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Column: HMSA's capitation system isn't working

By Dr. Stephen B. Kemble • Today • *Updated 6:50 pm*

Primary care in Hawaii was already in crisis before the COVID-19 pandemic. We have a severe shortage of primary care doctors, worse on the neighbor islands, and the shortage has been growing by 3-4% every year.

Hawaii Public Radio recently reported on a study by Aimed Alliance, a nonprofit health policy organization, on the effects of HMSA's payment transformation (PT), which pays primary care doctors a flat payment per attributed patient per month (capitation). This was supposed to avoid the presumed incentive under fee-for-service payment to increase income by increasing the volume of services, and presumably provide unnecessary service.

However, primary care doctors do not think like insurance executives and are generally focused on meeting the needs of their patients, not taking maximum advantage of financial incentives. They are too busy to expand volume of services, and there never was any evidence of excessive volume of primary care services in Hawaii when everyone was paid with fee-for-service.

In some ways capitation is a simpler way to pay doctors, but it introduces perverse incentives to skimp on care and to avoid care of sicker, poorer and more-complex patients. The counter-incentives used by HMSA and Medicare are pay-for-quality or outcomes and risk adjustment, but both depend on very detailed documentation and data reporting, and they don't prevent the problems they were intended to counter.

The Aimed Alliance report found that a majority of Hawaii primary care doctors say HMSA's PT has reduced quality of care by causing them to refrain from providing treatment or services, caused them to refer patients to urgent care or specialists instead of seeing them in the office, and caused an increase in administrative tasks that requires them to work longer hours and/or hire more staff.

About half say low capitation rates and higher overhead have resulted in reduced practice revenue, and over 80% felt PT has contributed to Hawaii's physician shortage. Some 80% would discourage new doctors from starting a

physician shortage. Some 80% would discourage new doctors from starting a primary care practice in Hawaii.

Other surveys confirm that primary care practices squeezed financially by PT have stopped accepting new patients with Medicare or Medicaid, because their fees are even lower than commercial insurance plans. The personal-finance website WalletHub reported last summer that Hawaii ranked 51st, worst in the country, for finding doctors accepting new patients with Medicare.

Successful practices under HMSA's PT are large, stable practices with "easier" middle-class patients and few new or complex patients who take more time, and that are paid at the high end of HMSA's range of capitation payments.

Since the COVID-19 pandemic, social distancing and fear have markedly reduced primary care office visits, with many practices reporting about 60% drop in fee-for-service practice revenue, even with ramping up telehealth. The rapid rise in unemployment in Hawaii means many will soon lose their health insurance or be forced onto Medicaid.

Capitation has a positive feature, in that payments are independent of whether the patient comes to the office or not, but this does not solve the problems of excessive administrative burdens and cost, perverse incentives to skimp on care and avoid sicker patients, inadequate capitation rates, and loss of insurance. It appears we are well on the way to losing most of Hawaii's independent primary care practices by the end of this year, with devastating consequences.

The immediate need is for all Hawaii insurers to substantially increase payment for primary care. Over the next one to two years, we need to move to a simplified system that pays doctors for their time and expertise, regardless of how services are provided, and that is not based on "pay-for-documentation."

Let's stop sabotaging the expertise of our doctors and driving them out of practice, and make Hawaii a magnet for doctors who want to practice in a state where they are not micromanaged by insurance companies.

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