

**USC** Schaeffer

Leonard D. Schaeffer Center  
for Health Policy & Economics

# Limited Networks

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in Health Care

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# Economics of Networks (1)

- **Context for network strategies**
  - **Insurer role as bulk purchasing agent for enrollees**
    - Approaches to use size to get lower prices
  - **Provider market becoming more consolidated**
    - Horizontal mergers
    - Hospital acquisition of physician practices
    - Strong headwind for purchasing

# Economics of Networks (2)

- **Insurer leverage with providers based on ability to shift volume from high-priced providers to others**
  - **Network strategy potentially more potent approach than high deductibles and price information**
    - **Simpler tasks for enrollees – less information to gather and process**

# Economics of Networks (3)

- **ACA exchange is ideal marketplace for narrow network plans**
  - **Enrollee sensitivity to premium differences**
    - Affordability a challenge for most in this market
    - Tax credits do not vary with plan purchased
    - Metal tiers make plan comparisons easier
  - **Absence of “one size fits all” requirement**
- **Almost half of ACA networks are narrow (McKinsey)**

# Price, Efficiency, Quality (1)

- **Initial focus of limited networks on unit prices**
  - **Shifting volume to lower-priced providers**
  - **Negotiating lower prices**
  - **Longer-term potential to spur provider efforts to contain costs**
    - Market-level effects of growth in limited network plans
      - Magnifies stakes for providers

# Price, Efficiency, Quality (2)

- **Potential to assess broader measures of price – and quality**
  - Per episode
  - Per enrollee over a year
  - Basis for dropping providers from network
  - An enhancement *when analytic tools good enough*
  - Analytic parallels in reformed payment
    - Progress in defining bundles and measuring quality applicable to both

# Narrow vs Tiered Networks (1)

- **Narrow networks more powerful tool**
  - **Stronger steering incentives**
  - **Resulting larger discount on premium**
- **But tiered networks have potential for broader consumer interest**
  - **Choices at point of service rather than for a year**
    - **Popularity of PPOs and tiered formularies**
  - **More compatible with broadACOs**
    - **ACO as a tier – California model**

# Narrow vs Tiered (2)

- **Why so few tiered networks?**
  - **Insurance exchanges a favorable environment for narrow network products**
    - But employer plans a good environment for tiered networks
  - **Contracting practices blocking the approach**
    - Provider demands to be placed in preferred tier (“anti-steering”)
  - **Supporting tiered networks in Massachusetts**
    - Purchasing and regulation of contracting



# Network Regulation (1)

- **Context of unexpected rapid growth in product**
  - Problems arose that need solutions
  - Popularity cautioned policy makers on using regulation to suppress the product
- **Transparency shortcomings**
  - Essential to have real-time accuracy on provider directories
    - Part can be done through IT
    - May need more structured contracting

# Network Regulation (2)

- **Network adequacy**
  - **Consumers need most support on specialists for conditions they do not currently have**
    - Less support on whether PCPs close enough
  - **Also need to prevent risk selection through lack of specialists for expensive conditions**
  - **But assessing adequacy of specialists is very difficult**
    - Especially given increasing sub specialization
  - **Alternative of strong appeals process**

# Network Regulation (3)

- **Physicians that patients do not choose**
  - **Compelling challenge that applies to all networks**
- **Any Willing Provider laws**
  - **Most date to 1980s**
  - **Magnitude of new interest not clear; SD unique**
  - **Particular threat to cutting edge approaches to networks**
    - Using broad measures of price and quality
    - Plans limited to a major delivery system

# Concluding Thoughts

- **Narrow networks a particularly potent competitive tool to address high and rising medical prices**
- **Substantial evolution likely**
  - **Analytics to help measure more meaningful prices and quality**
  - **Regulation of transparency and network adequacy**
- **Potential for tiered networks depends on regulatory steps to support**

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