State Laws and Regulations Governing Preferred Provider Organizations

Annotated Bibliography on Preferred Provider Organizations

Phoebe A. Lindsey
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The Department of Health and Human Services
The Federal Trade Commission

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PREFACE

In 1984, the Committee on Energy and Commerce of the U.S. House of Representatives asked the Federal Trade Commission to study state laws and regulations that affect preferred provider organizations (PPOs). Because the U.S. Department of Health and Human Services was already funding a study of PPOs, it expanded the scope of the study to include the committee's request.

This report contains an annotated bibliography on all aspects of preferred provider organizations, including cost savings, provider participation, and consumer satisfaction, in addition to legal issues. Companion volumes provide the complete study findings and a summary of those findings:


A description of the design for the broader study may be found in:


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I. INTRODUCTION

This annotated bibliography was prepared as part of a study undertaken to understand and describe those characteristics that combine to create a hospitable environment for the successful development of preferred provider organizations (PPOs) and similar arrangements and those that combine to thwart their successful growth. This study is being done for the Federal Trade Commission and is intended to be responsive to direction from the U.S. House of Representatives Committee on Energy and Commerce, which specified that a review of the published literature and other publicly available information on PPOs focus on:

1. Cost savings;
2. Any problems in access to, quality of, or consumer satisfaction with health care services provided through PPOs;
3. The means to induce provider participation in PPOs; and
4. The effect, if any, of such programs and arrangements on the patterns, organization, and location of the providers’ provision of service.

This study for the FTC will complement a larger study being done for the U.S. Department of Health and Human Services to analyze the experience of six large employers that have contracted with one or more PPOs to provide additional options for employees participating in the employers’ health benefit plans.

METHODOLOGY FOR COMPILING THIS BIBLIOGRAPHY

Articles on PPOs are appearing in a wide range of publications, from newsletters to professional journals, and from a wide range of disciplinary perspectives—health care providers, insurers, economists, financial managers, and researchers. Given the newness of the concept, the majority of articles are reports on the status of PPOs and projections for future trends rather than reports of research findings.

Sources used in compiling this bibliography included:

1. A LEXIS bibliography prepared by the firm of Memel, Jacobs, Pierno, Gersh & Ellsworth in the fall of 1985 as a separate part of this study;
2. Other prepared bibliographies from
   a. *Journal of the American Medical Record Association*, March 1985;

3. Comprehensive automated database search by the Rand library on October 21, 1985, that produced 261 citations from a range of disciplines;

4. Update of the Rand automated search on February 16, 1986, to capture any additional citations that had been incorporated into these databases;

5. Regular surveillance of current health policy and health related journals from project inception through February 1986 journal issues.

Relevant journal articles were selected and reviewed. Each was coded for keywords that would assist the reader in determining the scope of the article. A list of keywords used precedes the actual bibliography.

Other publicly available information on PPOs that is not part of the published and indexed literature is less easy to systematically retrieve. Bibliographies were reviewed to identify both published and unpublished materials on PPOs. The proceedings of PPO seminars and workshops were reviewed. Interviews with PPO developers provided another opportunity to identify additional resources, including PPO directories. The majority of citations in this bibliography, however, come from the published literature.

ORGANIZATION OF THE BIBLIOGRAPHY

In response to Congressional interest in certain issues and to assist the reader in identifying the body of literature of most interest, the citations have been categorized into one of nine primary topic areas. These topics are:

1. **Cost Savings**—includes literature on cost containment efforts as well as reports of realized or projected cost savings ascribed to PPOs.

2. **Consumer Satisfaction**—includes articles that address access to, quality of, and consumer satisfaction with health care services provided through a PPO.
3. **Inducing Provider Participation**—incorporates articles that describe ways in which providers have been encouraged to become involved with PPOs.

4. **PPO Effect on Service Delivery**—includes articles that discuss the patterns, organization, and location of the providers’ provision of services under a PPO or similar arrangement.

5. **PPO Status**—reports on the numbers, location, and operational status of PPOs are included.

6. **How-to-Develop PPOs**—incorporates guidelines for organizing, structuring, monitoring, and evaluating PPOs.

7. **PPO Issues**—includes descriptions of specific PPOs and the extra-legal issues of concern to PPO sponsors and participants.

8. **Legislative and Regulatory Environment**—includes articles on the legislative environment at both the Congressional and the state level that pertain to PPO development and incorporates references to proposed or enacted PPO legislation and regulation.

9. **Legal Issues**—a variety of legal and ethical issues that crop up in the literature appear in this section. Includes discussions of court cases and related legal or regulatory action, such as the *Stanislaus* and *Maricopa* cases.

These categories are clearly not mutually exclusive and an article categorized into one section may also include information that would fit other categories. The keywords are intended to help the reader identify articles throughout the bibliography that may be of interest.

The articles selected for this bibliography were intended to capture the wide range of interest in PPOs from a variety of sources and to incorporate all the issues that are addressed in the literature. The articles are not equivalent in scope nor in depth of coverage. To assist the reader in selecting articles that he/she may wish to more carefully consider, an asterisk (*) is used to identify articles with more substantive information than the abstract could adequately reflect.

**FORTHCOMING ARTICLES ON PPOs**

In-progress work on PPOs has come to our attention as a result of our interviews and contacts. Because of the lead time required for publication, these works are not yet available for distribution or have just become available and are mentioned below so that the reader can watch for them.
• Proceedings of the National Governor’s Association conference on “Selective Contracting for Health Services: Policy Implications and Considerations for States” held in San Francisco, August 1985.


• A paper tentatively titled “Winners and Losers in California Contracting,” by Joan B. Trauner.


II. PPO KEYWORDS

ACCESS
ALTERNATIVE DELIVERY SYSTEMS
ANTIDISCRIMINATION
ANTITRUST
BUSINESS COALITIONS
CAFETERIA PLANS
CAPITATION
CHANNELING
CLAIMS ADMINISTRATION
COMPETITION
CONSUMERISM/CONSUMER COST
COST CONTAINMENT
DATA MANAGEMENT
DENTAL
DIFFERENTIAL/DISCOUNTING EFFICIENCY
EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA)

EXCLUSIVE PROVIDER ORGANIZATIONS (EPOs)

FREEDOM OF CHOICE
GEOGRAPHIC LOCATION
INCENTIVES
JOINT VENTURE(S)
LEGAL
LEGISLATION
LIABILITY
MALPRACTICE
MANDATED BENEFITS
MARKETING
REGULATION
QUALITY
RATE SETTING
RISK SHARING
SELECTIVE CONTRACTING
SPONSORSHIP
THIRD-PARTY ADMINISTRATION
UTILIZATION REVIEW
III. COST SAVINGS

OVERVIEW: Articles in this section address cost containment strategies and efforts, including preliminary reports of cost savings achieved by some PPOs. Whether discounting is integral to the PPO concept or an illusion is debated by several authors. Efforts by businesses to contain their health care costs by redesigning their employee benefit programs are described.


KEYWORDS: cost containment, freedom of choice
ABSTRACT: On the basis of a phone interview of a random sample of 365 adults in Los Angeles, the author received negative responses to two out of three cost containment strategies presented to those interviewed. Positive responses were given to the alternative labeled self care, which is defined as the use of provisional arrangements to encourage consumers to take responsibility for personal health maintenance. The negative responses were to an alternative labeled preferred provider and defined as the use of insurance incentives to persuade consumers to choose providers who have contracted with reimbursers to provide services at a discount, and an alternative labeled health planning and defined as the use of administrative guidelines to ration the availability of health personnel and resources.


KEYWORDS: competition, data management, discounting, efficiency, freedom of choice, incentives, sponsorship
ABSTRACT: Jerry L. Levey, a senior vice president with Barbaranell Associates, discussed PPOs in an address to the International Foundation of Employee Benefit Plans and indicated that insufficient data are available to determine the success of PPOs in reducing costs. Levey cited two California locals (15 and 500) of the Upholsterers International Union that have been using a preferred provider arrangement for more than 20 years; plan
sponsors have saved over $5 million in that period. Utilization data are used to encourage physicians to practice efficient medicine.


**KEYWORDS:** access, channeling, competition, cost containment, discounting, freedom of choice, quality, risk sharing, utilization review

**ABSTRACT:** Boland, citing the work of John Wennberg, states that physician practice patterns, rather than price, are the key to determining the consumption of medical services and the cost of health care. He points out the problems of flexible enrollment in that purchasers will not usually be able to tell whether preferred providers are saving money per capita—the most important standard for comparison—unless their data management systems track both PPO and non-PPO use simultaneously. Discounting may be a means of transition to other more sophisticated reimbursement and cost management systems.


**KEYWORDS:** alternative delivery systems, business coalitions, efficiency, competition, data management, discounting, utilization review

**ABSTRACT:** Cassidy defines PPOs and gives examples of PPOs in Illinois, Tennessee, Arizona, Michigan, Minnesota, Florida, Ohio, and Colorado. The importance of efficiency over discounting is noted by business leaders, and physicians describe utilization review as the heart of a PPO. Cassidy suggests a consensus that contract medicine is here to stay, and one physician predicts that solo practice will be a thing of the past. Cassidy offers five considerations for the office-based physician considering PPO involvement: (1) The PPO could replace unwanted restrictions on a practice. (2) Fees for non-PPO patients could be affected. (3) Paperwork could increase. (4) PPOs can go out of business. (5) The office-based physician may not need the PPO in the first place.

KEYWORDS: cost containment, data management, freedom of choice, geographic location, incentives, sponsorship, utilization review

ABSTRACT: The CarePLUS program of the HealthWest Foundation is cited as being illustrative of the provider-sponsored PPO concept, incorporating the key elements of management of contracting, management of utilization, quality assurance programs, packaging of alternative delivery systems, data systems, alternative pricing programs, and optional products and services. Benefits to the payer and to the covered employee are described.


KEYWORDS: access, competition, discounting, incentives, quality, regulation

ABSTRACT: The hopes and the fears surrounding PPOs are described. Proponents hope that the patient’s freedom to choose a provider and the maintenance of the fee-for-service system will break down the barriers that have kept both patients and physicians from embracing the HMO concept more enthusiastically. The fears include the unknown fears of competition and the fear that quality will become at least secondary to cost considerations. Blue Cross and Blue Shield of Minnesota’s expectations of saving as much as $10 million a year in hospitalization costs with the development of its PPO is noted. The potential barrier of antitrust laws is recognized but at least one source did not consider these laws to be “a major stumbling block.” A California Blue Shield executive is quoted on his concerns about the possibility of a three-tiered system where Medicaid covers the poor, PPOs or similar arrangements cover another population segment, and a third system is available for those who cannot or do not wish to bargain for their care.


