

### **A Managed Care Fairy Tale**

A fairy tale, yes, but please don't relate this parable at bedtime to your children should they be considering a career in medicine. Failure to heed this admonition will most certainly produce a sleepless night for all. This is a fable however, born of fact.

A diligent, hard working surgeon is contacted by an executive of a managed care organization for the purpose of discussing his group practice's contract with the health plan. The doctor is anxious to pursue a dialog, as in his partners' opinions; their reimbursement is just not keeping pace with the expansion of the practice overhead. Like any prudent businessperson the doctors have evaluated the increased burdens of employee expense, professional liability coverage, utilities, rent, professional fees, office, and medical supplies. This obligation seems to grow daily as it does in any successful business venture.

On the appointed day the two meet. The insurance company's man is a polite, well-dressed, polished executive arriving a half-hour in advance of the appointment. The doctor is consumed with an emergency room call, a patient is berating the medical assistant about a disability form that must be completed, and the staff is still trying to arrange transportation for the nursing home resident parked on a gurney in the waiting room. An hour elapses before the two can actually sit down and talk; there'll be no time for lunch again today.

The company man delivers the preamble. It seems that his company holds the doctor and his associates in high esteem. In fact, his company has determined that they are among an elite group that the health plan considers to be the best providers in their specialty. They have determined that their practice is very cost effective in utilization of hospital and pharmacy resources. The doctor is told that his practice is to be part of a "preferred provider group." Indeed only 25% of physicians in the entire state qualify for this distinction. The insurance company intends to utilize in its advertising and marketing campaigns, references to this elite group of physicians that are associated with the health plan.

The physician expresses his gratitude for the ebullient praise heaped upon his professional organization. Of course their practice will be honored to be part of so prestigious a group. The question that begs to be asked however, finally surfaces and the doctor quite simply needs to know, "How will all this affect our fee schedule?" Surely the opportunity to serve the insurance company's clients and to save the health plan millions of dollars will be rewarded by reimbursement commensurate with the groups purported worth and the high esteem in which the insurer holds them!

"Well, of course we will continue to fairly compensate you in the manner that we have for the current contract term," is the upbeat reply of the insurance man. He goes on to opine that the doctor will be "much better off financially" under the new arrangement, a part of such a select group to which patients will be directed. "You will undoubtedly see a substantial increase in volume!" Afternoon office hours are now about to begin. The waiting room is full, phone messages from the morning have yet to be answered, the hospital is calling, there's a consult that needs to be seen. Politely the insurance executive takes his leave.

Across the country, in Detroit, a similar scene unfolds. In the boardroom of a major auto manufacturer the directors are being briefed on this quarter's results and the managers' plans for the future. It seems that the company invested heavily in building gas guzzling SUVs and minivans. When the escalating price of fuel forced the "soccer moms" of America to fill these vehicles with over \$70 in gasoline, demand for the behemoths seemed to evaporate. Dealer incentives, "cash back" rebates, and factory discounted financing were just the answer to prop up sales volume. Now the effects of this increased volume can be revealed. Losing an average of \$1000 per vehicle, the company has leveraged the higher sales volume to show a billion dollar loss to the shareholders! The moral of the story is quite obvious. In any business you can't increase profit by increasing volume when you're already losing money on every unit produced! More is not better it only puts you "deeper in the hole."

Every fairy tale should have a happy ending and this one is no exception. The managed care company enjoyed a significant increase in profits based on "reduction in medical loss" and "increase in premium dollars." What of the executives of the company? Well, they all received substantial stock options, bonuses well in excess of seven figures, and lived happily ever after. Truly a fable in which even the brothers Grimm could take justifiable pride.

See you next month,

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**President**