NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

News Release

For Immediate Release: February 19, 1985

HEALTH MAINTENANCE ORGANIZATIONS CHANGING N.C. MEDICAL MARKETPLACE

Nearly five decades after it began in California, a prepaid approach to health care has finally taken hold in North Carolina and is growing, says the North Carolina Center for Public Policy Research. The approach is called a Health Maintenance Organization, or HMO for short. The Center says there are now six HMOs functioning in North Carolina with over 36,600 persons enrolled as of January 1985.

A health maintenance organization provides comprehensive health care under a fixed, prepaid fee arrangement. Patients are guaranteed care for this price, regardless of how many times they visit the doctor. Doctors contract with the HMOs and usually have some financial incentives to help keep patients well.

"The growth of HMOs in North Carolina trails the national trend, but they are now developing rapidly," says Bill Finger, editor of North Carolina Insight magazine. Finger says the Center examined HMOs because they are a new alternative for health care services and because licensing and monitoring of HMOs is an important new responsibility of the N.C. Department of Insurance. The February issue of Insight examines all regulatory functions of the Department of Insurance, including health insurance.

HMOs fall into two general categories -- the group practice model and the Individual Practice Association (IPA) model. There are three of each in North Carolina.

Group practice HMOs provide outpatient services in one or several medical offices owned or operated by the HMO. All primary care is provided in those facilities, which usually offer extended hours and essentially one-stop service.

The three group practice HMOs in North Carolina are Kaiser Permanente, PruCare of Charlotte, and the Winston-Salem Health Care Plan. The Kaiser HMO has started in the Raleigh-Durham-Chapel Hill area. Group physicians work entirely with citizens who enroll (i.e., pay a set monthly fee) with the HMO. PruCare of Charlotte is a subsidiary of Prudential Insurance Company. PruCare members will go to the Nalle Clinic in Charlotte for health care. The Winston-Salem Health Care Plan is available only to employees of R.J. Reynolds Industries.

In the Individual Practice Association model, existing primary care doctors work in their own offices. The doctors may see both HMO enrollees and regular fee-for-service patients. Fee-for-service patients usually have some of their care paid by traditional health insurance.

P.O. BOX 430 219 FAYETTEVILLE STREET, SUITE 400 RALEIGH, N.C. 27602 (919) 832-2839

The three IPAs in North Carolina are operated by Blue Cross and Blue Shield, HealthAmerica, and Carolina Medical Care. Blue Cross and Blue Shield has the largest enrollment of the six HMOs at this point, with 19,000 enrolled in Research Triangle cities, Winston-Salem, Greensboro, and Charlotte. HealthAmerica is the second largest (17,800 enrollees) and operates in the same area, as well as Greenville. The third IPA-type program is Carolina Medical Care of Charlotte.

In its magazine, the N.C. Center for Public Policy Research reviews the advantages and disadvantages of HMOs and relevant research on the subject.

° Advantages -- "Employees like HMOs because they provide comprehensive medical coverage that stresses preventive care," says Robert Conn, the author of the article on HMOs. The patient doesn't have to worry about taking a checkbook to the doctor's office because there are hardly any deductibles or coinsurance as with more traditional health insurance."

"Employers like HMOs because they help control health care costs and reduce the paperwork normally associated with filing health claim forms for their employees," adds Conn. Studies in four areas in the U.S. also show that traditional health insurance rates become more competitive when faced with competition from HMOs.

° Disadvantages -- Critics of HMOs say they "skim the cream" by enrolling younger, healthier people who don't need much health care, explains Conn. They also say HMOs fail to serve the poor and the elderly. Or, an HMO may be so small that patients have no choice about which doctor treats them. "You often are not told what your options are," says Clark Havighurst, a Duke University law professor quoted in the article. "The HMO doesn't hospitalize as often, and that means you may be deprived of hospital care without it being offered to you."

In past years, some HMOs in other states have collapsed financially. If this happens, patients may lose their access to medical care despite having paid for it. Anthony Buividas, a consultant for Carolina Medical Care, says most HMOs that have failed have just been poorly managed.

"This is where the N.C. Department of Insurance comes in," says editor Bill Finger. "If the state department monitors HMOs properly, then health care consumers will be properly protected, and HMOs can provide a new alternative for health care in North Carolina."

"The whole health end of the Insurance Department's staff needs to be beefed up," adds Jim Bernstein, president of the N.C. Foundation for Alternative Health Programs. "The department has been too laissez-faire in the past on health matters, but now the health end is taking on such importance that the department needs a whole new bunch of people."

The Center's research cautions, however, that too much regulation can keep HMOs from competing with traditional health insurance. The Center recommends that very few changes be made in North Carolina's HMO Act. It does say the state should move quickly to offer HMOs to all state employees and that the state should negotiate with some HMOs to enroll Medicaid recipients and thereby provide HMO care for the poor.

The HMO article is part of a primer on state insurance regulation for citizens and policymakers in North Carolina produced by the N.C. Center. The 76-page magazine shows how 12 major types of insurance are regulated by the N.C. Department of Insurance. It also describes how rates are set, ranks the biggest insurance companies, and lists the most important insurance lobbyists.

The N.C. Center for Public Policy Research is an independent, nonprofit corporation formed in 1977 to conduct research on state government and important public policy issues facing the state. The Center is funded by the Mary Reynolds Babcock and Z. Smith Reynolds Foundations in Winston-Salem, 37 corporations, and 500 individual members. Recent Center reports have examined all the boards, commissions, and councils in state government and also looked at disparities in funding among local school districts.

For copies of the insurance magazine, send $4.00 to the N.C. Center at P.O. Box 430, Raleigh, N.C. 27602. For more information, call Bill Finger, editor of North Carolina Insight, or Ran Coble at (919) 832-2839.