

BENEFICIARY ATTITUDES TOWARD
AND EXPERIENCES WITH
MEDICARE DEMONSTRATION PPOS

EVIDENCE FROM THE PHOENIX, ARIZONA
AND ORANGE COUNTY, CALIFORNIA
STRUCTURED DISCUSSION GROUPS

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EXECUTIVE SUMMARY

Preferred provider organizations (**PPOs**) are a recent approach to cost containment in the private health care market. Their rapid growth in the private sector and the expectation that **they** can reduce health care costs have prompted interest in potential applications to the Medicare program. The Health Care Financing Administration (**HCFA**) is currently sponsoring a Medicare pilot PPO demonstration to assess the feasibility and cost effectiveness of including PPO options under Medicare. **Two** demonstration **PPOs** are currently operational: Senior Preferred in the Phoenix area and CAPP CARE in Orange County, California. Senior Preferred is a PPO linked with a Medicare supplemental, or Medigap plan, offered by Blue Cross and Blue Shield of Arizona (**BCBS/AZ**). CAPP CARE has implemented a point of **service** model PPO, not linked with Medigap insurance. CAPP CARE does not enroll beneficiaries, but applies its utilization management procedures whenever beneficiaries obtain care **from** a network physician.

To obtain in-depth information about beneficiary knowledge, attitudes, choices, and experiences with the two demonstration **PPOs**, we conducted four structured discussion sessions with beneficiaries in each of the two demonstration sites. In Phoenix we conducted two discussion sessions with Senior Preferred enrollees, one session with enrollees in Senior Security (a standard Medigap plan offered by **BCBS/AZ**), and one session with beneficiaries who were not enrolled in any plan offered by **BCBS/AZ**. Senior Preferred enrollees shared how **they** heard about the PPO, why **they** decided to join the PPO, how well they understand the PPO, and whether the PPO incentives to use network providers affect their provider choice. The beneficiaries who were not enrolled in Senior Preferred were asked if **they** were aware of the Senior Preferred PPO. Those who were aware of it discussed why **they** did not enroll and what would make the PPO more attractive to them. The PPO was explained to the beneficiaries who were not aware of the PPO, and the beneficiaries discussed whether **they** would consider enrolling in the PPO.

In Orange County we conducted two discussion sessions with beneficiaries who primarily visit CAPP CARE physicians and two sessions with **beneficiaries** who primarily visit non-CAPP CARE physicians. Beneficiaries in all four groups were asked if **they** were aware of the PPO and if **they** recalled receiving the CAPP CARE Provider Directory (which was mailed to all Orange County beneficiaries in July 1990). The respondents also discussed how **they** select their physicians, how willing **they** would be to switch to a CAPP CARE physician, and what additional incentives could be offered to induce them to switch to a CAPP CARE provider.

FINDINGS

Most beneficiaries in the structured discussion groups were well-informed about their Medicare benefits, and understood the concept of physician assignment. We learned the following from them:

- Beneficiary awareness of the Medicare **PPOs** in the demonstration sites can be greatly improved.
- None of the **non-BCBS/AZ** discussion group members were familiar with Senior Preferred, and less than one-third of the Orange County respondents recalled receiving the CAPP CARE Provider Directory

- Marketing materials for point of **service PPOs** like CAPP CARE need to **quickly** and **clearly** explain what a point of service PPO is and how it operates.
 - If the marketing materials for a point of **service** PPO do not clearly explain the PPO, the marketing materials will be viewed as another solicitation from an HMO or **Medigap** plan. **In** this case, the marketing materials will be discarded by **beneficiaries** who do not want to change their supplemental health care coverage.
- The **beneficiaries** who would be most likely to enroll in a Medigap PPO like Senior Preferred have the following characteristics:
 - **They are very** conscious about their budget.
 - **They know** and respect the company offering the **plan**.
 - Most or **all** of their personal physicians (and the hospitals where they have **priviledges**) are in the network.
 - The Medigap **PPO** premium and benefit package compares well to their current medical insurance coverage.
 - They believe that Medicare costs are escalating, and that **PPOs** can be used to contain **costs**.
- When selecting a physician, many beneficiaries give more weight to the recommendations of **friends**, family, physicians, or hospital referral services than to whether or not the physician accepts assignment.
 - Beneficiaries are more inclined to select a physician **from** a list published and endorsed by a hospital they know and respect than from a list published and endorsed by a managed care company unfamiliar to them.

RECOMMENDATIONS

Increasing Beneficiary Awareness of **PPOs**

Beneficiary awareness of Senior Preferred and CAPP CARE can be greatly improved. Beneficiary **awareness** of Medicare **PPOs will** be increased **if**:

- The PPO is **affiliated** with a highly respected institution with which beneficiaries are familiar.
 - Beneficiaries are more inclined to read information **from** a respected and familiar institution than from an institution unfamiliar to them.
- Information about the PPO clearly and **succintly describes** the PPO and quickly conveys the messages of quality and value.

- Quality can be quickly **conveyed** if the institution offering the PPO is familiar and highly respected.
- Value can be quickly **conveyed** by clearly explaining a product or program that can save them **money**
- Network providers tell their Medicare patients about the PPO.
- Some respondents have visited physicians who are listed in the CAPP CARE Provider Directory and/or the Provider Directory of Medicare Participating Physicians published by Saint Joseph Hospital in Orange, California. Their physicians had told them about Saint Joseph's program but not about CAPP **CARE**.

Marketing Point of Service PPOs

The point of service PPO is a very new and unconventional PPO model **that will** be unfamiliar to most people. The two features of this model that are going to be the most difficult to explain to beneficiaries are that there is no enrollment in this PPO, and that this PPO is designed to complement (not replace) one's current health insurance coverage. It is important that any marketing materials from a point of **service** PPO quickly and clearly **convey** these features about the PPO. If they do not, many beneficiaries will assume that **they** are receiving another solicitation from an HMO or Medigap plan, and most of the marketing materials will go unread into the wastebasket.

Influencing Provider Choice

When selecting a physician, beneficiaries give more weight to physician reputation and the recommendation of friends, family, other physicians, or the referral services of a respected hospital than to whether or not the physician accepts assignment. Beneficiaries will be more inclined to select physicians in a PPO network if they believe that all the physicians in the network are recommended by an institution they know and respect. One institution that **could** effectively serve this function is a local hospital with a stellar reputation. Beneficiaries believe that an excellent hospital will have excellent physicians; the hospital's reputation suffers if there are less skilled physicians on its **staff**.

Linking point of service physicians to respected, local hospital(s) will improve the visibility of the PPO and the likelihood that network physicians will be selected. Many Orange County respondents have used hospital referral **services** to select physicians. **They** would be more inclined to select physicians from a list published by a hospital **they** know and respect than to select a physician from a list published by an unfamiliar managed care company.

I. INTRODUCTION

Preferred provider organizations (**PPOs**) are a recent approach to cost containment in the private health care market. Their rapid growth in the private sector and the expectation that they can reduce health care costs have prompted interest in potential applications to the Medicare program. To assess the feasibility and **cost** effectiveness of including PPO options under Medicare, the Health Care Financing Administration (HCFA) is currently sponsoring a Medicare pilot PPO demonstration. **Two** demonstration **PPOs** are currently operational: Senior Preferred in the Phoenix area and CAPP CARE in Orange County, California. Senior Preferred **is** a PPO linked with a Medicare supplemental insurance, or Medigap, plan, offered by Blue Cross and Blue **Shield** of Arizona (**BCBS/AZ**). CAPP CARE has implemented a point of service model PPO, not **linked** with Medigap insurance. CAPP CARE does not enroll beneficiaries, but applies its utilization management procedures whenever beneficiaries obtain care **from** a network physician.

Medicare beneficiary response to the PPO option is central to the operational feasibility and effectiveness of Medicare **PPOs**. Enrollment model **PPOs** like Senior Preferred must offer incentives for people to enroll in the PPO and then, once enrolled, to use PPO providers. Point of service **PPOs** like **CAPP CARE** do not enroll beneficiaries, but must offer incentives for beneficiaries to use network providers and inform area beneficiaries about the network and the incentives. If Medicare **PPOs** are effective at reducing **unnecessary** and inappropriate health care utilization, the net effect on Medicare program costs can be significant only if a substantial number of beneficiaries visit PPO providers.

To examine beneficiaries' **knowledge**, attitudes, and choices regarding these two **PPOs**, we conducted eight structured discussion sessions with groups of beneficiaries in Phoenix, Arizona and Orange County, California. In Phoenix we conducted four discussion sessions: two sessions with Senior Preferred enrollees, one session with enrollees in a regular Medigap plan offered by

BCBS/AZ, and **one** session with beneficiaries who were not **enrolled** in any plan offered by **BCBS/AZ**. Senior Preferred enrollees discussed how **they** heard about the PPO, why they decided to join the PPO, how well they understand the PPO, and whether the PPO incentives to use network providers affect their provider choice. **The beneficiaries** who were not enrolled in Senior **Preferred** were asked if **they** were aware of the Senior Preferred PPO. Those who were aware **discussed** why they did not enroll and what would make the PPO more attractive to them. The PPO was explained to the beneficiaries who were not aware of the PPO, and the beneficiaries **discussed** whether **they** would consider enrolling in the PPO.