KEYWORDS: channeling, competition, data management, dental, discounting, efficiency, freedom of choice, quality, utilization review

ABSTRACT: Several major corporations, including Stouffer’s and Boise Cascade, indicate that they are more interested in
efficiency and access to utilization data than they are in
discounts, which to some may imply a lower quality of care.
Stouffer's has offered dental PPOs since 1980. Stouffer's requires
that its employees decide in advance whether they want to partic-
ipate in a PPO; they can change this option once a year.
Although Stouffer's is unsure about the reliability of their early
data, preliminary data suggest that their medical costs are 23 per-
cent lower among their PPO participants.

Friedman, Emily, "Florida Employers' Answer for Hospital Cost

KEYWORDS: business coalitions, competition, cost contain-
ment, utilization review
ABSTRACT: A Florida employers' coalition analyzed 25,000 case
records for the period 1981 and 1982 to assess hospital utilization
and charges and found that the average cost per case increased
25.4 percent during that period. The coalition is now seeking a
competitive solution through the implementation of a PPO pilot
project that involves hospitals, physicians and HMOs.

Haggerty, Alfred G., "PPOs Save Money, But the States Restrict
Them," *National Underwriter*, Life and Health Insurance Edi-
tion, December 7, 1985, p. 18.

KEYWORDS: cost containment, incentives
ABSTRACT: State statutes and regulations, such as those in
Texas and in Pennsylvania, may inhibit the development of
PPOs. E. Michael Joyce, of LaBoeuf, Lamb, Leiby & McRae, indi-
cates that PPOs do save money, basing his comments on a survey
by Johnson and Higgins of 140 employers. While 11.1 percent of
these employers reported an increase in their health care costs,
44.4 percent reported health care costs down over the previous 12
months and 39 percent reported costs about the same.

Herzlinger, Regina E., "How Companies Tackle Health Care Costs:

KEYWORDS: business coalitions, cost containment, utilization
review, rate setting
ABSTRACT: Herzlinger surveyed more than 200 large com-
panies to determine their efforts to trim their health care benefit
expenses. She identifies three strategies that companies are using
to contain health care insurance costs: redesign of health
insurance policies, restructuring of the system that supplies health care, and education in healthy lifestyle and health status. HMOs and states with hospital rate setting are also discussed.


KEYWORDS: cost containment, discounting, incentives, sponsorship, utilization review

ABSTRACT: Lathrop indicates the following assumptions for PPO formation: that the threat of an HMO exists or is imminent and that physicians will view the PPO as a lesser evil than an HMO; that fee-for-service arrangements can be retained if they are sufficiently discounted; that discounts can encourage major health care purchasers to increase volume and that the erosion of market share can be minimized through discounts. In Lathrop’s view, PPOs are transitional products and must begin to evolve to HMOs. The savings potential of PPOs is unproven, but their success depends on reducing hospital utilization rates.


KEYWORDS: cost containment, discounting, incentives, sponsorship

ABSTRACT: The economic properties of PPOs are examined from the perspective of the hospital, the physician, the payer and the beneficiary. Included among the findings of the initial analysis are: (1) Total utilization or revenues from PPO patients are poor indicators of the hospital’s financial gains from PPO participation. (2) Hospitals and payers have predictably different perspectives on the choice between a given PPO discount rate and controls that would reduce utilization by an equal percentage. (3) Panel physicians’ financial concessions (e.g., a fixed fee schedule) are probably much less important to PPO success than the manner in which physicians are recruited and their commitment to utilization control efforts. (4) Specialists who obtain most patients through referrals may benefit from a PPO more than primary care physicians who have established practices. (5) From the beneficiary’s perspective, the prospective advantages of PPO enrollment depend on insurance premiums as well as cost-sharing arrangements. (6) Some beneficiary groups may be attracted to a PPO plan as a valuable compromise between a closed-panel HMO...
and costly traditional insurance. (7) The hospital's discount rate is a poor indicator of savings to the payer. (8) From the payer's perspective, a reward-structure PPO plan poses a risk of increased reimbursement expenses.


KEYWORDS: competition, cost containment, discounting, quality, risk sharing, sponsorship
ABSTRACT: Hospital and physician PPOs are discussed as the two most important types of PPOs. Risk is shifted from insurance companies to hospitals and physicians. Businesses such as Security Pacific National Bank in Los Angeles hope to save as much as $800,000 to $1 million annually through the use of their PPO. PPOs may be better suited to urban areas where there are more hospitals and physicians. Concerns about quality may be lost in the grab for market shares. The author holds that PPOs are a sound proposal for bringing economic order and they do not put government deeper into people's business.


KEYWORDS: cost containment, discounting, utilization review
ABSTRACT: California Preferred Professionals, Inc., (CaPP CARE) of Fountain Valley, California, is profiled in this article. Carriers do not try to get discounts from hospitals to obtain a contract with this PPO. Utilization review is one of the main keys to the program. Employers like the program because they have been able to reduce premiums by 10 to 30 percent. Hospital days per thousand and admissions under the PPO were lower than those of non-PPO users, according to a study of the first ten months of the program's operation.


KEYWORDS: competition, cost containment, quality, regulation
ABSTRACT: Dr. Rubin's remarks were made in a speech to the Academic Practice Assembly and were evidently in response to a presentation by Professor [Rashi] Fein. Rubin cites the failure of regulation to control health care costs and notes that states with hospital rate regulation have per capita health care expenditures
above the national average. Major companies such as DuPont, United States Steel, and John Deere have been able to cut hospital admissions by the use of strong utilization review programs. If PPOs are to be successful, they must take a careful look at the cost effectiveness of providers and the quality of providers. Rubin indicates that the real issue is whether our society will continue to spend 30 percent of Medicare’s funds on those in the last year of life.


KEYWORDS: alternative delivery systems, antidiscrimination, antitrust, business coalitions, cost containment
ABSTRACT: The president of the National Association of Employers on Health Care Alternatives suggests that PPOs will be important for three reasons: (1) They offer a managed system of health care with the potential for enhanced efficiency. (2) They retain the fee-for-service concept. (3) Unlike HMOs, they are not a mandated second choice so they may be more attractive to employees. The PPO bill proposed by Congressman Wyden is discussed as one way of avoiding some legal obstacles at the state level. PPOs appear to reduce health care costs, according to claims trend data. The fear that PPOs offer enormous potential for abuse of small employers stems from the problems with multiple employer trusts in California, where small companies were stuck with unpaid health care claims after some of the multiple employer trusts went out of business.


KEYWORDS: competition, sponsorship
ABSTRACT: Rundle describes the growth and intensive PPO activity in California. One California diversified financial corporation, Security Pacific Corp., expects to reduce its $25 million per year medical and dental costs by $806,000 with the use of its PPO.

KEYWORDS: competition, cost containment, data management, quality, risk sharing, third-party administration

ABSTRACT: The insurance business has undergone marked changes in the last several years, including the growth of third-party administrators to assist with the management of health benefit programs for self-insured and modified self-insured programs. Greater percentages of insurance business consists of minimum premium plans and administrative services only agreements. Changes in the insurance industry initially focused on the cost of benefit administration, but the focus is now shifting to the 90–95 percent of each premium dollar that is paid out in claims. Today insurance is focusing on service in the management of benefit costs, the financing of health care programs, the analysis of claims data, and the delivery of care.


KEYWORDS: alternative delivery systems, cost containment

ABSTRACT: Rising health care costs as well as the government’s shifting of health care costs from the Medicare and Medicaid programs to the private sector has forced insurers to consider alternative delivery systems such as PPOs and HMOs. Analysts suggest that PPOs have the potential to control increases in health care costs. PPOs should be offered as competition to HMOs because PPOs offer greater freedom of choice than an HMO but have all the other price and convenience advantages of the HMO.


KEYWORDS: access, competition, quality, selective contracting

ABSTRACT: PPOs are a steadily growing form of alternative delivery systems that are highly favored by payers. Some suggest that the quality of medical services is threatened by the emphasis on cost and price that results from competition. Definitive conclusions on the questions of quality and access will require more careful examination, but preliminary studies show that price is not the most important measure of value even in a competitive market.

KEYWORDS: cost containment, discounting
ABSTRACT: The Hanes Company, a subsidiary of the Sara Lee Corporation, spent $1.3 million less in health benefits than it had projected in its first year with a PPO. Employees saved $300,000 because of their lower co-payments per visit. Ameritrust, a Cleveland-based bank holding company, now offers its employees two PPOs, two HMOs, and traditional coverage. Only 21 percent of the employees remain in the traditional plan, which has the highest per capita cost. The PPO's per capita cost is the lowest of the three types of plans and is just slightly more than half of the cost of the traditional plan.

KEYWORDS: cost containment, discounting, quality
ABSTRACT: PPOs such as the Metropolitan Life Insurance Company’s Met-Elect program for the Dade County school system are changing the way employees select their health benefit coverage. Those who use Met-Elect’s plan do not have to pay deductibles or co-payments to use preferred providers, but those who do not elect to use these providers must pay a deductible plus 20 percent of their bill up to $2,000 per year. The school system estimates that it will save up to $10.8 million for the 1984–1985 school year through the use of its PPO.

KEYWORDS: cost containment, discounting, utilization review
ABSTRACT: The cost savings accruing to Hewlett-Packard from its relationship with El Camino Hospital in Mountain View, California, for the one year period ending May 31, 1985, were considerable. Hewlett-Packard did not seek discounted rates, since it did not wish to have its costs shifted to other businesses. But under the PPO arrangement with El Camino, the hospital experienced a 32 percent increase over the prior year in the number of employees treated. Hewlett-Packard employees who use this preferred hospital pay 50 percent less out-of-pocket costs than do employees who select other hospitals. Hewlett-Packard reduced its hospitalization costs by nearly 21 percent. PPO patients have increased their use of one day ambulatory surgery instead of using inpatient surgery. The average hospital length of stay for Hewlett-Packard employees dropped 12 percent. Hewlett-Packard requires a stringent utilization review program.
IV. CONSUMER SATISFACTION

OVERVIEW: Because the PPO concept is relatively new, the literature on consumer satisfaction with this alternative delivery system is sparse. As more PPOs are implemented and their efforts evaluated, consumer satisfaction may receive more attention, but cost containment and delivery system issues may overshadow consumer satisfaction considerations in the near term.


KEYWORDS: dental, quality
ABSTRACT: Hooper focuses on the role of third parties in the matter of dental quality assurance. Many dentists fear PPOs, but Hooper holds the hope that dentists can assist third parties in making PPOs a positive experience. The dental profession should develop treatment standards and fund a study to determine the extent to which quality of diagnosis, treatment plan, and treatment are related to dental fees.


