

THE NONPROFIT HEALTH PLAN ADVANTAGE

Summary of research findings on quality, cost and community benefits.

October 2004

In the fall of 2004, the Alliance for Advancing Nonprofit Healthcare undertook an extensive Internet search of empirical studies conducted over the past two decades by health care researchers on the performance of nonprofit health plans related to costs, quality, access, or community benefit more generally. Viewed as a whole, the findings of major studies and reports, summarized here, indicate superior performance by nonprofit health plans as a group.

Nonprofit health plans are financially healthy with lower operating margins³

- ▲ By December 31, 2002, investor-owned health plans tracked by Sherlock Co. reported an average margin of 3.7%, almost double the 2.0% reported by nonprofit Blue Plans.¹
- ▲ Under the National Association of Insurance Commissioners risk-based capital formula, adopted in 1998, the higher the ratio, the greater the financial flexibility to invest in new initiatives and technologies and in customer growth. By the end of 2002, the nonprofit Blue plans' ratio was 727%, compared with 623% for all Blue plans and the 200% early warning threshold established by NAIC.¹
- ▲ A 2003 study of nonprofit and for-profit health plans in New York State, where the plans are predominantly nonprofit upstate and predominantly for-profit downstate, found that upstate nonprofit plans had lower operating margins (2.3% versus 8.1%).³

Nonprofit health plans spend more on patient care and less on administrative costs³

- ▲ During the period 1997-2000, the medical loss ratio (the percentage of total revenue spent on health care) averaged almost 84% for nonprofit Blue plans, compared with 74% for for-profit Blue plans and 80% for commercial insurers. During the same period, administrative costs as a percentage of total premium revenues averaged 13% for nonprofit Blue plans, 23% for for-profit Blue plans, and 15% for commercial insurers.²
- ▲ A 2003 study of nonprofit and for-profit health plans in New York State, where the plans are predominantly nonprofit upstate and predominantly for-profit downstate, found that upstate nonprofit plans spent 1.5 percentage points less of their operating revenues on administration and spent 7.3 percentage points more on medical care.

Nonprofit health plans have better quality and service, according to physicians and members

- ▲ A 1998 study of 76 plans based on annual reports and physician surveys found low quality ratings on five key preventive care goals established by the U.S. Public Health Service for plans with low medical loss ratios and high administrative costs, which, as noted above, are typically for-profit plans.⁴
- ▲ A study of 14 HEDIS quality-of-care measures using 1996 NCQA data for 248 investor-owned plans and 81 nonprofit plans found that the nonprofit plans had consistently better quality after controlling for model type, geographic region, and other factors.⁴
- ▲ A 1998 study of 82,000 Medicare managed care enrollees found that the strongest

predictors of customer ratings of plan performance were tax status and affiliation; for-profits scored significantly worse on customer service and access criteria. Voluntary disenrollment rates of for-profit national plans were twice those of nonprofit national plans.⁵

- ▲ A 2002 study found that patients in nonprofit HMOs were more likely than those in for-profit HMOs to be very satisfied with their overall health care. Sick enrollees in for-profit HMOs were more likely to be dissatisfied with administrative barriers, delayed care, unmet need, and high out-of-pocket expenses.⁵
- ▲ An analysis of Medicare HMO disenrollment data for 1996 found that low disenrollment rates were related to nonprofit status of the HMOs. Seven of the ten plans with the highest disenrollment rates were for-profit, and nine of the ten plans with the lowest disenrollment rates were nonprofit.⁵

Nonprofit health plans provide more social benefits to their communities

- ▲ A 1999 survey of CEOs, medical directors, and community affairs directors of HMOs in a random sample of 40 HMOs in 29 states, stratified by size, found that nonprofit ownership and local control were the two most consistently important factors in determining the breadth of community benefits, and influence of local business leaders was the single most important factor in predicting high levels of spending on community benefits.⁶ Local ownership and local business influence tend to go hand-in-hand with nonprofit status.

Notes:

1. S. Barrish, "Nonprofit Health Insurers: The Financial Story Wall Street Doesn't Tell," commissioned by the Alliance and available at www.nonprofithealthcare.org.
2. C. Schramm, "Implications for Health Care Providers Resulting from a Sale of Kansas Blue Cross Blue Shield," *Health Affairs*, 2001:10.
3. This study also found that upstate nonprofit plans offered lower premiums options for consumers and were more committed to New York State safety net products (80% of enrollment) and Medicare Plus Choice (73% of enrollment). Treo Solutions, "Costs, Commitment and Locality: A Comparison of For-Profit and Not-for-Profit Health Plans," 2003, commissioned by the Alliance and available on its website, www.nonprofithealthcare.org.
4. 1998 study of 76 plans: P. Born and C. Geckler, "HMO Quality and Financial Performance: Is There a Connection?," *Journal of Health Finance*, 1990, 24 (2), 65-77. Study of 14 HEDIS quality-of-care measures: D. Himmelstein, MD et al., "Quality of Care in Investor-Owned vs Not-for-Profit HMOs," *Journal of the American Medical Association*, 1999, 282 (2): 159-163.
5. 1998 study of 82,000 Medicare managed care enrollees: B. Landon et al., "Health Plan Characteristics and Consumer Assessments of Quality," *Health Affairs*, 2001, 20 (2): 281. 2002 study of nonprofit and for-profit HMOs: H. Tu and J. Reschovsky, "Assessment of Medical Care by Enrollees in For-Profit and Nonprofit HMOs," *New England Journal of Medicine*, 2002, 346 (17): 1288-1293. Study analyzing Medicare HMO disenrollment data for 1996: FamiliesUSA, "Comparing Medicare HMOs: Do They Keep Their Members?," December 1997.
6. The authors conclude: "An industry of locally controlled, stable, nonprofit HMOs will perform differently in community benefits than HMOs operated by for-profit corporations with limited local autonomy, strong investor pressures and turbulent ownership." M. Schlesinger, B. Gray, and M. Gusnano, "A Broader View of Managed Care, Part 3: The Scope and Determinants of Community Benefits," *Health Affairs*, May/June 2004: 210-221.

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