

Pennsylvania  
MEDICAL SOCIETY®

*Health Services Research Institute*

Comparison of HMO  
Operating Statistics in the  
25 Largest MSAs in the U.S.

Source: InterStudy Competitive Edge 11.2  
January 2002

## Overview

Last year we conducted an analysis of HMO performance in the 25 largest MSAs in the United States in order to compare HMO payment performance in the Philadelphia and Pittsburgh MSAs to the rest of the country. That analysis used data that had been reported to state insurance departments for January 2000. **The comparisons showed that inpatient hospital payments by HMOs in Philadelphia and Pittsburgh were substantially higher than the rest of the country, while physician payments for Philadelphia are the lowest in the nation-and physician payments in Pittsburgh were not much better.** Data for 2001 are now available, permitting an update of last year's comparisons. Statistics contained in the report are for HMO services. They are reported on a per member per month basis using the MSAs as the unit of analysis.

The first chart outlines revenue per member per month including premiums, investment and other income sources. From a revenue standpoint, Philadelphia is third among the top 25 MSAs and Pittsburgh is fourth. By way of comparison, New York and Boston are fifth and sixth while Atlanta Los Angeles and Houston had the lowest revenue per member per month. This demonstrates that Philadelphia and Pittsburgh health insurers have substantial amounts of resources (at least by way of comparison) that they can use for medical care services.

The second chart sets forth all medical service payments per member per month. Again, Philadelphia is third and Pittsburgh is fourth. Los Angeles, Atlanta and Houston are the lowest in terms of payments for all medical services. In many ways, medical service payments track revenues.

The other expense increment is administrative. The administrative expense ratios for Philadelphia and Pittsburgh are relatively low: Philadelphia is 19<sup>th</sup> and Pittsburgh is 22<sup>nd</sup>. Using administrative expenses as a benchmark, HMOs in Philadelphia and Pittsburgh are relatively efficient compared to the rest of country.

The data permits us to inquire into the composition of all medical expense payments. Inpatient payments per member per month in Philadelphia and Pittsburgh are once again among the highest in the country. Philadelphia is second and Pittsburgh is third (Phoenix's first). In last year's report Pittsburgh was first and Philadelphia was second. Notably, the three highest inpatient payment MSAs, Phoenix, Philadelphia and Pittsburgh, pay substantially more than the other MSAs: the difference between Pittsburgh (the third-highest paying area) and New York (the fourth-largest paying area) is almost 10%. Atlanta's \$24 per member per month payment is almost one-third that of Phoenix.

Moreover, in 2001 Philadelphia was last in physician payments per member per month in 2000 and continues to be last. **The difference between Philadelphia and Detroit (the 24<sup>th</sup> ranked MSA) has widened: at \$34 PMPM for Philadelphia and \$40 PMPM for Detroit, Philadelphia is 15 percent lower than the next lowest MSA.** The best paying MSA, Houston, provides \$74 PMPM for physician payments, more than double Philadelphia's level.

In comparison to Philadelphia, Pittsburgh has higher payments but in actuality, Pittsburgh is a relatively poor paying area as well, ranking 20<sup>th</sup> of the 25 MSAs. Indeed, Pittsburgh's ranking has dropped from 17<sup>th</sup> to 20<sup>th</sup> since our last report.

The greatest disparity between Pittsburgh and Philadelphia is for "all other" professional services. Pittsburgh is the first among the 25 largest MSAs while Philadelphia is 16<sup>th</sup>. These rankings have not changed from last year's report.

While enjoying some of the highest revenues in the country and some of the lowest administrative costs, medical loss ratios for Philadelphia and Pittsburgh are mediocre. Philadelphia is 15<sup>th</sup> and Pittsburgh is 16<sup>th</sup> nationally (a drop for Philadelphia from 12<sup>th</sup> in 2000). **Indeed, given that Pittsburgh and Philadelphia lead the nation for inpatient payments PMPM and are near the bottom in terms of administrative costs, the poor showing in medical loss ratios is almost solely attributable to poor physician payments. While medical expense payments for Philadelphia and Pittsburgh are relatively high, total revenue is also high, producing relatively average medical loss ratios.**

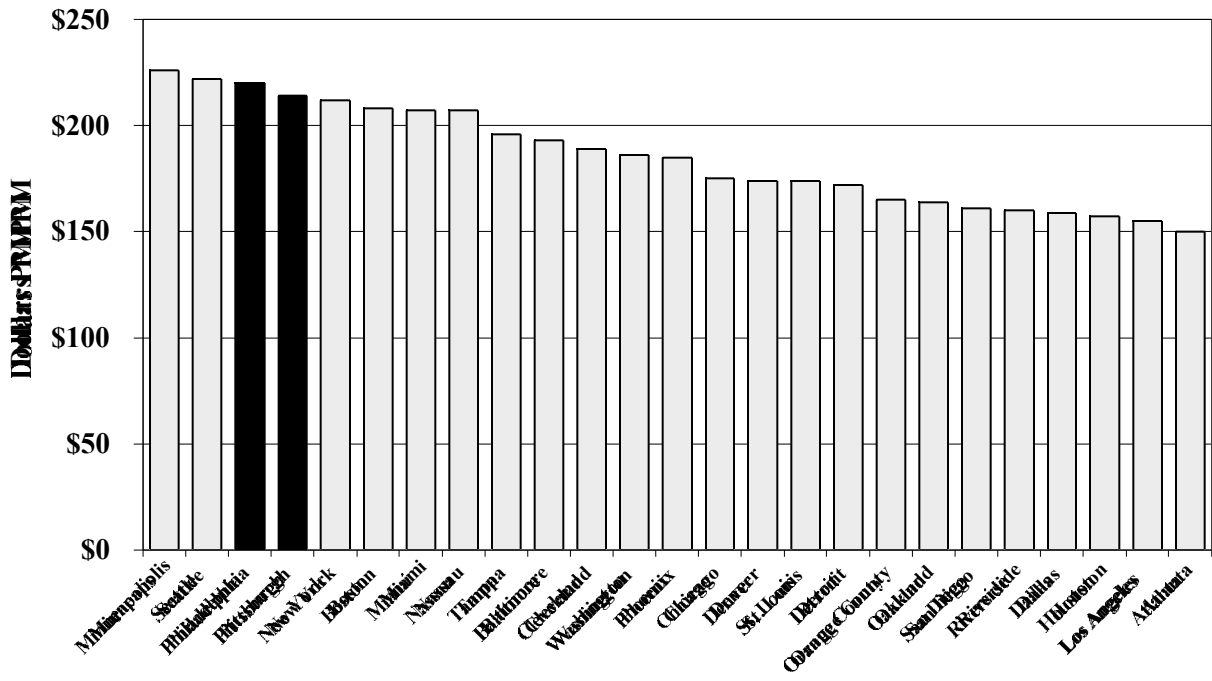
The explanation for good revenue and mediocre payment also lies in operating margin and profit figures. Pittsburgh is 8<sup>th</sup> and Philadelphia 10<sup>th</sup> among major MSAs for operating margins while Pittsburgh is sixth and Philadelphia 10<sup>th</sup> for "profits" (total revenue less administrative and medical expense). "But for" leading the nation in inpatient costs, Philadelphia and Pittsburgh would show some of the most profitable health insurance operations in the country.

