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AVALON HEALTH ECONOMICS

Vision and Dental Plan Non-Covered Services and Materials Mandates: The Experience in Texas and North Carolina

Background. Some limited-scope vision and dental coverage ("vision plans" and "dental plans") force doctors of optometry and dentists to charge specific rates for services and materials *not* covered by the plan ("non-covered services," or NCS).

Most states (40) already have in place laws which prohibit either vision or dental plans (or both) from engaging in this anti-patient, anti-competitive practice. At the federal level, H.R. 3323, in part, is designed to complement these state laws by prohibiting this practice on the part of plans regulated at the federal level.

Economics. The practice on the part of plans is an example of monopsony, which is an economic term referring to a practice that is similar to a monopoly, but on the "buyer's" side; that is, whereas monopoly is defined as a single (or concentrated) producer, monopsony is defined by a single (or concentrated) buyer. In the case of NCS, the plans are essentially using their market power to dictate pricing structures on items and services for which they bear no financial responsibility.

This practice is not necessarily undesirable from a consumer perspective, but only if there are no negative externalities from the practice. If providers were "overcharging" patients, and the plan used its monopsony buying power to reduce all fees charged to its members, then consumers would benefit. However, if providers are not "overcharging" patients, then the fee limits can be used to essentially "transfer" some part of provider's operating margins to the plans, with no gain for consumers (and, at times, may actually be detrimental to consumers through higher overall costs to compensate for these transfers.) The transfers take place as plans use the fee restrictions as non-price competition to compete with each other.

New Study. Avalon conducted a study of hundreds of doctors of optometry and dentists in North Carolina and Texas to assess whether those doctors in these two states were effected by laws in those states prohibiting plans from forcing providers to adhere to NCS mandates. The working hypothesis was this: if the laws did not result in marked change in charges and payments for typical NCSs, then it is clear that providers had not been "overcharging" patients. If providers had not been overcharging patients, then the implication is that the kind of monopsony behavior exhibited by plans with respect to NCSs is not the kind that's good for consumers—it's the kind designed to transfer operating margins from providers to plans without benefiting consumers.

Findings. Our research found that for doctors of optometry and dentists in both states, even after the enactment of laws barring NCS mandates, the vast majority of providers continued to offer normal discounts and receive payments from patients that were below their charged amounts. Thus, the laws had no effect on the providers—they continued billing their "usual, customary and reasonable" (UCR) amounts and continued receiving amounts up to 50% less than their charged amounts, just as in the years prior to the NCS laws. It is clear from the findings that the providers were not "overcharging" for the services before the NCS laws and they continue to not overcharge for the services in the presence of the NCS laws.

Our research also found that in these states, NCS mandates, when in place before the enactment of state-based NCS laws, led to higher overall costs for all consumers in the vision and dental plan markets. While vision and dental plan mandates on doctors may have artificially set pricing structures (without any net benefit for patients, as discussed above) for some patients with this limited-scope vision and dental coverage, the NCS mandates have another effect - they lead to higher overall costs for these consumers and, did especially, for all other consumers in the market as doctors were forced to compensate for the "transfer" of operating margins to the plans due to NCS mandates.

Conclusions. Our research suggests that the kind of monopsony behavior engaged in by vision and dental plans is not benefiting consumers (and is actually harming consumers in the short-term and even more in the long-run) but is instead benefiting only the plans themselves.

The full report will soon be available for viewing and download on the Avalon Health Economics website at: www.avalonecon.com. *-John E. Schneider, PhD, Robert L. Ohsfeldt, PhD*, and *Cara Scheibling*