

CITY OF CAMBRIDGE
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PERSONNEL DEPARTMENT
MICHAEL P. GARDNER
Director

February 21, 1996

MEMORANDUM

TO: Robert W. Healy
City Manager

FROM: Michael P. Gardner
Personnel Director

RE: Council Order #040, dated 1/29/96 RE: Impact of Contract Between the
Hospital and Blue Cross/Blue Shield

According to John O'Brien, CEO at the Cambridge Hospital, the potential lost revenue from the proposed changes in the Blue Cross/Blue Shield Hospital contract would be approximately \$260,000 per annum. This loss is based upon the current volume of business between the Hospital and patients insured through all lines of Blue Cross/Blue Shield products.

The City, as a whole, stands to gain from this Blue Cross initiative, assuming utilization and other aspects of medical inflation remain largely unchanged. In the most recent period reviewed (FY 95) \$4.9 million was paid by Blue Cross/Blue Shield to hospitals for inpatient services. Any cost moderation or decrease that comes to the hospital industry in the Greater Boston area as a result of this Blue Cross contracting effort should be helpful in moderating our costs of employee (and retiree) health insurance. Being able to take advantage of improved Blue Cross bargaining power with hospitals through its HMO products was a principal motivation for our effort to convert our employee health coverage from indemnity to HMO products in the period 1992-95. The most recent Blue Cross contracting initiative bears this out. Services provided under indemnity contracts remain generally more expensive than the same services provided under the HMO.

Because our financing arrangement with Blue Cross is cost plus rather than premium based, our ultimate costs depend upon both the utilization rate for services and the price of those services. Although unit cost reductions do not guarantee actual cost reductions to the City, they should generate savings, as affected by utilization rates and general medical inflation.



EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

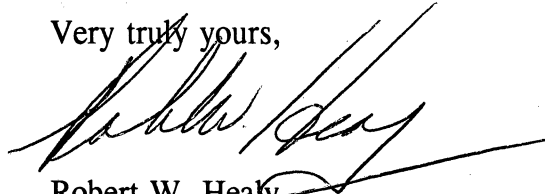
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March 4, 1996

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 19, regarding the impact of the contract between The Cambridge Hospital Community Health Network and Blue Cross/Blue Shield, received from Personnel Director Michael P. Gardner.

Very truly yours,



Robert W. Healy
City Manager

RWH/mec
attachment

Consent Agenda #6

S-82

Relative to Awaiting Report Item
Number Nineteen, regarding the
impact of the contract between
The Cambridge Hospital Community
Health Network and Blue/Cross
Blue Shield.

In City Council March 4, 1996

Placed on file.