



# TROUBLE IN PARADISE:

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**ASSESSING THE OUTCOMES OF PAYMENT  
TRANSFORMATION IN HAWAI'I**



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# I. Introduction

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Looking to reward primary care providers for delivering high-value — rather than high-volume — care, the Hawaii Medical Service Association (HMSA) recently embarked on an ambitious initiative touted as a “revolutionary physician program that will lead the way in better care for communities across Hawai‘i and the rest of the United States.”<sup>1</sup> HMSA is an independent licensee of the Blue Cross Blue Shield Association and largest insurer in the state of Hawai‘i.

HMSA launched its “Māhie 2020” initiative in 2015 in order “to transform Hawai‘i’s healthcare system to encourage health and well-being.”<sup>2</sup> The program seeks to unify care for its more than 720,000 members statewide by bringing together providers, employers, government, and local communities, and by providing a roadmap for environmental, social, and policy changes to attain by 2020.<sup>3</sup>

In an effort to achieve these goals, HMSA launched “Payment Transformation,” which would shift provider payments away from a fee-for-service model and instead provide a capitated payment for each HMSA member attributed to each practitioner.<sup>4</sup>

Physician capitation — paying a fixed amount upfront on a per-member per-month (PMPM) basis — was ushered in as an innovative approach for managing health care costs in the 1980s and 1990s.<sup>5</sup> Capitation promised to remove the financial incentive for providers to prescribe costlier — and sometimes unnecessary — health care treatments and services that can be associated with the fee-for-service payment model and to improve the efficiency of health care.<sup>6</sup>

Despite their tremendous potential, capitation agreements fell out of favor shortly after their peak in 1999 as more providers faced difficulty covering their costs with the lower reimbursement rates and struggled to stay in business.<sup>7</sup> By 2007, just seven percent of primary care office visits were covered under capitation agreements.<sup>8</sup>

While the pendulum on payment reform has shifted firmly back in favor of value-based care, capitated payments are beginning to return to prominence, with greater adoption by Medicaid managed care organizations (MCOs). As of July 2019, 40 states and Washington, D.C. used capitated managed care models to deliver services through their Medicaid programs.<sup>9</sup>

Still, while many states have turned to some form of capitated payments, HMSA is now charting new and uncertain territory with Payment Transformation and its direct capitation model. Few states are capitating individual providers, and are instead issuing payments to a provider organization, such as an MCO, that, in turn, pays its members on a long-term, fee-for-service basis in order to best balance costs of covering healthy patients and those with more complex medical conditions.<sup>10</sup>

Yet, many primary care providers (PCPs) — especially smaller, independent, and younger providers seeking to start a new practice — say that these direct payments are insufficient to keep their practice open. Hawai‘i providers participating in HMSA’s Payment Transformation receive an average capitated rate of just \$24 PMPM.<sup>11</sup> Payments can range anywhere from \$8 PMPM to \$70 PMPM for attributed members.<sup>12</sup> In order to meet growing overhead costs with what some feel are insufficient compensation, many PCPs are taking on more patients, filling waiting rooms and making it difficult for practitioners to dedicate enough time to each patient.

At the same time, providers are also raising concerns about Payment Transformation’s impact on the quality of care that Hawai‘i patients are receiving. Some practitioners have warned that the PMPM systems create incentives to only accept healthy patients, a process known as “cream skimming,” since

it can take providers a disproportionate amount of time to treat patients with complex conditions.<sup>13</sup> Providers may also be more inclined to unnecessarily refer patients to an urgent care center or the emergency room or to a specialist, as they realize that treating the extra patient or more complex patient requires more time and stress that is not compensated for under the fixed PMPM.<sup>14</sup>

Further, under Payment Transformation, providers must also demonstrate that they are working towards various performance goals, including vaccination rates, well-care visits, and medication adherence. Inputting these performance measure metrics using the online claims and clinical data management tool Coreo can be time-consuming for providers and their staff.<sup>15</sup> Many providers have also expressed frustration with continuously needing to attribute and re-attribute patients to their panel in order to receive proper payment. These administrative burdens force providers to stretch already-strained resources even thinner.