Nothing in the premium structure suggests why revenues in Pittsburgh and Philadelphia should be so high. Commercial premium revenues PMPM in Pittsburgh are ninth in the country while they are 13<sup>th</sup> for Philadelphia. The average premiums for individual and family coverage in traditional HMO plans are average: Pittsburgh is 11<sup>th</sup> for single premiums and 10<sup>th</sup> for family premiums while Philadelphia is 12<sup>th</sup> for both. Point-of-service premiums for Philadelphia are 10<sup>th</sup> for single coverage and 11<sup>th</sup> for family coverage. Figures for Pittsburgh are not available. How can Philadelphia and Pittsburgh show relatively high levels of revenue with mediocre premium structures? The answer probably is attributable to the high levels of investment. Large insurers in Philadelphia and Pittsburgh hold substantial levels of reserves and generate high levels of income on these reserves.

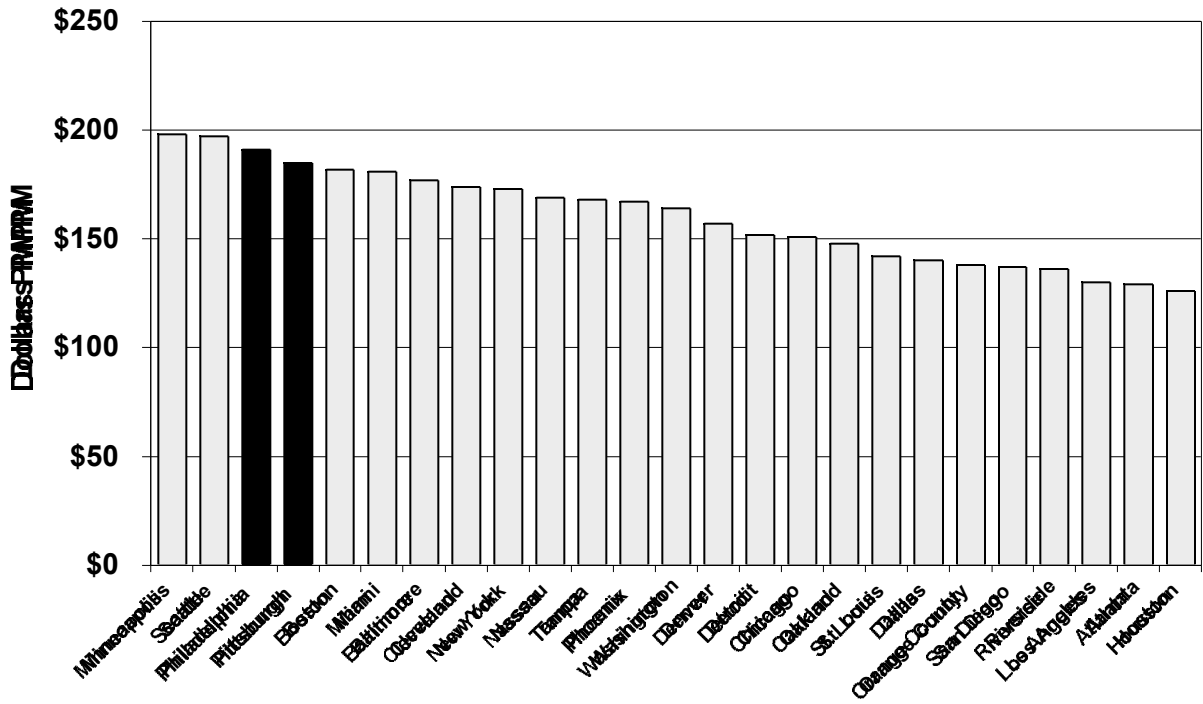
Revenue for government programs in Philadelphia and Pittsburgh are among some of the best in the country. Medicare HMO revenues PMPM are fourth in Philadelphia and sixth and Pittsburgh while Medicaid HMO revenues are third and fifth respectively.

In short, Philadelphia and Pittsburgh are notable nationally for good revenue, operating margins and profits as well as relatively efficient administrative cost structures. While medical expense payments are relatively high, there is a substantial imbalance between inpatient payments and physician payments. As was the case in 2000, MSA level comparative operating results provide the basis for an inference that market power on the part of hospitals and health systems and health insurers may be responsible for the imbalance.

