Tiered Provider Networks: Trends and Evidence

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June 24, 2011
Ancestors of Value-based Network Design

- 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
Advances in Provider Profiling

- Application of HEDIS-like process measures of quality using claims data

- Patient experience surveys (ACES, CG-CAHPS)

- Efficiency scores

- Measures used for feedback, pay for performance - employers have been pressing health plans to use them for network design
What are tiered provider networks?

- Network design aimed to channel consumers to “preferred” providers (e.g. physicians or hospitals)
- Preferred status based on cost-efficiency and quality measures
- Patient financial incentive to seek care from providers in top tiers while maintaining consumer choice
- Threat of switching may affect provider behavior in ways that are consistent with payer objectives
Sample tiered network description

In-Network Copays Effective July 1, 2011

Primary Care Physician Office Visit:
$20 per visit

Preventive Services:
Covered at 100% – no copay

Specialist Physician Office Visit:

tiers the following Massachusetts specialists
based on quality and/or cost efficiency: Allergists/Immunologists, Cardiologists, Dermatologists, Endocrinologists, Gastroenterologists, General Surgeons, Neurologists, Obstetricians/Gynecologists, Ophthalmologists, Orthopedic Specialists, Otolaryngologists (ENTs), Pulmonologists, and Rheumatologists.

★★★ Tier 1 (excellent): $20 per visit
★★ Tier 2 (good): $35 per visit
★ Tier 3 (standard): $45 per visit
Increasing prevalence in the market

- 16% of firms offered tiered network plan in 2010, up from 5% in 2005 (KFF/HRET and Hewitt Associates)

- Most major commercial insurance firms now offering a tiered network product

- More prominent role in certain markets (e.g. Massachusetts)
What Do We Know about the Cross-Price Elasticity of Demand for a Specific Provider?

- 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.

- Introduction of tiered and narrow networks designed using quality (with or without cost) information has led to several recent studies.
Some consumer response to tiering when price differences are large

- Large manufacturer altered benefit for unionized workers to provide incentive to select hospitals meeting Leapfrog safe hospital standards (Scanlon et al.)
  - 5% coinsurance (~$400) for non-Leapfrog hospitals; no copayment for others
  - Found effects for medical admissions in one of two unions studied

- Taft Hartley Fund narrowed PPO network based on efficiency and quality metrics (Rosenthal et al.)
  - Patients notified of exclusion, informed that deductible and coinsurance would apply (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%
Massachusetts Group Insurance Commission Tiering Initiatives

- All-payer data from six participating health plans used to create physician performance profiles

- Physicians (specialists most commonly) tiered largely at the individual level using cost and quality scores - tiers vary by plan

- Modest co-payment differences across tiers

- Fielded a consumer survey in 2008
Early evidence of awareness, use and trust

- Half (50%) of GIC members know about the tiering
- One-fifth (19%) know which tier their doctor is in
- 40% trust the tiers to signal good value
- Tier designation more important to a consumer’s decision to see a doctor when he learned about it before first visit (vs. at or after first visit)
Explored potential effects of cost and quality

- Tested the effect of quality information from different sources and financial incentives on patient choice of physician in a hypothetical scenario.

- Suggests that co-payment differential between tiers needs to be large (~$300) to counteract the recommendation of a physician from trusted sources.

- Sensitivity to physician co-payments varied with physician specialty.
Policy Issues

• Engaging patients in cost control is critical - this cannot all be done on the provider side

• Network design is one important approach - with methodological challenges

• If providers - particularly groups and hospitals - are good at some things and not others, can there be multiple tiers?

• How to educate consumers about the tiers so they can make informed choices