KEYWORDS: access, competition, regulation
ABSTRACT: Changes in the health care delivery system, stimulated by concerns about rising health care costs, are creating problems for the poor who need health care. Kinzer points out that the competitive strategy is really a mad scramble for a larger share of the private market and has only the most limited relevance to the cause of cost control. PPOs are of special concern to public and teaching hospitals, which see this new approach as an effort by groups of hospitals that do not do much teaching or give much charity care to take away the share of the private market needed by public and teaching hospitals to subsidize their teaching and charitable services. Financial risk cannot reasonably be imposed on people who cannot afford to pay their bills in the first place and Kinzer adds that their risk under the current competitive doctrine is to not receive the medical services they need. The charity care burden may best be equalized in those states that have regulated hospital systems.

**KEYWORDS:** access, cost, discounting, quality, utilization review

**ABSTRACT:** Larson indicates that the jury is still out on the question of whether PPOs practice quality medicine. Physicians are quoted on their commitment to quality and on the importance of strong peer review and utilization review processes.
V. INDUCING PROVIDER PARTICIPATION

OVERVIEW: Incentives to induce providers to participate in an alternative delivery system are the focus of the articles in this section. Joint ventures between hospitals and medical staffs are one of the approaches described to effect provider participation in the PPOs.


KEYWORDS: antitrust, competition, cost containment, freedom of choice, malpractice, sponsorship

ABSTRACT: PPOs are here to stay, although the early interest and frantic activity require a shakeout of the weaker and less efficient organizations. PPO activity in California, where PPOs got an early start, is chronicled and the review unit within the California Medical Association that advises physicians on PPO contracts is noted. Carlova suggests that PPOs may produce a better breed of practitioner and may perhaps lower malpractice insurance premiums for participating physicians. The major complaint about PPOs is that they have not delivered the number of new patients to physicians that were expected. Although cost savings data are preliminary, Security Pacific Bank, Metropolitan Life Insurance Co., and CaPP CARE all report anticipated or realized savings from their PPOs.


KEYWORDS: antitrust, competition, joint ventures

ABSTRACT: The ways in which hospitals and medical staffs can seek out opportunities in the marketplace of PPOs and HMOs are the focus of this article. A joint venture between hospitals and their medical staffs is one of the simplest ways of forming a PPO to market services cooperatively and to administer a joint utilization review program. The “messenger solution” arrangement allows the joint venture to arrange opportunities for the participating physicians and the hospitals to enter into services agreements with providers directly. Tax, organizational, antitrust, securities, and other legal issues are discussed for the parties interested in establishing a joint venture.

**KEYWORDS:** alternative delivery systems, antitrust, competition, cost containment, freedom of choice, incentives, sponsorship

**ABSTRACT:** PPOs offer a number of incentives for participation including the following: maintenance of the fee-for-service system, strong utilization controls, expedited claims processing and cash flow, maintenance of the patient's freedom of choice of provider and access by the physician to increased referrals.


**KEYWORDS:** alternative delivery systems, efficiency, joint ventures

**ABSTRACT:** Michigan physicians participated in a conference on how to establish PPOs, “The Basics of PPOs.” Physicians interested in participating in PPOs need to be willing to address two problems: increased utilization on the physician's side and increased costs on the hospital's side. Hospital efficiency will be a major issue to physicians interested in forming a PPO. Caution was urged before commitments are made by physicians. Also, the joint venture strategy is considered one of the best.


**KEYWORDS:** competition, geographic location, joint ventures

**ABSTRACT:** Although the joint venture between physicians and hospitals is one way to establish a PPO, a survey by the American Hospital Association indicates that fewer than 12 percent of hospitals report such arrangements. Reasons for this limited participation include the newness of joint ventures; the need to establish trust relationships; the survey requested information on operational joint ventures and thus may have underreported the number; the economies of joint ventures may not be realized in the way the founders had anticipated; joint ventures may not be the most appropriate arrangement in some circumstances; and the survey did not capture some of the more prevalent joint ventures such as birthing centers, answering services, and group purchasing arrangements. There are regional variations described in the
development of joint ventures. Joint ventures were less likely to be established by state or local government-run hospitals and major teaching hospitals. Joint ventures are most likely to be developed by large, nongovernmental, nonteaching hospitals in large urban areas, particularly in the west, New England, and east north and central regions.
VI. PPO EFFECT ON SERVICE DELIVERY

OVERVIEW: Employers and other purchasers of health care are influencing changes in the health care delivery system through their interest in the increased efficiency of their health care dollar and their support of PPOs. Changes are occurring as a result of competitive efforts which include the marketing of alternative plans, bidding, and selective contracting.


KEYWORDS: competition, cost containment, incentives, sponsorship
ABSTRACT: PPOs are continuing to grow in number, with insurers entering the market and developing their own PPOs. Foundations for medical care and independent practice associations are also forming their own PPOs. As PPOs mature, it is expected that more hybrids, sharing the characteristics of HMOs, will develop.


KEYWORDS: discounting
ABSTRACT: Barkholz cites a prediction from Kenneth Abramowitz, with the Sanford C. Bernstein & Co. investment firm, that hospital patient revenues will increase but that pressure from employers and insurers to discount prices and reduce patient utilization will hold industrywide hospital earnings growth to 5 percent or less. More hospitals are promoting their own insurance plans, though some companies such as National Medical Enterprises are concentrating on diversification. There will be much consolidation activity in the hospital industry in the coming year, particularly in the not-for-profit sector.

Boland, Peter, “Purchaser Concerns to Prevail in Future PPAs,” Hospitals, 59(10) (1985), pp. 102, 104.

KEYWORDS: access, channeling, incentives, quality, risk sharing, sponsorship, utilization review
ABSTRACT: Boland includes a chart of selected characteristics of preferred provider arrangements for the current, next, and future generations of PPOs. Purchasers are pressing for more accountability in costs, data, and access, which will influence the development of PPOs. Future development of PPOs will also reflect the following three trends: (1) increased emphasis on business management principles; (2) increased purchaser awareness of channeling health care resources; and (3) increased acceptance of growing enrollment in closed provider networks such as HMOs by purchasers and providers.


KEYWORDS: access, alternative delivery systems, channeling, competition, cost containment, discounting, efficiency, incentives, utilization review
ABSTRACT: This comprehensive article details how PPOs may be responsible for dramatic shifts in market share, particularly from the public to the private sectors. A major new trend to be followed is the involvement of the purchasing community as a new force in the health care delivery system. The strengths of PPOs are their flexibility of access, their fee-for-service system, and the significant reduction in the number and type of health services delivered and the increased use of ambulatory care as a result of PPO influence. Major for-profit hospital chains are working to develop national alternative delivery systems. The article also discusses success measures for PPOs.


KEYWORDS: competition, cost containment
ABSTRACT: Health care managers will need to be skilled in handling the competitive bids for the delivery of select health care services. Projecting profit accurately from a contract won is essential; equally important is the ability to assess the risks involved in losing a contract. A hypothetical case study is provided to illustrate these points.

KEYWORDS: alternative delivery system, competition, cost containment

ABSTRACT: PPOs appear to be developing in cities where there is a surplus of physicians and rapidly growing HMOs that are presumably taking patients away from other providers. Examples are provided of PPOs operating in Colorado, California, and Texas.


KEYWORDS: capitation, cost containment, freedom of choice, quality

ABSTRACT: Legislation that permitted selective contracting opened the way greater for competition in California's health care delivery system. Managers have two strategies open to them: increase their market share or decrease costs. Hospital executives need to be less oriented toward social work and more focused on skills in financing, data processing, strategic planning, marketing, productivity, and other traditional business areas.


KEYWORDS: dental, quality, utilization review

ABSTRACT: The Cleveland-based Stouffer Corporation's experience with dental and medical PPOs is described. Flagg indicates that, to be successful, a PPO must have a medical director, utilization review, a billing clearinghouse, and solid financial backing to cover legal fees, communication programs, and the medical director's salary. Five reasons are offered why PPOs are a permanent part of the delivery system rather than a passing phenomenon.


KEYWORDS: alternative delivery systems, capitation, cost containment, efficiency, EPOs, freedom of choice, risk sharing, sponsorship

ABSTRACT: Two basic characteristics distinguish HMOs from PPOs: PPOs do not require subscribers to use participating providers, and providers are not at financial risk. These distinctions are beginning to blur and hybrid structures are forming. The
authors identify four new types of arrangements: (1) PPO contracts in which providers share in the financial risk; (2) primary care network PPOs that emulate many HMOs by requiring that primary care physicians authorize all care provided by specialists and hospitals; (3) organizations that offer multiple choices among a range of alternative delivery and insurance products; and (4) HMOs or HMO-type groups that pay for services rendered by nonparticipating providers, as in a PPO.


KEYWORDS: business coalitions
ABSTRACT: The future of the organization of health care delivery for the next 20 years is the focus of Freedman's article. The role of business coalitions in negotiating mass purchases of health care services is emphasized. Changes in primary care practitioners, primary care education, and subspecialty practitioners as a result, in part, of the development of alternative delivery systems are discussed.


KEYWORDS: efficiency
ABSTRACT: Hospitals, particularly those in hospital systems, are integrating both vertically and horizontally to become more competitive in the field. Some hospitals are merging with supply companies and all are looking at ways to increase their capital capabilities. Both not-for-profits and proprietaries are acquiring insurance businesses to enable them to better position themselves for a greater share of the market.


KEYWORDS: alternative delivery systems, competition, cost containment, third-party administration, utilization review
ABSTRACT: Buyers such as employers, frustrated with continuous premium increases, are turning to PPOs to help them contain health care costs. Some analysts predict that by 1995, PPOs could have 25 percent of the health care market, and the market share of fee-for-service will decline considerably. There is a trend
toward the development of competitive managed health care systems. PPOs will need to develop networks to serve multi-state employers.


**KEYWORDS:** geographic location, third-party administration, sponsorship

**ABSTRACT:** Five principles of PPO success are identified: wide geographic service coverage, selectivity/exclusivity, reliance on the primary care physician, utilization control, and negotiated fees and charges. The difficulties PPOs have had with third-party administrators, who were unable to service the administrative needs of the rapidly growing PPO enrollments, show the need for carefully choosing the right insurer. Hansen states that the insurance-based PPO may be more successful than the provider-based PPO because the insurance-based PPO is organizationally less complex, has substantial expertise and financial resources, and can make a stronger commitment to the PPOs’ development before marketing begins.


**KEYWORDS:** efficiency

**ABSTRACT:** The Hewitt Associates study of “Salaried Employee Benefits Provided by Major U.S. Employers in 1984” provides trend and background information that contributes to an understanding of the development of PPOs. The study found an increased prevalence of required coinsurance for hospital stays as well as increased employee deductibles to make employees aware of the economic choices they are making with regard to health care. Information on incentives for efficiency in health care plans is also provided.