All of these challenges are taking place as Hawai'i is facing pressure from the worst physician shortage the state has seen in decades. The University of Hawai'i warned in its Hawai'i Physician Workforce Assessment Project 2019 report to state lawmakers that the state is facing a shortage of as many as 820 full-time physicians, up from 797 the previous year.<sup>16</sup>

Among this physician shortage, according to the study, primary care is facing the largest gap of any practice area, lacking approximately 300 full-time PCPs needed to meet demand.<sup>17</sup> The primary care shortage is most prevalent on Oahu, where the gap between supply and demand of PCPs grew more than 20 percent from 2018.

The physician shortage has grown increasingly severe over the past decade, with more physicians retiring or leaving the state to practice elsewhere each year.<sup>18</sup> In 2019, 152 physicians moved away from Hawai'i, which some experts have attributed to growing opposition to Payment Transformation.<sup>19</sup>

The COVID-19 pandemic became the latest challenging chapter in the difficulties facing Hawai'i PCPs and the state's healthcare system. Already dealing with concerns from the dwindling number of physicians on the islands, the surge in coronavirus cases upended Hawai'i's health care system, forcing some providers to temporarily close their doors and leaving many to reassess the existing models for PCP payment. While the Payment Transformation has been credited with easing some of the immediate financial pains and created a certain level of stability for practitioners during the early months of the crisis, the long-term implications remain to be seen. Yet, the same underlying deficiencies still exist. Therefore, it is important to make changes now to create a better program that will allow PCPs to be successful and incentivize new PCPs to practice in Hawai'i for years to come.

While there has been anecdotal evidence among PCPs that suggests HMSA's Payment Transformation is interfering with their ability to successfully practice medicine, there has not been a publicly available, comprehensive study to date of how Payment Transformation has impacted the practice of medicine.

***Trouble in Paradise: Assessing the Outcomes of Payment Transformation in Hawai'i*** aims to assess whether the goals of Payment Transformation are being met. Additionally, this report will provide recommendations for HMSA to improve the payment model to ensure that it can satisfy HMSA's objectives without compromising the ability of health care providers to practice medicine.

## II. Executive Summary

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Aimed Alliance commissioned a comprehensive survey of PCPs practicing medicine in Hawai'i to better understand their experience with HMSA's Payment Transformation and its impact on their ability to provide quality health care.

An analysis of the survey results found that Payment Transformation has restricted PCPs' ability to deliver care and has imposed greater administrative burdens and financial strains. Amidst a primary care physician shortage in Hawai'i, Payment Transformation has created difficulties for many to remain in business.

### **Hawai'i PCPs felt that Payment Transformation is harming the delivery of care to patients and forcing economic considerations into their provision of care.**

- A majority of PCPs (55 percent) surveyed by Aimed Alliance somewhat or strongly disagreed that Payment Transformation has enabled them to deliver higher quality of care.
- Nearly 55 percent of PCPs in internal medicine reported that Payment Transformation has caused them to refrain from providing services or treatment.
- More than 36 percent of surveyed Hawai'i PCPs said that they have referred patients to an urgent care clinic instead of treating them as a result of Payment Transformation.
- Nearly 80 percent of surveyed PCPs felt that Payment Transformation has caused an increase in administrative tasks. Among those, a significant majority have had to work longer hours, receive support from their provider organization, or hire more staff.

### **Lower capitation rates have resulted in Hawai'i providers experiencing financial stress because of Payment Transformation, and they see few alternative options.**

- More than 42 percent of Hawai'i PCPs said that Payment Transformation has decreased their practice's gross revenue.
- Nearly 85 percent said that electing not to participate in the HMSA network would not be financially feasible for their practice.

### **Hawai'i providers expressed concerns about Payment Transformation contributing to the worsening physician shortage.**

- More than 80 percent of Hawai'i providers surveyed by Aimed Alliance felt that Payment Transformation has worsened the PCP shortage in Hawai'i.
- Nearly 65 percent of surveyed PCPs reported knowing a primary care practice that has closed because of Payment Transformation, particularly small and solo practitioners.
- An alarming 80 percent of surveyed PCPs said that they would not recommend that someone entering the field of medicine come to Hawai'i to practice medicine as a PCP.
- Nearly 20 percent of experienced PCPs said that they now plan to retire earlier.

**Hawai'i primary care providers were in near-unanimous agreement that there is significant room for improvement with the current HMSA payment model.**

Nearly all (93 percent) surveyed PCPs believe that Payment Transformation needs to be improved.

- A significant majority (63 percent) of surveyed PCPs said that they prefer payments to be based on an approach other than a value-based model.
- Nearly 70 percent of surveyed PCPs believe that there is a role for fee-for-service payments to provide higher quality care.

