**West Coast Bell System**

James Todd is the recently appointed director of employee benefits for West Coast Bell, a regional telephone system. The West Cost Bell medical benefits system insures over 60,000 employees and dependents. Over the last 5 years its medical costs have been increasing by over 20% annually. James knows that many companies, when facing this annual increases, have tried to pass some of the medical costs to their employees, generally by increasing the deductible allowance for each treatment visit. He has decided to look into the possibility of developing a managed-care network. Managed-care networks are a recent development in health care. They involve a company contracting with a group of physicians and hospitals to provide a variety of healthcare services. The company monitors the cost of the care provided to its employees and holds discussions with those whose costs are high. In some cases, the relationship between the company and either the hospital or physician will be terminated. Some companies using managed-care networks have held their healthcare cost increases to less than one-third of the previous levels.

James has recently read a study that reported on the cost of an outpatient procedure that is done to determine the extent to which a patient’s arteries are closed. One hospital in Kansas City charged over $5,000 for the operation while a second, also in Kansas City, charged less than $3,000. James decided to use this operation to determine whether categories of hospitals tended to charge less for this procedure. The 4 categories of hospitals he identified were as follows: university-related, religious affiliated, municipally owned, and privately held. He contacted 10 hospitals on the West Coast in each category, asking what they charged for this operation. Not all responded, and some who did provided data that could not readily be compared with that provided by the majority of respondents. The reported costs are shown as follows.

|  |  |  |  |
| --- | --- | --- | --- |
| **University-Related** | **Religious Affiliated** | **Municipally Owned** | **Privately Held** |
| $6,120 | $4,010 | $4,320 | $5,100 |
| 5,960 | 3,770 | 4,650 | 4,920 |
| 6,300 | 3,960 | 4,575 | 5,200 |
| 6,500 | 3,620 | 4,440 | 5,345 |
| 6,250 | 3,280 | 4,900 | 4,875 |
| 6,695 | 3,680 | 4,560 | 5,330 |
| 6,475 | 3,350 | 4,610 | 5,415 |
| 6,250 | 3,250 | 4,850 | 5,150 |
| 6,880 | 3,400 |  | 5,380 |
| 6,550 |  |  |  |

James plans to prepare a report on this study for presentation to the West Coast Bell committee on health and benefits.