**KEYWORDS:** freedom of choice, utilization review, sponsorship

**ABSTRACT:** Characteristics common to most PPOs include negotiated fee schedules, freedom of choice for the beneficiary, fee-for-service payment for the physician provider, utilization and
quality control programs, and quick payment of provider claims. Advantages and disadvantages of PPOs as well as legal concerns are described.


KEYWORDS: alternative delivery systems, competition, cost containment, exclusive provider organizations, freedom of choice

ABSTRACT: The emerging liabilities for alternative delivery systems such as PPOs, that are related to the freedom of choice doctrine, are the focus of this article. There is a blurring of the distinction between HMOs, PPOs, and other alternative delivery systems. The authors emphasize the certainty of the demand and the need for new and more cost effective ways of providing health care.


KEYWORDS: quality

ABSTRACT: Memorial Health Services, a diversified multi-hospital system based in Long Beach, California, is actually experiencing a growing admission rate, which they attribute to the 37 preferred provider arrangements they have with insurance companies and self-insured employers in their area. The key to forming contracts, according to Memorial, is to provide high-quality, cost effective health care services.


KEYWORDS: competition, cost containment, discounting, incentives

ABSTRACT: Hospital Corp. of America, American Medical International, Humana, Inc., and National Medical Enterprises, Inc., are developing alternative delivery systems as one way of attracting new patients. AMI is marketing a series of insurance plans to increase their patient base. Joining forces with the physicians in their hospitals is one step that the chains have not yet taken.

**KEYWORDS:** antitrust, competition, data management, discounts, incentives, regulation, third-party administration, utilization review

**ABSTRACT:** Kodner provides a list of seven characteristics shared by most PPOs. Examples are provided of dynamic PPOs in both California and Colorado. The East Coast seems to be experiencing more of a trend toward regulation than is the West Coast, which could influence PPO development. PPOs are in transition, perhaps to HMO-like organizations. Employers are a driving force behind the move to develop PPOs as a more efficient and cost effective alternative delivery system.


**KEYWORDS:** competition, cost containment, quality

**ABSTRACT:** Increased competition in the health care field is stimulating hospitals to become more aggressive businesses. One response to this stimulus has been hospital diversification, even into non-health-related businesses. Public hospitals are also going private; three hospitals in the Cleveland area are currently seeking such a change in status. Seventy-seven not-for-profit hospitals recently formed a for-profit company, the Voluntary Hospitals of America, Inc., which is organizing a PPO for them. There will be winners and losers among hospitals in this more competitive arena. One area of continuing concern is what will happen to indigent care as hospitals become more specialized and more reluctant to accept nonpaying patients.


**KEYWORDS:** business coalitions, cost containment, data management, discounting, utilization review

**ABSTRACT:** The South Florida Health Action Coalition has been instrumental in the development of PPOs to help combat rising health care costs. The Broward and Dade County school systems have developed PPOs, redesigning their benefit plans. Instead of the 45 percent increase sought by their insurer, the school system was able to hold the premium increase to 23 percent. Employees are pushing for more hospitals to be preferred, which is creating some strain on the PPO.

**KEYWORDS:** cost containment  
**ABSTRACT:** The environment for PPO development has been fostered by the economy, 20–50 percent premium increases in indemnity insurance, ineffectiveness of utilization review programs, tax-limiting initiatives that reduced the available funds for health care, employers moving to self-insurance, the development of third-party administrators, and the awareness of patient population base limitations. The evolution of the Unified Preferred Providers PPO of California is outlined.


**KEYWORDS:** capitation, joint venture  
**ABSTRACT:** The provider who wishes to participate in a joint venture, PPO, or IPA activity without jeopardizing employee benefit plans under Section 414(m) of the Internal Revenue Code has at least six avenues available: legislative reform, seeking exemption from the regulations, a Private Letter Ruling, employing an actuary to determine the potential for disqualification, careful structuring of the joint venture, or organizing as an expense-sharing arrangement.


**KEYWORDS:** cost containment  
**ABSTRACT:** PPO development in Ohio and in California is described. A list of 36 questions developed by the Department of Contract Evaluation and Negotiation Services of the California Medical Association is included for physicians who are considering PPO participation.


**KEYWORDS:** alternative delivery systems, sponsorship  
**ABSTRACT:** PPOs are defined, their organization described, and their advantages and disadvantages as well as legal considerations are included in this article. The authors conclude that PPOs
offer exciting opportunities for providers interested in shaping health care delivery systems of the future, but only careful planning will avoid the significant pitfalls that await the unwary.


KEYWORDS: competition, cost containment
ABSTRACT: PPOs, because of their negotiated rates and selective contracting, are creating new pressures for HMOs to be more competitive.


KEYWORDS: alternative delivery systems, cost containment
ABSTRACT: Ripps states that the phenomenon of an integrated insurance and health care delivery system is expected to characterize the health care sector for the next decade. An example of this phenomenon is the union of Aetna Life & Casualty with Voluntary Hospitals of America in their PARTNERS National Health Plan. Kenneth S. Abramowitz, in his report entitled “The Future of Health Care Delivery in America,” predicts that by 1990, 70 percent of the patients whose care is paid for by the private sector will be covered by such a combination plan. The matter of who should be responsible for uncompensated care still has not been resolved.


KEYWORDS: cost containment, discounting, utilization review
ABSTRACT: PPO activity in California has been particularly competitive, including PPO organizations established by Blue Shield and Blue Cross. These alternative delivery systems were spurred in part by the projected 40 percent increase in health insurance premiums for 1983, following substantial increases in 1981 and 1982. Physicians are feeling threatened by PPO development, which may exclude some of them from participating. Young physicians will find it harder to set up a practice in California.

KEYWORDS: joint ventures
ABSTRACT: Forty-three percent of the nation’s hospital beds are empty, according to the American Hospital Association. Hospitals are competing to find patients to fill those beds, and the proprietary hospitals have greater flexibility in developing new approaches. The larger proprietary hospital chains are acquiring insurance companies so that they can offer a broader range of plans to prospective patients.


KEYWORDS: selective contracting
ABSTRACT: The first generation of PPOs has done little to alter traditional practice patterns, particularly in an ambulatory setting. There are indications that “business as usual” may not be long-lived. Health benefit packages are being redesigned to include one or more of the following: (1) underwriting of benefits with guaranteed premiums for extended periods of time; (2) increased use of negative incentives such as increased copayments and deductibles that financially lock patients into contracting providers; (3) use of gatekeeper systems to control access to specialty services; (4) creation of “carve-outs” for specific medical/dental services; and (5) elimination of coverage for care provided by nonpanel providers—so-called EPOs. To the extent that the second generation of health plans limits access of subscribers to contract providers through financial incentives and restrictions on health plan coverage, the distinction between PPOs and prepaid plans becomes increasingly blurred. The author provides a listing of factors that providers can use in evaluating the second generation of PPO/EPO contracts.


KEYWORDS: captitation, competition, regulation, utilization review
ABSTRACT: The California Hospital Association annually assesses its membership on the issues felt to be most critically in need of attention. Although changes in health care financing remained an important issue, the issues of most current concern are hospital/physician relationships and utilization review.

**KEYWORDS:** cost containment, discounting, sponsorship

**ABSTRACT:** SELECT Health of Emeryville, California, was established to help stem the flow of patients to HMOs. The seven participating hospitals are increasing their market share as a result of participating in the PPO. The City of San Francisco, the county, and plan enrollees have saved about $1.2 million in inpatient care costs as a result of their contracts with SELECT Health.
VII. PPO STATUS REPORTS AND SURVEYS

OVERVIEW: The growing interest in PPOs as alternative health care delivery systems is reflected in the wide range of status reports on developing PPOs. PPO directories are included in this section.

American Association of Preferred Provider Organizations, Directory of Operational PPOs, 2nd ed. (1985), Washington, D.C.

KEYWORDS: alternative delivery systems
ABSTRACT: This directory provides the following information on operational PPOs: name, address and phone, contact, sponsor, part of network, additional benefits, reimbursement for providers and for hospitals, date operational, number of participating providers and hospitals, number of purchaser contracts and subscribers, and types of utilization review.


KEYWORDS: alternative delivery systems, competition, quality, utilization review
ABSTRACT: This guide was developed to explain the basic characteristics of PPOs, their organization, and how they operate. The guide is also intended to provide to the individual physician some information needed to decide whether or not to participate in a PPO.


KEYWORDS: sponsorship, utilization review
ABSTRACT: California Hospital Association surveyed the 50 known PPOs in California and got responses from half of them. Data are provided on each PPO’s status (not-for-profit or proprietary), numbers enrolled, number of contract hospitals, number of contract physicians, and service areas.


KEYWORDS: sponsorship, utilization review
ABSTRACT: California Hospital Association surveyed all 95 California PPOs and got responses from 60 of them. Data are provided on numbers enrolled, number of contract hospitals, number of contract physicians, and affiliated organizations. CHA reports that as a group, insurance-company-sponsored PPOs now have the largest enrollment and the largest numbers of hospital and physician contracts.


KEYWORDS: alternative delivery systems
ABSTRACT: This book contains data current as of July 1, 1985, for 65 PPOs operating in California. Mailing lists for all 95 PPOs identified in California and for 48 HMOs/Prepaid Health Plans are also included.


KEYWORDS: antitrust, consumerism, cost containment, discounting, legislation, regulation, sponsorship, utilization review
ABSTRACT: This paper examines the PPO concept, provides an overview of PPO development and discusses the structural and operational characteristics of PPOs. The major evaluation issues for PPOs center around provider selection, utilization review and quality assurance, provider and consumer acceptance, and the effect of PPOs on health care costs.


KEYWORDS: alternative delivery systems, utilization review
ABSTRACT: The authors report findings of a survey of Fortune 500 companies conducted by Market-PULSE Measurement Systems and Hospitals journal. The number of companies offering PPO options has grown from 6 percent in 1983 to 16 percent in 1984 and 30 percent in 1985. Utilization review programs include second opinions, utilization review analyses, and preadmission and concurrent review.

**KEYWORDS:** alternative delivery systems  
**ABSTRACT:** Geisel offers data on operational PPOs in California, Florida, and Ohio.


**KEYWORDS:** alternative delivery systems  
**ABSTRACT:** This directory provides information, state-by-state, on the name, address, and contact person at each PPO, whether or not the PPO is operational, annual administrative budget, numbers of subscriber groups, and participating physicians and participating hospitals, sponsorship, and service area.


**KEYWORDS:** cost containment, utilization review  
**ABSTRACT:** California has been the frontier for PPO development, but although new organizations are forming, not many of these are yet operational.


