Direct Payment/Assignment of Benefits: Weakening Consumer Protections

**Issue.** Preferred Provider Organizations (PPOs) protect consumers from higher out of pocket expenses and increased overall health care costs. PPOs help ensure quality of care and generally improve access. Unfortunately, PPOs are seeing a significant drop in their bargaining power with providers, and when providers drop out of PPOs or make unreasonable reimbursement demands consumers lose these protections. In Oklahoma some providers have sought to enhance their bargaining position by championing special interest legislation including:

- Direct Payment or Mandatory Assignment of Benefits

**Position:** Blue Cross and Blue Shield of Oklahoma ("BCBSOK") is opposed to direct payment or mandatory assignment of benefits legislation because it will weaken consumer protections.

**Background:**

The objectives underlying BCBSOK’s PPOs are a reduction of total health care spending and out of pocket costs for our customers, as well as the enhancement of access to quality care. In order to achieve these goals BCBSOK has entered into contractual arrangements with providers to accept our PPO payment as payment in full (subject to applicable deductibles, coinsurance and copayments). One of the most important incentives for providers to participate and accept BCBSOK’s payment as payment in full is that they are paid directly. To maintain the value of this incentive BCBSOK retains the right to refuse to honor assignments of benefits to out-of-network providers. Therefore, payments for services rendered by providers who do not contract with BCBSOK are sent directly to our customers. Thus, out-of-network providers face the inconvenience of attempting to collect payment from the customer and the accompanying possibility of incurring bad debts.

**Key Policy Concerns With Direct Payment or Mandatory Assignment of Benefits**

Direct Payment or Mandatory Assignment of Benefits is an attack on a key cost and quality strategy of BCBSOK. While the passage of such legislation would be a windfall for providers, it would have the following adverse consequences for consumers:

1. Higher out of pocket expenses and increased health care costs overall.
2. Lower quality of care standards.
3. Reduced access to choice.

- **Impact on health care costs.** To the extent that BCBSOK is successful in convincing providers to accept its payment as payment in full our customers can avoid out of pocket costs related to...
balance billing. In exchange for refraining from balance billing, participating providers are assured of prompt, fair and direct payment of services rendered. This mutually advantageous arrangement would be disrupted by mandatory assignment of benefits. Providers would be free to bill patients for any portion of their charges that exceeds the generally accepted allowable amount established by BCBSOK.

Moreover, if BCBSOK were mandated to accept assignment of benefits, out-of-network providers would have little incentive to enter into these cost effective PPO agreements. If BCBSOK lost the ability to establish and maintain a PPO network of participating providers overall health care expenditures would rise. This is because BCBSOK’s ability to administer hospital prospective payment systems and negotiated physician fee schedules depends on such contractual agreements. In 2002, BCBSOK PPOs saved our members over $400 million off of billed charges. In an environment that allows mandatory assignment of benefits, these savings would steadily erode.

- **Impact on quality of care.** Legislation mandating acceptance of assignment of benefits would impair the ability of BCBSOK to maintain high quality networks. PPO networks provide a level of confidence to our customers that the providers from whom they receive care are credentialed and meet strict educational and quality standards that out-of-network providers may not meet. PPO network providers agree to participate in a variety of quality assurance programs and are increasingly held accountable for the health outcomes of their patients. Also, PPO network providers contribute to and benefit from interaction with their peers to advance their knowledge of medical best practices.

- **Impact on access and consumer choice.** Legislation forcing BCBSOK to honor assignment of benefits from out-of-network providers reduces access to health care services for several reasons. Higher out of pocket costs stemming from balance billing would make it more difficult for individuals to afford health insurance. Moreover, BCBSOK PPO contracts prohibit providers from requiring our customers to pay in advance for services except for anticipated deductibles or copayments. This enhances access for our customers who might otherwise have to borrow funds before seeking health care.

Mandatory assignment of benefits also limits access to affordable products because it only applies to state regulated insurance offered to small businesses and individuals, but not to large self-insured companies, which are exempt from state regulation under ERISA. Under the existing health care delivery system BCBSOK passes along to small businesses the savings we achieve through cost effective PPO contracting. Consequently, if these discriminatory measures become law, large employers who are self-insured would continue to have flexibility regarding assignment of benefits while small employers and individuals would be denied the benefit of favorable provider arrangements. This would result in some consumers being forced to forego or scale back health insurance coverage.

**Conclusion:**

**The Medicare Model.** During calendar year 2001, 88.7 percent of all physicians, practitioners and suppliers billed under signed Medicare participation agreements. A major factor in this broad participation is assignment. Under the national Medicare system providers are incented to participate by direct payment. That means that a participating provider receives reimbursement for Medicare services directly from both the federal government and the Medigap insurer, if there is a Medicare supplement policy. Conversely, providers who do not choose to participate in Medicare must collect both the federal government’s payment and the Medigap insurance from the consumer. It is this highly successful Medicare business model, adopted by BCBSOK, which has resulted in our broad, cost effective PPOs today.