In Orange County we conducted two discussion sessions with beneficiaries who primarily visit CAPP CARE physicians and two sessions with beneficiaries who **primarily** visit non-CAPP CARE physicians. Beneficiaries in all four groups were asked if **they** were aware of the PPO and if they recalled receiving the CAPP CARE physician directory (which was **mailed** to **all** Orange County beneficiaries). We also discussed how beneficiaries select their physicians, how **willing they would** be to switch to a CAPP CARE physician, and what additional incentives could be offered to induce them to switch to a CAPP CARE provider.

This report contains five chapters. The next chapter describes Senior Preferred and CAPP CARE, and the third chapter outlines the research questions and methodology. The fourth chapter presents the perceptions and experiences of the structured discussion group respondents: their awareness and understanding of the Medicare **PPOs**, their reasons for enrolling or not **enrolling** in Senior Preferred, their response to the incentives to use network providers, and their interest in Medicare **PPOs** generally. The last chapter contains conclusions and recommendations.

IL DESCRIPTION OF SENIOR PREFERRED AND **CAPP** CARE

A. SENIOR PREFERRED

Senior Preferred is a Medigap PPO offered by **BCBS/AZ** to individual beneficiaries in Maricopa and **Pima** counties. Senior Preferred gives enrollees the financial protection of Medigap insurance, but differs from traditional Medigap plans by giving enrollees financial incentives to select physicians and hospitals from within a specific network.

Senior Preferred offers beneficiaries two financial incentives to enroll. The main incentive to attract enrollees is a lower premium than other **Medigap** plans charge for comparable **benefits**.¹ The premium for Senior Preferred is about 25 percent lower than the premium for Senior Security, the standard Medigap plan offered by **BCBS/AZ**. The other financial incentive is coverage for **additional** services, such as vision and hearing exams, that are not offered by comparably priced plans.

The incentive for Senior Preferred enrollees to select a physician from within the network is **that** network physicians have agreed to accept assignment on all claims for PPO enrollees. (When physicians accept assignment on a claim, they agree to accept the Medicare approved charge as payment in full) Thus, when Senior Preferred enrollees visit a network physician, the enrollees have no out-of-pocket Part B costs (after meeting the Part B **deductible**) because Senior Preferred covers the 20 percent Part B coinsurance. When enrollees obtain care from a non-network physician who does not accept assignment, Senior Preferred **covers** the 20 percent coinsurance for the Medicare approved charge but does not **cover** charges above the Medicare approved charge. The incentive to

¹One exception is a recently introduced Medigap PPO plan **affiliated** with the Samaritan Hospital system in Phoenix: the Commonwealth **Samaritan/TMC** Prime Care Plus plan. Its benefit package is a little different than the Senior Preferred benefit package. For example, Senior Preferred has no waiting period (Prime Care Plus has a 90 day waiting period **unless** the beneficiary is replacing existing coverage), and Senior Preferred provides coverage in other countries (Prime Care Plus does not provide coverage outside the United States). The 1991 premiums for Prime Care plus are approximately 22 percent below those of Senior Preferred for beneficiaries age 65 to 79, and 8 percent below those of Senior Preferred for beneficiaries age **80** and over. There is also a one-time \$30 application fee for Prime Care Plus (none for Senior Preferred).

obtain hospital care within the network is that the plan fully covers the Part A deductible **only** if care is received at a network hospital. The deductible **is** not covered if care is received at a non-network hospital, except in the case of an accident or medical emergency.

BCBS/AZ began marketing Senior Preferred in late 1988. **The** PPO was marketed to individual beneficiaries using **radio**, television, print **advertising**, and a direct **mail** campaign. **Enrollment in** Senior Preferred remained low during the first year of the plan; at **the end** of 1989 there were only 836 enrollees.

Enrollment jumped to 5,443 by April 1990. **BCBS/AZ** attributes this increase to a large price difference between Senior Preferred and its standard Medigap plan (Senior Security). In **1989** the premium for Senior Preferred was about 24 percent lower than that of Senior Security. This difference increased to 31 percent in early 1990 when, together with much of the Medigap industry, **BCBS/AZ** raised the premium for Senior Security by 44 percent because of the **repeal** of the Medicare Catastrophic Act and trends in the cost of claims. The Senior Preferred premium was increased by only 24 percent. Senior Security subscribers were sent a letter informing **them** of the impending premium increase and the availability of the Senior Preferred plan at a lower premium.* Most of the beneficiaries who enrolled in Senior Preferred in early 1990 probably switched **from** Senior Security in response to this letter, because Senior Preferred was not being widely marketed to other beneficiaries at this time. Since the jump in enrollment in April **1990**, enrollment has stabilized. As of April **30, 1991**, Senior Preferred had 5,778 enroll-

B. **CAPP CARE**

CAPP CARE is a point of service PPO which began operations on April **1, 1990**. It includes a network of over **800** physicians in Orange County, California CAPP CARE does not enroll beneficiaries, but applies its utilization management procedures whenever beneficiaries obtain care

*Appendix A contains a copy of the January 1990 letter from **BCBS/AZ** to Senior **Security** enrollees.

from a network physician. The main advantage of CAPP CARE is that beneficiaries can be brought into a managed care system without having to enroll formally. Beneficiaries with Medigap coverage do not disenroll **from** their current Medigap plan to use CAPP CARE physicians.

To be successful, CAPP CARE must channel beneficiaries to its network providers by offering incentives for beneficiaries to select a network provider, and by informing beneficiaries about those incentives and the provider network. Beneficiaries in Orange County have two incentives to use CAPP CARE physicians. **First**, beneficiaries who use network physicians will not be balance billed since network physicians agree to accept assignment. Second, network physicians have been **pre-**screened for their malpractice history, medical qualifications, past disciplinary actions by governmental agencies, licensing boards, and review committees, and have agreed to adhere to CAPP CARE's utilization management program.

The only marketing CAPP CARE did was to send a directory of network providers to all Medicare beneficiaries in Orange **County**.³ As of May **21, 1991**, over 99,000 beneficiaries had visited a CAPP CARE physician at least **once**.⁴

³**Appendix B** contains the cover and introductory pages of the CAPP CARE Provider Directory.

⁴**Not** all of these 99,000 beneficiaries reside in Orange County. An earlier zip code analysis of the first 72,291 beneficiaries who had visited a CAPP CARE physician indicated that approximately **25** percent of these beneficiaries reside outside of Orange County.

III. RESEARCH QUESTIONS AND METHODOLOGY

To obtain in-depth information about beneficiary awareness, knowledge, attitudes, and experiences with the two demonstration **PPOs**, we conducted four structured discussion sessions in Phoenix and four discussions sessions in Orange County. With these structured discussion groups we were able to obtain information about beneficiary choice in more detail and depth than we would have obtained from a survey. The group interaction present in discussions usually reduces inhibitions that respondents may have when they are questioned over the telephone by interviewers they do not know. However, unlike data from surveys, the views and experiences expressed in structured discussion groups cannot be used to draw statistical inferences or to test hypotheses. Structured discussion groups involve small samples, and the views expressed by the respondents are not independent observations because they are influenced by the discussion of other group members.

The structured discussion groups ranged in size **from** 8 group members to 15 group members. This size range permitted participation by a diverse group of individuals, yet the groups were small enough so that everyone had an opportunity to express his or her views.

A. RESEARCH QUESTIONS

In Phoenix, structured discussion sessions were conducted with:

- two groups of Senior Preferred enrollees
- one group of Senior Security enrollees, and
- one group of beneficiaries who were not enrolled in any plan offered by **BCBS/AZ**.

One Senior Preferred group included “high income” enrollees (enrollees with annual household incomes of at least \$19,000, which is the estimated median household income for persons age 65 and over), and the other group included “low income” enrollees. Senior Preferred enrollees were

separated by income so that the groups would be more homogeneous, facilitating the group **members'** willingness to share their views with the other **group** members.

We examined the following research questions with the Senior Preferred enrollees:

- How did Senior Preferred enrollees hear about the PPO? What sources of information were most influential in their decision to enroll?
- Why did enrollees decide to join Senior Preferred? What design features were considered most attractive?
- What do enrollees know about the PPO concept? Are enrollees aware that Senior Preferred is a PPO?
- How do enrollees decide whether to use a PPO or non-PPO provider?
- How well do enrollees understand the PPO benefits and the incentives to use PPO rather than non-PPO providers?
- How important are the incentives offered by the PPO in influencing enrollees' choice of providers?
- Are enrollees satisfied with the care they are receiving from PPO physicians?

In the discussion sessions with the Senior Security enrollees and the beneficiaries who were not enrolled in any **BCBS/AZ** plan we examined the following research questions:

- What is the level of awareness and understanding of Senior Preferred among **nonenrollees**?
- What do beneficiaries know about the PPO concept?
- Among the beneficiaries who are aware of the PPO, what are the reasons for not enrolling? What is the primary reason for not enrolling?
- After the incentives offered by Senior Preferred are fully explained, how willing are people to enroll?
- What changes in Senior Preferred benefits would make it more attractive to beneficiaries?
- **Is** there a perception that the PPO has lower quality physicians? **Is** there a perception that there is less access to care?

