

Encouraging Use of Lower-Cost Providers
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Available levers

To encourage consumer choice of efficient providers, many levers can be used:

- Tiered cost sharing
- Cost sharing elements that account for total cost differences (deductibles, coinsurance)
- Payroll contribution differentials for product or provider choice
- Limits to access (limited network product) with premium differentials
- Incentives for provider choice
- Transparency tools
- Education

Basic example

Tiered cost sharing
Cost sharing elements that account for total cost differences
Payroll contribution differentials
 Limits to access
 Incentives for provider choice
 Transparency tools
 Education

- Providers categorized in two tiers based on TME
- Point of service cost-sharing is equal across the tiers
- Employer contribution held equal across tiers; full cost difference passed to employee

	<u>Tier 2</u>	<u>Tier 1</u>
Provider Efficiency:	1.04	0.96
Premium PMPM:	\$416	\$384
Premium PSPM:	\$873	\$806
Annual Premium:	\$523,817	\$193,499
Employer Contribution:	\$640	\$640
Annual Contribution (Total):	\$384,277	\$153,711
Employee Premium:	\$233	\$166
Annual Premium (per EE):	\$2,791	\$1,989
% Change vs Traditional:	9%	-22%

- Employee choosing tier 2 providers pays 40% more in payroll contribution than one choosing tier 1
- Total premium and overall employer cost is neutral to a traditional product design
- Every 10% of members that switch from tier 2 to 1 saves 1% on total health expenditures

Moderate example

Tiered cost sharing
Cost sharing elements that account for total cost differences
Payroll contribution differentials
 Limits to access
 Incentives for provider choice
 Transparency tools
 Education

- Building on the basic example, the employer contribution is tilted to further incent/reward choice
- Point of service cost-sharing is equal across the networks

	<u>Tier 2</u>	<u>Tier 1</u>
Provider Efficiency:	1.04	0.96
Premium PMPM:	\$416	\$384
Premium PSPM:	\$873	\$806
Annual Premium:	\$523,817	\$193,499
Employer Contribution:	\$628	\$672
Annual Contribution (Total):	\$376,591	\$161,396
Employee Premium:	\$245	\$134
Annual Premium (per EE):	\$2,945	\$1,605
% Change vs Traditional:	15%	-37%

- Employee choosing tier 2 providers now pays over 80% more in payroll contribution than one choosing tier 1

Aggressive example

Tiered cost sharing
Cost sharing elements that account for total cost differences
Payroll contribution differentials
 Limits to access
 Incentives for provider choice
 Transparency tools
 Education

- Building on the moderate example, point of service cost sharing is now differentiated between the tiers

	<u>Tier 2</u>	<u>Tier 1</u>
Deductible:	1000	0
Office Visit:	25	15
ER:	500	250
Inpatient:	500	250
Pharmacy:	20/40/60	10/25/45
Actuarial Value:	0.8	0.9
Annual Cost-Sharing:	\$2,469	\$1,235
% Change vs Traditional:	18%	-41%
Annual Premium per EE*:	\$2,945	\$1,605
% Change vs Traditional:	15%	-37%
Total Annual Cost to EE:	\$5,414	\$2,840
% Change vs Traditional:	16%	-39%

* According to moderate example

- Employee choosing tier 2 providers has total cost that is over \$2,500 more than one choosing tier 1

Additional notes

- A similar concept could be applicable in a direct pay market
- Levers can be layered and used together. In particular, any of the prior examples could be enhanced by adding:
 - Incentives for provider choice
 - Transparency tools
 - Education

Out-of-Network emergency charges

- Carriers must cover emergency costs (ER and associated IP) at any facility, even if that facility is excluded or opts out of the tiered/limited network product
- Currently, facilities opted-out or excluded from a product may bill for emergency services at full charges – a significantly higher cost than contracted rates
- This poses a major barrier to tiered/limited network product savings and adoption across the market

		Emerg at Contracted Rates	Emerg at Billed Charges
	<u>Total Network</u>	<u>Limited Network</u>	<u>Limited Network</u>
Total Medical Expense (PMPM):	400	368	405
Emergency Expense (~15% of total)*:	60	55	92
Relative Efficiency:	1.00	0.92	1.01
		Network Savings: 8%	Network Savings: -1%

- In this example, the network value erodes from 8% savings to a 1% cost as a result of paying billed charges at out-of-network ERs.