# III. Methodology

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Aimed Alliance commissioned a comprehensive survey of Hawai'i primary care medical doctors (MDs), physician assistants (PAs), and nurse practitioners (NPs) to assess the impact of HMSA's Payment Transformation on their practice and their ability to deliver high-quality care to their patients.

WebMD/Medscape Market Research, the largest network of clinically active physicians, surveyed its panel of Hawai'i PCPs through an email questionnaire asking them to discuss their experience with Payment Transformation. The survey included items to determine their primary practice area, size of practice, geographic area, and experience practicing medicine.

PCPs were contacted from late December 2019 through early January 2020 — prior to the widespread outbreak of COVID-19 in the United States — about completing the survey.

All respondents who were included in the sample are primarily practicing in Hawai'i and actively participating in and receiving payment through Payment Transformation.

The survey yielded a sample of 60 providers across a range of primary care medical areas, including general practice, family practice, pediatrics, and internal medicine. The vast majority of survey respondents (80 percent) had five or more years of experience in the medical profession.

Surveyed providers practiced in each of Hawai'i's counties and across a range of urban and non-urban areas, with a plurality of the sample primarily practicing in Honolulu-metro region (45 percent). After distributing the survey, Aimed Alliance conducted follow-up interviews with Hawai'i PCPs to gather additional information about how Payment Transformation is affecting them.

## IV. Findings

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### QUALITY OF CARE

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While the “Māhie 2020” initiative aims to advance the health and well-being of Hawaiians, the results of Aimerd Alliance’s survey demonstrate that Payment Transformation has fallen short of these ambitious goals.

A majority of PCPs (55 percent) surveyed by Aimerd Alliance somewhat or strongly disagreed that Payment Transformation has enabled them to deliver higher quality of care. Solo and small practitioners — those in practices of fewer than five providers — were more than twice as likely to express this sentiment than those working in large practices or hospitals and health systems.

As providers face more pressure to see additional patients to compensate for lower reimbursement rates from HMSA, concerns have been raised about whether Payment Transformation has led to providers limiting care and the resulting impact on patient health. Nearly 55 percent of surveyed internists, for example, reported that Payment Transformation caused them to refrain from providing services or treatment in their office that they believed their patients needed.

These results are consistent with previous literature on capitation payment models. For instance, a 2002 study comparing trade-offs in insurance product designs found that, despite their emphasis on preventive care, health maintenance organizations (HMOs) using capitated payments were no more likely to deliver preventive services, such as mammography screenings, than those employing fee-for-service payments.<sup>20</sup>

Additionally, more than 36 percent of surveyed Hawai’i PCPs said that they have referred patients to an urgent care clinic instead of treating them as a result of Payment Transformation, which can have a significant impact on patient health. For example, a 2018 analysis published in the **Journal of American Medicine** found that urgent care clinics were nearly three times more likely to make antibiotic-inappropriate diagnoses — unnecessary prescriptions for conditions that do not respond to antibiotics, such as colds, sore throats, bronchitis, flu, and other viral illnesses — than medical offices.<sup>21</sup>

At the same time, providers may be more likely to refer sick patients — whose care requires more time and can prevent PCPs from seeing other scheduled patients — to an urgent care clinic. Treatment in such a clinic can cost the entire health care system 15 percent more compared to a visit to a physician’s office.<sup>22</sup>

*“Make [Payment Transformation] financially viable for providers to run a practice where they’re not overloaded by their patient load and overhead. [Payment Transformation creates] a setting where we want to selectively pick our patients.”*

