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High Performance Networks

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Strategy& Perspective



Executive Summary

- Narrow networks are not new, but are more critical than ever in light of pressures on certain lines of business such as Medicare Advantage
- Narrow networks are hot topics in today's news, with controversy over access and quality implications
- However, provider networks are a critical component of payor competitive advantage within Medicare Advantage, given implications for Star quality and medical costs
- Payors across the US are implementing new network designs in Medicare Advantage with varying success
- Successful payors are evolving their approach for network design, moving from the traditional narrow network focus on unit costs to form high performance narrow networks
- Facilities continue to be an important focus of high performance networks, but new considerations are also key (e.g., primary care providers to support Star quality excellence)
- The creation of High Performance Networks involves segmenting providers on cost, quality, importance to consumers, and their role in longer term collaborations
- Yet payors face a number of challenges in High Performance Network design and implementation
- The evolving regulatory landscape may limit the timing of network changes and introduce new transparency requirements

However, provider networks are a major lever for plans to differentiate on medical value, critical for Medicare Advantage

Attractiveness of High Performance Network by Line of Business

Lines of Business

Considerations for Implementing High Performance Networks

Current Activity ↑

Exchanges (Individual)

- Limited levers for payor differentiation; network remains a lever for price differentiation in a highly price sensitive consumer market
- Enables consumers to make trade-offs in willingness to pay and access

Medicare Advantage

- Top line pressure from ongoing reduction in payments from CMS
- Zero premiums in many markets: consumers are choosing among competitive offerings without a price differential
- Star quality metrics encourage payor focus on collaborations with a smaller set of providers

Employer Risk (Small & Med Groups)

- After rounds of benefit buy-downs and increased cost shifting to employees, employers are considering additional levers for cost reduction; some indicate more willingness to trade-off breadth of network for premium reductions
- However, employers are hesitant to adopt moves which are perceived as reducing employee choice

Employer ASO (Large Group)

- Large and national accounts are even more sensitive to employee perceptions than small to mid size employers, yet they still seek innovative solutions which could reduce cost trend if not absolute costs
- Broad employee footprint means employers require similar geographic coverage from a network
- Some employers are cutting unique deals which drive volume through a limited number of providers, e.g., Boeing's ACO deal with Providence

Successful payors are evolving their approach for network design to achieve greater value in the market

<u>Network Design Element</u>	<u>Traditional Narrow Network Design Approach</u>	<u>High Performance Network Design Approach</u>
In-Scope Provider Types	<ul style="list-style-type: none"> ▪ Focused primarily on acute in-patient facilities 	<ul style="list-style-type: none"> ▪ Focus expanded beyond hospitals to ambulatory care centers (e.g., imaging, dialysis) and specialists, and in some cases DME suppliers and pharmacies
Provider Costs	<ul style="list-style-type: none"> ▪ Providers included or excluded based on unit cost 	<ul style="list-style-type: none"> ▪ Providers segmented based on episodic economic costs to capture efficiency in utilization, as well as unit cost
Provider Quality	<ul style="list-style-type: none"> ▪ Limited consideration around quality 	<ul style="list-style-type: none"> ▪ Providers segmented based on performance on process and outcomes metrics
Consumer Experience and Preferences	<ul style="list-style-type: none"> ▪ Consumer preferences assumed rather than tested in a quantitative well 	<ul style="list-style-type: none"> ▪ Consumer preferences and willing-to-pay tradeoffs are captured via surveys with conjoint analysis ▪ Network designs align with preferences of consumers of targeted risk profiles
Strategic Considerations	<ul style="list-style-type: none"> ▪ Network design considered independently of other collaboration initiatives 	<ul style="list-style-type: none"> ▪ Network design factors in long-term partnerships on value-based care ▪ Higher levels of strategic collaboration with sales and marketing

Payors face a number of challenges in High Performance Network design and implementation

- Many payor network **organizations struggle assembling and structuring the data** into applicable metrics to segment providers on critical dimensions and in quantifying the potential savings from various network designs
 - For example, sample size for cost and quality data for providers within Medicare Advantage for a specific payor may be too small
 - Many plans do not have utilize episode grouping tools and are unable to segment providers on episode costs
 - When there are multiple metrics to consider, payors may struggle to get organizational alignment on a unified approach for network segmentation and design across regions and businesses
- Payor network organizations are often **making trade-offs between network designs, implied premiums, and membership without clear information** and strategic alignment internally
- Once a network is designed, it's a complex analytical effort to **size the savings** to inform trade-offs between various network options
- Payors must evaluate new network designs to **determine if re-contracting is required or desirable**
 - Some provider contracts limit the implementation of new network designs without re-opening the contract for negotiation
 - In other cases, there may be opportunities to achieve lower rates with included providers in exchange for the additional volume being steered through the narrow network
- Some claims systems do not include the capability to **tie multiple network designs to a single product design**

Strategy& helps payors develop High Performance Networks and build ongoing network capabilities

Narrow Network Strategy/ Design

- Identify target health service areas with the highest potential for value creation through narrow or tiered networks
- Assess cost and quality variation across provider types to focus network design (health systems, inpatient facilities, ambulatory care centers, types of specialists, primary care)
- Help align internal stakeholders on criteria for narrow network designs
- Conduct consumer and/ or customer research to understand network preferences and trade-offs in willingness to pay
- Assess providers relative to criteria to determine inclusion or exclusion in narrow network designs
- Model likely market share for products configured on different network designs

Development of Ongoing Network Capabilities

- Leveraging our proprietary database of national and non-profit payor capabilities, identify capabilities required for a competitive or advantaged position in provider network management
- Build internal alignment on capability requirements
- Conduct capability assessment to identify strengths and gaps
- Identify initiatives to address capability gaps; conduct vendor assessment if needed
- Outline the business case
- Develop implementation roadmap with milestones

Q&A

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