Health Plan Affordability

Cutting-edge tools employers can use to build affordable health plans

Although some aspects of the Affordable Care Act remain uncertain, the act overall is driving the health care market to figure out ways to control costs and allow employers to continue to offer health plans, says Mark Haegele, director of sales and account management at HealthLink.

As a result, managed care companies are increasingly utilizing three tools — reference-based pricing, Domestic Centers of Excellence and narrow networks.

“Some of these concepts are still new, so an employer might tackle one thing at a time,” Haegele says. “Maybe you start with narrow networks, and then move into reference-based pricing or Domestic Centers of Excellence.”

How does reference-based pricing work?

Within a managed care network, you identify facilities, procedures and/or services that have low costs and high quality, and then establish a plan design that drives plan members to them. If, for example, you’ve identified that Provider A performs knee replacements for $5,000, then members who go to that provider have their costs covered at 100 percent. If a member goes to another more expensive provider, he or she is responsible for the difference. This schedule could cover a whole host of surgeries and procedures.

Reference-based pricing, which is cutting edge in both contracting and plan design, can have a major impact on costs.

What are Domestic Centers of Excellence?

With this model, you identify high-quality providers across the country to be the hub for a certain procedure type. For example, all transplants might go to the Mayo Clinic, while all knee, hip and shoulder replacements go to Mercy Springfield Missouri. The health plan promises to pay 100 percent for the procedure and the travel for the member and a caregiver, as opposed to just giving a deductible and coinsurance.

The value isn't just with price points, but also aligning incentives. Providers are willing to offer preferred pricing based on the exclusivity and volume, and employers achieve savings on unit cost. In addition, unlike the traditional fee-forservice model, providers objectively review for appropriateness first. The contract includes a performance component to eliminate waste. So, Mercy, which performs 30 percent fewer back surgeries than the national average, keeps members from getting inappropriate surgeries.

Originally only used by large employers, this model has become more prevalent. Smaller employers can piggyback on either large employers or a managed care network that develops this for its entire block of business with specialized contracts.

How do narrow networks lower health costs?

Depending on your geography and population, you may be able to partner with your managed care network to customize your network. In a rural or smaller market, this may mean exclusively driving the members to one facility. In turn, typically the hospital will provide a better managed care contract.

You may get pushback from members who prefer one facility to another. The employer must convey that this is about looking at cost and quality to find the right facility, which then has an impact on premiums.

Narrow networks have been around for a while, but now managed care companies are starting to wire together narrow networks across a region to create a sub-network.

Can these strategies be used in conjunction with any type of health plan?

Although there is some overlap, you can use a combination of strategies, depending on your readiness for change. The difference is more of a degree of granularity — Domestic Centers of Excellence and reference-based pricing are broken down by procedures, while narrow networks are more geographic-centric.

Self-funded health insurance plans may use any of these tools. Fully insured carriers are now implementing narrow networks and referenced-based pricing. With the health exchanges, narrow networks should become more common as carriers look for ways to keep costs down.