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Ex Insurance Exec Reveals How He Outbargained Physicians

Robert Lowes | |October 20, 2015

NASHVILLE, Tennessee — Health insurers beat down physicians in contract negotiations with fuzzy numbers, run-arounds, and other ruses associated with used-car lots, practice consultant Ron Howrigon told attendees here at the Medical Group Management Association (MGMA) 2015 Annual Conference.

Howrigon should know. For 18 years, he worked in the managed care industry, running provider networks and negotiating contracts with medical practices. Now he coaches those same practices on ways to face off with his former employers at the bargaining table.

"When I worked on the payer side, we used to joke all the time that negotiating with physicians was like negotiating with somebody who brings a knife to a gunfight," said Howrigon, president and chief executive officer of Fulcrum Strategies in Raleigh, North Carolina. "You don't win many of those, so be prepared."

It is more important than ever for medical practices to forge good deals with private insurers, said Howrigon. The cost-cutting imperative of healthcare reform is making these companies more aggressive, "and when they get aggressive, they take it out on physicians." In other words, they try to reduce reimbursement.

Physicians faced with rising practice expenses can't expect significant pay raises from Medicare or Medicaid. "The only place you're going to get this revenue is through private payer negotiations," Howrigon explained.

Do Your Homework

The first thing physicians must do before they enter the ring with insurers is to take a hard look at their position in the local healthcare market, he said. How do they compare with other practices in their specialty? What value do they bring to the insurer?

He gave the example of a radiology group that charged more for mammographies than a competitor, but called back half as many women for a second screening because of more accurate diagnoses. That group could tell an insurer that it prevented unnecessary biopsies and surgeries, reducing downstream costs, said Howrigon.

Merely saying, "We're the best group in town," doesn't cut it.

"Every physician I ran into was the best in the field," he said. "Somebody had to be last in the medical school class, but I never found that person."

Next, scope out the opposition. Is the insurer profitable? If it is losing a lot of money, "now is not a great time to ask for a 20% increase," said Howrigon. In contrast, physicians might want to press an insurer for more favorable terms, knowing, say, that the state insurance department just fined it for abusive business practices. That vulnerability gives physicians leverage, he said. "The insurance company probably doesn't want another complaint filed with the insurance department."

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Physicians also need to know how an insurer's fee schedule compares with that of other payers. "Convert them to a weighted average of current Medicare," Howrigon advised. Physicians might be surprised to find out who their worst payer is.

Physicians heading into negotiations must set goals. What level of reimbursement does their practice need? How long a contract do they want? At what point should they walk away from the deal?

"You need to figure out what your opening position is, and what you're going to negotiate," said Howrigon. "You will not get your opening position."

"Our Lady of Perpetual Negotiations"

One key to successful negotiation is persistence. Medical groups need it when their initial request for a rate hike is dismissed with studied indifference — a favorite tactic in Howrigon's old playbook. He said he would send a fill-in-the-blank form letter citing "budgetary constraints."

"I had my secretary sign it," said Howrigon. "I'm sending a message to you that you're so unimportant that I won't take the time to draft a letter or sign it.

"The vast majority of negotiations ended right there. The provider will get the letter and say, 'Oh, I tried,' and let it die. For the cost of a stamp, I could get rid of a negotiation," he said.

A follow-up phone call will usually get the ball rolling again, Howrigon explained; however, health insurers will resort to other ploys to stymie physicians. Take simple delay, for example.

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"We used to call this 'our lady of perpetual negotiations'," Howrigon said. "If you come to me with a request for an increase, the longer I can keep that increase from happening, the better for me.

"When I was at Cigna, I held the record for the longest hospital negotiation. Three and a half years. For three and a half years they got no increase."

Howrigon said a gambit called "two steps forward, three steps back," or "negotiating on a treadmill," can help stretch things out. "Every time we got something resolved, we brought up a new issue," he said.

"Limit of authority" has the same effect.