—NP, Family Practice

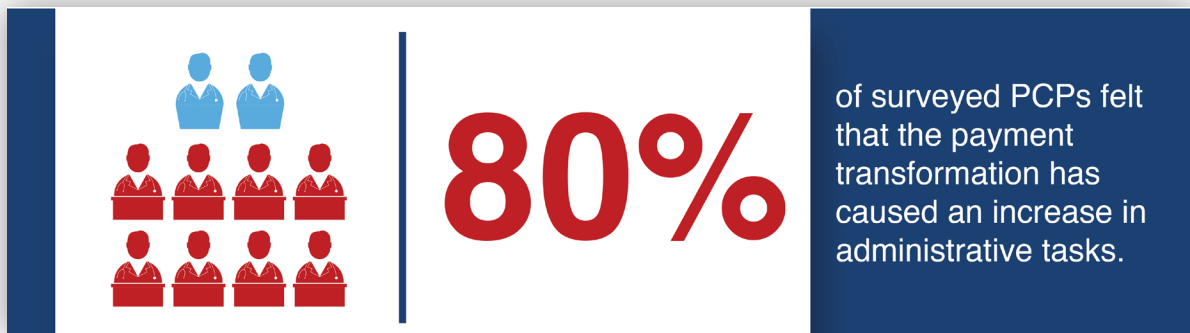


## ADMINISTRATIVE BURDEN

Hawai'i providers overwhelmingly agreed that HMSA's Payment Transformation has imposed a significant administrative burden on them, requiring them to navigate the complexity of capitated rates, patient attributions, and increased data entry requirements to satisfy performance measures.

Nearly 80 percent of surveyed PCPs felt that Payment Transformation has caused an increase in administrative tasks. Among those who said it has increased their administrative burden:

- Nearly 70 percent have had to work longer hours;
- More than 50 percent have received additional financial support from their provider organization;
- More than 40 percent have had to hire additional staff;
- More than 30 percent have had to see fewer patients; and
- Nearly 25 percent have sought additional financial support from HMSA.



Meanwhile, nearly half of surveyed PCPs somewhat or strongly disagreed that Coreo is an effective program for maximizing their quality metrics. In follow-up consultations with survey respondents, some PCPs voiced frustration with being forced to constantly update the attribution activity logs and add patients to their panel of registered patients, a process known as "re-attributing." This can impose a significant administrative burden that takes away from their already-limited patient care time. Additionally, this creates the risk that they might not be paid for treating that patient at all.

*"[HMSA requires] many 'bean counting' tasks to tick off instead of focusing on caring for the patient. [This is especially] an issue with caring for urgent problems when the maintenance tasks must be checked off for each visit. So overwhelming."*

**—MD, Internal Medicine**

Experienced practitioners were significantly more likely to feel that Coreo is not an effective program for maximizing their quality metrics than younger practitioners.

Just 15 percent of surveyed PCPs somewhat or strongly agreed that Coreo is effective for maximizing

their quality metrics. PCPs practicing in large medical practices with more than 10 practitioners (nearly 83 percent), along with those in Hawai'i hospitals or health systems (60 percent), were the most likely to have positive or neutral opinions about Coreo's effectiveness.

At the same time, solo and small practices were the most likely to disagree that Coreo is an effective program (40 percent), which suggests that these changes do not properly account for PCPs who do not have sufficient resources to train additional staff or time to dedicate toward using the program.

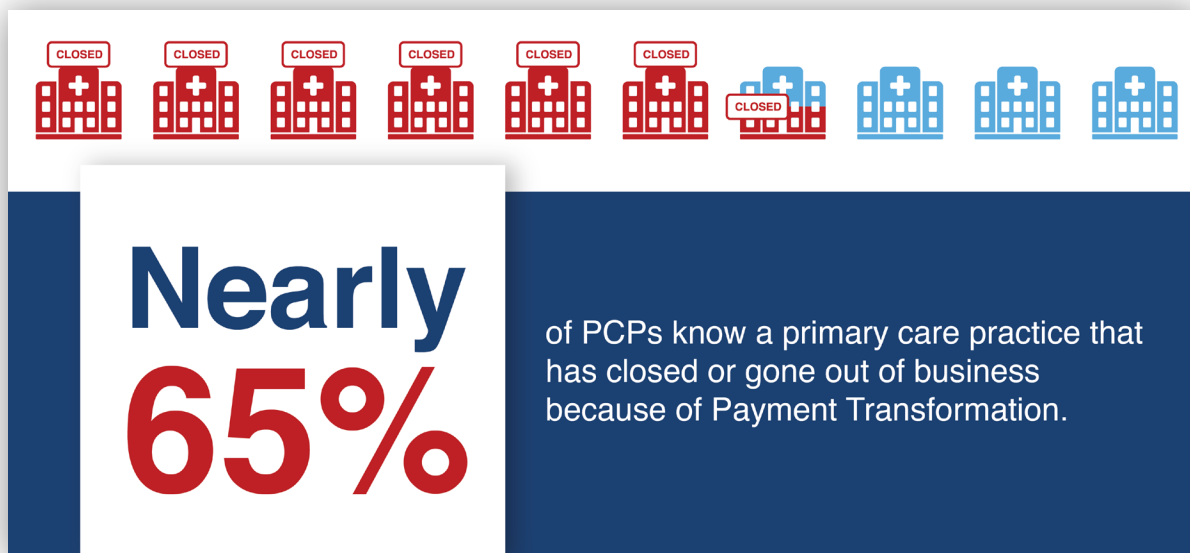
## FINANCIAL STRAIN

Nearly 42 percent of Hawai'i PCPs said that Payment Transformation has decreased their practice's gross revenue. At the same time, 90 percent of PCPs said that they have not seen benefits from savings generated by Payment Transformation.

