Accidents with Averages

Managed care and saving money so often appear to be virtual synonyms that many employers think that the choice for managed care is easy. The article by Young and colleagues in this issue of *JGIM* provides a real-world example of what benefits specialists have known for a long time¹: moving more employees into managed care is not necessarily a certain way to save money and utilization, either for the employer or for the health care system as a whole. Rather, the possibility that employees who are good risks are more drawn to managed care than those who are either high risk or in the midst of an episode of illness or treatment for one means that average rates of use can be a misleading guide to what will happen in the population as a whole.

Young and colleagues appropriately cite the perception of greater efficiency from HMOs as an important factor motivating the decisions of employers, including hospitals as employers, in structuring their benefits offerings. The authors correctly point out that when the terms of one of a set of multiple choices offered a population are changed, the only valid way to analyze whether costs are really reduced or efficiency is really improved is to look at the experience of the entire population. Information about changes in average costs or utilization of individual insurance plans experiencing large shifts in membership is very likely to be misleading.

In this case study of Lehigh Valley Hospital and Health Network, taking the correct perspective yields both bad news and good news. The bad news: despite the employer's interest in having more workers choose the managed care plan rather than the indemnity plan (presumably in order to reduce costs), overall costs were not reduced even though 70% of eligible employees made the choice that the employer intended. After all the employer interest and employee migration, the emphasis on the managed care plan failed to reduce overall utilization. The good news: despite

the apparent increase in average use in both types of plans, overall use did not actually increase. In short, from an overall-population-at-risk perspective, this was a trip that turned out to be entirely unnecessary.

Did the employer gain anything? The employees remaining in the indemnity plan did pay \$80 a month more for their coverage after the change, and Lehigh Valley Hospital may have felt that it benefitted financially from this change. (Of course, it could have required employees to pay more for their coverage if it was only money that mattered.) However, because an increase in employee premiums is equivalent to a reduction in wages, the real question for the hospital is whether it was wise to reduce the wages of some workers.

This particular way of reducing wages was, of course, not uniform; wages fell only for the higher-risk workers who stuck with the indemnity plan. Did Lehigh Valley Hospital intend to reduce wages selectively for this set of employees? Perhaps not. Some older but more experienced workers might be attracted to other employers in a tight labor market, and cutting wages for those older or sicker workers loyal to the employer might affect morale (not to mention mortality). The Law of Unintended Consequences not having been repealed, the message from this article—look at the possibility of risk sorting before you leap into pushing your employees into managed care—is timely indeed.—**MARK V. PAULY, PhD**, *The Wharton School and the Leonard Davis Institute of Health Economics, University of Pennsylvania, Philadelphia, Pa.*

REFERENCES

1. Young MJ, Lenhart J, Wasser TE, Czerwonka C, Davidyock J, Sussman EJ. Evidence for the Will Rogers phenomenon in migration of employees to managed care plans. *J Gen Intern Med.* 1999;14:564-6.