In Orange County we conducted two discussion sessions with beneficiaries who receive care from CAPP **CARE** demonstration physicians and two discussion sessions with beneficiaries who receive care from non-CAPP CARE demonstration physicians. In these groups we examined the following research questions:

- Are beneficiaries aware of the CAPP **CARE** PPO?
- How well do the beneficiaries understand the PPO?
- What were the primary sources of information about the PPO?
- Does the provider directory influence the beneficiary to use the CAPP **CARE** demonstration network or were there other factors that caused the beneficiary to use the CAPP CARE network?
- What additional incentives would be most effective in encouraging beneficiaries to switch to a PPO provider?
- Is there a perception that **PPOs** have lower quality physicians?

B. SAMPLE SELECTION

Structured discussion group members were identified from the following sources: (1) **files** provided by **BCBS/AZ identifying** Senior Preferred and Senior Security enrollees, and (2) the Health Insurance Skeleton Eligibility Write-off (**HISKEW**) file, The **HISKEW file** is an extract of the Health Insurance Master File, **HCFA's** main membership **file** of Medicare beneficiaries. The **file** contains identification, demographic, and eligibility data on every individual covered by Medicare. **Beneficiaries** in Phoenix not enrolled in any **BCBS/AZ** plan were identified by matching the **BCBS/AZ** enrollment **files** against records from the **HISKEW** Ele for Phoenix. A random sample of Orange County beneficiaries was drawn from the **HISKEW** Ele for Orange County.

A two stage screening process was used to select the discussion group members. In the first stage, data from **BCBS/AZ** and the **HISKEW** Ele were used to eliminate Medicaid recipients, disabled beneficiaries, and beneficiaries who reside in zip codes distant from the discussion group meeting facilities. The Senior Preferred groups included an additional screen to **Eag** beneficiaries who had

switched from Senior Security. (This information was provided **by BCBS/AZ.**) We wanted each Senior Preferred discussion group to include at least three enrollees who did **not** switch from Senior Security to Senior Preferred after the 44 percent Senior Security premium increase in early 1990.

Telephone screening was used in the **second** stage. In Phoenix beneficiaries were contacted by telephone to **confirm** their age (that they were at least **65** years old) and enrollment in Senior Preferred or Senior Security, and to collect data on their income. **Income** data were used to separate Senior Preferred enrollees into **"high** income" and "low income" groups. Senior Preferred enrollees with an annual household **income** less than or equal to \$19,000 (the estimated median annual household **income** for persons age 65 and older) were **placed** in the low income group, and enrollees with annual household incomes above \$19,000 were placed in the high income group. Senior Preferred enrollees were separated into **two** income groups so that the beneficiaries within a group would be more homogeneous and thus more likely to discuss their Medicare experiences with other group members. Demographic data for the discussion group members in Phoenix is summarized in Table **III.1**.

In Orange County telephone screens were used to classify beneficiaries into users of CAPP CARE physicians or users of non-CAPP CARE physicians and to **confirm** that they were at least 65 years old. Specific age and income data were collected from the discussion group members through a questionnaire each beneficiary completed at the end of the discussion **session.**¹ Demographic data for the discussion group members in Orange County is summarized in Table **III.2**.

¹**To conserve** project resources, beneficiaries in Orange County were not separated into "high income" and "low income" groups. Telephone recruiting went a lot faster when the **income** screen was omitted because (1) the beneficiary had one less question to answer, and (2) there was **less** attrition. There was less attrition because beneficiaries who do not want to disclose their income **could** not participate in a discussion session with an income screen, but they **could** participate in a discussion session without an income screen.

TABLE III.1

**DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS
IN PHOENIX STRUCTURED DISCUSSION GROUPS**

	Senior Preferred (Low Income)	Senior Preferred (High Income)	Senior Security	Notina BCBS/AZ Plan
Sex¹				
Female	7	9	7	8
Male	2	2	6	6
Age				
65-69	2	0	1	4
70-74	0	3	3	4
75-79	3	4	6	2
≥ 80	4	3	3	3
Refused	0	1	0	1
Income				
≤ \$19,000	9	0	5	4
> \$19,000	0	11	5	7
Refused	0	0	3	3
TOTAL	9	11	13	14

Source: Telephone screen for discussion group participants

NOTE: ¹**Although** males and females were recruited in approximately equal proportions, actual attendance at the Senior Preferred groups was skewed toward females.

TABLE III.2

DEMOGRAPHIC **CHARACTERISTICS** OF RESPONDENTS
IN ORANGE COUNTY **STRUCTURED** DISCUSSION GROUPS

	Users of CAPPCARE Physicians (Group 1)	users of CAPP CARE Physicians (Group 2)	Users of non- CAPPCARE Physicians (Group 1)	users of non- CAPP CARE Physicians (Group 2)
Sex¹				
Female	5	6	4	8
Male	4	2	10	7
Age			5	
65-69	3	1	6	3
70-74	4	4		6
75-79	2	3	1	4
≥ 80			2	2
Income				
≤ \$19,000	4	6	2	3
≥ \$19,000	5	2	12	12
TOTAL	9	8	14	15

Source: Questionnaires completed by discussion group members at the end of each session.

NOTE: 'Although males and females were recruited in approximately **equal** proportions, **actual** attendance was skewed in some groups.

C. DATA COLLECTION FROM THE STRUCTURED DISCUSSION GROUPS

All structured discussion sessions were conducted in meeting rooms of centrally located facilities in Phoenix, Arizona and Garden Grove, California.* The meeting rooms were arranged to permit audio recording of the sessions. Doors were kept closed during the discussions to maintain the confidentiality of the participants. Light **refreshments** were available before and after the discussion sessions.

Each session was attended by the discussion group moderator and one member of the research team who observed the discussions. The Senior Preferred and Senior Security discussion sessions were also observed by Sue Tompkins, the Senior Product Manager for **BCBS/AZ**. The sessions lasted about one and a half hours. Participants were given a cash honorarium (\$25) at the end of each session?

Using a topic guide, the moderator posed a series of open-ended questions (similar to the research questions above) which the participants were encouraged to discuss. The discussions were **transcribed** from the audio tapes. These transcriptions were analyzed by the principal author, who was an observer at all sessions. The analysis was then reviewed by the moderator to cross-validate the analytic conclusions presented in this report.

²The four Phoenix discussion groups were conducted in the Boathouse of **Encanto** Park, and the four Orange County discussion groups were conducted in the Community Meeting Center in Garden Grove.

³**Participants** who indicated to the recruiters over the telephone that lack of transportation would preclude their participation received an additional \$10.00 for transportation expenses (e.g., for a taxi or ride from a friend or neighbor).

IV. PERCEPTIONS AND EXPERIENCES OF DISCUSSION GROUP RESPONDENTS

Our examination of beneficiary response to the PPO option is based **on the** discussion group respondents' awareness and understanding of the Medicare **PPOs**, reasons for deciding to **enroll** in Senior Preferred (Phoenix), awareness of and response to the incentives to use network providers, interest in Senior Preferred among respondents not currently enrolled, and Orange County respondent interest in CAPP CARE.

A. AWARENESS AND UNDERSTANDING OF THE MEDICARE **PPOs**

Effective marketing is critical to the success of Medicare **PPOs**. To determine discussion group members' awareness and understanding of Senior Preferred (Phoenix) and **CAPP CARE** (Orange County), we asked the group members if they had heard of the plan, if they remembered receiving any marketing materials from the plan, and if they had heard about the plan from any other sources. We also asked them to share what they knew about the plan. The plan was then explained to group members unfamiliar with the plan, and these group members shared their initial impressions of the plan.

1. Awareness of **Senior Preferred (BCBS/AZ)**

For the 20 respondents enrolled in Senior Preferred, the primary source of information about the plan was the letter **BCBS/AZ** sent to its Senior Security customers in January **1990** announcing the 44 percent price increase in Senior Security premiums and a lower cost alternative with Senior Preferred. Some Senior Preferred respondents also obtained information about Senior Preferred from friends and seminars sponsored by **BCBS/AZ**.

Seven of the thirteen Senior Security respondents initially indicated that they had heard of Senior Preferred. After the January 1990 letter from **BCBS/AZ** to Senior Security **subscribers** was mentioned, however, a few more group members indicated that they remembered receiving the letter

and were aware of Senior Preferred. However, many of the discussion group members who were aware of Senior Preferred did not know very much about the plan because they did not carefully review the letter sent by BCBS/AZ in January. Some of the comments from this group include:

“I’ve heard of it but I don’t know of any of the details.”

“I didn’t pay too much attention.”

“Is that the HMO one where you have several doctors that you select from?”

Three Senior Security beneficiaries had a substantial amount of knowledge about Senior Preferred. Two had reviewed the physician network list, and one had discussed the plan with a friend who is enrolled in Senior Preferred

None of the discussion group members in the non-BCBS/AZ group had heard of Senior Preferred.

2. Understanding of Senior Preferred

The Senior Preferred discussion group members generally understood how the Senior Preferred plan works. Most understood the concept of physicians accepting assignment and understood that the plan does not cover balance bills by non-network physicians. However, only a few knew what a PPO is. They were not very familiar with the term “PPO” because (1) Senior Preferred does not market itself as a PPO, and (2) the PPO concept is relatively new. Sue Tompkins, the Senior Product Manager for BCBS/AZ, was an observer during the three BCBS/AZ enrollee discussion sessions. During a break she told me that the marketing materials for Senior Preferred do not use the term “PPO,” so she was not surprised that most beneficiaries did not know what a PPO is. Since PPOs are a relatively new concept, most beneficiaries would not be familiar with it; many had retired before the widespread introduction of PPOs by employers.¹

¹According to one estimate, in 1981 there were less than ten operational PPOs with enrollees. By 1986, there were approximately 150 PPOs. (Rolph et al. 1986).