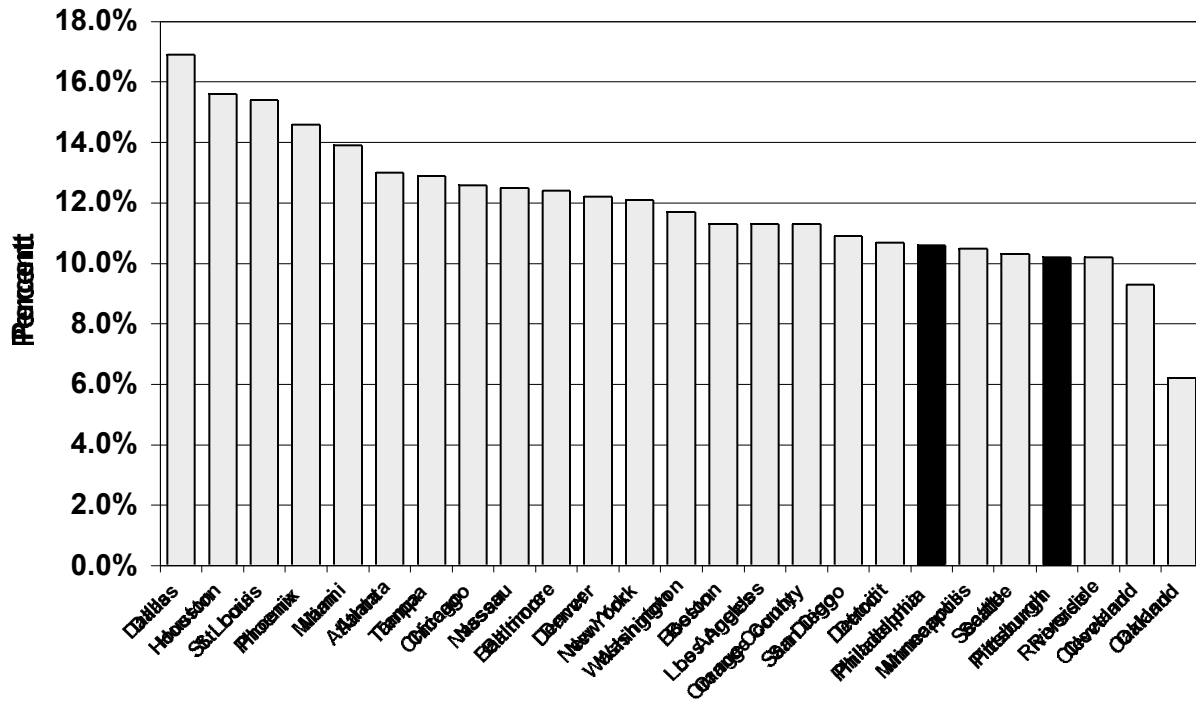
### All Revenue PMPM



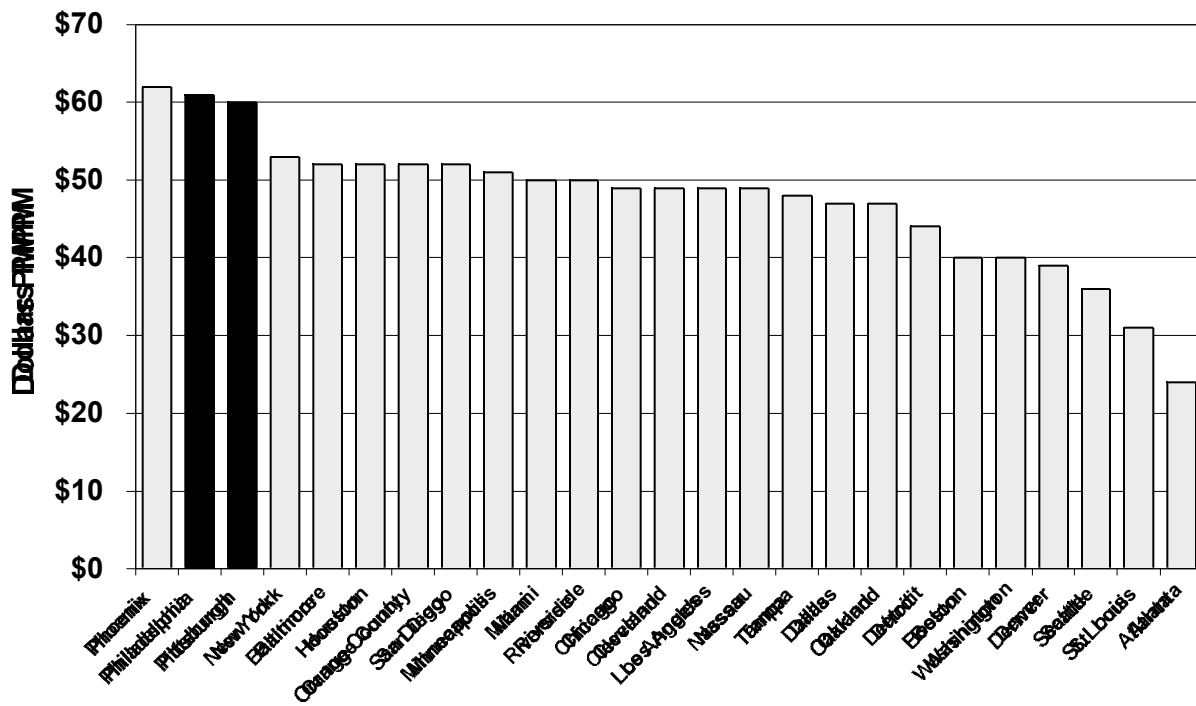
### All Medical Service Payments PMPM



