



## HMOs: How to Pick Your Partners

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## HMOs: How To Pick Your Partners

**W**ith all the frenzied integration activity in the health care marketplace, providers are finding it difficult to know which managed care organizations may be the best potential partners. Market research data recently released by InterStudy Publications can help providers evaluate HMO membership, particularly in competitive markets.

The InterStudy report, *The Competitive Edge: Regional Market Analysis 5.1*, examines differences in the structure and growth potential of 258 markets nationwide. As of mid-1994, nationwide enrollment in HMOs reached more than 47 million enrollees, representing 18.1 percent of the U.S. population (up 0.8 percent since mid-1993). Five states accounted for 53 percent of the nation's net enrollment gains: California (+1,027,552), New York (+669,147), Florida (+495,294), Pennsylvania (+357,935), and Texas (+331,984), according to the InterStudy report.

### INCREASING HMO PENETRATION

The range of 25-to-30 percent is a general benchmark often cited as the point at which HMOs begin to profoundly influence health system organization in both provider and purchaser communities. About one-quarter (66) of the 258 metropolitan regions had an HMO penetration rate of 25 percent or greater. HMOs showed the greatest penetration in markets with a population of at least one million people.

The top 25 large metropolitan areas ranked by Medicare HMO enrollment represented 68 percent of the nation's total HMO Medicare enrollment. Markets identified as having the greatest potential for future growth of Medicare HMO enrollment are New York, Chicago,

Philadelphia, Los Angeles-Long Beach, Boston, Tampa-St. Petersburg, Nassau-Suffolk (N.Y.), Cleveland, Fort Lauderdale, San Diego, Phoenix, and Seattle.

### HMO REIMBURSEMENT TO HOSPITALS AND PHYSICIANS

Since last year, the use of capitation as a reimbursement strategy has grown for hospitals and specialty care physicians, but has remained the same for primary care providers. More than two-thirds of reporting HMOs capitate primary care physicians. Half capitate specialty care physicians, and one-quarter capitate hospitals.

For hospitals, per diem reimbursement predominates across all markets, with at least 40 percent of combined enrollees covered using this method, according to the InterStudy report. The capitation of hospital services still lags behind other reimbursement methods, with an average of about 15 percent of the combined metropolitan enrollment.

The predominant methods of reimbursement to specialty care

physicians remain capitation in large markets and fee for service in medium and small markets. However, in large markets there was a significant increase in the percentage of enrollees served by specialists reimbursed under a relative value scale, which surpassed fee for service as the second most common specialist reimbursement method, almost matching capitation. This occurrence is not surprising, since the relative value scale is often considered to be more equitable than other fee schedules. As of mid-1994, almost three-quarters of enrollees in large markets were served by specialists reimbursed by either capitation (37 percent) or a relative value scale (36 percent). The reimbursement of specialists using salary is relatively rare across all markets.

*The InterStudy Competitive Edge* is a semi-annual report on the managed care industry. For information on obtaining the full report, write InterStudy at 2901 Metro Dr., Minneapolis, MN 55425. Or call 612-858-9291. ■

Judah Folkman, M.D., who first theorized that tumors form and metastasize by means of angiogenesis—the stimulation of new blood vessel growth—is the winner of the 18th annual Bristol-Myers Squibb Award for Distinguished Achievement in Cancer Research. He has been the Julia Dyckman Andrus professor of pediatric surgery at Harvard Medical School since 1968, and holds additional faculty appointments in anatomy and cellular biology and cell biology.

