



Vertically Integrated Carriers and Providers

Commission Meeting
September 20, 2023

Study purpose

- Evaluate the scope of vertically integrated carriers and vertically integrated providers in Virginia and nationally
- Determine, where possible, the impact of vertical integration on:
 - Access to services
 - Health care costs
 - Quality of care

NOTE: Study mandate approved by the Commission on December 07, 2022.

Findings in brief

- The landscape of vertically integrated systems in Virginia is constantly shifting
- Vertical integration does not limit access to health care in Virginia
- The impact of vertical integration on costs is variable and inconsistent
- The relationship between vertical integration and quality is mixed

Agenda

Vertical integration in Virginia

Impact on access

Impact on cost

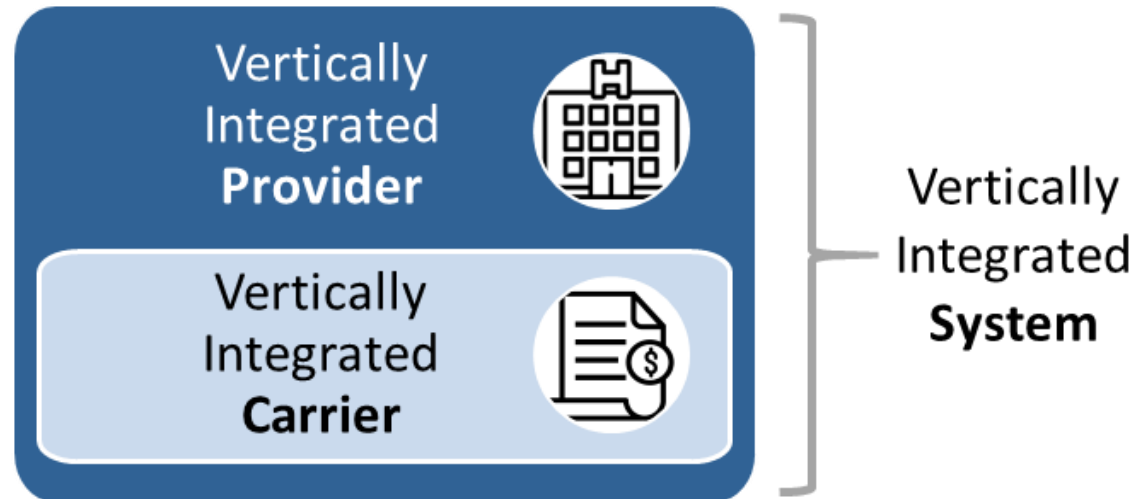
Impact on quality



Vertically integrated carriers and vertically integrated providers share ownership interests

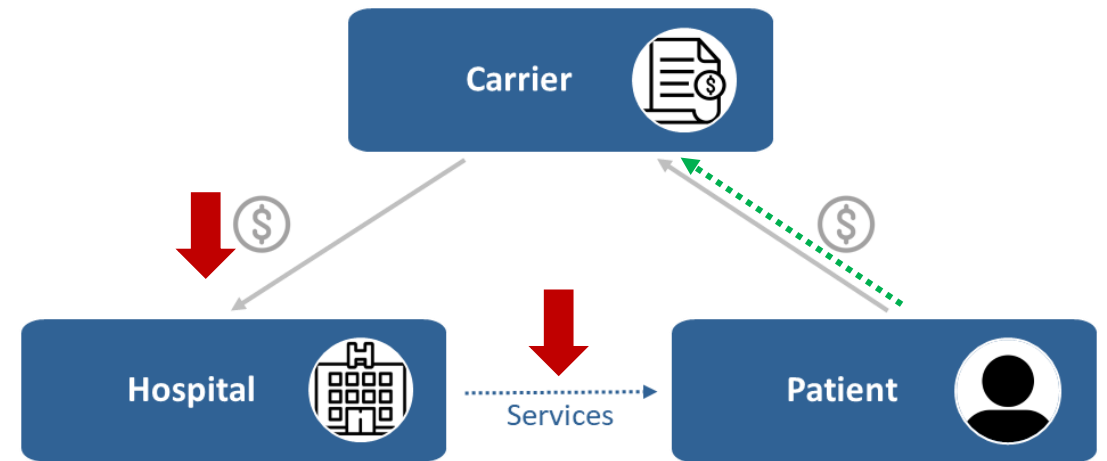
| | |
|--|--|
| Vertically integrated carrier: | Health insurer/carrier with ownership interest in an acute care hospital |
| Vertically integrated provider: | Acute care hospital with ownership interest in a health insurer/carrier |
| Vertically integrated system: | Entity comprised of the integrated carrier and hospital |