Most discussion group members in the Senior Security and **non-BCBS/AZ** groups also were not familiar with the term **"PPO."** However, they seemed to understand Medigap **PPOs** like Senior Preferred once the concept was explained to them. These beneficiaries were fairly easy to educate because most understood the concepts of physicians accepting assignment and of selecting physicians **from** a list. There were always several beneficiaries in each group who could define "accepting assignment," and some shared their personal experiences about physician assignment:

"Yes, we all know what it means [for a physician to accept assignment] because we have those that don't. **All** it takes is that one experience to have one that doesn't and then you know."

Many respondents told us that when they are selecting a physician, they will ask the physician if he/she accepts assignment.

Respondents were familiar with selecting physicians from a **list** because of their familiarity with **HMOs**. Although most discussion group members were not familiar with the term **"PPO,"** they all seemed to be very familiar with the term "HMO." **The** majority understood how **HMOs** operate, and they expressed a very strong aversion to **HMOs.**² Many beneficiaries, unsolicited, shared first-hand or second-hand unpleasant experiences with **HMOs**. **When** explaining the PPO network to beneficiaries who were unfamiliar with **PPOs**, it was important for us to distinguish **PPOs** from **HMOs**.

One Senior Security beneficiary had discussed Senior Preferred with a **friend** and explained the plan to the rest of the group:

"It isn't actually an HMO. However, like **one** of you said, it does have a **list** of doctors that you can go to. But this friend, she uses some of these but if she wants a certain one that is a specialist then she will go and pay something extra on her own. And this works beautifully for her.

²**From** the eight discussion groups in the two sites, only a few respondents had positive things to say about **HMOs**.

3. **Awareness** of **CAPP CARE**

Most beneficiaries in the Orange County structured diiion groups were not aware **of the** CAPP CARE demonstration PPO prior to their participation in the group. We determined their level of awareness with two questions. **First**, we asked the group members if any of them had heard of the CAPP CARE Medicare PPO. In the CAPP **CARE** user groups only **one person** had heard of CAPP CARE, **likewise**, only one beneficiary in the two CAPP CARE non-user groups had heard of CAPP CARE Then we showed the group members the **CAPP CARE Provider Directory** and asked them if they remembered receiving the directory. In the two CAPP CARE user groups eight out of the 17 members recalled receiving the directory. In the two non-CAPP CARE user groups approximately six beneficiaries out of 29 recalled receiving the directory.

Most of the beneficiaries who recalled receiving the directory quickly thumbed through it and threw it away. They told us that the directory looked a lot like the “reams” of solicitations from Medigap plans and local **HMOs** that the beneficiaries receive every week Beneficiaries who are happy with their supplemental insurance plan, or who dislike **HMOs**, will quickly discard these solicitations. Some examples of what **beneficiaries** said are:

“You know when this came, it’s just so much like the other stuff that we get about **HMOs** and stuff like that and you know, you just **get** them every week from somebody.”

“You **still** throw them away because you say, ‘**Well**, I have supplemental Medicare; I don’t need this.’”

“But you get it all the time in the mail so when this came in the **mail** it wasn’t much different should we say.”

“Most of them go in the round circular **file** when they come.”

Some beneficiaries discarded the Directory because they did not **find** any of their physicians in the Directory:

“I think I looked through it and I didn’t recognize any physicians and I think I threw it **out.**”

In all four Orange County groups, the Directory was the beneficiaries' only source of information about CAPP CARE. No one had heard of CAPP CARE from their friends, families, physicians, or the media

An even smaller number of the group members were familiar with the term "**PPO.**" Among the 46 discussion group members in Orange County, less than ten beneficiaries indicated that they knew what a PPO was.

Although most discussion group members were not aware of the CAPP CARE demonstration, and even fewer could **define** "PPO", they were interested in learning more about CAPP CARE and **PPOs**. Many beneficiaries looked at the directory we brought to the discussion sessions and wrote down the telephone number inside the directory to request a copy. Many beneficiaries also took notes during the discussion session.

4. Understanding CAPP **CARE**

Point of service **PPOs** such as CAPP CARE are a very **new** and unconventional PPO model that will be unfamiliar to most people. We had to carefully explain to the beneficiaries in the Orange County discussion groups that there is no enrollment in CAPP CARE (CAPP CARE is not a **Medigap** plan or an HMO), and that CAPP CARE **is** designed to complement (not replace) one's current health insurance coverage. As described in the section above, the first impression many beneficiaries had of the CAPP CARE Provider Directory was that it was a solicitation from another HMO or Medigap plan. Beneficiaries receive solicitations **all** the time, and if they are satisfied with their current coverage **they will** quickly discard new solicitations. Thus, the marketing materials of a point of service PPO should **quickly** indicate that the PPO is not trying to enroll beneficiaries or trying to sell the beneficiaries anything, but is instead providing them with information about **pre-**screened physicians who have agreed to accept assignment. The marketing materials should also clearly explain that CAPP CARE is intended to complement, not replace, their current insurance coverage, and that it should not be used by enrollees in an HMO.

The difficult task of informing people how point of service **PPOs** operate can be **illustrated** with the following example. In a telephone conversation, the Coordinator for Senior **Services** at St. Jude's hospital in Fullerton, California, told me **that a** beneficiary came into her office with a CAPP **CARE** Directory and wanted to know if she had to discontinue her Medigap plan to use CAPP **CARE**.³ The Coordinator read the Directory and was **not sure**. She telephoned CAPP **CARE**, and **CAPP CARE** referred her to Transamerica Occidental, the carrier for CAPP **CARE**. Transamerica referred her back to CAPP **CARE**. CAPP **CARE** then referred her to HCFA in Baltimore. **Fortunately**, HCFA explained the CAPP **CARE** demonstration to her. If the Coordinator for Senior Services of a major hospital in Orange County did not understand CAPP **CARE's** marketing materials, many beneficiaries also will not understand them.

B. THE SENIOR PREFERRED ENROLLMENT DECISION

To identify the main reasons why the Senior Preferred respondents decided to enroll in Senior Preferred, we asked them to list the advantages of the plan. The respondents **listed the following** advantages of the Senior Preferred plan:

- Lower premiums
- Additional benefits (e.g., vision and hearing benefits)
- Reputation of **BCBS/AZ**
- Familiarity with the network physicians
- Freedom to choose physicians

From the ensuing discussion, the two key reasons why the discussion group members **enrolled** in Senior Preferred were lower premiums and the reputation of **BCBS/AZ**. When **polled, five** of eleven beneficiaries in the Senior Preferred high income group indicated that the lower premium was

³I telephoned Saint Jude's Hospital to obtain information about the hospital's physician referral services and its Senior **Class** Program. Several beneficiaries in the discussion groups had mentioned Senior Class and St. Jude's physician referral service.

the primary reason they enrolled. For seven beneficiaries, the reputation of **BCBS/AZ** was either the **first** or second reason they enrolled.

Unlike the discussion group members in the Senior Security group or the **non-BCBS/AZ** group, a very high percentage (about 75 percent) of the beneficiaries in the Senior Preferred groups were long-time customers of Blue Cross and Blue Shield (BCBS). Many had BCBS coverage while they were employed. In the high income Senior Preferred group, eight out of eleven beneficiaries indicated they were long time customers of BCBS, while seven out of nine **beneficiaryess** in the low income group indicated so.

The respondents indicated that a reputable, familiar company with a long track record is going to have more success introducing a new product like Senior Preferred than a company unfamiliar to the beneficiaries. One respondent **commented:**

“I think too that one thing that’s important is that Blue Cross has a wonderful reputation. You go to a hospital or something and there’s no questions. On some other health insurance forms people are having troubles. So I think it’s wonderful the way Blue Cross is handling things.

When Senior Preferred discussion group members were asked if they were uncertain about joining a new plan, one beneficiary responded,

“[No]...it’s a matter of trust...from past experience with Blue Cross and Blue Shield.”

There were fewer long-time BCBS customers in the Senior Security group. Some of these beneficiaries did not **select** a BCBS plan until their retirement. Some Senior Security discussion group members expressed a preference for Senior Security over Senior Preferred because flexibility is important to them; they felt restricted by the choice of physicians on the network list.

Some of the Senior Preferred and Senior Security beneficiaries thoroughly reviewed the Senior Preferred materials sent to them, and made their decisions to join Senior Preferred or stay with Senior Security after careful consideration. One Senior Preferred beneficiary shared the following:

"Well, we discussed it a great deal and couldn't really determine what the difference was of the Blue Cross that we had been carrying for forty years or Senior Preferred. It seems the same except for the out of state payments of elective care. And we came to the conclusions that there would never be elective care out of state unless it was an accident or an emergency...'

One Senior Security beneficiary had reviewed the list of Senior Preferred network physicians **and** told the group that many of the top area doctors were on the list. However, he decided not to **enroll:**

"...I wanted a little bit wider range than that. You can get any, doctor you want in **a PPO but...you** lose a lot of the advantages of the insurance if **you** don't use somebody on the list and I never know which doctor it'll be next."

