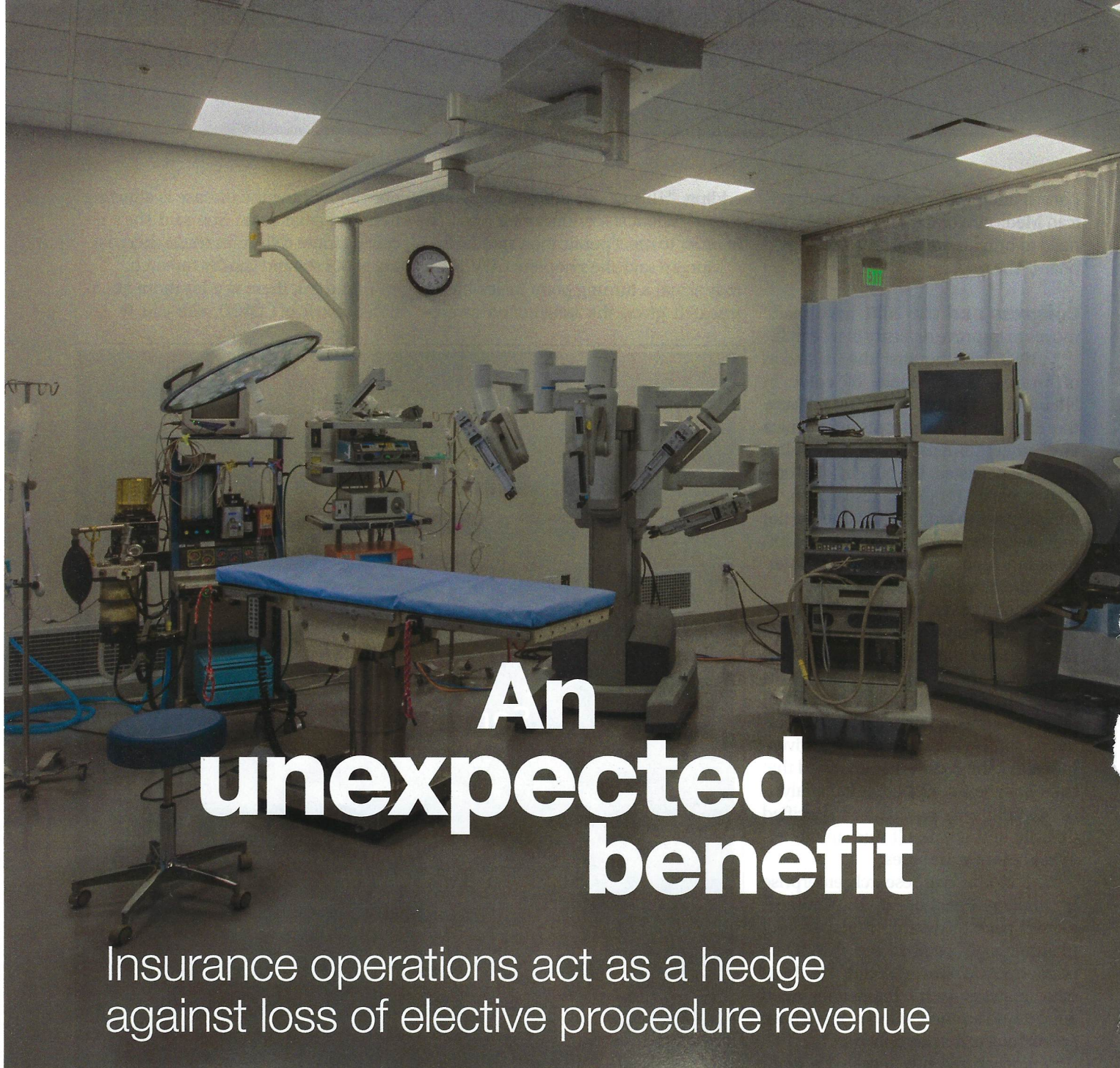




ISTOCK

By Tara Bannow

HEALTH INSURERS HAVE so far sailed through the COVID-19 crisis relatively unscathed. The twin effects of stable premium income and lower claims are strong enough that health systems that own insurance companies got an income cushion too.