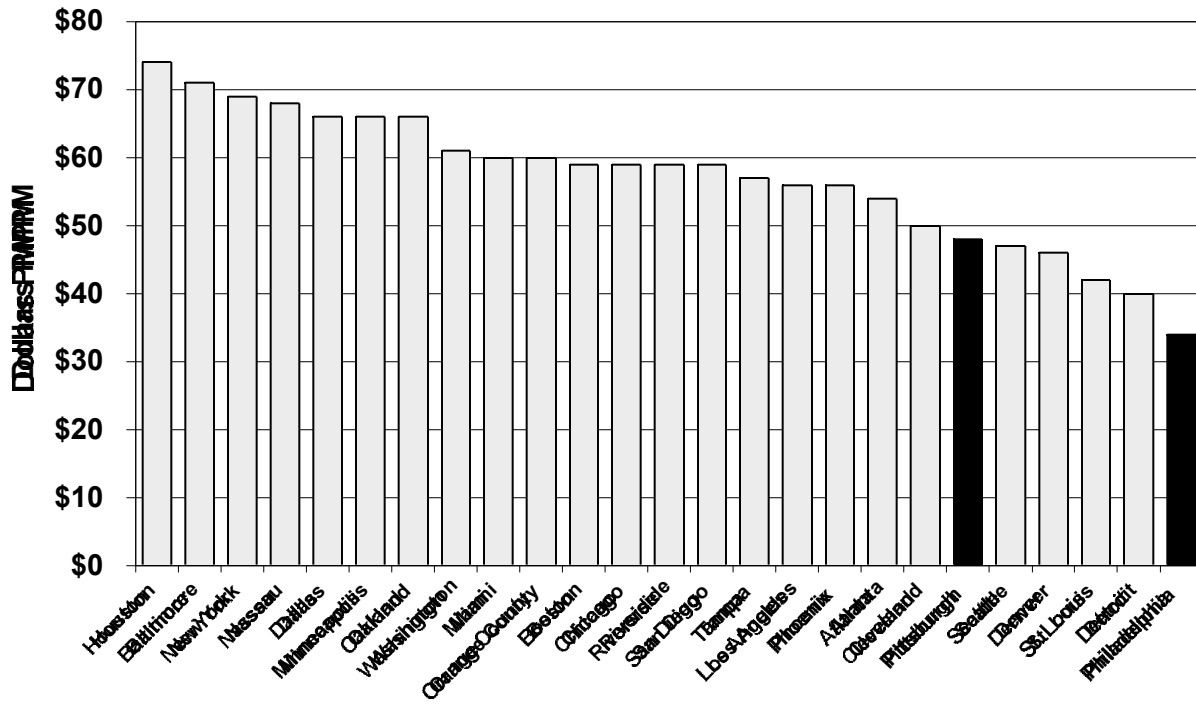
## Administrative Expense Ratios



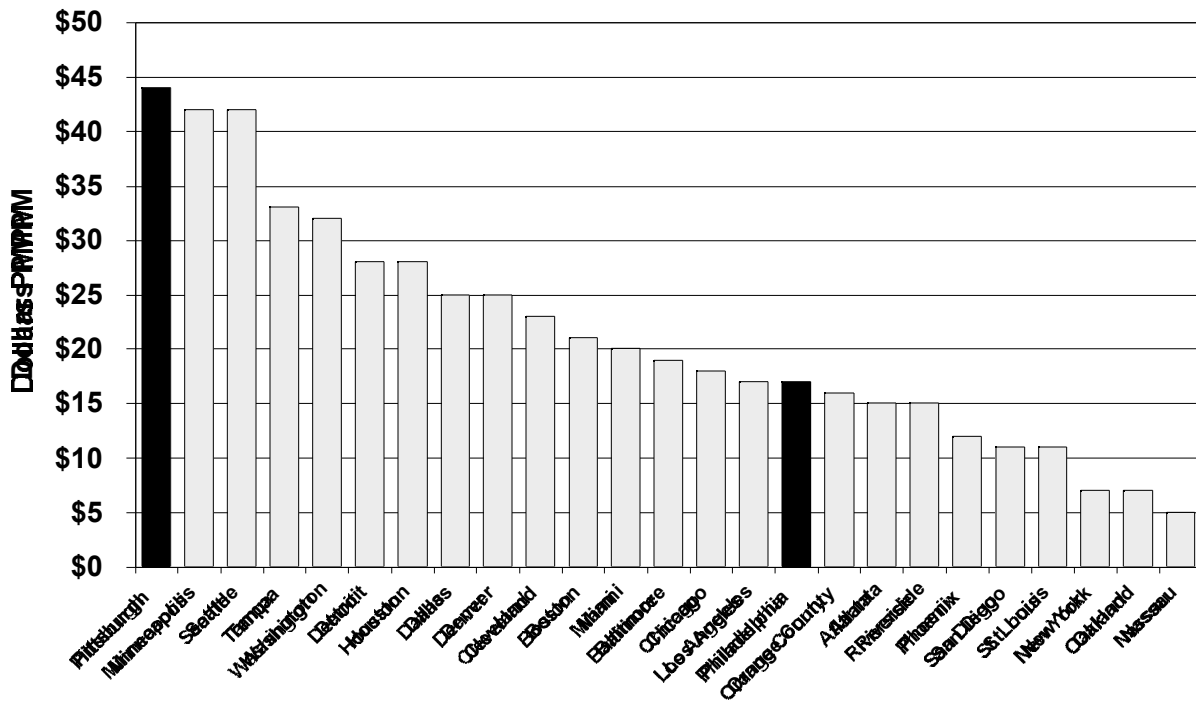
## Inpatient Payments PMPM