"I used to do it when I was on the payer side," he explained. "You ask for something, my response is, 'I have to check with corporate. Oh, you want a language change? Well, legal will have to review that. I need to talk to sales. The actuaries. Marketing.' I had a ton of that stuff.

"This is basically the used-car salesman approach. 'If it were me, I'd sell you the car for that, but I have to talk to my sales manager'."

"The good news is, you can do it to them. If the insurer is saying, 'You have to agree to this,' you can say, 'I need to talk to the physicians. I need to talk to my partners. Our accountant. Our lawyer.'

"All of these tactics work both ways," he pointed out.

Don't Trust Their Numbers

Health insurers will resort to "funny math" to win at contract negotiations, said Howrigon. So don't trust their numbers.

For example, an insurer might offer a 10% rate hike. That seems simple enough, but rates are usually expressed as a

percentage of the Medicare fee schedule, which can confuse matters.

"You're currently being paid 150% of Medicare," said Howrigon. "You negotiate a 10% increase. You get a contract back at 160% of Medicare. That's not a 10% increase. 10% of 150% is 165%."

Howrigon recalled a similar ploy when he represented a medical group in contract negotiations. The insurer proposed rates — some up, some down — for a long list of services by billing code and announced that they amounted to an average increase of 7.8%. However, it was an unweighted average of the individual percentage changes, which included some whopping increases for codes that the group rarely, if ever, billed. When Howrigon calculated the weighted average, factoring in the likely volume of each service, that handsome pay raise shrank to an overall 0.2%.

Howrigon said the seeming errors in his examples aren't accidental, given that health insurance actuaries don't make math mistakes. "If there is something wrong coming from a payer, it's intentional," he said. "Do your own calculations."

Offensive Moves that Practices Can Take

Besides teaching MGMA attendees how to defend themselves against an insurers' negotiating tricks, Howrigon shared several offensive moves that they could use to win concessions.

A medical group, for example, can threaten not to sign the contract. This bluff only works, however, for practices deemed essential to an insurer's network.

"If you're one dermatologist in the middle of Atlanta, the nonparticipation bluff doesn't work," said Howrigon. "If you're the only neurology group in the whole city, well, now you've got something."

Similarly, physicians can suggest that they intend to sell the medical practice to a hospital if they don't get better rates. "Insurers don't like this," said Howrigon. And for good reason. Studies have shown that when physicians go to work for hospitals, healthcare costs increase.

Insurers also can be shamed in the "court of public opinion" into granting better contract terms. Howrigon once represented a medical practice that asked an insurer to pay higher rates for mammography because it had invested in costlier, but more effective digital diagnostic technology. When the insurer said no, Howrigon threatened to mail patients a letter explaining that they would be tested using older, leftover analog machines because their insurance company refused to pay for the new equipment.

"Amazingly, they started to negotiate," said Howrigon.

Why This Negotiation Expert Switched Sides

Shame was instrumental in Howrigon's decision to leave the health insurance industry and launch a company that advises the very medical practices he once battled with.

"I left the payer side and started this company when my second child was born," Howrigon told MGMA conference-goers. "I was working for Blue Cross of Pennsylvania. I had been negotiating a decrease in reimbursement for the obstetrician who was delivering my child, much to the chagrin of my wife.

"We had a C-section. It was 2 in the morning. Everything turned out great. I'm holding a beautiful baby boy. I'm thanking everybody in the room. The obstetrician did what your doctors do every day. He said it's all part of the job. Glad everything worked out," he explained.

"As he was leaving, he stopped and turned around and said, 'You know, Ron, the next time you take money out of a doctor's pocket, remember tonight. I was here'."

"I felt half an inch tall. I took family medical leave and said if I can start a company in 90 days, I'm never going back."

The audience broke out in applause.

Medical Group Management Association (MGMA) 2015 Annual Conference. Presented October 13, 2015.

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Cite this article: Ex Insurance Exec Reveals How He Outbargained Physicians. *Medscape*. Oct 20, 2015.