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## **Boston Business Journal**

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# Insurers see \$100M hit from rate fight

Boston Business Journal - by [Julie M. Donnelly](#)

The top three Massachusetts health insurers collectively will take a \$100 million hit from their standoff with state insurance regulators, setting the stage for tough negotiations with area health providers to close the gap between premium rates and the cost of care.

Health plan CEOs said their recent settlements with the state were designed to put the matter behind them.

"Agreeing to the settlements was the only way to end the continued harassment," Tufts Health Plan CEO Jim Roosevelt said. Roosevelt and other insurance executives said that holding the line on rate increases would have prompted rejection of the rates every quarter. Roosevelt said he expects the insurer to lose \$40 million as a result of the DOI action, and warned that rate caps "will ultimately force insurers to go out of business or leave the market."

The settlements end the months-long dispute with the state Division of Insurance, that began in April with the rejection of the vast majority of proposed premium rate increases for small businesses. Insurance executives say Gov. Deval Patrick took another swing at the health plans this week, signing a bill that instructs them to create new plan designs for small businesses that will be cheaper than those currently available, but which does nothing to regulate the costs hospitals and doctors charge insurers for their services. This sets the two sides on a potential collision course, as insurers try to negotiate lower reimbursement rates with doctors and hospitals.

Roosevelt said that while standoffs have been the norm, it doesn't have to be that way.

"We got to health reform before anyone else by everyone cooperating and adopting shared responsibility," Roosevelt said. But, he said, "The government has to be a trusted partner. Now, that trust has been seriously damaged."

Insurers said resolving the dispute ends months of uncertainty for their small business customers.

"There was a tremendous amount of confusion and disruption in the market. Small employers didn't know how much to deduct from a worker's paycheck — the 2009 rates, the new rates — and they were concerned they's have to pay retroactively if the plans won the appeals," Jay McQuaide, spokesman for **Blue Cross Blue Shield of Massachusetts** said. The insurer set aside \$55 million to cover losses associated with reduced small business rates, and McQuaide said the reserve is expected to cover Blue Cross' exposure.

Both Tufts and Blue Cross agreed to lower the premium base rates for small businesses, before a decision was made on their appeals. Actual rates will still vary, depending on the demographics of the small employer's workforce.

**Harvard Pilgrim Health Care** actually won its rate appeal, which covered the April to July period. But the plan still agreed to a settlement.

"This is the only way we thought we could get past this rate cap strategy and move on to a productive discussion about the real drivers of costs," Harvard Pilgrim CEO Eric Schultz said. Schultz said Harvard Pilgrim would lose between \$5 to \$10 million this year on its small business book of business.

All three plans decided they will not go back and collect the difference between the old and new rates from small businesses for April through July.

The next step is clear.

"We have gone back to all of our highly paid hospitals — those identified in the Attorney General's report — and doctor's groups and asked them for lower rates," McQuaide said. Opening up existing contracts with health care providers will be difficult, both because hospital budgets are likely tied to current reimbursement rates, and because the Governor and the legislature have shown that they are unwilling — so far — to take on the thorny issue of reining in the fees of such a powerful and popular constituency. Both Tufts and Harvard Pilgrim say they are also talking to providers, but that so far, they have been unsuccessful in garnering any concessions.

Health plan executives said many hospitals postponed negotiations while the bill was being considered, since both the House and Senate versions included some regulations for hospitals. The final legislation is "a major disappointment," Schultz said. "We continue to struggle in our conversations with providers."

Schultz said Harvard Pilgrim will now change the way it does business, asking providers not just to lower rates, but to move to a new "global payments" system that will reimburse them per patient, not per service (see story on Page 9 for more details). Tufts said currently 20 percent of its business is through "global payments," and Blue Cross does 32 percent of its HMO business this way. Some providers are expected to resist global payments fearing that capping per-patient costs will lead to a rationing of care.

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