belongs to an independent physician association, he may get paid more than a single physician working as a sole proprietor. To remedy the situation, PPOs sometimes fill out the CPT code comparisons for brokers by giving a weighted average number of physicians per fee schedule for selected areas. This is probably the best way to complete the analysis, but might not be the most accurate.

Guess how the national carriers fill out the comparisons? Are they using the averages or are they selecting their most competitive fee schedules? I would suspect they are selecting the best fee schedule to make themselves look strong. But it is not the most accurate way of comparing discounts.

Recently, I came across a case here in Texas in which a national carrier had an unbelievable fee schedule in one of the state's largest cities. Upon further investigation, it was revealed that the carrier had only one physician on that fee schedule when in fact it had more than 9,000 physicians listed in the area.

Is Repricing the Answer?

One way to get an accurate view of who has the best discounts might be to look at actual claims according to each provider's tax ID number, and then reprice the claims. Unfortunately, there is a problem with this method, too. Most national carriers refuse to reprice the claims, stating that the information is proprietary. Even if they do, there is no way to prove the amounts are correct.

A case in point involves a consultant I know. He sent actual claims for one of his largest national clients to be repriced by a national carrier. He mistakenly sent the claims to both the Dallas and Houston offices. When the claims came back, the discounts were completely different—despite the fact that the claims had all the pertinent data, including tax ID numbers and ZIP codes for the providers.

PRICER OR REPRICER: A person, organization or software package that reviews procedures, diagnoses, fee schedules and other data and determines the eligible amount for a given health care service or supply. Additional criteria can then be applied to determine the actual allowance, or payment, amount.

Source: CMS, HIPAA Administrative Simplification Glossary

Conclusion

When it's all said and done, the basic question remains: If the national carrier discounts are so much better, why aren't their actual quotes consistently lower than PPOs? Sure, carriers acquire new business all the time by offering low rates, but they seldom last.

Most national carriers today are handing out shockingly high renewal rates. Employers, meanwhile, are asking, "Where are these discounts? Why did I get another increase?"

Which brings us to the issue of rising medical costs. The latest legislative consumer-driven concepts of Health Savings Accounts and Health Reimbursement Accounts should be the major focus in reducing medical inflation. The other major area of cost-effectiveness involves expert medical management using clinical reporting, benchmark databases, decision support solutions and research services—all designed to manage the cost and quality of health care.

Whatever the outcome of the proposal, employers would do well to be wary of the games insurers play. It will take a team effort on everybody's part to control medical inflation and guarantee better claims management, thus lowering overall claims costs. ■

Jeff McPeters is a partner with Group & Pension Administrators Inc. (GPA). He has been with the company for 13 years. GPA is one of the largest and oldest third-party administrators in Texas with more than 35 years in business. Jeff received his BA in accounting from the University of Texas and was with KPMG Peat Marwick before joining GPA. He can be reached at 972-744-2447 or JeffM@gpatpa.com