All vertically integrated systems in VA consist of a hospital system that owns a carrier



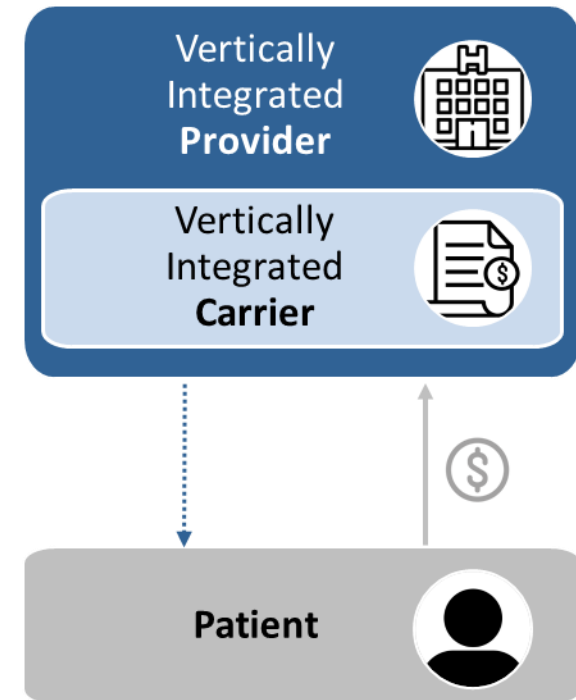
Vertical integration can provide financial stability

- Hospitals and insurers had very different financial realities during the COVID-19 pandemic
- Health insurance plans reported record profits, while hospitals saw a drop in revenue
- Vertically integrated providers can access revenue from their affiliated carriers' member premiums



Shared incentives can support value-based care

- Vertically integrated providers are incentivized to manage health care utilization and improve community health
- Vertically integrated carriers can pilot new value-based programs with their providers



NOTE: Value-based care means provider reimbursements are tied to care quality and patient outcomes

There are currently three vertically integrated systems in Virginia

| Vertically Integrated System | Vertically Integrated Provider (percent ownership) | Vertically Integrated Carrier (year established) | Insurance Product Types |
|-------------------------------------|---|---|------------------------------------|
| 1. Sentara-Optima | 1. Sentara Healthcare (100%) | 1a. Optima Health (1984) 1b. Virginia Premier (1995) | Commercial Medicaid Medicare |
| 2. Centra-Piedmont | 2. Centra Health (100%) | 2. Piedmont Community Health Plan (1997) | Commercial |
| 3. Mary Washington | 3a. Mary Washington Healthcare (80%) 3b. Riverside Health System (20%) | 3. Mary Washington Health Plan (2019) | Medicare |

Carriers and providers in VA frequently change vertical integration status

Virginia Premier

- **1995** – est. by Virginia Commonwealth University Health System
- **2020** – Sentara Healthcare acquired 80% ownership
- **2022** – Sentara Healthcare acquired 100% ownership
- **2023** – Combined with Optima Health to operate under Optima Health Plan

Innovation Health Plan

- **2013** – est. as joint venture between Inova Health System and Aetna
- **2023** – Aetna acquired 100% ownership

Mary Washington Health Plan

- **2019** – est. by Mary Washington Health Care
- **2022** – Riverside Health System acquired 10% ownership
- **2023** – Riverside Health System acquired another 10% ownership, totaling 20%

