

# Brief Notes

News for  
Brokers and Consultants

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**Applies to:** All markets

## Industry Experts Discuss Building Narrow/Tiered Networks

The following article appeared in the **April 18, 2016** issue of *Health Plan Week*.

### Efficiency, Relationships Shape ‘Kickball Team’ of Narrow Networks

Selecting providers in a narrow network is like picking classmates to join your kickball team, according to Oscar Health network development leader John Pickett. In other words, the doctors’ abilities matter just as much as their relationship with the insurer and their willingness to spearhead a value-based care model.

Speaking on a panel at the World Health Care Congress April 12 in Washington, D.C., Pickett and other industry executives said the key to building a successful narrow or tiered network design is collaboration, hinging on offering appropriate price differentials, having blunt conversations on business goals and being willing to try something new.

In structuring its controversial OMNIA network (*HPW 12/14/15, p. 1*), Horizon Blue Cross Blue Shield of New Jersey Strategic Initiatives Group Director Dyana Tanasy said Horizon abandoned the traditional request for proposal (RFP) process, instead turning to a more comprehensive analysis to identify providers with similar population health goals.

“We didn’t put out an RFP looking for a low unit cost,” she said. “We did a full assessment and looked at provider systems that had leaders who were like-minded, who had bought into the idea of moving away from a fee-for-service model.”

That shift in methodology resulted in a different set of providers in OMNIA’s first tier than had been in Horizon’s previous tiered product.

“That caused some problems,” Tanasy said. Horizon faced significant backlash from lawmakers as well as hospitals, several of which are suing the insurer for implying they are second-rate providers by placing them in Tier 2.

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Horizon also placed a 20% cost-sharing differential to drive members using OMNIA's Tier 2 providers into the Tier 1 network. Market research indicates the need for a 15% to 20% premium differential between narrow networks and broad networks to attract a customer base, Tanasy said, although that is "hard to deliver" in a tiered product.

For the employer market, that price differential needs to come in unit cost reduction as well as in efficiency, according to Aurora Healthcare Senior Vice President of Managed Care Contracting and Strategy Titus Muzi, Jr. The health system's footprint in eastern Wisconsin and northern Illinois includes 15 hospitals, 150 clinics and 70 pharmacies.

Having worked for Anthem, Inc. before being recruited to Aurora, Muzi knows both sides of the business and brought that "schizophrenic view" to Aurora's side of the negotiating table. Because Anthem and Aurora are two of the major players in Wisconsin, Muzi said, a narrow network made sense on several different levels. Muzi worked for Anthem at the time the insurer developed its narrow network around Aurora.

"We knew on the Anthem side that Aurora had an efficiency factor that was better than their peers and had a quality factor that was better than their peers," Muzi said, citing the Wisconsin Health Information Exchange. "And that was one of the reasons why, on the insurance side, we wanted to develop this narrow network. We thought there was a market for that product. And then on the Aurora side, they felt, 'hey, this is an opportunity for us to obtain more market share from our competitors,'" he added.

Aurora also developed its own upside- and downside-risk model in its employer business that Muzi said has been "very successful" over the past three years, attributing the success to good underwriting and medical care management.

Honest conversations are not only a successful strategy, but a time-saver. Oscar had just three short months to build a network last year before filing with state regulators for its California debut this year, and Pickett said getting straight to the point in contract negotiations was crucial.

"It's like a burning house," Pickett said. "What do you grab off the mantle as you're running out of a burning house? You find out pretty quick what's important to everybody."

Pickett initiated direct conversations with health systems to lay out both parties' objectives and to "solve the math equation" on reimbursements. "I don't have any emotional attachment to what we pay a provider," he said. "But I do have an emotional attachment to watching us grow business collectively."

### **Dual Option, Pricing Overhaul Offer Alternatives**

Another initiative Aurora took was to re-engineer its global reimbursement agreements surrounding preventive, diagnostic and elective procedures, which Muzi said make up about 30% of spend on average. The health system decreased its charges for services such as MRIs from around \$4,000 to around \$100, instead pushing the price up in its specialty areas.

"We took all of our pricing in that area and did a global model that said, we were paid X hundred million from the payer for this block, and now we're going to be paid maybe a little less than that, but we're going to tweak it," Muzi said. "We're going to push some of that variance into areas that we're really good at, like cardiology or obstetrics."

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Muzi said the new pricing model satisfies the consumer push for lower health care prices, but also preserves its reimbursements for higher-end services. “We know there is a consumer push for elective procedures, and we want to be paid well for services that we provide that are tertiary and high-end, but for these commodity services, we don’t want to be deselected.”

Another way to ease employers into narrow networks is by offering them a “dual option,” Muzi said, that allows them to choose between a broad network or a narrow network with a three-year commitment. That option is risky for insurers, he said, and requires collaboration to work out the financial underpinnings.

“We share risk with them on the narrow, but we don’t share risk on the broad,” he said. “And guess where all the healthy people go? They go to the narrow.”

*The article was written by Health Plan Week Associate Editor Lauren Clason.*