Customizing for Control

How to build a narrow health care network to fit your group's needs

Self-funded or partially self-funded health plans continue to be a growing trend for employers interested in more control over their health care costs.

In 2013, 83 percent of covered workers at larger firms — 200 or more employees — were enrolled in partially or completely self-funded plans, according to an annual survey by the Kaiser Family Foundation and the Health Research & Education Trust. For small firms, self-funding included 16 percent of covered workers.

In addition, 6 percent of firms offering fully insured plans reported on the survey that they intend to switch to self-funding.

But with self-funding, employers can achieve additional savings by understanding how to build narrow networks to go along with their benefit plans.

"We've built five of these narrow networks in the past 12 months. It's picking up momentum. We're seeing quite a bit of interest," says Erin C. Davidson, a sales account executive II at HealthLink. "If you're looking to get creative to control costs that's the way to do it."

Once you decide to self-fund and need a narrow network, what is the first step?

The first step would be to work with your broker or current health care carrier or network to see if that carrier or network performs this service. If they don't, it may be in the employer's best interest to find a managed care network that can provide you with this area of expertise.

Why is this partnership with a managed care network so important?

The managed care network can perform modeling of the narrow network contract to ensure it is successful.

A managed care network also can help protect the employer. A sophisticated contracting team can help incorporate language about charge master increase limits, stop loss provisions and excluded services to keep employers from being exposed to higher billed charges from hospitals.

What's an example of how a narrow network provides value to employers?

In one instance, two hospitals in the same county yielded a 50 percent discount. However, using the managed care network's modeling tools, each cost of care could be further examined to look at the types of cases treated and average cost per patient. The adjusted cost at the two hospitals was $16,755 per day or $9,891 per day. Then, the employer can still provide members access to care at the most costly facility, but benefit plan designs can be implemented to drive members, via reduced out-of-pocket amounts, to the lower cost provider.

Are there certain businesses that should make building a narrow network a priority?

There is no one industry or type of business that can benefit more from a custom contract. However, there are certain scenarios that are more ideal.

A community with two hospitals can provide higher cost savings. Companies with dense population centers in a tight geographic area, such as 100 or more employees living in one community, also are able to create stronger networks. This is because these employers have more ability to steer members to certain facilities, which a hospital system wants to encourage.

What best practices can ensure an organization is getting the most value?

The key is to ensure you're continually improving, and that takes a collaboration of the provider or employer, broker and managed care company who all work together to ensure claims are objective and being met.

In addition to narrow network development, there are other best practices like steering members to domestic centers of excellence, gain share models and reference-based pricing, which are all variations on the same theme. They all try to incorporate leverage, steerage, improved outcomes and transparency in an effort to reduce costs. So, ultimately, a strategy is for employers to employ some, if not all, of these to find the right fit.

Most importantly, you don't have to do this alone. That's why the right managed care network is so important.