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Vertical integration in Virginia

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Access

- Availability of providers who can deliver services
- Adequacy of patients' health insurance coverage

For the purposes of this report, JCHC staff assessed Virginians' ability to choose between available health care providers and health plans

Findings

- Virginians have a choice between vertically integrated systems and other systems
- There is no difference in access to health care services within vertically integrated carrier plans and other plans
- Vertically integrated carriers focus on streamlining care for their plan members

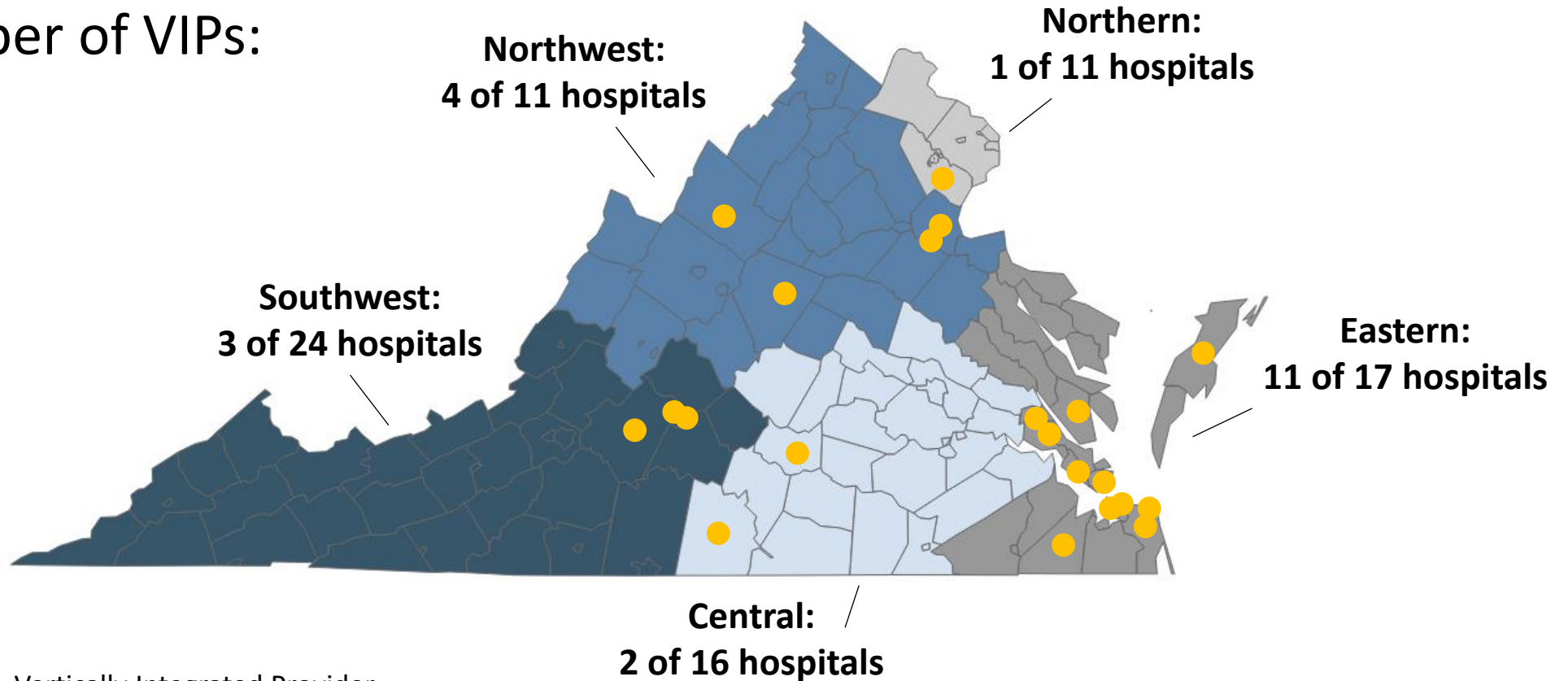
Vertical integration could impact access to health care, though it does not appear to in VA

