Magellan Health Services Receives Stream of Complaints for Its Care

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As a country doctor in Colorado, Marilyn Foelske is used to tangling with health-maintenance organizations. But nothing, she says, compared with her run-in with Magellan Health Services Inc.

The patient, a family member, was an acutely depressed adolescent with thoughts of suicide. When Dr. Foelske called her Blue Cross & Blue Shield health plan, she got a toll-free number for Magellan, the nation's largest managed-care company for mental health and treatment of substance abuse. The half-dozen psychiatrists Magellan suggested were all booked full or no longer taking Magellan patients.

When she tried Magellan again, she says, she was directed first to a hospital that had no child psychiatrist on staff, and then to a hospital 100 miles away. When she drove there, she found that it didn't admit children under 16.

As a last resort, Magellan approved a five-day stay at an out-of-network children's hospital, Dr. Foelske says. But midway through the stay, a Magellan supervisor called her to say inpatient care wasn't necessary. She says Magellan is refusing to pay the $11,900 bill. Magellan declines to comment, citing its obligation to preserve patient confidentiality.

"I'm not a hysterical person, but I just fell apart," Dr. Foelske says. "I mean, why have insurance if they can't help you when some unexpected thing happens?"

A New Way

Dr. Foelske had just met the world of managed behavioral care, which with little public attention has transformed the treatment of mental illness and substance abuse. For fixed annual fees, companies like Magellan contract with insurers and large employers to act as gatekeepers, using their own medical guidelines and networks of hospitals and therapists to control the kind and amount of care patients receive.

Such firms sprang up in response to soaring costs for mental-health benefits, which a decade ago were consuming as much as 12% of some employers' health-care budgets. Behavioral managed care has since grown into a $4 billion industry. Of the estimated 250 million Americans with health insurance, 158 million are enrolled in some form of managed mental-health program, says Open Minds, a consulting firm in Gettysburg, Pa. More than a third of them are in Magellan plans.

As Magellan has grown, so have complaints. Getting its approval to begin counseling can take as long as 35 days, according to complaints under review by Maryland's insurance
commissioner. Therapists tell of hours spent on paperwork and haggling with Magellan's case managers for authorization to continue treatment. Many providers have quit its networks, citing heavy-handed oversight, sharp cuts in reimbursement levels and long delays in getting paid. Some who have stayed in the network are too booked to see new patients.

**The Doctor Is Out**

The result: "There's a whole phantom network," says Sandra Hass of the American Psychiatric Association. "The managed-care companies tell the public they have certain providers on their panel, but when you start calling, they're not in the network anymore or they're not available for a long period."

Magellan says that happens roughly 10% of the time. It says that when it is notified, it will pay for treatment outside its network.

Some of this has to do with an acquisition spree. Six years ago, the company wasn't even involved in managed care. Called Charter Medical, it ran a chain of psychiatric hospitals. Then it bought control of a behavioral managed-care company, intending to integrate the two businesses. This didn't pan out, and in 1997 the company abruptly switched gears. Renamed Magellan, it shed most of its interest in the hospitals at a loss and started buying up more behavioral managed-care firms. Now the 56 million people in plans it runs are more than the combined total of its two biggest rivals, a unit of UnitedHealth Group and the ValueOptions Inc. unit of FHC Health Systems.

Besides piling on debt, the acquisitions have been a huge administrative headache for Magellan. The main three acquired firms all had different clinical guidelines, therapist networks, and systems for keeping records and processing claims. "We have definitely had some challenges as we've integrated these companies," says Henry Harbin, Magellan's chairman and chief executive. But he says the company plans to have the systems merged in about 18 months, is streamlining paperwork by relying more on the Internet, and has recruited a former Aetna Inc. chief financial officer, Daniel C. Messina, who is now Magellan president.

"We recognize that our company needs to address the changing needs of our members, customers and practitioners," Mr. Harbin says. "I believe Magellan has made significant progress in this regard."

He also says much of the criticism is just backbiting by the medical establishment. "That's not to say we don't listen to industry complaints when we've got a problem," he says. "But the impetus is that American physicians and hospitals don't like some of the cost controls and oversight that have been placed on them by managed care and they are in an economic battle to fight back."