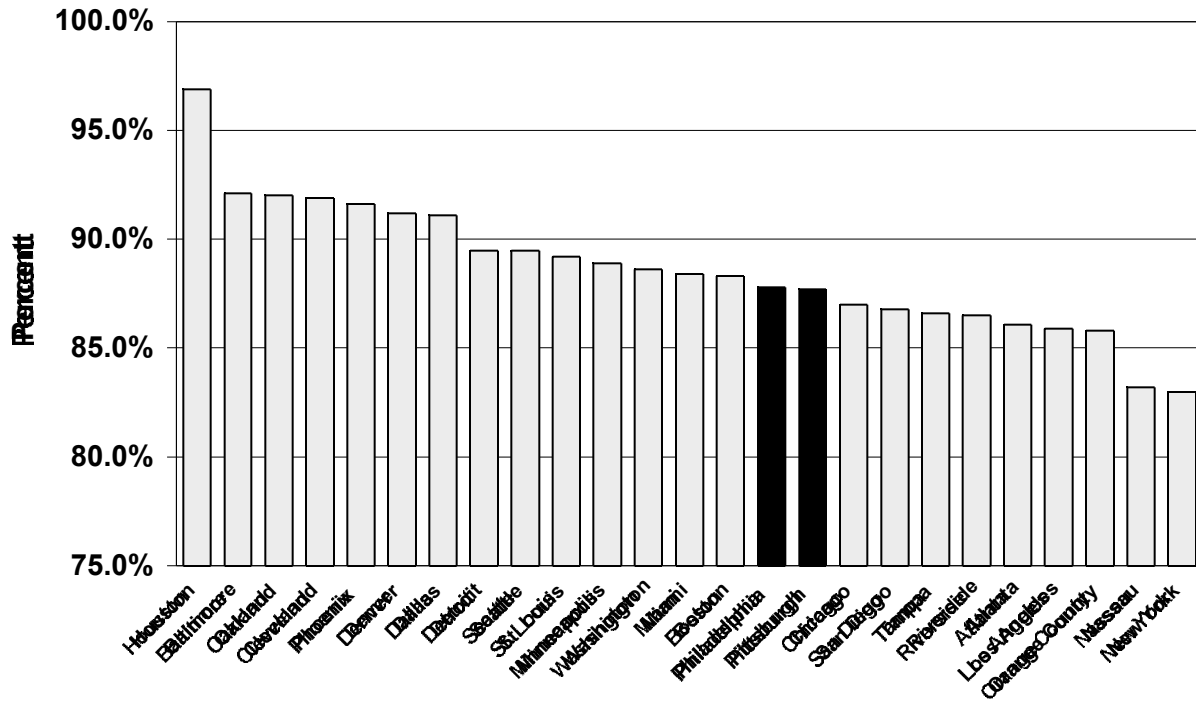
### Physician Payments PMPM



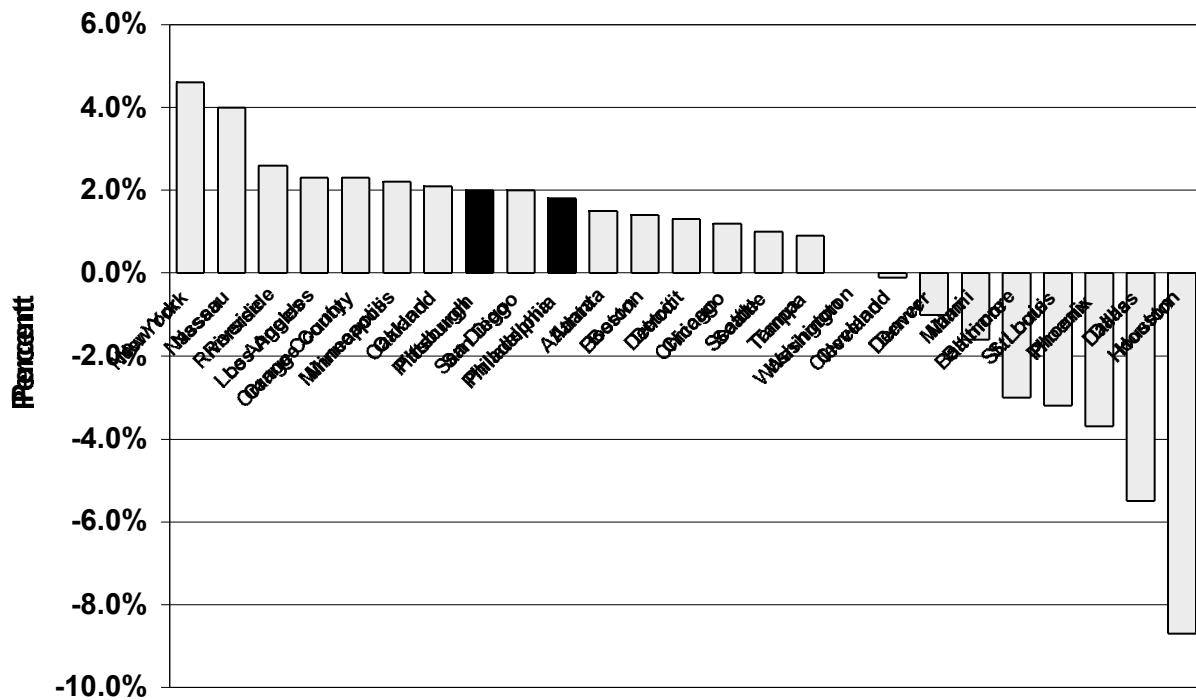
### Payments for All Other Professional Services PMPM