Research is limited and mixed:

- One study found no difference in access
- Another found that vertically integrated Medicare Advantage plans had more issues with member access

Virginians can choose between acute care hospitals in most health regions

Number of VIPs:



NOTE: VIP = Vertically Integrated Provider

Vertically integrated providers dominate in Eastern Virginia

Riverside Health System and Sentara Healthcare own:

- 65% of the acute care hospital facilities
- 74% of staffed acute hospital beds
- 80% of acute hospital patient days

NOTE: Staffed acute hospital beds = number of beds able to receive patients

Acute hospital patient days = number of days of patient care provided

Vertically integrated carriers most frequently offer Medicare Advantage products

| Vertically Integrated Carrier | Medicare | Medicaid | Commercial |
|--------------------------------------|-----------------|-----------------|---------------------|
| Mary Washington Health Plan | Yes | - | - |
| Optima Health | Yes | Yes | Individual Group |
| Piedmont Community Health | - | - | Individual Group |
| Virginia Premier Health Plan | Yes | Yes | - |

Virginians can choose between insurance plans, though some markets are more limited

| Market | Vertically Integrated Carrier Impact |
|---------------------|---|
| Commercial | 2 nd largest insurer in three of Virginia's ten MSAs |
| Individual Exchange | 2 nd largest insurer in half of Virginia's ten MSAs |
| Medicaid | Dominant insurer |
| Medicare Advantage | Minor fraction of total enrollees |

NOTE: MSA – Metropolitan Statistical Area

Vertically integrated carriers have much larger shares of the exchange market

| Metropolitan Statistical Area | 2 nd Largest Insurer | Affiliated Provider | Share |
|---|---------------------------------|---------------------|-------|
| Blacksburg-Christiansburg | - | - | - |
| Charlottesville | Optima Health | Sentara Healthcare | 28% |
| Harrisonburg | Optima Health | Sentara Healthcare | 34% |
| Lynchburg | Piedmont Community Health Plan | Centra Health | 25% |
| Richmond | Anthem | - | 45% |
| Roanoke | - | - | - |
| Staunton | Piedmont Community Health Plan | Centra Health | 25% |
| Virginia Beach-Norfolk-Newport News (VA-NC) | Optima Health | Sentara Healthcare | 35% |
| Winchester (VA-WV) | Cigna | - | 33% |
| Washington-Arlington-Alexandria (DC-VA-MD-WV) | CareFirst | - | 29% |

SOURCE: American Medical Association, 2022. “Competition in Health Insurance: A comprehensive study of U.S. markets.”

NOTE: Fields with a dash (-) indicate there is no second largest insurer because the first largest insurer dominates with 100% share of the market.

One-third of Virginia’s Medicaid enrollees are served by a vertically integrated carrier

| Carrier | Affiliated Provider | Share of Total Virginia Enrollees |
|------------------------|---------------------|-----------------------------------|
| Optima Health | Sentara Healthcare | 725,972 (34%) |
| Anthem | - | 588,523 (27%) |
| Aetna | - | 275,085 (13%) |
| United Healthcare | - | 224,982 (10%) |
| Fee for Service | - | 208,208 (10%) |
| Molina | - | 137,428 (6%) |
| Total Enrollees | | 2,160,198 |

SOURCE: Virginia Department of Medical Assistance Services, July 2023. Virginia Medicaid and FAMIS Enrollment data.

NOTE: As of July 2023, Optima Health and Virginia Premier now operate as a combined carrier under Optima Health Plan. Fee-for-Service providers serve Medicaid members by providing services outside of one of the state’s Medicaid Managed Care Organizations.