C. **INCENTIVES** TO USE NETWORK PROVIDERS

The lists of Senior Preferred and CAPP **CARE** network physicians provide **beneficiaries** with **two** important pieces of information when they are selecting a physician:

- Physicians on the list tend to provide high quality care
- All of the physicians on the list accept assignment.

In general, the **beneficiaries** in all the discussion groups do not perceive any significant differences between PPO and non-PPO physicians. They believe that there will be some very good and some very bad physicians both in and out of a PPO **network.**⁴ Thus, some beneficiaries **will** look at a list of network physicians when they are searching for a physician.

But Senior Preferred and Orange County beneficiaries have very weak incentives to **select** PPO network physicians. Senior Preferred and CAPP **CARE** physicians agree to accept assignment on all enrollee claims. So, Senior Preferred enrollees and Orange County **beneficiaries** with Medigap insurance are fully covered when they visit a network physician. These beneficiaries are also **fully** covered, however, when they visit any non-network physician who accepts assignment. Thus, Senior Preferred enrollees and Orange County beneficiaries with Medigap insurance could exclusively visit non-network physician who accept assignment and still be **fully** covered.

⁴**Many** of the discussion group members do **not** believe that physicians in an HMO are comparable to fee-for-service physicians.

Whether or not the physician accepts assignment becomes less important to beneficiaries if they want to see a specific physician who is not in the network--such as a long-time family physician or a specialist for a particular operation. In instances such as these, many beneficiaries will select a specific physician out of the network, even if they will be balance billed. Senior Preferred enrollees expressed the following views:

"...it just happens that all the doctors that I use have been in the **booklet** all the time. But it came to a critical situation like when my husband had aorta surgery and [someone] recommended the best doctor in Phoenix. I wasn't gonna look for taking an assignment. I wanted the best and if he's not in there I'm gonna pay him."

"Well, I've gone to the same doctor for my eye condition for years so I wouldn't consider changing. Because he's not a participating physician does not alter my going to **him**. I just pay the difference."

"I don't change them [physicians] because they're in there [the book listing Senior Preferred physicians]. I go because they're my physicians."

D. INTEREST IN MEDICARE PPOS

To learn about beneficiary interest in Medicare **PPOs**, the Senior Preferred and CAPP **CARE** plans were explained to the discussion group members who were unfamiliar with these plans. **Non-BCBS/AZ** enrollees were asked to evaluate Senior Preferred and indicate their interest in the **plan**. Orange County respondents were asked if the CAPP **CARE** Provider Directory contains **useful** information and if they would be inclined to use the directory to select a physician.

1. Nonenrollee Interest in Senior Preferred

None of the beneficiaries in the **non-BCBS/AZ** discussion group had heard of Senior Preferred. When the plan was explained to them, some showed interest; two beneficiaries began taking notes. Some group members asked how extensive the physician network was, and what happens to enrollees who use a non-network physician. **After** discussing the Senior Preferred benefit package, the discussion group members identified the following "pros" for Senior Preferred:

- Lowercost
- Additional benefits (e.g., vision and hearing benefits)

and the following “cons”:

- Restricted choice
 - Mail order drugs are often **generic**⁵
 - Does not compare favorably to current coverage⁶
 - When out of the **service** area, hospital expenses will be covered **only in an emergency**. The definition of “emergency” may not be clear-cut; the beneficiary **and BCBS/AZ** may disagree on the **definition of an** emergency.

Each group member was polled and asked to indicate **his/her** interest in Senior Preferred on a scale of 0 (no interest) to **5** (high interest). Four of the fifteen beneficiaries indicated moderate interest (3 or 4 points). No one indicated high interest (5 points). A few others (who rated their interest as a 0 or 1) thought that the **plan** sounded good, but **they** were not interested **in switching** because **they** currently had much better coverage through their former employers:

“You **can’t** beat the **plan** I have...because I do not pay a **premium...I can’t** afford to **switch.**”

“I wouldn’t [switch] because with what I already have my premiums are not high and my supplemental coverage covers everything-even prescriptions. So I **think** I would prefer to stay with what I have.”

2. Beneficiary Interest in CAPP **CARE**

The **Orange** County discussion group **participants** were interested **in** CAPP CARE; some took notes **during** the session, and many told us **they** would telephone CAPP CARE to request a copy of the Directory. Some beneficiaries liked knowing that CAPP CARE physicians had been pre-screened for their malpractice records **and** their billing records:

⁵**Enrollees in** Senior Preferred can receive discounts on mail order drugs.

⁶**Many** of the participants **in** the **non-BCBS/AZ** group have **very** generous health insurance coverage through their former employers. This is discussed below.

Talking about your book, I'd like to get one of those. I think that would be of great help because it does save a lot of time and gives locations. And it does not tie you down...you have a choice."

"Because I would think that if they're willing to treat elderly people for a definite price, that's in their favor. I would think more of them if they would be on a list like that."

"Well, it would make me feel a little bit better, I think, because they have to go through some kind of inspection to **get** on the list, apparently.

Although information from the CAPP **CARE Directory** about physician assignment and physician pre-screening is helpful to beneficiaries, many beneficiaries will give more weight to physician reputation and the recommendation of friends, family, or a highly respected hospital when selecting a physician.

"...**somebody** has to put their stamp of approval on a book like that. You can't just send it to people. There has to be some kind of approval by someone that that person is familiar with.

"Well, I would be very reluctant to select a name from a list. I would have to know something about the doctors' background. I'm very reluctant to go to a stranger. I don't know what sort of track record he's had and so unless they're recommended, that's how I feel."

"...**screening** about billing practices and malpractice history, that's important, but it's not as important as the, really the capability of the physician and the reliability as a doctor."

"If I were in a position where I was in a town not knowing anything I would go directly to a hospital **referral.**"

In all four Orange County discussion sessions we asked the beneficiaries how they select a new physician, In every session someone mentioned Senior Saver, a club sponsored by St. Joseph Hospital in Orange, California. Since **1985** St. Joseph Hospital has offered Medicare beneficiaries free membership in the Senior Saver Club. Members receive a list of over 200 physicians with active staff privileges at St. Joseph who have agreed to accept assignment. Members also receive educational programs, free home health insurance evaluation, **free** newsletters, free counseling on their Medicare benefits and Medigap options, advance hospital registration, and discounts at local pharmacies.'

'Appendix C is a copy of a one page flyer describing the Senior Saver Club.

Beneficiaries indicated that they liked using the physician list **published by** Saint Joseph because they believe that Saint Joseph is one of the best hospitals in Orange County, and also has good physicians:

“See, our experience with Saint **Joseph’s** has **been** that Saint Joseph’s has had good experience with these doctors and **they’re recommending** these doctors as good physicians.”

“But I think we go back again to recommendations by a **hospital, Saint** Joseph’s or somebody, when we go to a doctor we have never been to before. It’s either through a friend or somebody says, ‘Look, we’ve had good experience with this doctor.’”

Beneficiaries were more aware and more enthusiastic about Senior Saver than they were about CAPP CARE. Their primary sources of information about Senior Saver included their friends, their physicians, direct mail, and the hospital (during an admission to the hospital). They did not learn of Senior Saver from television, billboard, or poster **advertisements.**⁸ Some beneficiaries have visited physicians who are listed in the CAPP CARE and/or Senior Saver directories. Their physicians had told them about Senior Saver but not about CAPP CARE.

⁸A Senior Saver representative told me that in recent years, the primary marketing of Senior Saver, other than word of mouth, has been through an occasional direct mail campaign.

V. CONCLUSIONS AND RECOMMENDATIONS

Most beneficiaries in the structured discussion groups were well-informed about their Medicare benefits, and understood the concept of physician assignment. They provided us with valuable insights on the information they had about their Medicare benefits and how they make their health care choices. We learned the following **from** them:

- Beneficiary awareness of the Medicare **PPOs** in the demonstration sites can be greatly improved. None of the **non-BCBS/AZ** discussion group members were familiar with Senior Preferred, and less than one-third of the Orange County respondents recalled receiving the CAPP CARE Provider Directory.
- Marketing materials for point of service **PPOs** like CAPP CARE need to **quickly** and **clearly explain** what a point of service PPO is and how it operates; otherwise, the point of service PPO will be viewed as another HMO or Medigap plan.
- Beneficiaries are more likely to enroll in a Medigap PPO if the premium and benefit package is competitive, if the provider network includes physicians and hospitals they use, and it is offered by a highly respected company with which they are familiar.
- When selecting a physician, many beneficiaries give more weight to the recommendations of friends, family, physicians, or hospital referral **services** than to whether or not the physician accepts assignment. Beneficiaries are more inclined to select a physician from a list published and endorsed by a hospital they know and respect than from a list published and endorsed by an unfamiliar managed care company.

1. Increasing **Beneficiary** Awareness of Medicare **PPOs**

Beneficiary awareness of Medicare **PPOs** will be increased if the marketing materials for the PPO immediately convey the messages of quality and value. Medicare beneficiaries frequently receive solicitations in the mail from **HMOs** and Medigap plans. Many of these solicitations are discarded before they are carefully read. Beneficiaries are more likely to read something from an institution which is respected and familiar to them. They are also more likely to join a PPO affiliated with such an institution.

