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Managed Care Companies Seek To Curb Radiology Cost Trends

Employers are bracing for a third straight year of double-digit premium hikes by managed care plans, and in some parts of the country they're getting knocked for a loop. In California, for example, the state's Public Employees Retirement System (CalPERS), which covers 1.2 million lives, is getting slammed with an average HMO premium increase of 25% for 2003. In Illinois, the Chicago Business Group on Health, which negotiates HMO rates on behalf of 14 employers with 70,000 employees and dependents, says it's getting hit with a 19% premium hike.

Driving the premium increases are rising medical costs, and one component fueling the rise has been outpatient radiology expenses. At managed care plans for commercial members, these expenses jumped 16% in 2000 to \$9.28 per-member per-month (PMPM), according to an analysis of claims data by MedSolutions Inc. (Franklin, TN), a radiology benefit management firm. The fastest growing modalities included MRI costs, which increased 22% to \$2.49 PMPM; CT scanning, up 21% to \$1.84 PMPM; and nuclear medicine, up 18% to \$0.87 PMPM. Furthermore, executives at the four leading radiology benefit management firms tell *DIIR* that since 2000 the cost trends for outpatient radiology have accelerated to more than 20% per year.

The explosion in outpatient radiology costs is being driven by greater utilization of new technologies and has not gone unnoticed by managed care plans. Most major managed care companies, including Aetna, Cigna and UnitedHealth Group, have contracted with radiology benefit management firms to help them rein in cost trends in various regions of the country and are eagerly seeking more help.

In a nutshell, radiology benefit management firms provide ordering physicians with pre-certification, consulting and scheduling of radiology exams. Health plans pay \$0.21-\$0.30 PMPM for these services, which can cut radiology cost trends by a third. Below we highlight the four leading firms in this service sector.



MEDSOLUTIONS INC. currently provides radiology benefit management services to approximately 4.5 million health plan members, including 940,000 lives under capitation. **Curt Thorne**, chief executive, tells *DIIR* that his company is approaching an annual revenue run rate of \$50 million and may seek an initial public offering within the next 12-18 months. Financial backers include MedCare Investment Fund (San Antonio, TX) and Banc of America Securities (New York City).

Outpatient Radiology Cost Trends

Modality	1999	2000	% Chg
MRI	\$2.04	\$2.49	22
Nuclear medicine	0.74	0.87	18
CT	1.52	1.84	21
X-ray	1.29	1.38	7
Ultrasound	1.43	1.64	15
Other	0.99	1.06	7
All modalities*	\$8.02	\$9.28	16

*Excludes mammography

Source: MedSolutions' analysis of 130M member months of claims data

MedSolutions' executive vice president of sales and marketing, Jim Phifer, says the company is focused on providing pre-certifications and scheduling for only the most expensive procedures (MRI, CT, PET and nuclear imaging). These procedures represent only 17% of the total number of diagnostic tests provided in outpatient settings, but 55% of the total cost, according to Phifer. These hi-tech procedures are the main drivers of the accelerating cost trends for outpatient radiology, he says.

Diagnostic equipment manufacturers (GE, Siemens, Philips, etc.) are increasingly advertising their new high-tech imaging equipment directly to consumers, Phifer notes. Advertising from full-body imaging centers like CT Screening International (Irvine, CA) and AmeriScan (Scottsdale, AZ) is also heightening consumer awareness. "More and more patients are going to their primary care physician and asking for new and expensive diagnostic tests," says Phifer, adding that many physicians are not up-to-date on the latest imaging technologies and often order the wrong test or the wrong sequence of tests.

MedSolutions employs six radiologists, one neurologist, one thoracic surgeon and two emergency physicians (all board-certified). These specialists work at MedSolutions call center in Franklin, a suburb of Nashville, and consult with physicians before tests are ordered. MedSolutions also has negotiated testing discounts with about 1,200 imaging centers in more than 40 states and steers ordering physicians to those sites.

In the past, Phifer acknowledges, managed care companies did not pay too much attention to radiology costs, but the recent spike in cost trends changed that. MedSolutions will end the year, he says, with contracts covering five million health plan members, up sharply from 1.5 million members at the start of the year. Key contracts include Aetna, Cigna and UnitedHealth Group. In addition, Phifer says MedSolutions will soon expand into radiology benefit management for the workers' compensation market.