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Cost

Expenses related to the provision of health care, incurred by:

- Patients
- Health systems
- Insurance carriers

Findings

- Vertically integrated systems do not have clear cost savings
- Vertically integrated carriers in Virginia do not report significantly different medical loss ratios
- Vertically integrated carriers reimburse affiliated providers differently

Vertical integration could impact costs to patients, providers, and carriers

In theory, vertically integrated systems can generate cost savings through:

- Better care management
- Reduced health care utilization
- Shared administration
- Lower premiums

Vertical integration has the potential to affect patients' insurance premiums

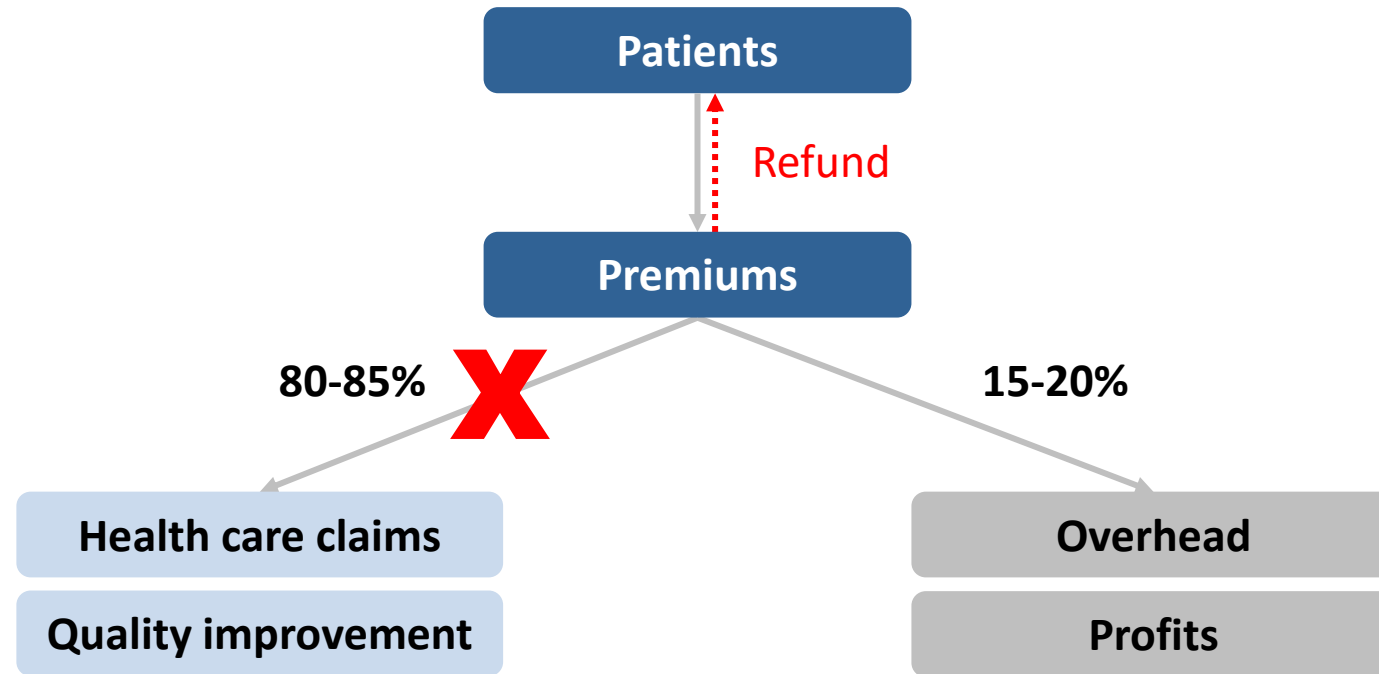
- Cost savings generated by a vertically integrated system should be reflected in lower premiums for plan members
- Research is mixed on whether this actually happens

MLR regulations cap how much insurers can keep as profit

- Insurers must spend at least 80-85% of the revenue they received from member premiums on health care or quality improvement
- If their MLR is less than 80-85%, they must issue refunds to members