Quality can be conveyed quickly if the PPO is offered by a **familiar**, reputable institution. **Value** can be conveyed quickly by clearly explaining a product or program that can save them money. Two successful examples of this are the January 1990 mailing by **BCBS/AZ** to its Senior Security **subscribers** and the marketing of the Senior Saver Club by Saint Joseph Hospital in the city of Orange,

Within three months after **BCBS/AZ** sent a letter to its Senior Security subscribers informing them of a premium increase, 3,951 Senior Security beneficiaries switched to Senior Preferred. The letter had a simple message: **There was going to be** a large (44 percent) increase in the Senior Security premiums, so they should consider an alternative plan (Senior Preferred) with much lower premiums. Discussion group members told us that one of the reasons they switched to a “new” **plan** is because of the reputation of **BCBS/AZ** and good experiences they have had in the past with **BCBS plans**.

Many hospitals in Orange County **offer** physician referral services and provide services to senior citizens, but the Senior Saver Club offered by Saint Joseph Hospital was mentioned more than **all** the other referral services and clubs **combined**.¹ The Senior Saver Club is associated with quality **and** value: many **respondents** believe that Saint Joseph Hospital is one of the best in Orange County, and **this** hospital publishes a list of its physicians who are willing to treat Medicare patients at a discount (that is, these physicians accept assignment). The complementary club membership **also** includes discounts at local **pharmacies**.

The only source of information **about** CAPP CARE identified by the discussion groups was the CAPP CARE Directory. Some respondents discarded the directory because they were **unfamiliar** with the company (they had never heard of CAPP CARE) and they did not see any of their personal physicians in the directory. Many beneficiaries assumed that this was another solicitation from an

¹Other hospital-sponsored senior citizen services mentioned during the discussion sessions included “Senior Class” (Saint Jude Hospital in Fullerton, California) and “Golden Care” (Anaheim Memorial Hospital).

HMO or Medigap plan. Users of Senior Saver, however, had heard of the club through their **friends**, physicians, direct mail, and the hospital (during a previous admission to the hospital). Beneficiary awareness of CAPP CARE would be higher if CAPP CARE physicians told their Medicare patients about the program. Some discussion group members told us that they have visited physicians listed in the CAPP CARE directory and/or in the Senior Saver directory; their physicians told them about Senior Saver but not about CAPP CARE.

To summarize, beneficiary awareness of Medicare **PPOs** will be increased **if**:

- **The** PPO is **affiliated** with a highly respected institution which is familiar to beneficiaries
- Information about the PPO clearly and succinctly describes the PPO and quickly conveys the messages of quality and value
- Network providers tell their patients **about** the PPO.

2. Marketing Point of Service **PPOs**

The point of service PPO is a very new and unconventional PPO model that will be familiar to most people. The two features of this model that are going to **be** the most difficult to explain to beneficiaries are that there is no enrollment in this PPO, and that this PPO is designed to complement (not replace) one's current health insurance coverage. It is important that any marketing materials about a point of service PPO quickly and clearly convey these features about the PPO. If they do not, beneficiaries will assume that they are receiving another solicitation from an HMO or Medigap plan, and most of the marketing materials will be quickly discarded

Point of service **PPOs** may be easier to explain to beneficiaries if the term "**PPO**" is dropped from their label. Beneficiaries who know what a PPO is will think that this is a **solicitation** from an enrollment model PPO. Beneficiaries who do not know what a PPO is may be confused. A label

like “point of service preferred providers” is **less** likely to imply enrollment than “point of **service** preferred provider **organization.**”²

Beneficiaries **will** more likely read information about point of service **PPOs** if the information does not look like a solicitation, especially a solicitation **from** an HMO. One beneficiary told me after the discussion session that the name “CAPP CARE” sounds like an HMO, and any solicitation he gets **from** an HMO goes into the wastebasket.

3. Beneficiaries Most Likely to Enroll in **a Medigap PPO**

The beneficiaries who would be most likely to enroll in a Medigap PPO like Senior Preferred have the following characteristics:

- They are very conscious about their budget
- They know and respect the company offering the plan
- Most or all of their personal physicians (and the hospitals where they have active **privileges**) are in the network
- The Medigap PPO premium and benefit package compares **well** to their current medical insurance coverage
- They believe that Medicare costs are escalating, and **PPOs** can be used to contain **costs.**

The beneficiaries who are budget conscious are more willing to make the tradeoff between the lower premium of a PPO and the network restrictions imposed by the PPO-if **all** or most of their personal physicians are in the PPO network Many beneficiaries have valued, established relationships with their personal physicians, and, except in cases of extreme financial hardship, generally will not sever that relationship.

Several beneficiaries in the **non-BCBS/AZ** structured discussion session told us that Senior Preferred sounds like a good plan, but the health insurance coverage they have from their former

²As indicated in section IV.2 above, **BCBS/AZ** does not use the term “PPO” when marketing Senior Preferred.

employers is so much better. They “can’t afford to switch” One beneficiary has excellent coverage and does not have to pay a premium. Another beneficiary pays a moderate premium, but the **plan covers** all prescription drugs. The monthly premiums for **the** latter plan are lower than the average monthly charges (covered by the plan) for the beneficiary’s prescription drugs.

Medigap **PPOs** will not be an attractive option to beneficiaries who have generous health insurance coverage from their former employers. Medigap **PPOs** can, however, be a good option for the spouses of these beneficiaries. Many health insurance plans provided by former employers cover both the retiree and his or her spouse. **The** coverage expires when the retiree dies. A **surviving spouse** may have no health insurance--so a plan like Senior Preferred may be a good option.

In addition to being attractive to beneficiaries who are very conscious about their budget, Medigap **PPOs** can be attractive to beneficiaries who are concerned about escalating health care costs. Many discussion group members are concerned about health care **costs**, and have often disputed them:

“My husband had an occasion when he went **up** to the doctor’s office and he raised **cain** and he called him a crook right there in front of everyone because he got a bill that was **outrageous--** even though Medicare was going to pay for it. My husband says, ‘You did not visit me 12 times, I know how to count. I was in the hospital 14 days and you were there twice, not three **times.’...He** never paid that **bill**. I don’t know if Medicare paid it, we didn’t agree to it.”

The only thing I can think about, I think the doctors are getting out of line. Even for an ear infection for a **couple** of tests it was \$75 for my husband and that’s **outrageous...I** think that Medicare is going to go out of business.

I have to see my cardiologist once every two months. I’m in his office for maybe ten minutes. The bill is over \$100 and Medicare and Blue Cross pays me for that. It just infuriates me...”

“Well, what about your hospital bills? Have you ever reviewed them and read through all the list of your hospital bill? I just nearly have to go back to the hospital when I get the bill and I say, ‘No way, no way, no way.’”

“Senior Preferred sounds like a good idea to me, if the doctors are trying to work with Medicare to hold down **costs--especially** for those of us on limited incomes.

4. Selecting Network Physicians

Two distinguishing characteristics of Senior Preferred and CAPP **CARE demonstration** physicians are that they have agreed to accept assignment, and **they** have agreed to the cost **containment** procedures of the **PPO**.³ Many discussion group members believe that these are **desirable** characteristics when they select a physician, but physician reputation and the recommendation of friends, family, other physicians, or the referral services of a respected hospital are more important

Beneficiaries will be more likely to select network physicians if they believe **that** the list **is** comprised of high quality physicians. One way to increase beneficiary perception of PPO network physician quality is to link network physicians to a highly regarded **local** hospital. Beneficiaries believe that an excellent hospital **will** have excellent physicians; the hospital's reputation suffers if there are less skilled physicians on its staff. Linking point of service PPO network physicians to highly regarded **local** hospital(s) will improve the visibility of the PPO and increase the likelihood that network physicians will be selected. Many discussion group members have used hospital referral services to select physicians, and are more likely to select physicians from a list published by a hospital they know and respect than to select a physician from a list published by a managed care company unfamiliar to them.

³Senior Preferred physicians are a subset of physicians in Preferred Care, a private sector network of **BCBS/AZ** PPO physicians. Preferred Care physicians are profiled, and can be expelled from the network if their practice patterns result in claims costs that consistently exceed the norm. CAPP CARE physicians are subject to extensive automated utilization review activities_

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APPENDIX A:

**January 1990 letter from BCBS/AZ
to Senior Security subscribers
informing them of a premium increase and
the Senior Preferred alternative**



2444 W. Las Palmaritas Dr
P.O. Box 13466
Phoenix, Arizona 85002-3466

January, 1990

Dear Senior Security Customer:

Rising health care costs are more of a public concern than ever before. We know you're concerned. So are we.

As Arizona's leading health insurer, we're trying to do our part to help control costs for consumers. For example, we're using our **50** years of experience to continually diversify our product line to offer customers more choices and more of an opportunity to contain out-of-pocket costs.

Last year, we were able to hold the line on costs for Senior Security while many insurance companies raised premiums for their Medicare supplement policies.

This year, however, we are unable to do so. Because of the repeal of the Medicare Catastrophic Act of 1988, the more frequent use of health care services by our customers and the rise in the cost of these services, it is necessary to adjust the Senior Security rates.