More than one in four PCPs said that they have already considered not participating with HMSA, illustrating the rising concern among providers about the financial viability of the program.

However, 82 percent said that electing not to participate in the HMSA network would not be financially feasible for their practice, demonstrating how dependent the entire Hawai'i health care system is upon proper reimbursement for PCPs by the state's largest insurer.

At the same time, nearly one in five surveyed PCPs said that, since Payment Transformation began, they have considered selling their practice. Yet, among those who have considered selling their practice, more than 90 percent said that they have had difficulty finding someone to purchase their practice. This is especially true outside of the Honolulu-metro region, where all surveyed PCPs outside of the urban areas considering selling their practice have said that they have experienced difficulty finding someone to purchase it. This is particularly troubling in less-populated regions where it is already difficult to recruit providers.



## PHYSICIAN SHORTAGE

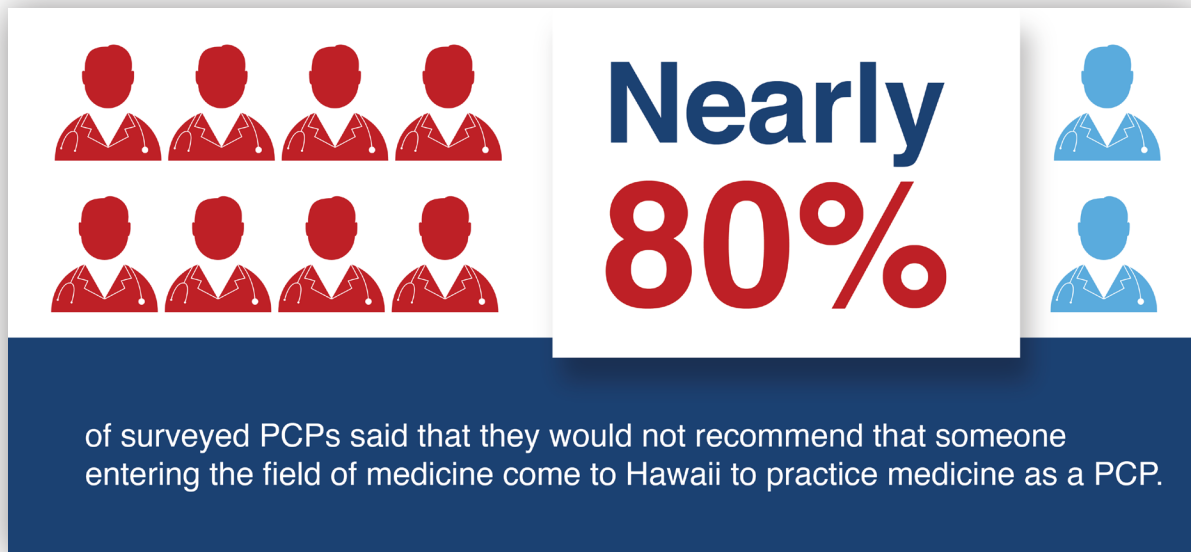
As Hawai'i's physician shortage continues to worsen, Hawai'i providers expressed concerns that Payment Transformation may be contributing to this trend.

More than 80 percent of Hawai'i providers surveyed by Aimed Alliance felt that Payment Transformation has worsened the PCP shortage in Hawai'i.

Nearly 65 percent of surveyed PCPs reported knowing a primary care practice that has closed or gone out of business because of Payment Transformation. Solo and small practitioners were most likely (75 percent) to know of practices that have closed as a result of Payment Transformation.

Meanwhile, 80 percent of surveyed PCPs said that they would not recommend that someone entering the field of medicine come to Hawai'i to practice medicine as a primary care provider.