Whatever the case, plan members and corporate customers have been demanding better performance. In addition to other lawsuits, plaintiffs in two suits in federal court in St. Louis, seeking class-action status, accuse Magellan of committing fraud by having hidden incentives to limit care for cost-saving reasons. Magellan denies the allegations.
Although many complaints about behavioral managed care apply to the industry as a whole, Magellan's criteria for how much care patients get are stricter than competitors', says James T. Wrich, a consultant who compares plans for employers. He contends Magellan has an added incentive to limit care because its rapid growth has loaded it with debt that it has to service. The company, with $1.87 billion of revenue in the fiscal year ended Sept. 30, had $1.05 billion in debt, and debt payments ate up 55% of its operating earnings. Magellan had a $55.8 million net loss in fiscal 2000 but net income of $7.1 million in the Dec. 31 quarter.

"They're more aggressive in terms of ratcheting down access to care, all types of care," says Mr. Wrich, who is in Madison, Wis.

Mr. Harbin denies debt has affected operations. He says Magellan's guidelines for authorizing treatment are "very much in the norm of our competitors."

A Case of Anorexia

But the experience of Howard Kessler, a Philadelphia-area radiologist, shows how tough Magellan can be. In late January, Dr. Kessler's 15-year-old daughter was diagnosed by a psychologist as anorexic. Despite weekly visits to the psychologist and a nutritionist, she lost 23 pounds by March, to just a little over 80% of her normal body weight, according to family records.

After she stopped eating completely and complained of dizziness in March, her psychologist, nutritionist and pediatrician all recommended hospitalization at the Renfrew Centers in Philadelphia. Renfrew specializes in eating disorders. When it called Dr. Kessler's health insurer, Independence Blue Cross in Philadelphia, for authorization, it was directed to Magellan.

Magellan said its criteria didn't call for hospitalization. "All I was told when I talked to this medical director at Magellan was this particular admission was denied," Dr. Kessler says. "They didn't give me any other option."

Medical criteria used by a competitor, United Behavioral Health, say that "an immediate red flag warning that points to hospitalization is rapid, acute weight loss to less than 85% of normal." But Magellan generally won't authorize treatment for anorexia until patients have lost 25% of their weight. Dr. Kessler says his daughter would have had to drop nearly 10 more pounds, to less than 94 pounds, before Magellan would have paid to hospitalize her.

Reversed by Reviewer

Instead, he wrote a $19,708 check for 28 days at Renfrew and appealed Magellan's decision to Blue Cross's medical director, while making persistent calls to Blue Cross executives. Finally, an outside physician reviewer reversed Magellan, citing "severe" low blood pressure, "severe dietary restriction -- 'the patient had basically stopped eating' -- and depression." The reviewer authorized nine days in the hospital, with any further care up to Magellan.
Dr. Kessler notes that, as a doctor and a former medical director for Aetna, he knows how to challenge decisions and can afford to pay for hospitalization. But "how about all the people and their families who don't have the means, who don't know how the system works and get all these walls put up in their face?" he asks.

Magellan says most anorexics who fall to 85% of their prior weight can be treated effectively as outpatients or with partial hospitalization. It says board-certified psychiatrists make all determinations of medical necessity, using its guidelines. "The fact that a decision is overturned is not an indication of a flaw in the management of care," the company says. "This is exactly the way the system should work."

Pressure from Aetna

Neither Magellan nor Independence Blue Cross will discuss the Kessler case, and Independence won't comment on Magellan's performance. But others have been pushing Magellan to improve. Aetna, for which Magellan handles behavioral cases, complained early last year about a range of issues.

Aetna wants members of its managed-care plans who call Magellan to be able to speak with a care manager within 30 seconds of the automated phone greeting. It says referrals to therapists should take no more than six hours, and appointments for nonemergency counseling should be available within five days. But Aetna found that callers to Magellan, some in emotional crisis, were left on hold as long as 15 minutes, says a person familiar with the situation. Aetna also found that the therapist network was inadequate in some regions, and that referrals and appointments took too long to get.

