



Maintaining Lower Costs

How network provider contracting can manage costs, access to care

A fully insured business will shop around with different health insurance companies for the best value, including a good network. However, self-funded health plans — which are growing in popularity — contract with a rental network that administers benefits with the help of a third-party administrator.

Smart network provider contracting will maintain lower costs and access to care for members. Many employers only look at the discounts for services in the contract, but there are other methods just as important when evaluating a network.

“There are always some things out of your control, but you try to manage the network and build in predictability to make sure you have control over it rather than the providers,” says Jamie Huether, regional vice president, Network Management, at HealthLink, which rents its network to self-funded entities.

How can a network provider maintain lower costs?

A network provider employs a number of contracting methodologies to help health plan clients achieve the best rates. One is having as many fixed rates and as much charge master protection as possible, which limits exposure to provider changes. So, for instance, if a health care provider bills \$3,000 for a procedure, and then increases it to \$4,000, the network provider’s fixed charge of, say, \$900 remains the same.

The alternative is reimbursement methodologies that pay a percentage of the billed charge, which rise as the bill increases. This fully exposes whoever is paying the claim to whatever the providers want to bill.

Why is the network with the highest discount not always the best option?

When evaluating networks, focus not only on the network discount but also the unit of cost, or what the service actually costs. Although the discount can look good, it doesn’t tell the whole story because providers don’t bill the same. Typically, hospitals owned by for-profit entities have a higher billed charge structure than not-for-profit hospitals. So, an appendectomy at a for-profit hospital may have a 75 percent discount for a final procedure cost of \$15,000. However, the same appendectomy at a not-for-profit hospital might only have a 30 percent discount but just cost \$9,000.

In addition, facilities make charge master — the master list of what they bill for services — changes throughout the year, depending on financial goals. These increases aren't across the board because some service lines are bigger revenue drivers.

How does the network contractor work with self-funded businesses?

A self-funded plan sponsor contracts with a rental network to help manage costs and plan ahead. For example, one rental network used multi-year contracts to limit uncertainty and keep costs low. By offering stability to the health care providers, who also are trying to budget, it could mean a cost break.

A network contractor shares management reports with self-funded entities to show what they are spending at each facility and the average cost per day. The rental network also can report upcoming negotiations and cost increases that are locked in, giving businesses greater control.

When looking for a health network, what should you ask?

Health plan sponsors need to look for stable, broad networks with good geographic coverage. You don't want to contract with a network where providers are coming in or out, or that doesn't include one of the area hospitals. Businesses should ask:

- How much turnover is there in your network?
- Do you anticipate any major provider terminations in the next 12 months?
- What is the network doing with respect to transparency around costs for certain procedures, as well as being able to provide answers about quality?

Another factor is size — a network provider that does a lot of business can use that to leverage better rates from health care providers. Ask about additional services, such as customized directories, and how much help the network will provide to resolve issues related to the pricing of claims. Finally, determine how flexible the network is in addressing issues important to you.

