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