**KEYWORDS:** competition, cost containment, incentives, selective contracting, sponsorship, utilization review  
**ABSTRACT:** A telephone survey of more than 140 PPOs was conducted to collect up-to-date comprehensive national information on the organization, operation, and growth of PPOs. Data on sponsorship, enrollment, and numbers of contracts with hospitals and with physicians are presented. How providers are selected and paid and how PPOs determine their market share are discussed.


**KEYWORDS:** antitrust, cost containment, discounting  
**ABSTRACT:** The number of PPOs in 1984 has increased significantly over the number in 1983. PPOs will increase their market
share substantially over the next 10 years. Antitrust concerns, such as those faced by the Stanislaus Preferred Provider Organization, Inc., of Modesto, California, are noted.


KEYWORDS: channeling, geographic location, quality, sponsorship, utilization review
ABSTRACT: Data on the 115 operational preferred provider arrangements (PPAs) surveyed by the American Hospital Association are presented. The data include tables on the numbers of PPAs, their geographic location, and utilization management functions used by PPAs.


KEYWORDS: competition, dental, discounting, EPOs, sponsorship
ABSTRACT: Three PPO models, the provider based, the carrier based, and the employer or union-trust based are described. The author concludes that documentation of the success or failure of PPO arrangements in stabilizing the cost of hospital and medical benefits must be obtained before any sound policy on this concept in regard to dentistry can be made.


KEYWORDS: selective contracting
ABSTRACT: This article describes a database the authors are developing on California hospitals that contract with or belong to each major PPO and HMO.


KEYWORDS: access, cost containment
ABSTRACT: Benefit managers in the San Francisco-San Jose area and Southern California were surveyed. These managers not
only reported an awareness of the PPO concept but viewed them as an effective cost-cutting tool and were considering offering such plans to their employees. Results from the study indicate that the most important factors for employer selection of a particular PPO were cost to the employer, cost to the employee, and accessibility and convenience of providers.


KEYWORDS: alternative delivery systems
ABSTRACT: Hospital Corporation of America and Humana, Inc., have begun selling PPOs to employers. National Medical Enterprises offers both an HMO and a PPO to employers. Other hospital chains are diversifying their interests outside the hospital industry.
VIII. HOW TO DEVELOP A PPO

OVERVIEW: Guidance for the design, implementation, monitoring and evaluation of a PPO is the focus of articles in this section. PPO contract review and evaluation guidelines are also included.


KEYWORDS: antitrust, legislation, marketing, utilization review

ABSTRACT: This guide book identifies issues a physician should consider before organizing a PPO or contracting to participate in a PPO.


KEYWORDS: cost containment

ABSTRACT: This book defines PPOs, describes their evolution and discusses distribution, dimensions, and effects of PPOs. Part II focuses on cost control in preferred panel arrangements.


KEYWORDS: quality

ABSTRACT: The major issues to be addressed by providers in contract negotiations with PPOs is the focus of this article. Participants to a contract should agree upon what is meant by terms such as “high quality care” and should be familiar with state statutes and regulations governing PPOs.


KEYWORDS: competition

ABSTRACT: Boland has organized the work of a number of authors on PPO topics into four main sections: the dynamics of market competition, preferred provider arrangements, the dynamics of preferred provider arrangements, and future trends. Nine case studies are included.

KEYWORDS: claims administration, malpractice, utilization review

ABSTRACT: On the basis of a review of proposed PPO contracts done by the California Medical Association's Department of Contract Evaluation/ Negotiation Services, eight danger areas in contracting have been identified: (1) easy in, tough out; (2) quick payment of claims; (3) restrictions on referrals; (4) hold-harmless clauses; (5) open-ended utilization review clauses; (6) malpractice insurance; (7) arbitration; and, (8) financial stability.


KEYWORDS: antitrust, sponsorship

ABSTRACT: Three antitrust concerns for hospital-sponsored PPOs and six antitrust concerns for a nonhospital-sponsored PPOs are identified. Thirteen contracting concerns, ranging from who pays the hospital to how much malpractice insurance a hospital should carry, are noted.


KEYWORDS: legal

ABSTRACT: Cowan's book provides background information on PPOs, discusses the effects of PPOs, describes how to plan, organize, and operate a PPO, and identifies legal issues affecting PPOs.


KEYWORDS: alternative delivery systems, utilization review

ABSTRACT: Feller lists 30 questions that hospitals and physicians should ask when contemplating signing a participating provider contract.


KEYWORDS: antitrust, competition, regulation
ABSTRACT: Fine emphasizes the differences in PPOs, commenting that “... if you've seen one PPO, you've seen one PPO.” Six expectations of a successful PPO are listed as a guide to physicians and others considering participating in a PPO.


KEYWORDS: marketing
ABSTRACT: The authors present a case study to exemplify some of the legal, marketing, organizational, and financial issues that need to be considered before organizing a PPO.


KEYWORDS: alternative delivery systems
ABSTRACT: The application of analytical techniques to strengthen PPO developmental activities is the focus of this paper. Five common properties of PPOs are described. A systematic approach to planning a PPO, using Gantt charts and program evaluation review technique (PERT), are stressed.


KEYWORDS: alternative delivery systems, marketing, quality, utilization review
ABSTRACT: The American Hospital Association’s Alternative Delivery and Financing Systems Task Force has developed a matrix to help managers choose the way to deal with PPOs and other alternative delivery systems. The matrix addresses executive management, both product definition and product management aspects of marketing, legal issues, clinical service delivery, quality and utilization issues, finance, human resources, and administrative services issues.


KEYWORDS: marketing
ABSTRACT: What employers and insurers want in a PPO is identified for those who are interested in developing PPOs. Tenets for providers who plan to offer PPOs include: (1) tailor
the approach, (2) stress utilization management, (3) be distinctive, and (4) view the PPO as only one piece of the hospital's positioning strategy. Stages in the evolution of a hospital-based PPO are also provided.


KEYWORDS: alternative delivery systems, claims administration

ABSTRACT: Ohio Health Choice Plan in Cleveland is profiled. The structure of the PPO, the range of benefits offered, and the services provided are described. The author identifies four challenges to success and some measures of the success of a PPO.
IX. PPO ISSUES

OVERVIEW: Innovations in the PPO concept are already occurring, with dentists, physical therapists, and other allied health workers exploring the potential that PPOs hold for them. Articles in this section address not only these innovations but also the problems that are emerging as PPOs are implemented, such as whether PPOs can control costs and assure access to quality care.


KEYWORDS: competition
ABSTRACT: Alper differentiates between “good” and “bad” competition and emphasizes that the purpose of competition is to offer a variety of choices. Rather than directing one’s attention to eliminating the competition, health care providers should focus on good competition in which competitors may serve other and perhaps less attractive segments of the market, share in market development, standardize and legitimatize new technology, help fight against substitute products, and raise the image of the industry and lend credibility to it.


KEYWORDS: cost containment, discounting, efficiency, geographic location, utilization review
ABSTRACT: Employers are the customers who are stimulating changes in PPO organization and service. The decline in inpatient utilization and the shift from inpatient to outpatient surgery will dictate some of the changes in PPO offerings. PPOs will likely evolve to managed care plans.


KEYWORDS: legislation
ABSTRACT: Data are provided on 25 of the 37 operational California PPOs. PPO status, enrollment, number of hospital and number of physician contracts, and current and proposed service
areas are reported. Five percent of the state’s population is covered by PPOs.


**KEYWORDS:** legislation  
**ABSTRACT:** Assembly Bills 799 and 3480, which paved the way for selective contracting by PPOs, are analyzed. California’s financial crisis, which led to this legislation, is discussed and two key questions are addressed: (1) What are the responsibilities of federal, state, and local governments in relation to people’s health, and (2) what are their responsibilities in relation to indigents?


**KEYWORDS:** alternative delivery systems, competition, cost containment, discounting, efficiency, joint ventures, marketing, quality  
**ABSTRACT:** The author discusses PPOs, HMOs, IPAs, and physician-hospital relationships as dimensions of alternative delivery systems. Tax status and flexibility issues are a special focus of the article. The author recommends that tax-exempt organizations considering organizing a PPO should seek a private letter ruling from the IRS to determine their tax status.


**KEYWORDS:** dental  
**ABSTRACT:** Balasa sets out ten assumptions and hypotheses in an effort to answer the question whether PPOs have a net positive or a net negative effect on the economic well-being of dental assistants. Income and substitution effects are described. Balasa concludes that, because dentists will be receiving less for their own time and services in a post-PPO market structure, they will tend to substitute their time and effort for that of their auxiliaries.

**KEYWORDS:** access, cost containment, discounting, quality control, utilization review

**ABSTRACT:** Boland discusses the following 11 misconceptions about PPOs: (1) the lack of a common definition is an obstacle to developing PPOs; (2) PPOs create an adversarial relationship between medical staff and hospital; (3) high-cost providers will change their practice patterns with the right incentives in a PPO; (4) price is far the most important concern of health care purchasers; (5) PPOs preserve traditional fee-for-service medicine; (6) PPOs shield providers from financial risk; (7) discount agreements reduce health care costs; (8) marketing is the key to a successful PPO; (9) hospitals need to be preferred providers to remain competitive in metropolitan areas; (10) everybody wins in preferred provider contracting; and (11) PPOs are a passing fad.


**KEYWORDS:** cost containment, regulation

**ABSTRACT:** Carecard was organized in Pennsylvania in 1983 but was unable to succeed because it was undercapitalized. The PPO program organized was also intricate and difficult to administer.


**KEYWORDS:** competition, incentives

**ABSTRACT:** Fluctuations in hospital utilization, pressures from purchasers, and the surplus of physicians all contributed to the development of a PPO in Denver intended to be responsive to changes in the health care market. Brukardt describes the entree to the purchaser and the consumer of health care as the critical contribution of PPOs.


**KEYWORDS:** cafeteria plans

**ABSTRACT:** Susan Weiner, executive director of risk management for the Dade County schools, was instrumental in
developing with Metropolitan Life of New York a PPO for school employees in Dade County.


KEYWORDS: cost containment, legislation
ABSTRACT: The environment that led to the passage of California's selective contracting system is described. The number of PPOs in California is growing rapidly. Payers are implementing various cost containment efforts.


KEYWORDS: cost containment, marketing, utilization review
ABSTRACT: Physical therapists in private practice have formed their own PPA in Woodland Hills, California, because they feel they have not been properly represented in the hospital- and physician-sponsored PPAs developed in the state.


KEYWORDS: legislation
ABSTRACT: Members of the California Psychiatric Association have been asked to contribute $350 each to finance a feasibility study that will analyze how a statewide psychiatric provider organization could be established.