NOTE: MLR = Medical Loss Ratios

MLR regulations cap how much insurers can keep as profit



NOTE: MLR = Medical Loss Ratios

Vertically integrated carriers in VA do not report significantly different MLRs

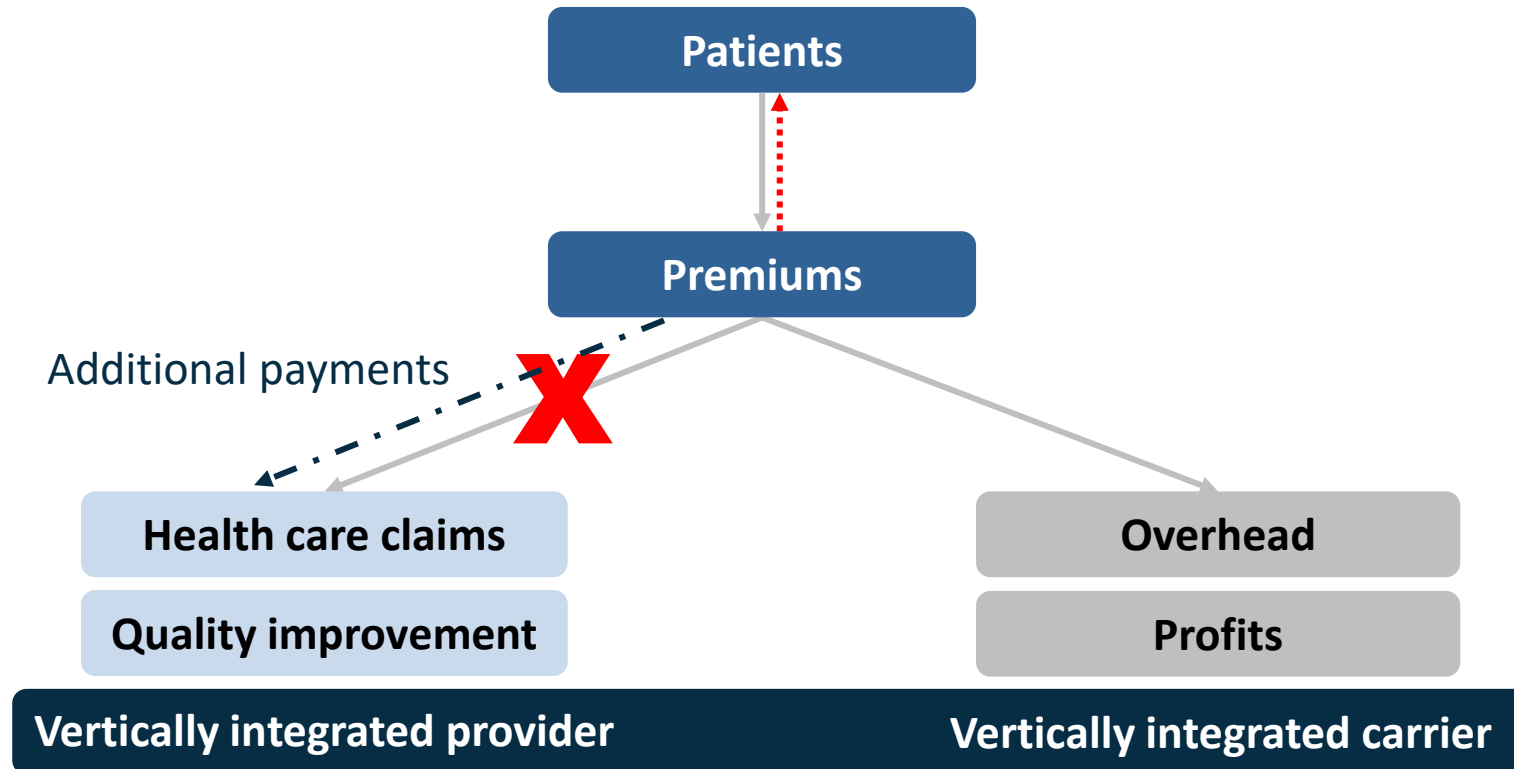
- Vertically integrated carrier average: 87.5%
- Other carrier average: 83.8%

