

# HMSA reimbursements lead to big losses in '07

## STORY SUMMARY »

The Hawaii Medical Service Association said yesterday that a higher-than-normal percentage of reimbursements paid to hospitals, physicians, pharmacies and other health care providers in 2007 largely contributed to a \$6.6 million loss in the fourth quarter and a \$22.6 million loss for the year.

The state's largest health insurer, with 701,078 members, said the \$1.55 billion it paid to providers accounted for 94.4 percent of its total revenue of \$1.65 billion in 2007, higher than the insurer's historical average of 93 percent.



In 2006, HMSA had fourth-quarter net income of \$4 million and full-year earnings of \$17.8 million.

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## FULL STORY »

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The state's largest health insurer said yesterday its losses ballooned to \$22.6 million in 2007 -- including \$6.6 million in the fourth quarter -- largely due to a higher-than-normal percentage of reimbursements it paid to hospitals, physicians, pharmacies and other health care providers.

The Hawaii Medical Service Association, which has been under pressure to increase provider reimbursements, said yesterday that the \$1.55 billion it paid to providers accounted for 94.4 percent of its total revenue of \$1.65 billion in 2007.

"This is more than the plan's historical average of 93 percent," said HMSA Chief Financial Officer Steve Van Ribbink, adding that the health care providers were paid nearly \$130 million per month.

A year ago, HMSA had fourth-quarter net income of \$4 million and full-year earnings of \$17.8 million. HMSA also had a one-time benefit in 2006 of \$22 million, including \$11 million in the fourth quarter, stemming from the settlement of a 14-year federal income tax case.

State Insurance Commissioner J.P. Schmidt said some national studies have shown provider reimbursements in Hawaii to be among the lowest in the nation.

"Those include reimbursements from Medicare and Medicaid, as well as private companies, so it's not just HMSA," Schmidt said. "But they have been under significant pressure to increase reimbursements to the hospitals and the doctors."

Van Ribbink said government payers continue to inadequately reimburse providers so those providers, in turn, look increasingly more to the private insurance companies to pay a larger share.

"That results in subsidizing -- more and more as time goes on -- the inadequate reimbursements from the government programs," Van Ribbink said. "Right now for calendar year 2008, we are paying hospitals collectively approximately 140 percent of the Medicare fee schedule, and we're paying physicians collectively about 120 percent what the government reimbursement fee schedule is. It puts quite a burden on the employers and members of the state to pay a larger and larger health care cost."

HMSA's membership -- and revenue -- declined during the second half of 2007 due to a decision by the Hawaii Employer-Union Health Benefits Trust Fund at midyear to shift to a self-funded arrangement with HMSA.

At the end of 2007, HMSA's membership was 701,078, down from 706,582 at the end of June and 707,097 at year-end 2006.

Consequently, revenue -- which represents the premiums paid by members -- fell 21.1 percent in the fourth quarter to \$362.3 million from \$459.3 million. For the year, revenue declined 8.8 percent to \$1.65 billion from \$1.81 billion.

Administrative expenses decreased 3 percent to \$38.6 million from \$39.8 million in the fourth quarter and were virtually flat for 2007 versus a year ago at \$158.5 million.

"To have only 5.6 percent going to administrative is a very small amount," Schmidt said.

Schmidt said the Insurance Division wants to make sure that HMSA doesn't stray too far either way past break-even, but acknowledged the insurer should make a small profit.

"They should have some profit actually in order to invest in new equipment, and assets for the company to keep it up to date and operating," he said. "When they have a significant profit or a significant loss, the state gets concerned and looks very closely at the company."