Systems like Presbyterian Healthcare Services, Geisinger Health and ProMedica have noticed their insurance operations are providing a welcome buffer from the effects of COVID-19.

THE TAKEAWAY

Health systems with health plans have noticed the steady claims revenue has helped offset significant losses on the patient-care side.

Even as patient revenue shrinks, health plan premium revenue has held steady.

And claims expenses are lower, in some cases way lower. “We’ve had a much better experience,” said Clay Holderman, chief operating officer of Presbyterian Healthcare Services in Albuquerque. More than 60% of the integrated health system’s revenue comes from health plan premiums, revenue from which increased 9.5% year-over-year in the first quarter of 2020. At the

same time, claims expenses plunged 23%. Presbyterian had the country's ninth-largest provider-owned health plan by premium revenue in 2018, according to the most recent available data.

Geisinger Health's volumes were down 40% from normal in April after the health system temporarily suspended nonurgent procedures during the pandemic. At the same time, claims billed to the Danville, Pa.-based system's health plan were down 30%, not including pharmacy. Geisinger's experience highlights the upside of fewer heart surgeries and hip replacements: Insurers don't get billed for them.

"It did represent what I would characterize as kind of this natural hedge," Kevin Roberts, Geisinger's chief financial officer, said of the provider's health plan business.

Not enough

While the phenomenon is unlikely to convince providers to get into the health plan business if they're not already, the pandemic has exposed just how risky the seemingly safe world of fee-for-service medicine truly is. If anything, the crisis may prompt more providers to take on meaningful risk in the form of capitated and value-based payments.

"The fee-for-service system in the U.S. let down Americans in this crisis because it was so reliant on volume of services," said Ceci Connolly, CEO of the Alliance of Community Health Plans, "and we don't need more healthcare procedures and services, we need better."

In a matter of months, COVID-19 has thrown hospitals and physician clinics into a state of uncertainty by effectively cutting off one of their most important revenue streams—nonurgent procedures—while simultaneously causing a spike in staff and supply spending. Insurance companies, on the other hand, expect to profit from the pandemic because they're no longer paying for those procedures.

In Geisinger's case, the healthcare delivery arm lost an estimated \$180 million in April, which was partly offset by a roughly \$50 million positive impact from the health plan, working out to a \$130 million loss for the month, Roberts said, adding that the system's financial condition has improved somewhat since then.

In Ohio, ProMedica's provider operations lost \$35.5 million in the first quarter, while its insurance arm posted \$9 million in operating income, compared with a \$28.5 million operating loss in the prior-year period. Toledo, Ohio-based ProMedica's insurance company,

Health plans owned by systems provided revenue diversification during the initial months of the pandemic

The largest health system-owned health plans (2018; most recent available data)

Rank	System	Headquarters	Direct written premiums (\$ in millions)	Market share
1	Kaiser Foundation Health Plan and Hospitals	Oakland, Calif.	\$93,216.00	8.46%
2	UPMC	Pittsburgh	8,433.90	0.77
3	Spectrum Health	Grand Rapids, Mich.	3,829.50	0.35
4	HealthPartners	Bloomington, Minn.	3,702.30	0.34
5	Intermountain Healthcare	Salt Lake City	3,179.60	0.29
6	Geisinger Health	Danville, Pa.	3,179.10	0.29
7	Sentara Healthcare	Norfolk, Va.	2,430.20	0.22
8	Boston Medical Center Health Plan	Boston	2,293.10	0.21
9	Presbyterian Healthcare Services	Albuquerque	2,292.80	0.21
10	Providence	Renton, Wash.	2,213.90	0.20

Source: National Association of Insurance Commissioners

Paramount, contributed 30% of its revenue in the first quarter, compared with 25% from its provider division and 45% from senior care.

