



Physician Health Partners

Collaborate, Innovate, Make a Difference

Capitation: The Colorado Experience

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You've Seen One Market...

- Early 1990s, everyone anticipated global capitation HMOs to be the coming trend
- Mad scramble to build vertically integrated delivery networks: “IDNs”
- 1996: hospital systems losing millions on owned practices; all divest these practices
- 1999: rate cycle nadirs, pools become insolvent, many pods/ACOs go under
- Hospitals exit risk arrangements, shift risk back to plans, go on per diems

...You've Seen One Market

- Professional cap+ emerges, shifting risk from hospitals back to plans, but professional risk remaining with medical groups
- Hospitals merge into megasystems, but operate as oligopolies to push price points, rather than create efficiency; squeeze capacity out and raise prices
- Market reverts largely to FFS/per diems

Early 2000s

- Cap in full retreat
- Open access, no auth necessary
- BBA 1997 taking its toll on Medicare Advantage business
- Colorado Medicaid exits cap 2003

Mid 2000s

- MMA 2003 restores life to Medicare Advantage
- Open access in commercial becomes standard; no product differentiation advantage
- Capped arrangements diminish

Late 2000s

- Economy tanks
- % of GDP for health care reaches crisis proportions; the open access bubble bursts
- Health care reform occupies Congress
- Plans return kicking and screaming to capitation of various dilutions
- But who will take the caps?

The Future

- Bundled payment is coming, and therefore...
- People are building ACOs
 - Lots of fiber optic cable being laid
 - Lots of EHRs being installed
- Look for larger data aggregations
- Look for larger provider aggregations

Lessons Learned

- Capitation requires several things, many of which were not very good in the 1990s:
 - Huge amounts of data
 - Huge amounts of analysis, since mostly we're still dealing with claims data
 - Huge amounts of physician organization/leadership
- Of the three factors, the third is still the one in shortest supply, and will be the rate-limiting factor