KEYWORDS: competition
ABSTRACT: Even under circumstances that seem ideal for PPO development, careful planning, timing, and sensitivity are essential for the development of a successful PPO. The organizational and other problems of California Preferred Providers, Inc., of Santa Barbara, California, are described. This PPO should not be confused with another similarly named organization, California Preferred Professionals (CaPP CARE).

KEYWORDS: alternative delivery systems, antitrust, capitation, cost containment, discounting, quality
ABSTRACT: Chua discusses the shortcomings of HMOs and describes the PPO, Comprehensive Healthcare Utilization Alternative, he has developed to provide cost-efficient, quality medical care to the community.

KEYWORDS: antitrust, discounting, liability, utilization review
ABSTRACT: PPO characteristics are described. Antitrust implications of the Maricopa case are noted.

KEYWORDS: antitrust, claims administration, marketing, utilization review
ABSTRACT: Colton defines PPOs and describes attributes that make them successful. Among the pitfalls and concerns Colton identifies for those considering participating in a PPO are the following: (1) will the PPO provide adequate geographic and specialist coverage? (2) How will the PPO be financed? (3) Is the start-up capital adequate? (4) Are appropriate personnel available? (5) Are the systems controls related to finance, claims processing, and utilization control adequate?

KEYWORDS: dental, marketing
ABSTRACT: Insurance Dentists of America, a firm based in Saratoga, California, is marketing the first national dental PPO. Other dental PPOs such as United Dental Network in Colorado are linking with insurance companies to offer discounted dental services.

KEYWORDS: alternative delivery systems, competition
ABSTRACT: Competition in medicine is stimulated by the increasing number of physicians, by the influx of foreign trained
physicians, by third-party payers experimenting with alternative delivery systems, and by the FTC's ruling that physicians are allowed to advertise their services.


KEYWORDS: discounting, freedom of choice, quality, utilization review
ABSTRACT: The authors report the results of a 1985 survey to California hospitals conducted by the Hospital Council of Southern California to determine the extent of hospital involvement in alternative delivery systems. Seventy-three of the 115 hospitals that completed the survey reported involvement with at least one alternative delivery system. Large and full-service hospitals are more successful at negotiating contracts, and this trend will continue, according to the authors. Freedom of choice will continue to be an important concept to employers in selecting benefits for their employees.


KEYWORDS: competition, marketing
ABSTRACT: The range and diversity of alternative delivery systems being marketed in Ohio is the focus of this article. Hospitals and physicians face special challenges to their survival in this competitive arena.


KEYWORDS: alternative delivery systems, competition, cost containment, incentives, utilization review
ABSTRACT: Providers are organizing in response to growing competition in the health care marketplace, according to a recent Interstudy survey. The impact of PPOs on various participants as well as issues for hospitals considering PPO participation or development are described.


KEYWORDS: cost containment
ABSTRACT: A survey by the Employee Benefit Research Institute shows that employer expenditures for worker health insurance benefits rose more slowly during 1984 than in any recent year.


KEYWORDS: marketing, quality, utilization review
ABSTRACT: Five group health insurance companies and the Health Data Institute of Boston have formed a Boston-based corporation, Private Healthcare Systems, Ltd., to offer a national PPO network. The insurance participants are Chicago-based CNA Insurance Co., Crown Life Insurance Co. of Alexandria, Va., MONY Financial Services of New York, and Time Insurance Co. and Western Life Insurance Co., both units of New York-based AMEV Holdings, Inc.


KEYWORDS: alternative delivery systems, business coalitions, marketing, utilization review
ABSTRACT: Employers are faced with many decisions about health care benefits in this increasingly competitive health care environment. The authors identify two dilemmas that companies face in managing their health benefits. Whether individual units of a company should be held accountable for health care expenditures by attributing to them the actual claims experience of their employees is the first dilemma. The second dilemma is whether firms should maintain nationally uniform benefit programs.


KEYWORDS: access, cost containment, quality
ABSTRACT: Using interviews and available data on operational PPOs, the authors address five questions in this article: (1) What is a PPO and how does it differ from other delivery systems? (2) How many PPOs are there, and what is their rate of growth? (3) What types of markets do PPOs enter and who are their sponsors? (4) What are the forces fostering PPO growth? (5) What do available case studies suggest about the ability of the PPOs to
control costs and assure access and quality of care? The authors conclude that PPOs are unlikely to realize their potential to control costs and secure a significant role in health care delivery and they offer four factors to support this position.


KEYWORDS: cost containment
ABSTRACT: The business sector is interested in three health-related issues: cost containment, the cause and prevention of illness and disability, and an expectation that the health care delivery system will offer products to meet the cost containment and prevention concerns. Memorial Health Ventures of Houston, which has developed the Healthnet PPO, has three phases of cost containment: cost-efficient clinical services, benefit design, and education.


KEYWORDS: cost containment, incentives, marketing, quality
ABSTRACT: Hospitals are often the largest employers in a community. Developing PPOs for their own employees is one way of containing their costs for employee health benefits and it also provides a way to gain experience in PPO management so that the hospital can market to other groups. Four areas of risk are addressed.


KEYWORDS: alternative delivery systems, antitrust, competition, cost containment, discounting, freedom of choice, malpractice, selective contracting, sponsorship, utilization review
ABSTRACT: PPOs may evolve into managed health care systems that utilize gatekeepers. Handel says the primary goal of a PPO should be to contract for cost-effective care from the most efficient hospitals and physicians. Independent utilization review should be a mandatory part of each PPO.


KEYWORDS: sponsorship
ABSTRACT: Irmen identifies ten characteristics of PPOs and discusses how PPOs differ by type of sponsorship.


KEYWORDS: selective contracting
ABSTRACT: Johns reports on a two-year study of selective contracting sponsored by the National Governors Association to provide other states with objective information about the origin, implementation, effect, and implications of California's health care cost containment activities. Findings on Medi-Cal contracting, private sector contracting, hospitals and physicians, and implications for hospitals are reported.


KEYWORDS: access, cost containment, freedom of choice, quality, utilization review
ABSTRACT: The authors conducted a survey of companies in the Minneapolis metropolitan area to determine employers' attitudes toward PPOs. The majority of firms surveyed (88 percent) reported that they are self-insured. Most of the firms surveyed indicated support for the PPO concept, although they are somewhat skeptical about potential savings attributed to PPOs and continue to be concerned about the administrative costs of offering a new health plan.


KEYWORDS: antitrust, competition
ABSTRACT: The Justice Department's antitrust division has commented favorably on PPO organizational questions raised by Hospital Corporation of America and by Health Care Management Associates of New Jersey.


KEYWORDS: antitrust, incentives
ABSTRACT: On June 7, 1983, the FTC issued its first PPO advisory to Health Care Management Associates of New Jersey,
indicating that it did not believe that HCMA's proposal would violate antitrust law and noting that the plan is "likely to be pro-competitive."


KEYWORDS: competition, cost containment, incentives, regulation

ABSTRACT: McNerney comments on the monograph prepared by Joan Trauner on the advent and growth of procompetitive forces in California [cited elsewhere in this bibliography]. He lists four reasons that a nationwide procompetitive market has developed. He concludes that the stage has been set for the demise of open-ended fee-for-service payments, independent hospitals, and independent practitioners for several years, but cautions against making premature declarations of death for these institutions.


KEYWORDS: alternative delivery systems, capitation, marketing, quality, selective contracting, utilization review

ABSTRACT: This report was prepared to help hospitals develop a strategy for contracting with PPOs and HMOs. Information is provided on a PPO and HMO participation strategy, assessing market conditions, evaluating a PPO or HMO, and evaluating contract provisions.


KEYWORDS: joint venture, utilization review

ABSTRACT: A joint venture among six geographically distributed hospitals in the Puget Sound area that have proven track records of cost-effectiveness is being marketed to employers. A DRG-based payment will be used for inpatient services.


KEYWORDS: competition, discounting, selective contracting
ABSTRACT: Hospital pricing strategy should be sensitive to changes in the health care environment. The merits and disadvantages of each of three payment systems—per-diem, discount on charges, and charge per case—are described.


KEYWORDS: capitation, dental, quality
ABSTRACT: There is no consensus about the desirability of dental capitation plans among employers, employees, and practicing dentists. Employees like the cost savings they experience under dental plans, but some dentists believe that capitation programs threaten the quality of dental care.


KEYWORDS: claims administration, discounting, freedom of choice, third-party administration, utilization review
ABSTRACT: Rapid change is occurring in the PPO market which demands that PPOs maintain flexibility in offering services. PPOs can contain costs through discounts, utilization controls, or selection of efficient providers. PPOs in Denver, Colorado, and Los Angeles are described as PPO models.


KEYWORDS: alternative delivery systems, cost containment, dental, incentives
ABSTRACT: The American Dental Association prefers the term Contract Dental Organizations to the term PPO. The Insurance Dentists of America is a national PPO that works with eight insurance companies; these companies represent 44 percent of the people in the United States who have dental coverage.

Polakoff, Phillip L., “Do PPOs Answer a Need or Create a New Set of Problems?” Occupational Health and Safety, January 1984, pp. 69–70.

KEYWORDS: antitrust, freedom of choice, incentives, joint venture, liability, quality, regulation, utilization review
ABSTRACT: The flexibility of PPOs allows them to be competitive in the health care market and to offer the range of services preferred by the purchaser. Polakoff points out that this very flexibility could provide an open invitation to regulation in the future. Good quality medicine must be provided by every PPO.


KEYWORDS: capitation, cost containment, discounting, freedom of choice, risk sharing, utilization review

ABSTRACT: The number of PPAs is growing rapidly. Effective utilization review is essential to the success of a PPA in containing costs. The issue of financing medical education remains unresolved as alternative delivery systems proliferate. Some predict that a PPA/HMO hybrid will develop as the next step in the evolution of alternative delivery systems.


KEYWORDS: alternative delivery systems, business coalitions, cost containment, incentives

ABSTRACT: More businesses are offering PPAs and more employees are selecting PPAs as their health care system. Descriptions of the organization and enrollment of PPAs in Louisiana, Texas, Iowa, and Minnesota are featured.


KEYWORDS: legislation

ABSTRACT: A survey of physicians conducted by the California Medical Association indicates that few physicians who have signed with a PPO have actually seen an increased number of patients as a result of these contracts.


KEYWORDS: access, cost containment, quality, utilization review

ABSTRACT: PPOs, as a newly emerging alternative delivery system, are diverse. Employers have a great deal of uncertainty about PPOs, in part because they realize they will need to
restructure their benefit plans to provide incentives for the employees to use PPOs. When faced with the realities of cost shifting because of DRGs, employers may become much more interested in what PPOs can offer them.