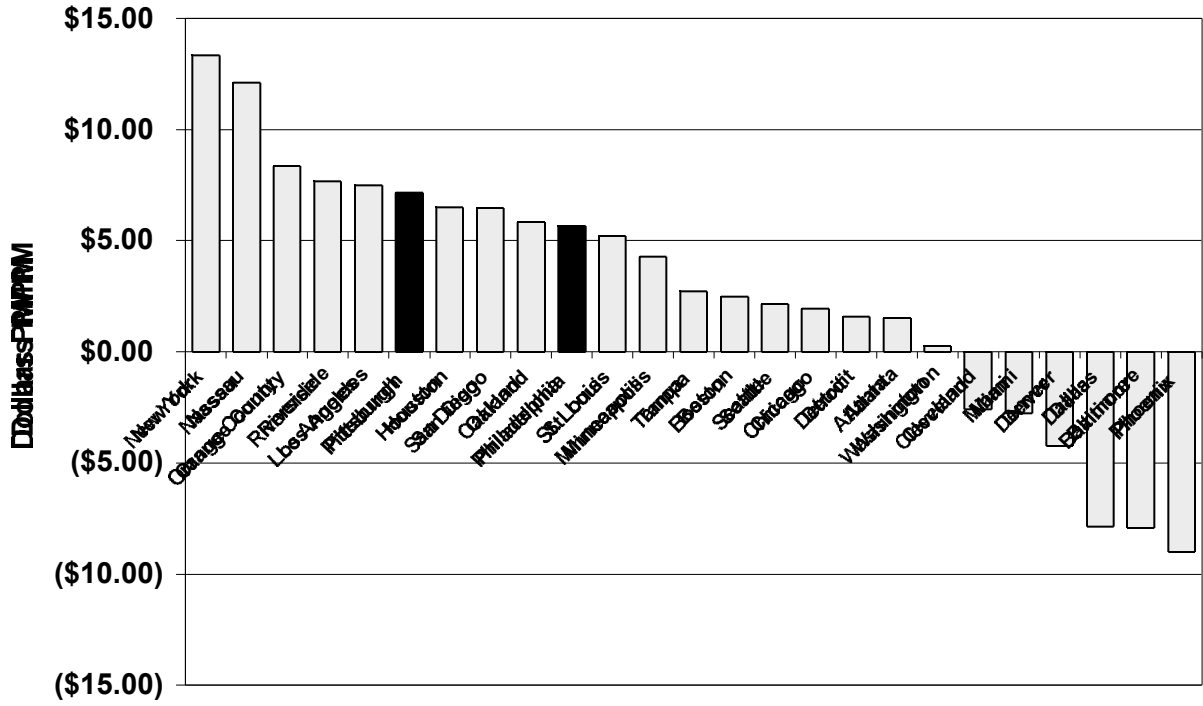
## Medical Loss Ratios



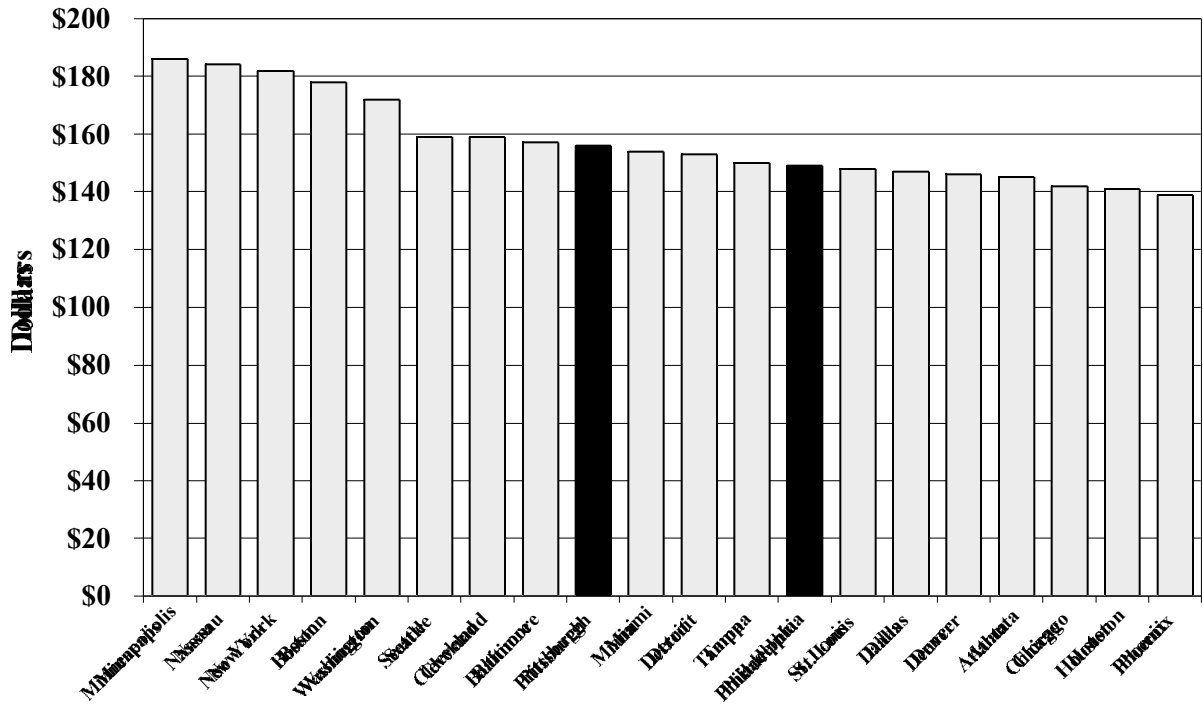
## Operating Margins



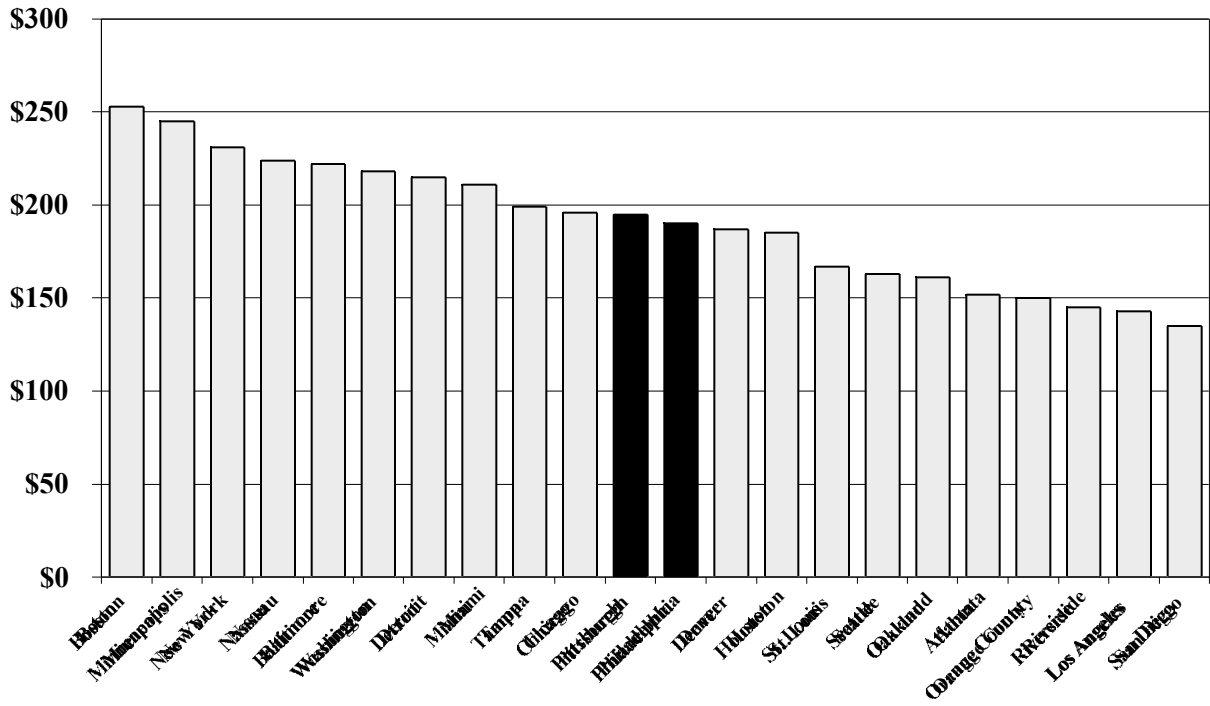
### Revenue Less Administrative & Medical Expenses PMPM



