

MANAGED CARE – AN OPPORTUNITY/ OR A THREAT TO CONSULTANTS

**Ray Stanbridge FCCA, FCMA
Accountant**

We are observing in the United Kingdom a clear development of the principle of “managed care” by insurers. This is through a combination of factors including the development of a “preferred supplier” system which are as follows;

- the introduction of new procedural codes
- the move towards encouraging treatment as outpatient rather than day cases at a cheaper cost
- the encouragement of consultants to offer insurers “package prices” including test and anaesthetists fees where appropriate
- attention on consultants over bundling and unbundling and the increase in levels of shortfall payments

The insurers are behaving no differently to leading supermarket or consumer goods stores such as Homebase or B & Q. Their objectives are to reduce prices from their consultant suppliers in real terms, whilst at the same time preserving high standards of delivery of service.

Consultants, individually, are soft targets to insurers. Their bargaining strength is weak, and they do not have the negotiating and financial strengths of some of the leading hospital groups. As a result of this weakness, it is unlikely, for example that there will be major changes in the BUPA price list. In current market conditions there is no real need or incentive for BUPA, and other insurers to increase their prices, in real terms, for reimbursement. Insurers simply do not need to adjust prices to reflect costs.

As a result, there has been, and is likely to continue to be a decline in real terms, in the level of fees reimbursed by insurers to consultants.

At the same time, there are pressures in that the growth on the private medical market has slowed and, relatively, income and margins is being diverted away from consultants to hospital groups and others. In addition, most consultants are now feeling the impact of rising taxes. The tax burden on many consultants has probably risen by between 6-7p in the £ since 1997. For some years this rising burden has been hidden as a result of the Governments clever use of “stealth taxation”. However, the rising tax burden is now very clear, to virtually all consultants.

The impact of these three factors (managed care, lower market growth and a rising tax burden) is having a long-term downward trend on consultants private practice incomes.

Whilst consultants have no influence on the taxation burden, they can influence market growth and the impact of managed care. This is as a result of developing a closer working relationship with insurers, and actively seeking productivity gains.

In economic terms, both consultants and insurers are looking to develop the private sector market. The incentive should be very strong given the ongoing publicity regarding the NHS

financial problems, its declining productivity in recent years and the development of the “patient choice” concept, however will defined this is.

We can perhaps learn from stores such as B&Q who frequently seek to impose a levy on their suppliers to finance specific and generic advertising. It is not beyond the realms of possibility that BUPA and AXA/PPP may, in future years, seek to impose a levy out of fees reimbursed to finance some market development projects. If and when this happens, such initiatives should not be dismissed out of hand!

The principal means by which consultants can demand their incomes from the threat of “managed care” is, however, by improving their negotiating skills, and seeking to improve their productivity. In theory, consultants have enormous negotiating skills in the market. For every £1 of fees they receive, their host hospital may be expected to receive between £2-£3 when procedures are undertaken. Consultants who recognise this fact can perhaps work with their hospitals to try to redistribute some of this income. The growth of common payments to consultants for placing business with hospital groups or even “golden hellos”, to lock in business volumes is coming.

Negotiating skills can be enhanced where consultants form groups. Such groups can offer new services to hospitals and insurers and can provide a continuity of cover and service on a round the clock basis. In addition, groups can offer economies of scale, with unquestioned improvements in efficiency and savings to insurers. In some cases this can be reflected in improved fees.

Negotiating skills should only be used where there is a clear benefit. One wonders, for example whether negotiating skills used to try, for example to secure prices of anaesthetists fees with those of surgeons in all but exceptional cases are an economical use of skills.

The biggest difference by far, however, to defend against the worst financial outcomes of managed care is to improve productivity. Many doctors do not even consider whether or not they are productive, in economic terms. Many do not compare their economic performance against their peers. In the past this has not mattered, since reimbursement rates for “good” and “bad” (in the economic sense) consultants have been exactly the same. As insurers acquire data to differentiate between better and worse performers, which they surely will, an interest in productivity must follow if incomes are to be preserved. Sadly, at this time it is younger rather than older consultants who show more interest in productivity measurements.

In addition, consultants who wish to preserve their incomes against the introduction of managed care principles could well spend time looking for ways to improve the efficiency of their procedures and ways to take procedures from overnight staff to day case to outpatient are an obvious first choice. Other ways to reduce costs can benefit both consultants and insurers.

In putting productivity to the fore in the private practice, consultants can find a sympathetic ear at senior levels in the insurance companies. Those who are able to argue for genuine economic savings can actually improve their incomes if they do, for example, turn themselves into real virtual clinics or hospitals. For those who do absolutely nothing, the irrevocable roll out of managed care by insurers will result in a squeeze on margins and incomes.

Thus, those who are pro-active, who perhaps establish or form local or national groups as appropriate, who hone their negotiating skills, or who actively seek ways to improve their productivity and efficiency will unquestionably benefit. This will also perhaps find that the insurers are not quite as bad as they might fear!

Dr Ray Stanbridge
Stanbridge Associates Ltd
94 West Parade
Lincoln
LN1 1JZ

T: +44 (0) 1522 546606

F: +44 (0) 1522 540925

E: raystanbridge@stanbridgeaccountants.co.uk