Paramount's profitability will show even further improvement in the second quarter, said Steve Cavanaugh, ProMedica's CFO.

"That's a nice offset on the downward pressure in the acute business and senior-care business," he said.

Eventually, though, patients will come in for those procedures, so Cavanaugh said he expects Paramount's claims expenses to rise in the back half of 2020.

Bloomington, Minn.-based HealthPartners, whose health plan drew the fourth-highest amount of premium revenue in 2018 among health system-owned health plans, according to Modern Healthcare data, saw a similar bump from its health plan in the first quarter. While medical service revenue declined by almost \$143 million, premium revenue increased \$32 million, mostly from higher premiums. The system's total revenue declined 6.4% in the first quarter year-over-year. HealthPartners did not return a request for comment.

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Marc Malloy
Founder
Sevenya

Salt Lake City-based Intermountain Healthcare, which had the fifth-largest provider-owned health plan by premium revenue in 2018, saw its premium revenue increase 29% in the first quarter year-over-year, even as patient service revenue declined slightly. Spokesman Daron Cowley said in a statement the health plan, SelectHealth, has provided a certain amount of stability so far during the pandemic. However, that could change as the system catches up on procedures that were postponed.

Kaiser Permanente has the country's largest provider-owned health plan. Its unique integrated operating structure meant that California's stay-at-home order didn't hurt Oakland, Calif.-based Kaiser's operating performance in the first quarter. That's because even as the health system suspended procedures, patients still paid their membership dues at the start of the month.

Some provider-owned health plans are doing so well, they're reducing members' premiums and issuing premium credits back to members. The willingness to offer financial relief suggests they expect to profit this year and there could be an effort to speed up the delivery of rebates required under the Affordable Care Act if insurers don't

spend enough on medical care.

Not-for-profit Priority Health, the health plan arm of Spectrum Health, offered 15% premium credits in June and July. Although Priority shouldered significant claims related to COVID-19 cases for members in Southeast Michigan, the hardest hit part of the state, that was offset by the suspension of elective services, said Michael Jasperson, Priority's senior vice president-provider network.

Still a difficult business

Even though health plans are offering a needed crutch right now for some providers, it doesn't change the fact that health insurance is a difficult business. It's tough to profit without significant scale, as several health systems learned the hard way, said Dr. Sanjay Saxena, senior partner and managing director with Boston Consulting Group.

"I don't think COVID has changed that," he said. "It's going to make the health plan business even more difficult in the future, and it's going to favor the bigger players more."

That said, the pandemic has underscored the importance of capitated contracts wherein providers assume risk, because they continued to get paid even as utilization dried up, Saxena said. "This gives them some hedge if they can control the risk," he said. "Obviously if volumes go down then they're the beneficiaries of reductions in utilization, not the payer."

That's been a "hard, painful lesson" for some physician practices that operated under the fee-for-service model and had one or two weeks' cash on hand when the pandemic hit, Connolly said.

"Contrast that with a physician group practice that knows they get a check every month, COVID or no COVID," she said.

Not only that, when a health system and its health plan are integrated, they can easily pool their resources during a crisis and collaborate around what's best for patients, Connolly said. In this case, that meant staffing COVID hotlines, operating hospital-at-home programs, predicting which patients are most at risk and conducting outreach to those patients. "The plan and delivery side working hand in hand really made it so seamless," she said. "They didn't have arguments over, 'Who will get what portion of the payments?'"

It's not just the pandemic that has underscored the need to move toward capitated payment models. Another factor was the steady decline in coverage under employer-sponsored health plans and the corresponding increase in Medicare and Medicaid coverage, said Marc Malloy, founder of Sevenya, a healthcare consultancy in Asheville, N.C., whose clients are primarily health systems. Malloy said he's noticed more interest in the subject from providers recently.

"Physician groups who might have been not real happy with capitation before are saying, 'Thank God we had it because we would have had to shut our doors,'" he said. "The volume dropped but the payments still continued to come through." ●

—Alex Kacik contributed to this report.