BY JAY GREENE

While many provider-owned health plans have lost money or failed to live up to expectations in the past decade, 38,600-member Clear Choice Health Plans is planning for growth in 2006 with the help of a $7 million in-state stock sale.

Last October, the Bend, Ore.-based plan sold 250,000 shares to 400 new shareholders in Oregon at $30 per share. For-profit Clear Choice was formed in 1998 by a provider coalition representing about 200 shareholders, mostly physicians and hospitals in the plan’s network.

Flush with cash, Clear Choice expects to look at product and geographic expansion and potential acquisitions of third-party administrators and small companies, says Patricia Gibford, the plan’s chief executive officer. “To grow the company, we needed access to capital that could not come from the medical community itself,” she says.

Clear Choice considered a nationwide stock offering, but decided it would not be feasible. “It’s a more efficient, in-state offering,” Gibford says.

Physicians Know Best

Why one provider-owned HMO is flourishing while others falter

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Acquired,” says Ed Fishman, managing director with the investment banking firm Cain Bros. But “in specific regional or small markets, (provider-sponsored plans) may do well.”

A lack of capital for expansion is one reason why provider-owned HMOs have had difficulty competing, Fishman says. “It is not unusual for provider-owned HMOs to issue stock, but it is unusual for them to use the money for expansion,” he says.

Clear Choice’s members include 21,000 Medicaid enrollees; 10,000 Medicare Advantage members; 3,700 commercial members in small- and large-group plans; and 3,900 enrollees under third-party administrative arrangements.

Despite losing money on Medicaid, Clear Choice finished 2004 with net income of $9.6 million on revenue of $123.7 million. That was up 32% from net income of $6.5 million on $107.9 million in revenue in 2003. Numbers from 2005 are not yet available.

“We project very favorable growth” in 2006, Hansen says. “We have been averaging a 15% annual growth rate in membership and revenue the last five years.

HOSPITAL-OWNED HMOs ON THE DECLINE

We expect similar growth trends in the future.”

Gibford says diversification has kept Clear Choice growing. “We saw an opportunity to grow into Medicare managed-care business” in 1997, she says. “We cut our teeth with a difficult Medicaid population and that helped us with Medicare.”

Clear Choice’s growth also has been stimulated by a healthy regional economy and stabilized by an organized hospital and physician network, Gibford says. The network includes 525 physicians, with a 50-50 mix of specialists and primary-care physicians in Central Oregon IPA, and nine hospitals that are part of the Central Oregon Hospital Network. “We have about 98% of the doctors and 100% of the hospitals in our network,” she says.

Early on, Gibford says Clear Choice made a critical management decision to contract with network hospitals and physicians in a “user-friendly” yet businesslike manner.

“Bad business decisions get you in trouble,” she says. “We looked at a lot of provider-sponsored plans and the big ‘P’ (provider) is the hospital systems, but we are not a hospital system.”

Gibford says she is not surprised that hospital-driven plans fail. “We believe our success is to develop a user-friendly relationship with all the players—members, employers, physicians and hospitals—and manage our administrative and medical dollars well.”

Clear Choice also has avoided the No. 1 mistake many unsuccessful provider-owned health plans often make: paying doctors and hospitals rates they want. “This is a business model, not a physician-reward endeavor,” she says.

Hansen says Clear Choice pays providers market-competitive rates but takes the extra step by working with providers on how to effectively manage healthcare costs. “We pay close attention to financials and we share a lot of information” with network providers, Gibford says.

Meanwhile, working closely with providers and members helps keep the plan’s administrative expenses low. “Our administrative expenses are 8%,” Hansen says.

A low member-turnover rate helps, Gibford says. “Our voluntary disenrollment for Medicare is very low,” she says. “We have lost one...
commercial group in four years.”

Like many small health plans, Gibford says, Clear Choice is challenged by a lack of electronic medical records. “We do not have EMRs. Some physicians have EMRs, mostly the larger groups that are doing their own thing,” she says.

But the company invests regularly in information technology to pay claims, track data and distribute clinical and financial information to network hospitals and doctors, Gibford says.

Another step Clear Choice plans this year is to develop a bonus incentive program to encourage physicians to improve quality. “We put simple things in place like radiology standards by taking dollars out of surplus,” Gibford says. “We will develop HEDIS (Health Plan Employer Data and Information Set) incentives soon for pay-for-performance.”

While a number of provider-owned health plans are part of integrated delivery networks, Clear Choice maintains an arm’s-length relationship with its shareholder doctors and hospitals to avoid conflict-of-interest charges, Gibford says.

“If I am a competing hospital, do I want to contract with an HMO that may be directing its patients to owner doctors and hospitals? I would think there is tension,” Cain Bros.’ Fishman says.

Fishman says competing insurers sometimes feel they are at a disadvantage because of the close relationship that provider-owned health plans have with their network doctors and hospitals. But Gibford says she hasn’t heard from insurers that they feel they are at a competitive disadvantage because Clear Choice’s shareholders are also doctors and hospitals in their network. “A couple years ago a hospital asked us to pay them better rates,” Gibson says.

A spokesman for LifeWise Health Plan of Oregon, a competing health plan also based in Bend, says HMOs in the central Oregon market compete fiercely on premiums and provider reimbursement.

Hansen says Clear Choice pays network providers rates similar to those of other health plans. “We make sure there is a relationship with the hospitals and physicians and us,” he said.

This is a business model, not a physician-reward endeavor.

— Patricia Gibford
Chief executive officer
Clear Choice

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Jay Greene is a former Modern Healthcare reporter and now a freelance healthcare writer based in St. Paul, Minn. Contact Greene at jaywriter@comcast.net.