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# HEALTH CARE FINANCING & ORGANIZATION FINDINGS BRIEF

## Health Purchasing Coalitions Struggle to Gain Bargaining Clout: Small Size and Lack of Support from Health Plans are Factors

During the health care reform debate in the early 1990s, health purchasing coalitions (HPCs) were touted by some as a “magic bullet” that would cure the many ills of the health insurance market. Other proponents of HPCs, including the Clinton administration, suggested that as part of a plan for comprehensive health care reform, HPCs could help remedy a number of problems prevalent in the small-group market, including limited choice, high insurance costs, and increasing numbers of uninsured workers. However, purchasing coalitions have not been widely established and have met with limited success where they have been implemented.

Elliot Wicks, Ph.D., and Jack Meyer, Ph.D., of the Economic and Social Research Institute (ESRI), and Mark Hall of Wake Forest University Law School, conducted a study to evaluate the barriers to small-group purchasing coalitions. The researchers hypothesized that a number of factors could have hampered HPCs, including problems attracting health plans, and an inability to achieve cost or coverage advantages relative to the general small-group market. They found that HPCs have not been able to realize their potential primarily because they have not enrolled a large share of the small-group market.

According to Meyer, “HPCs are a good idea that was oversold.” When the HPC concept made its political debut in the early 1990s, the general expectation was that a large share of the small-group market would shift into purchasing coalitions. As reform fervor wore off with the death of the Clinton health plan in 1994, so did the pressure for plans and employers to participate in HPCs. However, as plans withdrew from purchasing coalitions and competition increased among insurers in the small-group market outside coalitions, the HPC option became less appealing to employers. “Everyone underestimated the difficulty of penetrating the small-group market,” Wicks notes. Despite these adversities, the researchers suggest that HPCs still represent a

viable policy option for improving access and choice for employees of small businesses, but they may require further legislative support to become a reality.

### Project Design

The researchers used two criteria to select which HPCs to include in their analysis: whether a HPC offered products to small firms (50 or fewer employees), and whether it provided a choice of at least two different health plans. The sample included major HPCs in Florida, California, Colorado, Texas, North Carolina, and Cleveland, Ohio. At each site, the researchers conducted interviews with health plan executives, HPC staff, state regulators, state legislators, and insurance agents.

The study focused on four hypotheses explaining why HPCs have not grown as expected: 1) flaws in the basic HPC concept; 2) changes in the health insurance environment; 3) problems with the implementation of HPCs; and 4) resistance or opposition from interest groups. The researchers used a number of criteria to measure HPC success, including market share, bringing a new or unique product to the market, lowering insurance prices, having a competitive impact on the non-HPC market, and reducing the number of uninsured workers.

### HPC Successes and Unrealized Expectations

HPCs have influenced the insurance market in a few significant ways. For example, “HPCs have made it possible for small employers to offer individual employees a choice of health plans, an option not available before HPCs,” Wicks explains. In addition, HPCs may have indirectly influenced the general small-group market. Since the early 1990s, many health plan vendors have instituted more competitive pricing in their small-group products and now offer employees a choice of plan types. These changes have been stimulated in part by HPCs, which provide employee choice and comparative price quotes for competing plans.

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Economic and Social  
Research Institute.

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Increased competition in the small-group market has alleviated some of the problems HPCs were intended to address, but it has also diminished the advantages small firms gain by buying through HPCs.

Despite their successes, HPCs have not decreased insurance costs, and they seem not to have had a significant impact on improving access for the working uninsured. In this case, early HPC proponents may have expected too much. As Wicks explains, “The potential for reducing premium costs was probably overestimated.”

### HPCs as Players in the Insurance Market

Increased competition and unrealized cost savings are only part of the reason for HPCs’ disappointing market share. The researchers also found that HPCs encountered (and continue to encounter) resistance from two key parties: health plans and insurance agents.

HPCs initially attracted major health plans because of the political popularity of the HPC concept and the assumption that HPCs would achieve a large market share following the implementation of broad, national health care reform. Since the mid-1990s health plans have pulled out, and in several states HPCs found themselves with no national or statewide plans. As Wicks explains, “The incentives for major health plans to participate are weak when only a fraction of small-group coverage is being sold through HPCs.” (HPC enrollment accounts for less than 5 percent of the small-group enrollment in California and Florida, where HPC enrollments are highest.) He also notes, “Health plans are not enthusiastic about the kind of direct price competition for standardized products that HPCs require.” In the conventional market, when a health plan sells directly to a firm, the sale brings in all of the group’s employees. However, when a health plan sells through a HPC, it gets only a fraction of a firm’s employees.

Health plans also worry about adverse selection; each plan fears that it may attract only the high-risk employees in a HPC. While the researchers found that the health plans’ fears about adverse selection were sometimes not fully justified, with respect to preferred provider organizations (PPOs), the concern was legitimate. When PPOs were sold through HPCs, the choice of provider, and corresponding higher cost of a PPO plan, were only appealing to enrollees who knew they would use the PPO option. Thus, PPOs did not attract enough low-risk enrollees to spread the cost of

higher-risk enrollees. According to Wicks, “Virtually all HPCs have lost PPOs, in part because of adverse selection. Not having a PPO option has exacerbated HPCs’ problems competing in the small-group market.”

Lack of support from insurance agents has also hurt HPCs. Some early HPCs underestimated the critical role agents play in the small-group market. Their attempts to reduce administrative costs by marketing their products directly or reducing agent commissions backfired, making agents hostile to HPCs. Virtually all HPCs have now adopted more agent-friendly policies, but the number of agents that sell HPC products in volume remains small.

### A HPC Model for the Future?

Despite the modest success of HPCs, Wicks suggests, “there is nothing wrong with HPCs that being large wouldn’t cure.” A market share of 15-20 percent would allow HPCs to attract large health plans, realize some cost savings, and attract small employers. However, based on the experience of more successful HPCs, new purchasing coalitions may not look like those designed during the early 1990s. Hall states, “HPCs can’t succeed if they depart dramatically from the practices of the rest of the market.” Unfortunately, adhering to this lesson could mean sacrificing some of the unique advantages a HPC can offer. The Cleveland-based Council of Smaller Enterprises (COSE), for example, offers only two plans, and has policies that discourage enrollment of groups with five or fewer employees. But, COSE serves 60-80 percent of the small-group market in the Cleveland area and has apparently lowered insurance costs, successes that are not matched by other HPCs.

Wicks, Meyer, and Hall suggest that legislative reforms could improve HPC market share and market relationships. Possible policy strategies to promote the growth of purchasing coalitions include: requiring all health plans to participate in HPCs, requiring all small employers to purchase coverage through a HPC, requiring plans that participate in state or public employee insurance programs to sell HPC products, or temporarily subsidizing the purchase of insurance through a HPC. All of these options, however, would likely face formidable opposition. As Meyer notes, “The challenge is finding the balance of how much regulation is needed to make the market function well.” ■

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