Nearly 20 percent of experienced PCPs said that they now plan to retire earlier as a result of Payment Transformation. According Hawai'i Physician Workforce Assessment Project, of the 2,974 physicians practicing medicine full-time in Hawai'i, at least 91 (three percent) retired in 2019, while an additional 123 (four percent) decreased their work hours, signaling additional challenges as the gap between supply and demand for practitioners widens.<sup>23</sup>



## IMPROVING THE MODEL

Hawai'i PCPs were in near-unanimous agreement that there is room for improvement with the current HMSA payment model, as 93 percent of surveyed Hawai'i PCPs indicated that they believe Payment Transformation needs to be improved.

Experienced practitioners were slightly more likely than non-experienced practitioners to believe Payment Transformation needed to be improved, although the difference was not statistically significant.

A majority (65 percent) of surveyed PCPs said that they prefer payments be based on an approach other than a value-based model. Fee-for-service was the most common answer (45 percent) for their preferred payment model.

Meanwhile, nearly 70 percent of surveyed PCPs indicated that they believe there is a role for fee-for-service. This is particularly true of PCPs outside of urban areas. Approximately 80 percent of respondents whose practice is located outside of the Honolulu-metro region somewhat or strongly agreed that there is some role for fee-for-service.



## CASE STUDY: PEDIATRICIAN WARNS PAYMENT TRANSFORMATION DEVALUES CARE

"I have worked in primary care pediatrics in a solo practice for decades and have found Payment Transformation particularly problematic for pediatric PCPs. In many ways, the financial model implemented by HMSA does not take into account the intricacies involved in delivering family-centric care for our patients. As a result, the incentives built into the model frequently do not align with — and can often impair — the delivery of efficient and high-quality medical care for our patients.

Under Payment Transformation, the PCP is incentivized to create as large a panel of patients as possible and see them for as little time as possible. Unfortunately, that means the face-to-face encounters between the PCP and the patient have been turned into an expense.

Payment Transformation has also devalued many services that pediatricians offer their patients. Take, for example, in-office point of care testing, which typically allows a quicker diagnosis to be confirmed while the patient is in the office. Payment Transformation has forced PCPs to take on the cost of testing without an offsetting increase in compensation. To maintain financial well-being, the PCP is now more likely to send the testing to outside laboratories, often delaying answering that patient's request to know the exact cause of their illness in a timely fashion. What used to be a simple process now is complicated and prolonged.

Immunization of patients to common infectious diseases is a core service and is now offered at the expense of pediatricians who promote preventive care. Hawai'i is currently the only state where the vaccine administration payment to the PCP has been eliminated as a result of Payment Transformation. This change has devalued the work that pediatricians undertake when trying to maximally immunize all of their patient, is contrary to the American Academy of Pediatrics stand on immunizations, and has created financial hardship on pediatricians.

These are a few examples of the deficiencies of Payment Transformation. There are plenty more.

Most of the pediatricians are on board with the need to move toward some form of health care system that includes a value-based payment structure, but Payment Transformation as it exists today is hurting the financial viability of many pediatric practices — and in the long term, threatens to impair access to quality care for patients."

— Pediatrician, Honolulu, HI



## V. Recommendations

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Based on the findings of this report, Aimed Alliance recommends the following improvements to HMSA's Payment Transformation:

### **ADMINISTRATIVE BURDEN**

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Many providers surveyed by Aimed Alliance indicated that they have experienced difficulties keeping up with the administrative tasks that Payment Transformation requires, including the patient attribution process, by which providers add patients to their panels. HMSA should provide additional in-office support to providers to help them complete these administrative tasks to allow providers to spend a greater share of their time on patient care. Additionally, Aimed Alliance recommends that HMSA explore ways to reduce the amount of time that providers must spend on patient attribution tasks.

### **PAYMENT MODEL**

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Capitated payments have the potential to reduce health care costs, but many providers surveyed by Aimed Alliance indicated that capitated payments are not appropriate for all types of services. Many providers suggested that some services be paid for using a fee-for-service model alongside the capitation model for other services. Some providers suggested that evaluation and management codes should be paid for using a capitation model while procedural codes should be paid for using the fee-for-service model. Additionally, providers suggested that newborn care services — including delivery, treatment of new patients, vaccinations, and diagnostics — should be paid for using the fee-for-service model. Aimed Alliance recommends that HMSA adopts policies blending the capitation model with fee-for-service payments to maximize the quality of patient care.