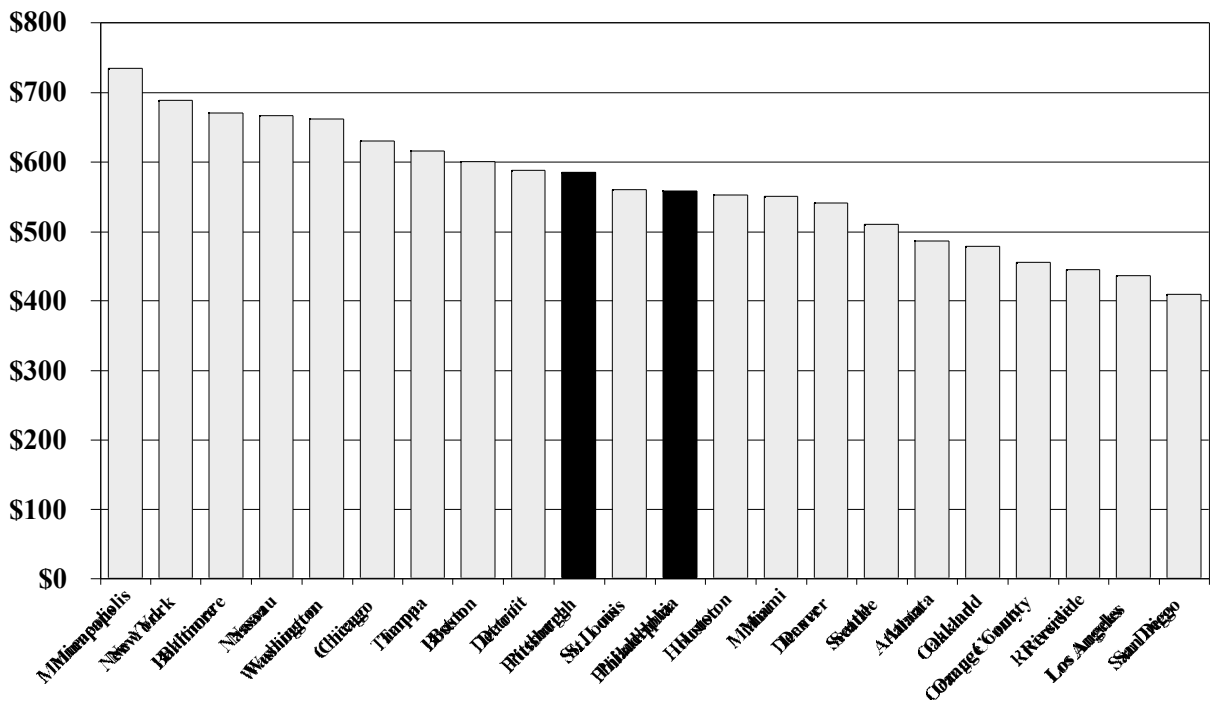
### Commercial Revenue PMPM



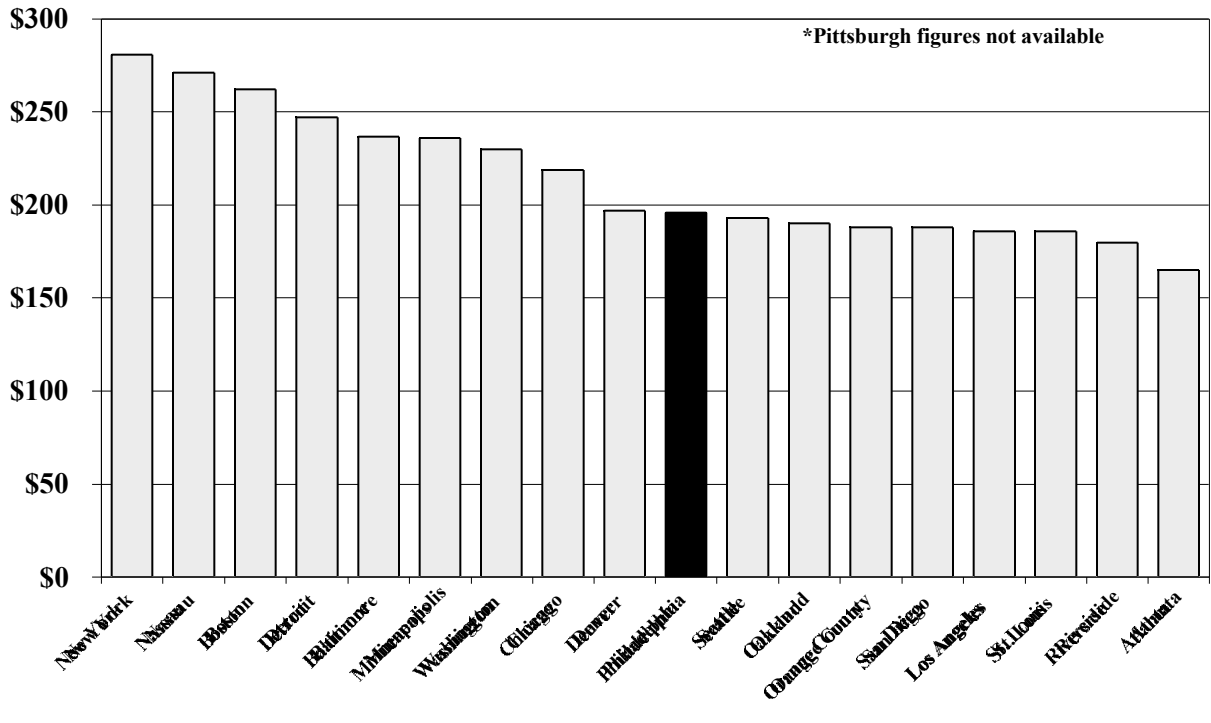
### Single Premiums PMPM - Traditional HMO