SOURCE: JCHC staff analysis of 2021 commercial Medical Loss Ratio reports to the Centers for Medicare & Medicaid Services

Vertical integration can make it easier for carriers to circumvent profit caps

- Insurers can make additional payments to providers that count towards their MLR
- As long as they spend enough on health care claims and quality improvement, they do not need to issue refunds to members
- CMS has found integrated systems have more of an incentive to make such payments

Vertically integration can allow carriers to circumvent profit caps



Vertically integrated carriers reimburse affiliated providers differently

- Sentara Healthcare and Centra Health hospitals received lower reimbursements from their affiliated carriers
- Inova Health System hospitals received higher reimbursements from their affiliated carrier

Sentara Healthcare hospitals received lower payment from Optima Health than from others

| Core Based Statistical Area 47260 Virginia Beach-Norfolk-Newport News Average rates for CPT Code 99283 Emergency Department visit, level 3 | | Carrier | |
|---|----------------------------|---------------|-------------|
| | | Optima Health | Other Payer |
| Provider | Sentara Healthcare | \$629 | \$1,159 |
| | Other Acute Care Hospitals | \$954 | \$1,418 |

NOTE: CPT Code = Current Procedural Terminology

The table shows mean prices calculated from 131 reported rates.

SOURCE: JCHC staff analysis of February 2023 Turquoise hospital price transparency data

Inova Health System hospitals received higher payment from Innovation Health than from others

| Core Based Statistical Area 47894 Washington-Arlington-Alexandria-DC-VA-MD-WV Average rates for CPT Code 97110 Occupational therapy exercise | | Carrier | |
|---|----------------------------|-------------------|-------------|
| | | Innovation Health | Other Payer |
| Provider | Inova Health | \$127 | \$89 |
| | Other Acute Care Hospitals | \$104 | \$97 |

NOTE: CPT Code = Current Procedural Terminology

The table shows mean prices calculated from 363 reported rates

SOURCE: JCHC staff analysis of February 2023 Turquoise hospital price transparency data

Centra Health hospitals received lower payment from Piedmont Community Health Plan than from others

| Core Based Statistical Area 31340 Lynchburg Average rates for CPT Code 73721 MRI, Lower joint or extremity | | Carrier | |
|---|----------------------------|--------------------------------|-------------|
| | | Piedmont Community Health Plan | Other Payer |
| Provider | Centra Health | \$1,408 | \$2,091 |
| | Other Acute Care Hospitals | N/A | N/A |

NOTE: CPT Code = Current Procedural Terminology; MRI = Magnetic Resonance Imaging
 The table shows mean prices calculated from 464 reported rates.
 SOURCE: JCHC staff analysis of February 2023 Turquoise hospital price transparency data

Many factors shape health care costs

- Vertical integration status
- Market dominance
- Network size
- Geography
- Patient demographics

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Quality

Safe, effective, patient-centered, timely, efficient, and equitable health care and services provided by:

- Providers
- Carriers

Findings

- Vertical integration has the potential to improve quality and health care outcomes
- Vertically integrated providers in Virginia have significantly higher quality ratings
- Vertically integrated carriers in Virginia do not have significantly different plan quality from other carriers

Vertical integration has the potential to improve quality and health care outcomes

More evidence to support:

- Care delivery
- Care management
- Disease prevention
- Patient safety

Less evidence to support:

- Mortality and morbidity
- Inpatient days
- Readmissions

Vertically integrated providers in VA have significantly higher quality ratings

Vertically integrated providers have higher overall star ratings from CMS:

| Health System Type | Average Rating | Median Rating |
|---------------------------------|-----------------------|----------------------|
| Vertically integrated providers | 3.9 | 4 |
| All other acute care hospitals | 3.1 | 3 |

Ratings are based on measures of patient mortality, safety, readmission, timely and effective care, and patient experience

SOURCE: JCHC staff analysis of the Centers for Medicare & Medicaid Services 2021 hospital overall star ratings

NOTE: Star ratings are out of 5, with 1 being the lowest and 5 being the highest possible rating