### **PMPM PAYMENTS**

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Many providers surveyed by Aimed Alliance voiced their concern about PMPM payments being too low. Providers also raised concerns about the low payments incentivizing them to only care for healthy patients to maximize the profit they can make using the PMPM model. Aimed Alliance recommends that HMSA consider increasing the PMPM payments to ensure that providers are appropriately reimbursed for their work. Additionally, Aimed Alliance recommends that HMSA adjust Payment Transformation to allow additional payments for providers who care for complex patients.

### **RETROACTIVE REIMBURSEMENT**

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Providers surveyed by Aimed Alliance expressed issues with the patient attribution process whereby patients may be erroneously excluded from an attribution panel. For example, providers cited "glitches in the system" causing such exclusions. When this occurs, providers are not retroactively reimbursed once the patient is re-added to their attribution panel. Aimed Alliance recommends that HMSA retroactively reimburse providers when this occurs.

### **NEW PROVIDERS**

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When providers first begin practicing medicine, they are often unable to provide care for enough patients to sustain their practice using the PMPM payments. Additionally, these providers may not be able to afford to furnish their practice with the necessary office equipment due to low PMPM

payments. To support new providers entering the field, Aired Alliance recommends allowing providers to be paid using a fee-for-service model for the first two years of their practice. These providers can be transitioned into Payment Transformation after their initial two years of practice have passed, once the volume of patients that they care for has increased.

## **QUALITY METRICS**

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Some providers surveyed by Aired Alliance felt that Payment Transformation's quality metrics framework penalizes them when patients do not agree to receive certain services, including vaccinations, well-care visits, and diagnostics. Ultimately, these penalties are unfair because patients, not providers, decide whether they will receive these services. Aired Alliance recommends adjusting Payment Transformation's quality metrics to account for shared decision-making between patients and their providers.

## **SURVEY DATA AND ACCOUNTABILITY**

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Each year, HMSA conducts the Payment Transformation Annual Provider Survey to collect data from PCPs on their opinions on issues, such as whether PCPs felt they were receiving sufficient training and support from their physician organization, and their overall satisfaction with Payment Transformation. In 2019, HMSA conducted a Physician Wellness survey to understand the impact of Payment Transformation on PCP's mental wellbeing, including physician burnout. To improve transparency and identify additional areas of improvement, HMSA should publicly share the data collected from these surveys and its plan for addressing the data outcomes.

## VI. Conclusion

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HMSA embarked on the “Māhie 2020” initiative as primary care providers in Hawai‘i faced several practice challenges due to the growing shortage of providers. However, the results of this study show that the program, while well-intentioned, may have worsened many of the challenges that PCPs in the state face.

The results of this survey make it clear that HMSA did not adequately account for the needs of different types of PCPs when designing Payment Transformation. Rather than offering tailored payment structures that would help meet the individual needs of PCPs in different practice areas, HMSA has adopted a financial model that does not provide sufficient support for many PCPs practicing medicine in Hawai‘i.

Payment transformation has now made some PCPs question whether they have the financial resources necessary to provide the highest quality care to their patients.

*“PCPs are the key to quality, cost-effective care in the long term but this behavior is hastening the exit and demise of PCPs.”*

**—MD, Internal Medicine**

At the same time, PCPs in Hawai‘i are now under even greater strain from increased administrative burdens that Payment Transformation has created. PCPs must now dedicate limited staff resources — or spend hours themselves — inputting data into HMSA software programs that often cause unnecessary difficulties with reimbursement. As a result, Payment Transformation risks persuading more PCPs to leave Hawai‘i as the state faces its worst physician shortage in a generation.

These findings demonstrate that there are many incremental but important changes that HMSA should consider making that would support PCPs impacted by Payment Transformation. PCPs across the state have already begun offering solutions that they feel could help move towards the initial aims of the “Māhie 2020” initiative.

We encourage HMSA to listen to their concerns and consider changes that will help the program achieve its worthy goals of providing better care for communities across Hawai‘i.

## VII. About Aimed Alliance

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Aimed Alliance is a 501(c)(3) non-profit health policy organization that seeks to protect and enhance the rights of health care consumers and providers. To advance its mission, Aimed Alliance conducts legal research and analysis; develops sound, patient-centered recommendations; and disseminates its findings to inform policy makers and increase public awareness. To learn more about Aimed Alliance, go to [www.aimedalliance.org](http://www.aimedalliance.org).

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## VIII. Endnotes

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