Effective March 1, 1990, your monthly premium will be as follows:

<u>AGE</u>	<u>1989</u>	<u>1990</u>
65-69	\$47.60	\$68.70
70-79	\$59.95	\$86.60
80+	\$66.65	\$96.20

However, there is an alternative for you.

For Maricopa and **Pima** County residents, we offer a lower cost, innovative Medicare supplement plan -- called Senior Preferred -- based on an extensive preferred provider network with more than 1,000 Physicians and the following hospitals:

Maricopa County -- Del E. Webb Hospital, East Valley St. Luke's Behavioral Health Center, Maricopa Medical Center, Mesa General Hospital, Mesa Lutheran Hospital, Phoenix Baptist Hospital & Medical Center, Phoenix General Hospital & Medical Center, Phoenix Memorial Hospital, St. Joseph's Hospital & Medical Center, St. **Lukes's Behavioral Health** Service, St. Luke's Medical Center, **Tempe** St. Luke's Hospital, Valley Lutheran Hospital and Valley View Community Hospital.

Pima County -- St. Joseph's Hospital, St. Mary's Hospital and Tucson General Hospital.

Here are some highlights **of** Senior Preferred:

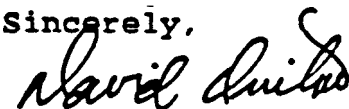
- No waiting period.
- No pre-existing condition clause.
- No health underwriting.
- Premiums will be slightly less than what you are currently paying with Senior Security, unless you are changing age classification.
- No out-of-pocket expenses **for** covered services when you use Senior Preferred physicians and hospitals.
- * Vision and hearing benefits, counseling services and a mail-order prescription drug program are also included.
- * Out-of-area accidents and emergencies covered without provider restrictions.

A brief comparison chart of Senior Security and Senior Preferred is enclosed for your review. **For** more information about Senior Preferred, just fill out and return the enclosed, postage-paid card or call our toll-free number 1-800-543-2944 between **8:30** a.m. and 4:00 p.m. Monday through Friday. Because we anticipate a tremendous response to this **offer**, our phone lines may be busier than normal and you may find it more convenient to mail us the card.

If YOU choose to enroll in Senior Preferred, we **urge** you to return your application as soon as possible, because your March bill will reflect the new Senior Security Premium. However, **you** may still opt for Senior Preferred at any time in the future.

We appreciate you as a Blue Cross and Blue Shield **customer** and want to continue to help meet your health insurance needs while giving you value for your health care dollar.

Sincerely,



David C. **Quitno**
Vice President Marketing

Enclosure

Blue Cross and Blue Shield of Arizona offers two Medicare supplements: Senior Preferred and Senior Security.

Utilizing a totally new concept in Medicare supplements, Senior Preferred encourages your use of specific doctors and hospitals. Although you're not required to use the providers in this network, your out-of-pocket expenses are kept to a minimum when you do.

Senior Security offers you the traditional time-honored Medicare supplement.

Each policy was designed for different lifestyles, needs and budgets. So, choosing a supplement that's just right for you is now simple and easy. And best of all, both plans provide the stability and trust that come with Blue Cross and Blue Shield's 50 years of experience.

For more information call our statewide toll-free number: 1-800-543-2944



Blue Cross.
Blue Shield.
of Arizona

**Now, you have a choice of two
Medicare supplements
from Blue Cross and Blue Shield**

COMPARE AND SEE WHICH PLAN IS RIGHT FOR YOU.

Senior Preferred Senior Security

MARICOPA . PIMA COUNTY RESIDENTS ONLY

AVAILABLE STATEWIDE

	If you're on a restricted budget, then Senior Preferred was designed for you. It helps lower your out-of-pocket expense when you use our Senior Preferred doctors and hospitals.	If you're the independent type, then Senior Security was designed for you. It's the Medicare supplement that offers you the maximum amount of freedom and flexibility.
Hospital Coverage	Pays Medicare deductible at all Senior Preferred hospitals. Pays Medicare deductible at any other hospital only in case of a medical emergency or accident.	Pays Medicare deductible at any hospital.
Physician Coverage	Pays 20% of Medicare approved charge to any doctor. And if the Senior Preferred physician has agreed to accept Medicare approved charges payment in full. This means that when you use any of our over 1000 Senior Preferred physicians or physician that accept Medicare approved charges, we pay 20% of covered services, Medicare pays 80% of covered services and you have no out-of-pocket expense for covered services.	Pays 20% of Medicare approved charge. If your doctor accepts Medicare's approved charge, we pay 20% of covered services, Medicare pays 80% of covered services and you have no out-of-pocket expense for covered services. And if your doctor does not accept Medicare's approved charge, we pay 20% of the billed charge for covered services, reducing your out-of-pocket services.
Travel Coverage Hospital	In-country and out-of-country, pays Medicare deductible at any hospital only in case of medical emergency or accident.	In-country and out-of-country, pays Medicare deductible at any hospital.
Physician	In-country, pays 20% of Medicare approved charge. Out-of-country, pays 20% of physician's billed charge.	In-country, pays 20% of Medicare approved charge or 20% of physician's billed charge. Out-of-country, pays 20% of physician's billed charge.
Outpatient Treatment	Pays 20% of Medicare approved charge.	Pays 20% of billed charge.
Durable Medical Equipment and Ambulance	Pays 20% of Medicare approved charge.	Pays 20% of Medicare approved charge if provider accepts approved charge as payment in full. If not, pays 20% of billed charge.
Hearing and Vision Exams	Yes	No
Unlimited Mental, Nervous and Lifestyle Counseling through Biodyne	Yes	No
Discounts on Eyewear, Hearing Aids and Batteries, Mail Order Drugs	Yes	No
Health Underwriting	None	None
Waiting Period for Preexisting Conditions	None	None
Age	Monthly Premiums	Monthly Premiums
65-69	\$48.50	\$68.70
70-79	\$59.40	\$86.60
80 +	\$65.30	\$96.20

This pamphlet is a general benefit summary only. A complete listing and description of all benefits, limitations and exclusions are found in and are governed by the contract.

APPENDIX B:

**Introductory pages of the
CAPP CARE Provider Directory**



CAPP CARE®

**DIRECTORY OF
MEDICARE/CAPP CARE
PARTICIPATING
PHYSICIANS**

MEDICARE PREFERRED PROVIDER
ORGANIZATION DEMONSTRATION PROJECT

**ORANGE COUNTY, CALIFORNIA
A GUIDE TO YOUR MEDICARE PREFERRED PROVIDER ORGANIZATION**

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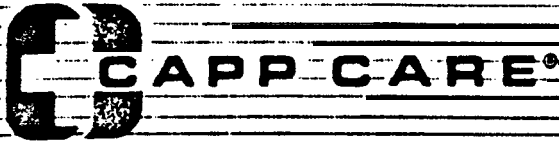


THIS LISTING OF PARTICIPATING PHYSICIANS CAN CHANGE OVER TIME. PLEASE CHECK TO ASSURE THAT YOUR PHYSICIAN IS STILL PARTICIPATING.

FOR REFERRALS TO PHYSICIANS WHO HAVE JOINED THE PREFERRED PROVIDER NETWORK SINCE THE PUBLICATION OF THIS **DIRECTORY**. PLEASE CALL CAPP CARE'S MEDICARE BENEFICIARY REFERRAL DEPARTMENT **(714) 965-0660**. FOR OTHER CALLS CONCERNING THE MEDICARE PROGRAM PLEASE CONTACT THE **TRANSAMERICA OCCIDENTAL LIFE TELEPHONE INQUIRY DEPARTMENT AT 1-800-252-9020**.

4 4 4 4 4 4 4

The health care providers listed in this Directory are solely responsible for your **medical** treatment. These providers are **affiliated** with CAPP CARE and Medicare only as independent contractors and **not** as employees. CAPP CARE is neither a health care-provider nor an insurer/claims processor. CAPP CARE also does not have responsibility for the provision of or payment for medical care services.



Dear Medicare Beneficiary:

As part of its continuing efforts to provide you with high quality, cost-effective **medical** care, the Health Care Financing Administration (**HCFA**) has implemented a Preferred Provider Organization Demonstration Project in Orange County, California, to provide you with physician health care services.

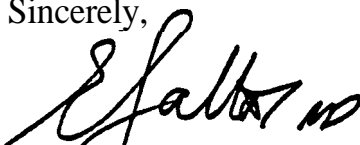
This program has been implemented through CAPP CARE, a physician founded managed health care company headquartered in Orange County. HCFA selected CAPP CARE to implement the Medicare Preferred Provider Demonstration Project because of our experience in managing health benefit programs. All physicians listed in the attached directory have agreed to participate fully in this Demonstration Project. What this means to you is that each physician has agreed to:

- Accept Medicare assignment on all medical services furnished to you by that physician;
- Handle the billing for the medical services they furnish under the Medicare program;
- Work with the CAPP CARE Utilization Management Program to ensure the delivery of appropriate medical care.

You are not required to secure physician services only from those physicians listed in this directory. You are free to seek care from any physician or hospital that is included in the Medicare program. Selecting a physician from this directory will result in your being assured of seeing a skilled **physician** with a caring, compassionate attitude, who accepts the Medicare allowable as payment in **full** and will handle all of the **related** big and review functions for you.

We are pleased to offer you this network of selected physicians.