**KEYWORDS:** antitrust, competition, ERISA, freedom of choice, marketing, sponsorship, utilization review

**ABSTRACT:** Although there are several types of PPO sponsorship, this article focuses on the PPO sponsored by a single hospital. The authors identify a variety of considerations, including structural, legal, ERISA, antitrust, the corporate practice of medicine, utilization review, tax law, and reimbursement issues.


**KEYWORDS:** ERISA, incentives, mandated benefits, utilization review

**ABSTRACT:** The Metropolitan Life Insurance case in Massachusetts, which tested whether group health insurance plans would be required to cover certain kinds of benefits such as mental health benefits, provides the perspective for this article. Rublee points out that the extent to which group health insurers have lost market share to self-funded plans is not well recognized. The ERISA provisions, which permit self-funded plans to sidestep state legal restrictions, stimulate competitive plans but exacerbate the weakness of state-risk pooling mechanisms from which ERISA is exempt. Congress may need to consider amending ERISA, which would pit business against insurers.


**KEYWORDS:** alternative delivery systems, claims processing

**ABSTRACT:** Riverside Hospital in Jacksonville, Florida, developed the first PPO for that area, marketing its services to the City of Jacksonville. The hospital has seen an increased utilization by City employees and all parties to the PPO are reported to be pleased with the arrangement.

KEYWORDS: alternative delivery systems, cost containment, incentives, risk sharing
ABSTRACT: PPOs, which now cover 1 percent of the U.S. population, are projected to cover 8 percent of the population in 1990. Sherman suggests that the following issues be considered in evaluating a PPO: network participation, cost containment provisions, financial stability and network basis, geographic coverage, flexibility in employee benefit design, administrative services, risk sharing and pricing, and PPO ownership.


KEYWORDS: sponsorship, third-party administration
ABSTRACT: Hospitals are forming PPOs to contend with declining occupancy rates. The number of hospitals participating in PPOs will increase in the next several years, but the number of hospitals sponsoring PPOs will decrease. PPOs in California, Texas, and Washington are profiled.


KEYWORDS: quality, utilization review
ABSTRACT: A description of three California PPOs that are in various stages of development—San Francisco-based California Health Network, and Los Angeles-based Universal Health Network and Med Network—is the focus of this article.


KEYWORDS: competition, freedom of choice, incentives, legislation, regulation, sponsorship
ABSTRACT: Thompson traces the origins of PPOs back to the 1910 Workers’ Compensation laws in the Pacific Northwest. He predicts continued growth of PPOs, with some failures, and a likely evolution into IPAs or other entities. Physicians must be involved with PPO development and management.

KEYWORDS: EPOs, regulation, selective contracting
ABSTRACT: This comprehensive monograph provides a history of the selective contracting legislation and its implications in California. The types and sponsorship of evolving PPO plans and the issues arising from the present split of regulatory jurisdiction between the Department of Insurance and the Department of Corporations are addressed. Trauner identifies research issues that need to be investigated to help make better decisions about future PPO development.


KEYWORDS: marketing
ABSTRACT: A Pennsylvania corporation, which describes itself as a cross between a PPO, an HMO, an IPA, and an insurer, was formed by four hospitals and plans to franchise itself to hospitals nationwide.


KEYWORDS: cost containment, quality, utilization review
ABSTRACT: Texas law with regard to alternative delivery systems is reviewed. New contractual arrangements may place restrictions on the physician’s discretion, and the physician must remain the advocate for his/her patient. PPO contracts should be carefully reviewed by the physician who is considering participating in a PPO.
X. STATE LEGISLATIVE AND REGULATORY ENVIRONMENT

OVERVIEW: In the absence of federal legislation, the establishment of PPOs is controlled at the state level. States without specific PPO legislation may choose to interpret their existing statutes and regulations either restrictively or permissively. Articles in this section present legislative and regulatory approaches used by different states in controlling PPO development.

"Congressional Bill Seeks To Remove State Legal Blocks to PPOs," FAH Review, July/August 1983, pp. 8, 10.
KEYWORDS: antidiscrimination, cost containment, legislation
ABSTRACT: The Preferred Provider Health Care Act of 1983, the Wyden bill, is described in this article.

KEYWORDS: alternative delivery systems, antitrust, legislation
ABSTRACT: The Federal Trade Commission and some major commercial insurance companies support the Preferred Provider Health Care Act of 1983 (the Wyden bill).

KEYWORDS: cost containment, discounting, legislation
ABSTRACT: State efforts to control spiraling health care costs include legislation to allow for the creation and operation of PPOs. The report includes a table showing which states have laws that allow for the creation and operation of PPOs, which states place PPOs under the purview of the insurance commissioner and which states require that providers cannot grant discounts except when there is a clear linkage between cost savings and the discount.

KEYWORDS: legislation, regulation
ABSTRACT: Four states, Indiana, Louisiana, Michigan, and Nebraska, enacted legislation defining and regulating preferred provider organizations during 1984. A synopsis of each statute is provided.


KEYWORDS: consumerism, ERISA, mandated benefits, regulation

ABSTRACT: Employer self-insured health plans (ERISA plans) are exempt from state regulation, including mandated benefits that other insurers must provide. Self-insured plans now cover between one-third and one-half of all employees participating in health plans sponsored by medium to large sized companies. Business and insurance groups are interested in amending the ERISA regulations to make the situation more equitable. Kosterlitz indicates that employers would like to have Congress exempt all health plans from state insurance laws requiring certain kinds of coverage. The problems of providing health care to the poor and uninsured are also noted.


KEYWORDS: consumerism, legislation

ABSTRACT: The Quayle and Wyden bills, which would override state statutes inhibiting PPO development, are discussed. Various states have already enacted enabling legislation for PPOs, which are continuing to increase and are becoming quite diverse.


KEYWORDS: antidiscrimination, competition, freedom of choice, legislation, regulation

ABSTRACT: The Preferred Provider Healthcare Act of 1983 is described. The ambiguity of state insurance laws has inhibited the development of PPOs in some states. States that have hospital rate setting programs that require uniform rates of payment for all providers are also a threat to the development of PPOs.

KEYWORDS: legislation, malpractice
ABSTRACT: Physicians who participate in PPOs would have their medical malpractice premiums curbed under a law to be introduced in the Michigan legislature in September. Malpractice complaints from PPO patients would have to be resolved through binding arbitration under this proposed legislation.


KEYWORDS: dental, discounting, freedom of choice, legislation
ABSTRACT: Louisiana has passed a law that inhibits the development of PPOs and appears to pose problems for preferred provider plans that wish to offer dental care benefits. The statute prevents the development of EPOs. Many questions remain to be answered about the effect of the statute.


KEYWORDS: cost containment, legislation, mandated benefits
ABSTRACT: Proposed 1985 state health insurance legislation is described. A table of the mandated benefits required by each state and other insurance regulations applicable by each state is provided.


KEYWORDS: antitrust, legislation
ABSTRACT: Positions of organizations favoring and opposing the proposed Preferred Provider Healthcare Act of 1983 are reviewed. Physicians are advised to consult with antitrust specialists before structuring a PPO.


KEYWORDS: antidiscrimination, competition, consumer protection, freedom of choice, rate setting
ABSTRACT: There is no consensus among providers, insurers and others about the immediate need for federal legislation that
would preempt state legislation that inhibits PPO development. Developing PPOs in hospital rate-setting states may be more problematic than in other states.

KEYWORDS: business coalitions, competition, cost containment, quality, risk sharing
ABSTRACT: A two-state business coalition has developed a PPO to cut health care costs, especially for cardiovascular care. Participating providers expect to increase their market shares, and each party to the PPA has already experienced cost savings.

KEYWORDS: antitrust, joint venture, legislation
ABSTRACT: A bill proposed by the California Senate indicates that the mere formation of PPOs is not a violation of antitrust laws; however, anticompetitive actions such as predatory pricing to drive competitors out of business would still be subject to antitrust law.

KEYWORDS: cost containment, legislation
ABSTRACT: The following states have enacted enabling legislation for PPOs: California, Indiana, Florida, Louisiana, Minnesota, Mississippi, Nebraska, Virginia, Wisconsin, Kansas, New Hampshire, Maryland, Utah, and Wyoming.

KEYWORDS: legislation
ABSTRACT: Sixteen states have authorized discount insurance arrangements since California's 1982 PPO enabling legislation. Three states—Illinois, New Hampshire, and Utah—have passed bills that tend to be more complex and prescriptive than earlier bills.

KEYWORDS: competition, legislation, quality, selective contracting

ABSTRACT: PPOs are developing in California as a result of a law designed to help control Medi-Cal cost increases. Some express concerns that the negative experiences of HMO contracting in the mid-1970s may recur.


KEYWORDS: cost containment, legislation, regulation, sponsorship

ABSTRACT: A chapter entitled “State Regulation of Preferred Provider Organizations” by Teresa Brooks states that whether PPOs are a viable response to continuing health care needs or merely a temporary solution will be, in some measure, a function of how state and federal legislation will respond to the PPO movement. A survey of existing regulations for the states of California, Virginia, Minnesota, Florida, Wisconsin, Utah, Illinois, Kentucky, Massachusetts, Pennsylvania, Michigan, Iowa and Colorado is provided. The federal regulatory role for PPOs, the proposed Wyden bill, is noted.


KEYWORDS: antitrust, competition, liability, quality

ABSTRACT: In addition to antitrust considerations, Wilcox identifies other special problems physicians may face in developing a PPO. One problem is that professional liability insurers generally do not cover physicians when they agree to hold harmless another party for legal liabilities. Utilization review and quality assurance activities rendered by physicians for PPOs for the determination of the scope of health plan benefits and the approval or denial of services are not covered in typical professional liability insurance policies, according to the author.


KEYWORDS: legislation
ABSTRACT: The Conference's Health Care Cost Containment Project surveyed the 43 states that had legislative sessions scheduled for 1984. Eight states indicated they were likely to consider bills allowing for the creation and operation of PPOs.
XI. LEGAL ISSUES

OVERVIEW: Antitrust concerns are chief among the potential legal issues facing the developers of PPOs. Articles in this section focus on how to minimize antitrust and other legal concerns.

*Batavia, Andrew I., “Preferred Provider Organizations: Antitrust Aspects and Implications for the Hospital Industry,” American Journal of Law and Medicine, 10(2) (1984), pp. 169–188.

KEYWORDS: antitrust, competition, cost containment, selective contracting
ABSTRACT: Batavia points out that PPOs are vulnerable to antitrust challenges on the basis of theories that they are vertical and/or horizontal restraints of trade. He proposes a modified Rule of Reason to be applied to PPOs and other innovative cost containment arrangements. The implications for flexible application of conventional antitrust principles for the future of the hospital industry are discussed.


