# Professional Caregiver Insurance Risk: Impacts on Caregivers, Communities & Vulnerable Populations

Thomas Cox PhD RN, Patricia Kizilay EdD RN, Marion Lapchak PhD© RN,
Katherine Willock PhD RN and Bonnie Sturm EdD RN
College of Nursing - Seton Hall University - South Orange, NJ

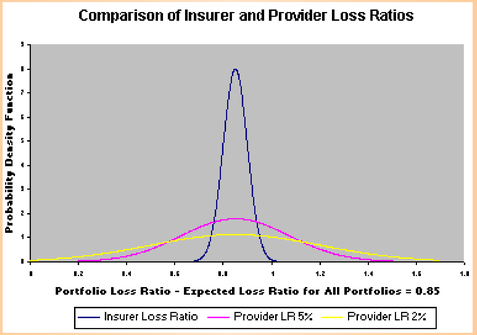
## Purpose

Define Professional Caregiver Insurance Risk (PCIR) as it arises in DRGs, Prospective Payments, and capitation agreements. Show that PCIR is really unregulated; legally, financially, clinically, and ethically inappropriate insurance risk transfers from insurers to providers requiring providers to manage insurance risks, balance conflicting roles as insurers, claims agents, and caregivers. PCIR creates financial risks and financially de-stabilizes providers; necessarily reduces service capacity and quality; and compromises provider-consumer relationships. PCIR eliminates the advantages of risk aggregation and management through insurance, adversely impacting vulnerable communities, providers & consumers.

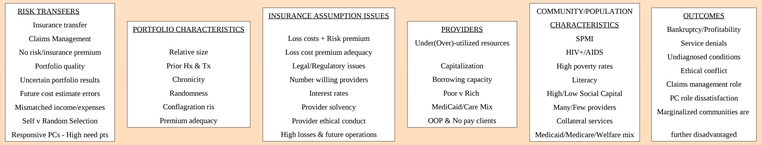
### Comparison of Insurer v. Provider Risk Probability of Loss > Insurer Expected Loss Ratio Solely Due to Insurer and Provider Portfolio Sizes

| Insurer/Portfolio Loss Ratio | Insurer Risk of Loss > Expected | Provider Risk of Loss > Expected with 5% of Insurer Portfolio | Provider Risk of Loss > Expected with 2% of Insurer Portfolio |
|---|---|---|---|
| 0.8500 | 0.5000 | 0.5000 | 0.5000 |
| 0.9000 | 0.1587 | 0.4115 | 0.4438 |
| 0.9500 | 0.0228 | 0.3274 | 0.3886 |
| 1.0000 | 0.0013 | 0.2512 | 0.3357 |

Portfolio Size = 1/20th (1/50th) of insurer's portfolio
Insurer Loss Ratio normally distributed N(.85.05)
Financial failure risk is higher due to under-capitalization, time value of money, loss-based bonus plans…
Lost insurance risk management benefit reduces provider service capacity below levels assumed in premiums




## Critical Factors in ACBRP/PCIR Impact




## Overall Findings

**PCIR:** Insurance, financial and clinical risks transferred from insurers to health care providers. Aggregate risk reduction through insurance is lost when public/private insurers transfer insurance risks to providers. Larger aggregate risk adversely affects providers, marginalized consumers, and marginalized geographic or social regions, with limited financial and social capital.

**Capital and Income:** PCs accepting insurance risks are under-funded, undercapitalized, and otherwise inadequately resourced and relatively unregulated in their insurance operations. They do not employ sufficient actuarial and underwriting experts. Policy aggregators transferring insurance risks to PCs avoid insurance risk retention, compete unfairly with true insurers, and through differential knowledge of insurance and risk theory, advantage themselves at the expense of PCs and consumers.

**Risk Management**: Premiums paid to PCs for assuming insurance risks are necessarily inadequate, transferring financial and clinical risks to PCs and patients. Inadequate payments mean PCs cannot manage risk internally or through reinsurance. Payment delays and retrospective denials exacerbate PC's inadequately resourced operations, causing further reductions in service capacity and quality. Deferred bonuses kick in when least needed – when PC losses are low, not as needed, when PC losses are high. PCIR violates fundamental risk theory and insurance principles – eliminates the social benefits of insurance, reduces service capacity and quality and increases PC financial instabilities.

**Legal and Ethical Issues:** Largely unregulated insurance transfers, with no specific accounting standards, inadequate regulation and oversight, result in ethical conflicts, violated consumer trust, inadequate and unreliable service delivery, as well as substantial risk of white collar crime in the form of denial of services.

