



# Tiered and Limited Networks - Trends and Evidence

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# Ancestors of Value-Based Network Design

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- HMOs, PPOs introduced selective contracting to health insurance
- HMOs - closed networks
- PPOs - richer benefits for in-network providers
- Criteria for provider inclusion: acceptance of fee schedule; pre-authorization requirements

# Logic of Tiered Networks

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- Allow broad networks, but identify providers that offer the greatest value (note: concept and practice may differ)
- Use differential cost sharing to steer patients to preferred providers
- Those with the lowest willingness to pay for the “non-preferred” providers will switch
- Threat of switching may affect provider behavior in ways that are consistent with payer objectives

# Limited Network plans

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- Exclude lowest quality providers, least cost-efficient providers or both
- Lower premiums for consumers but little to no coverage for care from out-of-network
- Stronger incentives for providers

# Increasing prevalence of tiered and limited network plans

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- Tiered network plans
  - All firms, 2014: 19%
    - 18% of large employers (over 200 employees)
    - 19% of small employers (3-199 employees)
  - Most major commercial insurance firms now offering a tiered network product
  - More prominent role in certain geographies
- Limited network plans
  - Prominent in the ACA exchanges

# What Do We Know about the Cross-Price Elasticity of Demand for a Specific Provider?

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- Despite the long history and penetration of PPO/POS plans there is almost no previous literature on responsiveness of patients to tiered provider copays
- Importance of trust suggests that influence of copay differences will be less than for drugs

# A Few Recent Data Points

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- Introduction of tiered and narrow networks designed using quality and cost information has led to several recent studies
- Three natural experiments offer a glimpse at early results

# Culinary Fund Narrow Network

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- Taft-Hartley Fund examined its physician network using efficiency and quality metrics and claims data
- ~5% of physicians excluded from PPO
- Patients notified of exclusion, informed that deductible and coinsurance would apply (a price increase of roughly \$50 or more per visit)
- 81% of patients who had seen excluded physician in prior year did not return compared to baseline level of attrition of 54% (a 27 percentage point difference)

# Massachusetts Group Insurance Commission

## Tiering Initiatives

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- Combination of GIC and state regulation created favorable environment for tiering
- All-payer data from six participating health plans used to create physician performance profiles
- Specialist physicians most commonly tiered
- Early survey suggests:
  - 50% of members know about the tiering
  - 19% know which tier their doctor is in
  - 48% of those who knew the tier said it mattered
  - 40% trust the tiers to signal good value

# Tiered networks affect patient choices of new doctors

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- Significant loyalty to physicians seen previously -- in contrast to prescription drugs
- New (and unknown) physicians are more likely to be viewed by patients as substitutable
- The effect of tiering may be at the lower end of the distribution rather than moving patients to the “best” performers
  - Physicians in the worst-performing tier experienced 12% loss in share of new patients

# Massachusetts Group Insurance Commission Limited Network Initiative

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- Narrow network plans excluded the worst-performing tier from the network
- Following a “premium holiday” 12% of GIC members enrolled in a narrow network health plan
- 4% decrease in spending overall

# Policy Issues

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- Suggests that network design is one important component of efforts to increase value in health care spending
- How to educate consumers about the tiers so they can make informed choices
- Further work on effects of these designs on quality/access, and variation in impact is needed