Vertically integrated providers in VA have moderately higher satisfaction ratings

Patients who would give their hospital a rating of 9 or 10 (scale from 1-10):

| Health System Type | Range | Median |
|---------------------------------|--------------|---------------|
| Vertically integrated providers | 64-80% | 73% |
| All other acute care hospitals | 47-81% | 69% |

Patients who would definitely recommend the hospital:

| Health System Type | Range | Median |
|---------------------------------|--------------|---------------|
| Vertically integrated providers | 57-82% | 72% |
| All other acute care hospitals | 36-82% | 70% |

SOURCE: VHI report of HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) survey information obtained from the Centers for Medicare & Medicaid Services (CMS), January 2022. Patient Survey Collection Dates: July 2020 - Mar 2021.

Vertically integrated carriers spent more of their premium revenues on quality

Percentage of Premium Revenues Spent on Quality (selection of plans)

| | Carrier | Individual | Small Group | Large Group | |
|-------------------------------|--|------------|-------------|-------------|--------|
| Vertically Integrated Carrier | Innovation Health Insurance Company | - | 0.74% | 0.81% | } 1% |
| | Innovation Health Plan | - | 0.73% | 0.79% | |
| | Optima Health Insurance Company | - | 2.96% | 1.71% | |
| | Optima Health Plan | 0.89% | 0.97% | 1.01% | |
| | Piedmont Community HealthCare HMO | 0.85% | 0.77% | 0.80% | |
| Other Carriers | Aetna Health Inc. | - | 0.67% | 0.64% | } 0.7% |
| | Anthem Health Plans of Virginia | 0.90% | 1.24% | 0.84% | |
| | CareFirst Blue Choice | 0.50% | 0.47% | 0.55% | |
| | Cigna Health and Life Insurance Company | 0.49% | - | 0.49% | |
| | Kaiser Foundation Health Plan of Mid-Atlantic States | 0.30% | 0.24% | 0.26% | |

SOURCE: JCHC staff analysis of 2021 commercial Medical Loss Ratio reports to the Centers for Medicare & Medicaid Services

NOTE: Table only shows a selection of all plans included in the analyses

Despite increased spending, plan quality between carriers does not significantly differ

| Medicare Advantage Contract Name (Contract Number) | VIC | Parent Organization | Overall Rating |
|--|-----|------------------------------------|----------------|
| Kaiser Foundation Health Plan of the Mid-Atlantic States (H2172) | | Kaiser Foundation Health Plan | 5 |
| Humana Insurance Company (H5216) | | Humana | 4.5 |
| Optima Health Plan (H2563) | Yes | Sentara Health Care | 4 |
| UnitedHealthcare of the Mid-Atlantic (H7464) | | UnitedHealth Group | 4 |
| Aetna Life Insurance Company (H5521) | | CVS Health Corporation | 3.5 |
| UnitedHealthcare Insurance Co of the River Valley (H1659) | | UnitedHealth Group | 3.5 |
| Virginia Premier Health Plan, Inc. (H9877) | Yes | Sentara Health Care | 3.5 |
| Mary Washington Health Plan (H2825) | Yes | Mary Washington Medicare Advantage | 3 |

SOURCE: Centers for Medicare & Medicaid Services, 2023 Medicare Report Card

Findings recap

- The landscape of vertically integrated systems in Virginia is constantly shifting
- Vertical integration does not limit access to health care in Virginia
- The impact of vertical integration on costs is variable and inconsistent
- The relationship between vertical integration and quality is mixed

Opportunity for public comment

Submit written public comments by close of business on
Friday, October 6th

Email: jchcpubliccomments@jchc.virginia.gov

Mail: 411 E. Franklin Street, Suite 505
Richmond, VA 23219

NOTE: All public comments are subject to FOIA and must be released upon request.



Joint Commission on Health Care

Address:

411 E. Franklin Street, Suite 505
Richmond, VA 23219

Phone: 804-786-5445

Website: <http://jchc.virginia.gov>