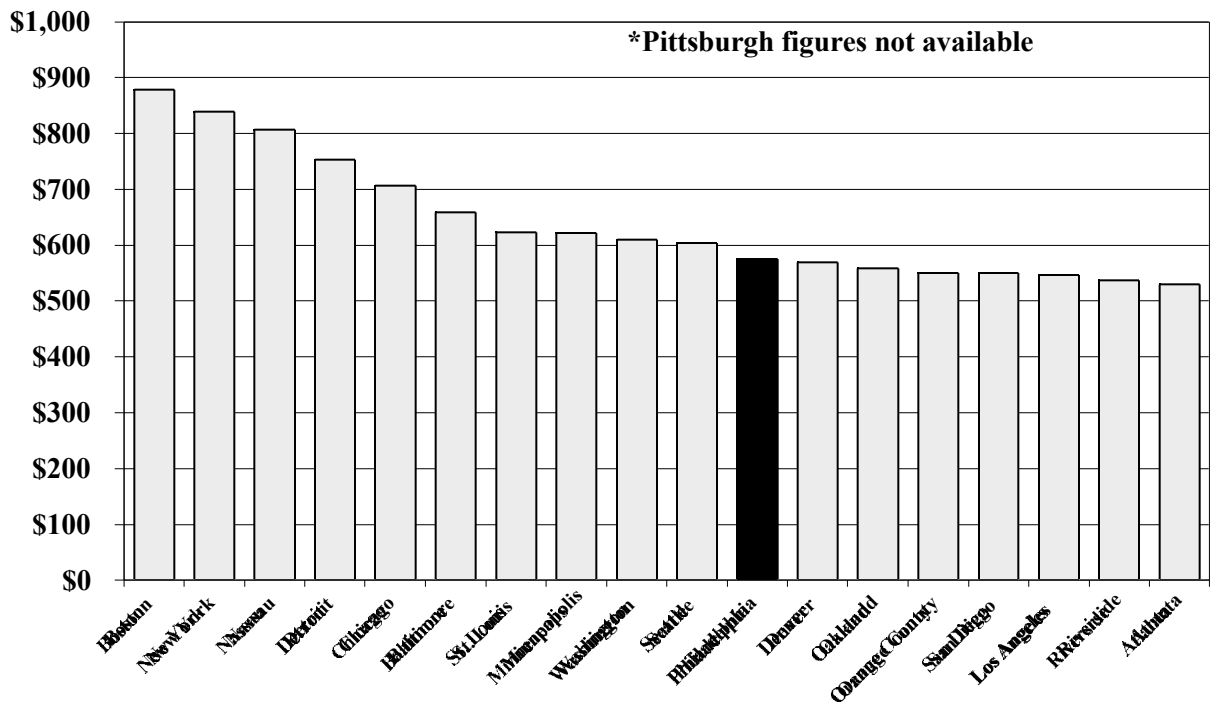
### Family Premiums PMPM - Traditional HMO



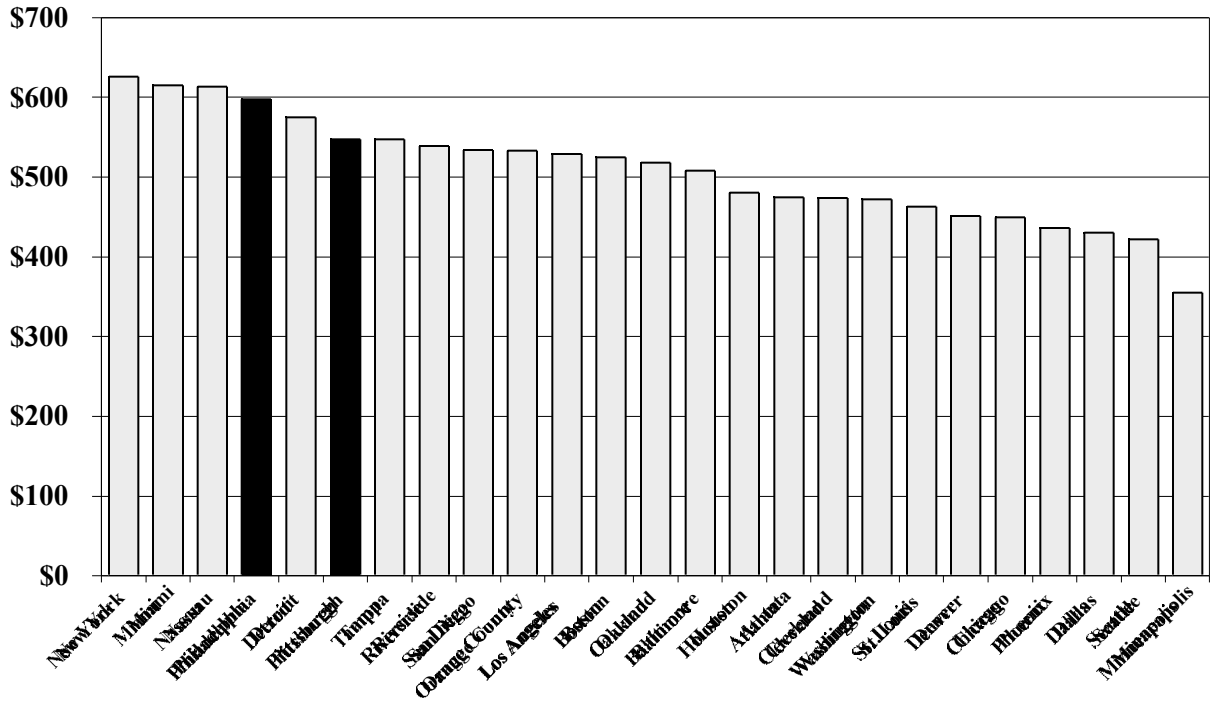
### Single Premiums PMPM- POS



### Family Premiums PMPM - POS



### Medicare Revenue PMPM



### Medicaid Revenue PMPM

