Factors Influencing NCQA Accreditation Decisions of HMOs

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Abstract

This paper describes how National Committee for Quality Assurance (NCQA) accreditation of a managed care plan can be used as a signal of plan quality. A model is then developed examining the factors affecting the probability that a plan will be accredited. Larger and older plans are more likely to be accredited. For-profit plans are also more likely to be accredited. Competition in the marketplace from other accredited plans increases the probability of a plan being accredited. The results indicate that plans that have lower costs of accrediting as proxied by size and age are more likely to be accredited. (JEL I00)

Introduction

The decision to become accredited is important for several reasons. First, health care consumers are often encouraged to use accreditation data when choosing a health plan. If accredited plans differ in a meaningful way in quality from plans that are not accredited, then accreditation information will be useful to purchasers.

Second, some people have advocated that all health plans be accredited. For example, in testimony before the House Ways and Means Committee the head of government programs for AETNA-U.S. Healthcare argued that the Healthcare Financing Administration needed to implement procedures that would deem a plan to meet quality standards using accreditation status from the NCQA or other accrediting agencies [U.S. House of Representatives, 1999]. Such a policy could potentially cause problems. If accreditation is a signal of health plan quality, then a requirement that all plans become accredited would diminish the value of the signal.

Health plan information is generally available to potential enrollees by their employer, direct mailings or the local press. A Kaiser Family Foundation [1996] survey on quality information in health plans showed that over 87 percent of respondents felt that current certification, licensing, and accreditation activities ensured quality of care somewhat effectively to very effectively. Yet, 69 percent of the respondents indicated that the opinion of family and friends was a good source of information about plans, but only 41 and 36 percent indicated doctors and employers (respectively) were a good source of information about health plan quality.

The results of this survey confirm Pauly's [1988] argument that reputation goods—those goods whose quality is judged primarily on the basis of information from friends who have consumed the good—are prevalent in medical care. Unlike most goods, consumers generally are unable to obtain information about the price or quality of medical care. In the Kaiser survey, 52 percent on the respondents indicated that when

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making a choice between two health plans, they would choose a plan recommended by friends over a plan that is rated much higher by independent experts who evaluated the plans [Kaiser Family Foundation, 1996]. The success of accreditation as a strategy for increasing enrollments depends to a large extent on how much consumers value this information and the switching costs inherent in changing plans and potentially physicians.

Many Health Maintenance Organization (HMO) enrollees receive their insurance through their employer and often are given only one plan to choose from. Larger employers, as agents for their employees, may be more likely to take the time and use the resources necessary to incorporate accreditation information in their plan choices. A 1997 KPMG survey shows that only 49 percent of employers offering HMOs plans are familiar with NCQA accreditation, but larger firms were more likely to be familiar with accreditation [Gabel et al., 1998]. NCQA accreditation may offer an advantage to an HMO in securing contracts with large employers, which in turn may be a key determinant of market survival for an HMO.

The mixed evidence on the impact of quality indicators on individual behavior brings into question why firms become accredited. Beaulieu and Epstein [2002] examine accreditation and its effects on enrollment and relationship to HEDIS measures. This paper examines the determinants of NCQA accreditation status for managed care companies.

Accreditation Process and Decision

To become accredited, plans must meet NCQA criteria for quality in all parts of its delivery system—physicians, administrative services, hospitals, and other providers. The NCQA review entails on-site visits by a team of physicians and managed care experts. This team reports to the national oversight committee which compares the team’s evaluation of the plan to the NCQA standards. Plans can receive three year, one year, provisional, or no accreditation depending on how well they meet the standards set by the NCQA [National Committee for Quality Assurance, 1999].

The costs of becoming accredited can be quite high. For example, in 1999, the NCQA charged $35,000 for a plan to apply for accreditation. Plans with 60,000 to 100,000 members generally need an accreditation staff of at least four, plus the time of other members of the organization to provide data for accreditation [Shiffler, 1998]. Plans must document at least a two-year history of compliance with NCQA standards and show evidence of continuous improvement.

A firm’s decision to become accredited can be modeled similar to a worker’s decision to obtain education as developed in Spence’s [1973] signaling model framework. Potential plan enrollees are not sure about a plan’s quality at the time they enroll and this quality information may not become available immediately. For example, enrollees generally do not know the quality of the various services they may receive in their health plan until they actually use the system. At that point, if the enrollee is dissatisfied with the quality, then the enrollee can leave the plan during the next open enrollment or complain to the plan administrator and hope that the company changes plans.

In many instances, plans can alter the observable quality characteristics, but at a cost. Also, improvement in these characteristics will increase enrollments only if the information about the quality improvements becomes available to potential enrollees (or their agents). Accreditation may be a low cost way to provide summary information about a plan’s quality to potential enrollees. On the margin, this can increase the attractiveness of a plan and the probability that an individual will enroll.