KEYWORDS: alternative delivery system, antitrust, sponsorship
ABSTRACT: The dissolution of the Stanislaus Preferred Provider Organization in Modesto, California, resulting from proposed action by the Justice Department against the organization, is described.


KEYWORDS: antitrust, competition, joint venture, utilization review
ABSTRACT: Clanton describes three types of antitrust risks where competing hospitals or physicians control a PPO plan: (1) If the providers jointly establish fees or fee discounts for the PPO, they may be accused of price fixing; (2) if the providers restrict membership in the PPO, they may be accused of engaging in an illegal group boycott; and (3) if the PPO becomes too big and dominates a market, it may be accused of illegally monopolizing that market. Clanton provides six suggestions for reducing the risk of antitrust suits among PPOs.

**KEYWORDS:** antitrust, cost containment

**ABSTRACT:** The history of the FTC's suit against the American Medical Association that challenged a number of anticompetitive ethical restrictions in the practice of medicine is chronicled. Costilo identifies the following health care areas that have been the subject of private and government antitrust activity: boycotts of insurer cost-containment programs; restraints against innovative forms of health care delivery; restraints of truthful dissemination of information; restraints on allied health care providers; and price fixing.


**KEYWORDS:** antitrust, cost containment, efficiency, quality

**ABSTRACT:** Joanne B. Stern, speaking at a seminar sponsored by The American Corporate Counsel Association and the National Health Lawyers Association, noted that the claim of bad faith breach of contract, originally used against insurance companies, is now being applied in lawsuits filed against HMOs and can be expected to be used against PPOs as well. Employer liabilities that grow out of employer participation in PPOs, particularly utilization review related issues, should be carefully assessed.

“F.T.C. Antitrust Charge Against Indiana Dentists' Group to be Aired,” *Health Insurance News Digest*, October 26, 1985, p. 173.

**KEYWORDS:** antitrust, dental

**ABSTRACT:** Whether the FTC can charge the Indiana Federation of Dentists with antitrust violation for refusing to send X-rays to insurance companies before undertaking major dental work is to be determined by U.S. Supreme Court action.


**KEYWORDS:** antitrust, legislation

**ABSTRACT:** The FTC indicates that proposed California legislation to provide an antitrust exemption for PPOs would "harm competition and consumers."

KEYWORDS: antitrust, EPOs, risk sharing, utilization review
ABSTRACT: The authors state that the simple message of *Maricopa* is that physicians cannot agree among themselves to set fees regardless of the procompetitive or proconsumer effects such fee arrangements are asserted to have.


KEYWORDS: antitrust
ABSTRACT: Three Peoria hospitals are vying to increase their market shares. Charges of antitrust law violations against St. Francis Hospital have been levied by Methodist Medical Center stemming from St. Francis’ success in signing a PPO agreement with Caterpillar Tractor Co., the city’s largest employer. No suits have yet been filed.


KEYWORDS: antitrust, competition, risk sharing
ABSTRACT: How the physician is involved in determining the fees charged by a PPO is a critical factor in assessing potential antitrust violations. The implications of the *Maricopa* decision for determining physician fees are discussed.


KEYWORDS: antitrust, competition, discounts, incentives
ABSTRACT: PPOs established to help providers gain a greater market share will have to be more than ordinary to be successful. The hospital-based insurance company is a new development that appears to have escaped many legal challenges. The legal questions raised by the *Maricopa* decision and the Stanislaus Preferred Provider Organization’s dissolution are noted.


KEYWORDS: selective contracting
ABSTRACT: An April 2, 1985, decision by a county court indicating that Blue Cross and Blue Shield of Northern Ohio’s plan violates state law will be appealed.


KEYWORDS: antitrust, competition, cost containment, sponsorship, utilization review
ABSTRACT: Heitler states that among the myriad antitrust issues confronting the health care industry, issues on the leading edge of recent court decisions include antitrust exemptions, provider agreements, peer review, and relative value schedules. The U.S. Supreme Court decisions on *Maricopa, Pireno*, and *McCready* are discussed.


KEYWORDS: antitrust, joint venture
ABSTRACT: Antitrust considerations are the major legal issues facing those interested in organizing a PPO. Other legal considerations include whether the PPO should be a separate organization, what the tax and reimbursement consequences are, limitations on liability issues, the new organization’s position in the hospital structure, and the organizational form the new entity takes.


KEYWORDS: antitrust, competition
ABSTRACT: Hunt discusses the Department of Justice’s action on the Stanislaus Preferred Provider Organization of Modesto, California. FTC attorneys also comment on issues of exclusivity and competition.


KEYWORDS: antitrust
ABSTRACT: A district court’s decision not to prevent Blue Cross and Blue Shield from operating its preferred provider arrangement will be appealed by a group of Indiana hospitals. A preferred provider arrangement organized by Blue Cross and Blue
Shield of Illinois agreed not to require a “most favored nations” clause in its contracts and so hospitals in the Chicago area have decided not to pursue litigation against the Blues.


**KEYWORDS:** regulation  
**ABSTRACT:** Irmen discusses the following 12 legal issues that may be presented by PPOs: price fixing, group boycotts or concerted refusals to deal, due process, state regulation, PPO corporate negligence, tax, confidentiality of medical records, defamation, fee splitting, securities issues, contracts, and the corporate practice of medicine.


**KEYWORDS:** alternative delivery systems, antitrust, regulation  
**ABSTRACT:** Contractual and structural issues, antitrust issues, regulatory issues, and other potential liability issues need to be carefully assessed before providers engage in the development of PPOs.


**KEYWORDS:** antitrust, competition, cost containment, discounting, quality  
**ABSTRACT:** Larson discusses bureaucratic, legislative and judicial issues related to the development of PPOs. Some attorneys express concerns that courts, when they discover that PPOs have the potential for lowering quality of care, will have to consider this issue as more important than the PPO's ability to contain costs.


**KEYWORDS:** dental  
**ABSTRACT:** PPO contracts should be carefully reviewed before providers enter into them. Special consideration should be given to the PPO fee schedule which could affect the usual, customary and reasonable (UCR) fees of practitioners in a geographic area.

KEYWORDS: selective contracting
ABSTRACT: Ohio providers are objecting to the way Blue Cross selected its participating hospitals. The nine hospitals that did not win contracts have received some support from the Cleveland City Council.


KEYWORDS: quality, selective contracting
ABSTRACT: An Ohio county court granted a preliminary injunction against an advertising campaign of Blue Cross and Blue Shield of Northern Ohio until the insurance commissioner acts on appeals by hospitals that were not selected by the Blues to participate in their program.


KEYWORDS: antidiscrimination, antitrust, cost containment, discounting, legislation, regulation
ABSTRACT: Antitrust problems faced by PPOs such as Stanislaus PPO in Modesto, California, the controversy surrounding PPO activity among three Peoria, Illinois, hospitals, and legal actions against Maryland’s Selectcare represent the types of problems other PPOs may face. Connecticut has set limits on discounts and Oregon, Oklahoma, and Virginia have laws against discrimination in provision of services.


KEYWORDS: antitrust, competition, discounting, quality, utilization review
ABSTRACT: Rather than initiating lawsuits because they may have been excluded from a PPO arrangement, hospitals should focus their energies on competing on the bases of price, quality, and service. Three ways to avoid antitrust scrutiny are offered.


KEYWORDS: cost containment, discounting, quality
ABSTRACT: Small responds to an article in the June 1984 edition of this journal entitled “What Ethical Liabilities Are Posed by PPOs?” The ways in which PPOs might jeopardize quality of care and care to the poor in Catholic hospitals are debated. Small holds that it is essential that Catholic hospitals get involved in PPOs and assume responsibility for shaping these organizations in a way that sets moral and ethical standards for the rest of the health care industry.


KEYWORDS: competition, cost containment, freedom of choice, incentives, utilization review
ABSTRACT: PPO development is creating many uncertainties among provider groups, and legal and ethical questions may pose some threat to PPOs. The California Medical Association is working to oppose PPO development. California Preferred Professionals, Inc., has formed CaPP CARE and is optimistic about establishing a successful PPO.


KEYWORDS: antitrust, sponsorship
ABSTRACT: The firm that prepared this review concludes that the extent to which collective action by pharmacies and drug wholesalers may create a risk of antitrust liability depends on circumstances such as the structure of the PPO, the geographic and product market affected, the applicable federal and state laws, and the manner in which prices are determined.


KEYWORDS: antitrust
ABSTRACT: The development of PPOs has stimulated a number of suits by those who feel inappropriately excluded from selective contracting. Defendants in many of these suits have been Blue Cross and Blue Shield plans. Counterclaims filed by Blues plans in Alabama and Indiana may have been a surprise to some.

KEYWORDS: antitrust, joint venture
ABSTRACT: The authors suggest four PPO arrangements that can help the organizing providers avoid potential antitrust violations. These arrangements are the “super messenger” approach, the integrated physician group practice, the integrated PPO, and the hospital-based PPO with limited physician participation.


KEYWORDS: antitrust, competition, joint ventures
ABSTRACT: Antitrust issues should be of concern to any sponsor of or provider participating in a PPO, but with careful structuring of the PPO, most of the antitrust pitfalls can be avoided. An area most vulnerable to antitrust action is that of price setting, and organizers should be careful in identifying who will be setting the PPO prices. Federal monitoring as well as suits by private parties will continue to define antitrust applications to PPOs. Antitrust actions are pending in Illinois, Indiana, and California.


KEYWORDS: antitrust, liability, malpractice, quality, sponsorship, utilization review
ABSTRACT: Vienna identifies two main legal issues that need to be considered in PPO development: (1) What are the antitrust implications of PPO arrangements for the payer-company funding these benefits and (2) does the employer-payer entering into a PPO arrangement expose itself to malpractice suits from its employees or their dependents?


KEYWORDS: cost containment, discounting, quality
ABSTRACT: This article points out that Catholic hospitals should consider two possible ethical liabilities in affiliating with PPOs: the implication of discount rates and the possible cooperation in financing ethically objectionable medical procedures. See Small, above.

KEYWORDS: antitrust

ABSTRACT: Wright identifies three types of legal issues that PPO organizers may encounter—antitrust, contract law, and tort liability issues. PPOs can best survive antitrust challenges on price fixing by one of two organizational strategies: developing a highly integrated PPO or allowing individual physicians to contract separately with the same PPO.


KEYWORDS: antitrust

ABSTRACT: This comprehensive article offers a legal review of substantive antitrust offenses, the defenses to be employed, and a prototype of a low risk PPO. The offenses addressed are vertical and horizontal price fixing, group boycotts, monopolization, and exclusive dealing. Defenses are discussed under the categories of those relating to interstate commerce, the McCarran-Ferguson Act, and state-action immunity.