## Similarities and Differences Between Professional Caregiver Insurance Risk (PCIR) and Insurance

| | PCIR | INSURANCE |
|---|---|---|
| **Capital and Income** | | |
| Amount | Nonexistent for PCs | Varies by state |
| Form | None | Secure Investments/Cash |
| Oversight | None | SAP/GAAP/FASB |
| Investment expertise | Lmited | Substantial |
| Usual source of profits | Service delivery | Premiums and investments |
| **Risk Management** | | |
| Loss Premium | Yes | Yes |
| Expense Premium | Yes | Yes |
| Risk Premium | None | Yes |
| Risk management expertise | None | Actuaries/Underwriters |
| Overall Risk | Increases | Decreases |
| Who really bears the risk | Patients | Contracted Providers |
| Who is the real insurer | Professional caregivers | Insurance company |
| Reinsurance | Depletes inadequate premium | Calculated in premium |
| Consequences of large losses | Unanticipated – Bankruptcy, takeovers and consolidations | Anticipated/Managed |
| Time value of money 1 | Costs precede income | Substantial investment income potential |
| Time value of money 2 | Substantial premium withheld | Premium available for secure investments |
| Results | Highly unpredictable | Highly predictable |
| Profitability due to inefficiency | Unproven assumption | Profitability due to LLN and CLT, risk spread, actuarial, underwriting, and financial expertise |
| **Legal and Ethical Issues** | | |
| Regulation | None | State and Federal laws/regs |
| Accounting Requirements | None | SAP/GAAP/FASB |
| Contract Law/Case Law | Emergent | Substantial |
| Rights of consumers | Unclear | Substantial |
| Ethical issues of service provision | Inherent role conflicts | Dispassionate/Imperfect |
| Duties | Pt v pt, self v pt, family v pt | Duty to contractees |
| Non-performance of duties | Difficult to detect and pursue | Much oversight and case law |

## Impacts on Caregivers, Communities & Vulnerable Populations and Future Research

Professional Caregiver Insurance Risk describes health provider profit/risk-sharing mechanisms as insurance risk transfers and details health providers roles as insurers. PCIR affects marginalized communities and consumers by reducing service availability and quality, creating provider insolvencies and decreasing service capacity. Provider capacity as does insurer capacity, depends on providers/insurers being able to maintain operations under uncertain operating results. Large insurers manage risk better because they: Diversify risks geographically and by line of business; Have larger assets and greater risk management efficiencies due to the LLN and CLT; Use actuarial, underwriting, and management experts; and they achieve lower marginal costs and higher efficiencies of scale. Small communities and providers have fewer resources, higher average and marginal costs, cannot afford to use experts, and misunderstand their insurance risk assumption and risk management needs.

Caregivers must choose between diagnostic and treatment and insurance underwriting and claims management roles when assuming insurance risks. Proper, risk-adjusted premiums should cost more than insurers can charge in competitive insurance markets due to the explicit loss of insurance benefit. Reinsurance reduces provider premiums and pays reinsurers to assume risks PCs should never have accepted. High, rather than low, indices of suspicion of unethical actions should be assumed under PCIR.

## PCIR Impact on Providers & Consumers

As insurance, financial and clinical risks are transferred to smaller entities, the probability of large, uncovered, losses rises. The benefit of aggregate risk reduction through insurance is lost when public/private insurers transfer insurance risks to smaller entities. The greater aggregate risk that results means that small providers, marginalized consumers, and marginalized geographic regions, with limited financial and social capital will not, in general, be able to meet consumer needs

### Severely and Persistently Mentally Ill

Severely mentally ill people are not randomly distributed through the population, tending to aggregate in health resource scarce communities with limited financial and social capital. Extreme variations in client's needs and unmet costs make it difficult for providers to meet the high risk, high demand SPMI clients needs, impacting treatment plans, using lower cost, older medications, limited services and restricting service availability

### Poor Women and Children

Poor women and children gravitate to poor communities. They may occupy 'welfare' apartments in communities with limited financial and social capital. Such clients intensive needs and underfinanced costs make it difficult for providers serving many poor and marginalized clients, to manage their needs for preventive and restorative dentistry, physical and mental health remediation and health promotion services

### Rural & Inner-City Urban Communities

Financially compromised communities have many women and children, severely mentally ill, and disabled clients seeking care from very few, inadequately funded services, and exacerbate extant PCIR-induced financial instability in such facilities

### Consumers with Special Needs

Physically challenged consumers have limited access to sparse, overwhelmed services, face special problems due to limited mobility, bureaucratic procedures, time, and geographic constraints, thwarting efforts to access needed goods & services

### Future Research Needs

Cross-community and cross-population studies detailing impact of PCIR transfers on specific communities, populations, service providers.

Further exploration and documentation of the consequences of PC insurance risk assumption: financial, ethical, and criminal