

USC Schaeffer

Leonard D. Schaeffer Center
for Health Policy & Economics

Limited Networks

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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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