Custom Benefit Design

How using a three-tier network strategy can contain health care costs

Traditionally, health insurance employee benefits have two tiers — in-network and out-of-network. But in self-funded solutions, in particular, you may have the ability to set up a three-tier benefit design.

This network strategy can help you contain cost by incentivizing and channeling your employees to lower cost facilities and doctors, says Abbe Mitze, account executive II at HealthLink.

“By influencing your employees’ behavior in a non-disruptive way, you’re using the carrot approach versus some type of punitive measure,” Mitze says. “And I’ve seen an example where a 30 percent shift occurred in where the employees were seeking care when this type of arrangement was introduced to them over the course of a year.”

Why is it so important to try to contain health care costs?

Health care premiums continue to increase for the 55 percent of firms that offer health benefits to at least some of their employees. The annual survey of employers by the Kaiser Family Foundation found that annual premiums for employer-sponsored family health coverage reached $16,834 in 2014, which is up 3 percent from the year prior. Of that amount, workers paid $4,823 on average toward that cost.

If employers want to continue to offer health plans — which can be used as a recruiting tool — they must find ways to better manage their costs.

How does a three-tier benefit design work?

A three-tier option introduces in a third tier of benefits that is based upon the cost of care with the facility or provider. A facility and provider is placed into tier I if it is a lower cost option, tier II if it costs a little bit more, and then tier III is out-of-network.

Then you take the benefit design and pair that with the cost. The richest benefit option — where the employee is going to pay the least out of their pocket — is applied to tier I.