Sincerely,


Edward Zalta, M.D.
Chairman and CEO

EZ:md

THE BENEFITS TO YOU AND YOUR FAMILY

Following **these** simple steps will benefit you by using the **CAPP CARE/MEDICARE PPO Network** and you will receive:

- + Freedom of Choice of Physician
- + No Surprise Extra Payments
- + No Lock-in Provisions
- + Easy Access to Quality Physicians
- + Less Paperwork
- + And Above **All** - QUALITY HEALTH CARE



ABOUT MANAGED HEALTH CARE

CAPP CARE is a managed health care company. Managed health care means we work with your physician to ensure that you receive quality health care.

CAPP CARE works to ensure that the health care you receive is appropriate, timely, efficient, and of high quality. We do this two ways through our Preferred Provider Organization (PPO).

CAPP CARE's PPO is comprised of selected physicians who have agreed to provide care to you and to adhere to CAPP CARE's utilization management program.

The physicians in CAPP CARE are truly preferred. They have been pre-screened for:

- + Past Disciplinary Actions by governmental agencies, licensing boards and physician and hospital review committees
- + Malpractice history
- + Medical Qualifications
- + And a proven commitment to quality, cost-effective medicine.

The physicians in CAPP CARE have agreed to adhere to **CAPP CARE's** utilization management program. Utilization Management includes the prior authorization of hospitalizations and surgical procedures and the determination of the appropriate level of service (i.e. inpatient or outpatient). In this Medicare PPO Demonstration program, the physicians, not the beneficiaries, shoulder the burden of **responsibility** of compliance with the utilization management program. As a **Medicare** beneficiary you are not required to comply with the utilization management program. Your physician will manage this for you.

Your Medicare Part B insurance does not require you to use CAPP CARE's participating physicians listed in this Directory. This is not an HMO. You have complete freedom of choice in who will provide medical care to you and your family. However, if you choose a participating physician from the Directory, this is what it will mean to you:

- + Your physician is a CAPP CARE preferred physician, having been selected following CAPP CARE's rigorous screening procedure;
- + **Your** CAPP CARE physician has agreed not to charge more than the Medicare Allowable Amount;
- + Your CAPP CARE participating physician has agreed to accept Medicare assignment;
- + Ease of access - CAPP CARE's provider networks are designed to provide good geographic access throughout Orange County.

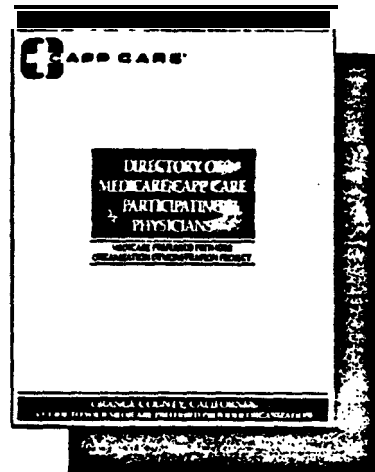


PPO... HOW IT WORKS

TO USE THE PPO NETWORK, FOLLOW THESE SIMPLE STEPS:

STEP 1

Use the PPO directory to find the name of a physician close to you




STEP 2

Phone the physician's office to make an appointment. Don't be discouraged if the doctor's office tells you that the doctor is not currently accepting new patients. CAPP CARE chooses from among the best physicians in an area, and sometimes these physicians get very busy. If your need is not urgent, find out if the physician can see you in the near future. Otherwise try a different CAPP CARE physician chosen from the directory

STEP 3

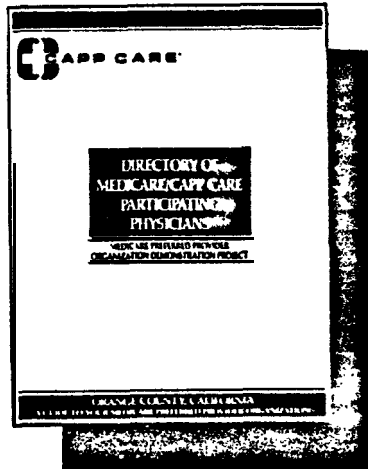
When you go for your appointment, **identify** yourself as a Medicare patient and show your Medicare Card.

Health Insurance	
SOCIAL SECURITY ACT	
NAME OF BENEFICIARY	
Mary A. Test	
CLAIM NUMBER	SEX
	FEMALE
IS ENTITLED TO	EFFECTIVE DATE
HOSPITAL INSURANCE	5-1-70
MEDICAL INSURANCE	5-1-70
SIGN HERE 	



STEP 4

Receive the high quality care that you need.



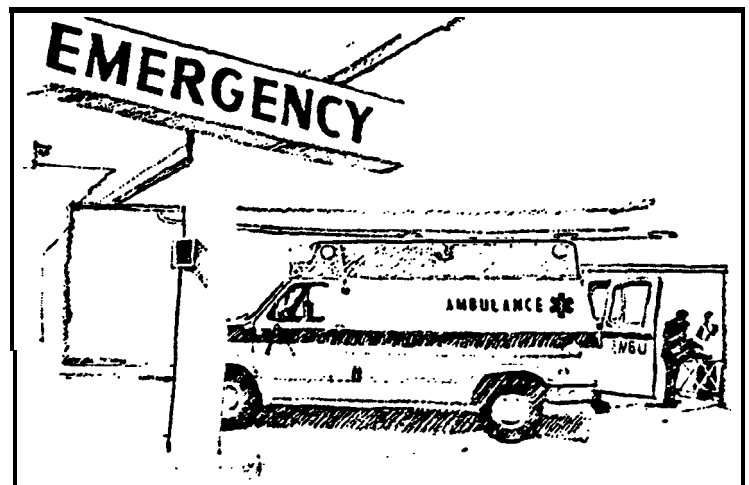
STEP 5

If you need specialist care or need to be admitted to a hospital, make sure that your doctor suggests a CAPP CARE participating physician. You can show your physician the directory or have your physician call CAPP CARE for a referral.

EMERGENCIES

What about emergency and urgent care?

Get the care that is needed. There is no need to worry about anything else.



APPENDIX C:

**One page flyer describing the Senior Saver Club
(sponsored by Saint Joseph Hospital in Orange, California).**

INTRODUCING THE SAINT JOSEPH HOSPITAL SENIOR SAVERS CLUB

Since 1929, Saint Joseph Hospital has been Orange County's leading provider of quality healthcare services . . . all in an atmosphere of caring, concern and respect for the individual. We are well aware of your concerns about the rising cost of healthcare and we are doing something about it! As a member of the Senior Savers Club, you'll enjoy a host of benefits designed to save you money and make it easier to get the kind of care you deserve.

Physician Discounts

The over 200 participating senior Savers physicians have agreed to accept the Medicare approved amount and any available supplemental insurance as payment in full for covered services. The Senior Savers Club member is responsible for the annual deductible and 20% co-payment. With most doctor's charges in Orange County running well above the Medicare limits, this can amount to significant savings.

Advance Hospital Registration

You're a special patient and you'll be treated like a special guest when you present your Senior Savers Club membership card. Through our pre-admission process we'll have most of the information we need about you on file, so there's no long wait in Admissions.

Senior Services Representative

Senior Savers Club members have special needs. Saint Joseph Hospital has a Senior Savers Representative to help you with your Medicare benefits and billing, questions about Saint Joseph Hospital or the Senior Savers Club. Just call the Senior Savers Hotline (714) SJH-4555 and ask for the Senior Services Representative.

Educational Programs

Good health is everyone's responsibility. If you stay healthy, your life is better and you can keep your medical bills down. At Saint Joseph Hospital, we have a number of classes and programs where you can learn more about taking good care of yourself.

Home Health Services

You'll receive a free home health insurance evaluation (a \$75 value), as well as a 20% discount on Lifeline service and access to our PACE and Hospice services.

Insurance Counseling

If you have questions about which Medicare supplemental insurance is right for you, our Senior Savers Club insurance counselor can help.

Pharmacy Discount

Because prescription costs may add up fast, we have made arrangements with local pharmacies that will give a discount to senior Savers members.

Physician Referral

We'll provide you with free referrals to physicians participating in the "Senior Savers Club" program.

Other Benefits

Saint Joseph Hospital Alcohol Recovery Services, Enterostomal Therapy, Physical Rehabilitation, and Inpatient and Outpatient Psychiatric Services are available to Senior Savers Club members with a physician's referral. In addition you can enjoy the benefits of free parking while at the Hospital just by showing your membership card, reduced fee ambulance service and a free Senior Savers newsletter. Discounts on hearing aid services and eyeglasses are also available.



YES! Please enroll me (and my spouse) for membership in the Senior Savers Club.

Please send me _____ additional membership applications for friends or relatives.

Please print

Name _____ Date of Birth _____

Address _____

City _____ State _____ Zip _____

Telephone _____ Social Security No. _____

Spouse's Name _____ Date of Birth _____

Social Security No. _____

gh SAINT JOSEPH HOSPITAL
A Sisters of St. Joseph of Orange-Coronation

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Senior Savers Club

It's easy to join! Membership is Absolutely Free and is available to all Medicare recipients.

Just fill in the attached, postage-paid reply card and drop it in the mail. After processing your application, we'll send you a membership card, a directory of participating physicians and a booklet explaining your Senior Savers Club benefits.

Mail Your Application Today. How is the time to start saving on your healthcare costs!