"We have been dissatisfied with several aspects of our relationship with Magellan, and it's a major concern with us," says an Aetna spokesman, David Carter. (Through Aetna, Magellan provides care for some employees of Dow Jones & Co., publisher of The Wall Street Journal.)

Mr. Carter says that in response, Magellan quickly beefed up its provider network. Telephone response time improved with added staffing at a regional service center in Pennsylvania, where calls from Aetna members are handled. But Aetna continues daily monitoring. Magellan says, "If there are outstanding issues with a customer, we work on them until our customer is satisfied."

Humana Inc., a managed-care company based in Louisville, Ky., decided in December not to renew a Magellan contract in Kentucky because "claims weren't being serviced," says Humana spokesman Richard Brown. Losing business is certainly disappointing, says Magellan's Mr. Harbin, but he adds that "it's not unusual for us to win business away from competitors who have experienced the same issues."

Phantom Network

In Denver, meanwhile, Magellan continues to refer patients to providers who refused to be part of Magellan's network when it won a contract from Anthem Blue Cross & Blue Shield two years ago. When Magellan took over, it immediately cut the fees its predecessor had paid by 20% to 30%, says Doris Gundersen, president of the Colorado
Psychiatric Society. "I wrote a letter of resignation," Dr. Gundersen says. "I contacted the network manager for Blue Cross Blue Shield. I posted a sign in my office alerting patients that I'm not in Magellan's network. I've done everything short of taking an ad out in the local newspaper to announce that position, and I still get referrals from them."

A group called the Patient Advocacy Coalition in Colorado called all 34 psychiatrists on Magellan's referral list in Denver and Boulder last August. Twenty-three were either no longer in Magellan's network or not available. Four had moved or disconnected their phones. Two didn't return messages. One turned out to be a kidney specialist. "Only four were taking Magellan plan members," says the group's head, Heidi Frey.

Magellan's response is that availability of psychiatrists in the Denver area has been a problem for all managed-care companies, and that it has raised reimbursement rates to attract more.

Even some companies Magellan cites as satisfied customers give it mixed reviews. One is Ernst & Young LLP. Magellan provides behavioral care for the firm's employees directly, rather than through an insurer. Sandra Turner, director of Ernst's employee-assistance plan, called providers on Magellan's lists last August and found that some addresses and phone numbers were wrong, while some other therapists were retired or had quit Magellan's network. One was dead.

"The explanation was they were in the process of merging the provider networks from the predecessor companies that formed Magellan," she says. "We were really upset about the situation, and we made it very clear to them that we expected quick action." Magellan now checks the accuracy of its information before giving therapists' names to Ernst employees, Ms. Turner says, which is "180 degrees from what happened before."

In Maryland, the insurance commission has fined Magellan $300,000 for violating a prompt-pay law for health plans, and for failing to give patients a complete directory of therapists. Regulators continue to investigate complaints of long delays in authorizing treatment. Magellan says the problems for which it was fined have been corrected.

**Shifting Legal Ground**

"They were very responsive, which is a big improvement," says Maryland Insurance Commissioner Steven Larsen. "But there's still a long way to go." Magellan says it is working to address all of Mr. Larsen's concerns.

In the courtroom, HMOs until recently were protected, because disputes over quality of care fell under the Employee Retirement Income Security Act, which sharply limits damages. But now courts have begun ruling that the law doesn't protect HMOs. Meanwhile, Congress and at least two dozen states are considering laws similar to one passed in Texas that gives patients a right to sue health plans for negligence and malpractice.

One such suit was brought by the family of Joseph Plocica, who at age 68 committed suicide three years ago, one day after being discharged from a Magellan-network hospital in Fort Worth. The suit contended he was discharged prematurely after a third suicide
attempt because of pressure from Magellan to keep average hospital stays to five to six
days.

Denying that, Magellan faulted Mr. Plocica's psychiatrist for not appealing its decision to
deny further hospitalization. A state-court judge in Fort Worth rejected that argument,
and, with the case about to go to trial last September, Magellan settled it, on undisclosed
terms.