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Patients And Profits: The Relationship Between HMO Financial Performance And Quality Of Care

Authors: [Patricia H. Born](#) and [Carol J. Simon](#) | [AUTHORS INFO & AFFILIATIONS](#)

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Abstract

This paper matches health plans' financial performance with information on quality ratings as measured by 1997 Health Plan Employer Data and Information Set (HEDIS) 3.0 data. We address three policy questions: (1) Is the quality of care delivered by a plan influenced by the plan's financial performance? (2) Do for-profit plans behave differently than nonprofits do? (3) What other factors are associated with variation in plan performance? We find, first, that more profitable plans achieve higher quality scores in subsequent years. Profits may enable a plan to pursue higher quality of care and invest in better management systems. Second, there is little systematic evidence that for-profit plans have different HEDIS scores than not-for-profits have.

Topics:

[Quality of care](#)[Healthcare Effectiveness Data and Information Set](#)[For-profit status](#)[Health maintenance organizations](#)[Markets](#)[Managed care](#)[Quality improvement](#)[Quality measurement](#)[Preventive care](#)[Organization of care](#)

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NOTES

1.

The Bipartisan Consensus Managed Care Improvement Act of 1999, which passed 7 October 1999, allows patients the right to sue their health plan. However, if a plan complies with an external reviewer's decision, it may not be held liable for punitive damages. See H.R. 2723, 106th Cong., 2d sess.

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2.

For a survey of studies of plan performance, see R.H.Miller and H.S. Luft, "Managed Care Plan Performance since 1980: A Literature Analysis," *Journal of the American Medical Association* 271, no. 19 (1994): 1512–1519.

[Crossref](#) | [PubMed](#) | [Google Scholar](#)

Studies of financial performance include R.Feldman, D. Wholey, and J. Christianson, "Effect of Mergers on Health Maintenance Organization Premiums," *Health Care Financing Review* 17, no. 3 (1996): 171–189

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; and P.Born and C. Geckler, "HMO Quality and Financial Performance: Is There a Connection?" *Journal of Health Care Finance* 24, no. 2 (1998): 65 –77.

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4.

Prior studies suggest that the quality measures collected ignore the patient perspective, so they are not useful for consumers' decision making. See S.Edgman-Levitan and P.D. Cleary, "What Information Do Consumers Want and Need?" *Health Affairs* (Winter 1996): 42 –56

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; and J.R.Gabel, K.A. Hunt, and K. Hurst, "When Employers Choose Health Plans Do NCQA Accreditation and HEDIS Data Count?" (New York: Commonwealth Fund, September 1998).

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