

# UC Berkeley

## California Journal of Politics and Policy

### Title

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### Permalink

<https://escholarship.org/uc/item/3gn7q6x9>

### Journal

California Journal of Politics and Policy, 6(2)

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### Publication Date

2014-05-31

### DOI

10.5070/P2ZP44

Peer reviewed

## Commentary

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# Status, Challenges, and Opportunities of the Delegated Model in California

**Keywords:** commercial insurance; delegated model; fee-for-service; Health Maintenance Organization; transparency.

DOI 10.1515/cjpp-2014-0018

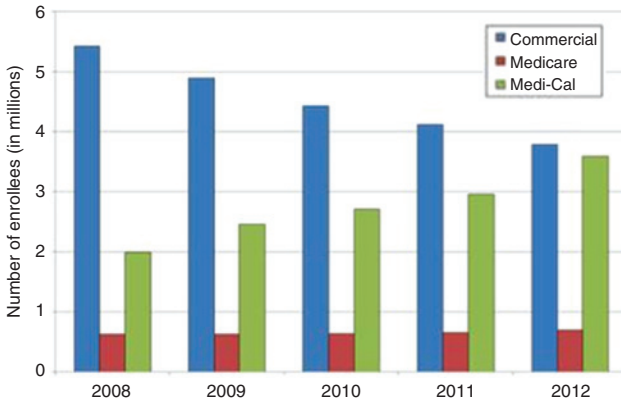
California has long been known as a national leader in integrated medical care and delegating financial risk to provider entities. In recent years, however, the delegated model has been experiencing gradual enrollment decline in California's commercial HMO and Point-of-Service (POS) market. Although enrollment in risk-based Medicare Advantage has been holding steady and managed Medi-Cal enrollment has been growing, shrinking commercial enrollment in risk-based models raises the possibility that California could lose the benefits associated with investment in coordinated care that have been painstakingly gained over the last couple of decades. To illuminate the status and prospects for the delegated model, we review current data on risk-based commercial enrollment, reasons for the decline, and opportunities in the current environment. These issues must be addressed if the vision outlined in the Berkeley Forum Report is to be achieved.

Data from the Department of Managed Health Care (DMHC) show a decline in the number of commercially-insured Californians enrolled in “risk-based organizations,” (physician organizations that contract with health plans) from approximately 5.5 million to under 4 million between 2008 and 2012 (see Figure 1). Of note, DMHC's definition of risk-based enrollment does not include integrated medical group enrollment, such as Kaiser. In contrast with the decline in commercial “risk-based organization” enrollment, Kaiser, which comprises approximately 40% of California's commercial market, has maintained steady enrollment over the last several years (California HealthCare Foundation 2013).

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**Figure 1:** Enrollment in Risk-Based Organizations, 2008–2012.

Source: California Department of Managed Health Care, Office of Financial Review.

Discussions with representatives of purchasers, health plans, physician groups, hospital systems, and state regulatory agencies in California have identified two main reasons for the shift away from the delegated model: cost-competitiveness and lack of data transparency.

Even the staunchest advocates of the delegated model expressed concern about the long-term sustainability of investments in infrastructure, personnel, and work processes to support commercial membership that generate quality benefits but increase cost. Compounding the cost issue is the inability of most capitated physician groups to participate in the provider networks of insurance products that feature deductibles as part of the benefit design, known as the “accumulator” issue. Tracking a member’s spending against a deductible requires an accumulator – a tool for capturing member expenses to trigger reallocation of financial responsibility between the member and the plan once the member reaches the deductible.

In a fee-for-service payment environment, insurers can track payments against benefit plan deductibles; but when providers are paid on a capitation basis, this calculation is not as easily administered. Given that deductibles are a significant lever for reducing premiums (though not necessarily medical costs), the obstacles to delegated medical group participation in the provider networks of deductible-based products put them at a competitive disadvantage in the health insurance market. For example, early figures from California’s health benefit exchange, Covered California, show that 85% of individuals enrolling selected products with a deductible of at least \$2000 (ASPE Issue Brief 2014).

In addition to cost, transparency is increasingly cited as a reason purchasers are turning away from the “black box” of the capitated, delegated model and shifting to health plans able and willing to provide complete claims data on member utilization and cost. As health care costs continue to rise, purchasers are demanding detailed information that allows them to develop effective cost reduction strategies. To date, Kaiser has proven an exception to this rule, maintaining and even growing enrollment. But even Kaiser hasn’t escaped the growing discontent with the lack of detailed information – a bill in California’s legislation in 2013 would have required Kaiser, upon request from large purchasers, to provide information on cost increases and claims data (Lauer 2013). The bill died, but the transparency movement is gaining momentum.

In spite of the challenges, opportunities abound for delegated medical groups in the current environment. The drumbeat for value is growing, with the investment of billions in demonstration projects intended to identify quality-increasing and cost-reducing changes to delivering and financing medical care. In California, much of the energy has focused on development of Accountable Care Organizations that align the financial incentives of health plans, physician organizations, and hospitals.

Hybrid products and new risk arrangements are emerging, combining features of HMO and PPO products. With their focus on integrated, coordinated care, delegated medical groups are well-positioned from a quality perspective – but must address purchaser concerns regarding transparency and invest in the accumulator and other tools to increase their flexibility in a rapidly changing marketplace. Considering California’s track record of innovation in health care delivery and information technology, we should both expect and demand solutions to extend the important gains achieved by the delegated model through new innovations in cost containment and transparency.

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