Tiered Networks – Another tool in promoting healthcare consumerism

Tiered networks provide consumers with important tools for becoming wiser, more cost and quality conscious healthcare purchasers. Organizations such as Education Minnesota promote tiered networks (such as the PEIP plans) as an alternative to account-based healthcare consumer programs such as VEBA-funded HRAs and HSAs. In reality, tiered network programs can supplement these plans with practical ways for consumers to select the most cost and quality efficient providers. Thus, tiered networks provide a basis for enhancing consumer directed health plans. The two concepts are, therefore, not exclusive, but inclusive. The best results are obtained when both concepts are applied.

What are tiered networks?

Tiered provider networks take the concept of network-based care a step further, splitting in-network providers into cost tiers and providing tiers of premium or benefit incentives for using one tier vs. another. The highest cost tier equates to the typical out-of-network provider benefit cost schedule. The introduction of tiered provider networks is intended to sensitize employees to the real cost of health care beyond the simpler question of whether or not a provider is "in network".

Conceptually similar to tiered pharmacy benefits, tiered-provider networks allow patients to make trade-offs between provider choice and costs. Tiered networks can lower overall health plan costs by steering patients to lower-cost providers, while encouraging hospitals and physicians to improve their efficiency or accept discounted payment rates in exchange for preferred-tier placement.

Pros and Cons

The most effective tiered network model uses benefit incentives to drive utilization to its lower cost tiers. This can create competition among providers to lower their fees. Charging patients lower deductibles and co pays can be an effective way to motivate employees to use them. Tiered networks can produce a lower overall cost effect than the typical, more expansive provider network. Early adopters of tiered network programs saw significant reductions in healthcare trend as their employee utilization shifted to lower cost providers over time.

Tiered networks also provide an important mechanism for price transparency that enhances the practicality of account-based consumer directed health plans, such as VEBA and HSA programs. Cost and quality data, when provided by tier, gives consumers the tools they need to be able to shop for their healthcare according to their cost and quality preferences.

However, it is difficult and costly to measure the cost and efficiency of hospital and physician services. It's also difficult to accurately place and then manage them within the proper tier class, both from a procedural and administrative perspective. Providers can vary widely based on costs, quality and accessibility of care. There is also concern that tiered-provider networks could limit lower-income patients' access to high-quality but costly providers. Could patients be herded into different classes of providers based on affordability driven by benefit incentives? Will higher cost tier network deductibles come to be regarded as -surcharges?

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If the model is accepted by the general population, will tiered networks produce a net result that justifies their extra administrative costs and benefit incentive payments? After higher benefits are paid to entice patients to use lower cost tier providers, will a net cost reduction be produced to cover their costs – and produce savings? As the history of tiered network programs has shown, concessions have invariably been made that question such outcomes.

Tiered-network designs have proven difficult to maintain over time in the face of market pressure for broad and unrestricted provider choice. Union negotiated plans, such as the State Employees Group Insurance Plan (SEGIP) forced the state to make accommodations for plan participants who lived outside the range of lower cost tier providers. The accommodations they made were considerable: pay the same higher benefit "incentives" for high cost providers where employees do not have access to lower cost providers. The unions negotiated the pass through of benefit incentives to the use of higher cost tier providers when referred by a lower cost tier provider. Since the benefit incentives paid for lower tier utilization are cost-justified by lower fees charged by the lower tier providers, paying such incentives when they are not cost-justified leads to higher future premiums.

SEGIP's experience shows that larger, less restricted networks are still vastly more popular with patients. Thus, tiered networks are under enormous pressure to look and act like standard, more expansive networks. Tiered savings are expected to be produced by a more benign, voluntary (and coincidental) use of lower tier providers.

Tiered provider networks can also produce interesting, but different reactions among providers when they negotiate their network fees:

1. Higher cost providers who fear they may lose business to lower cost providers may want to qualify as lower-cost providers and will lower their fees. Most tiered network plans rely heavily on this reaction among higher cost providers.

2. Other providers may react in the opposite way. They may view being in the higher-cost tier as an indication that they are a high-quality provider and may use that to differentiate themselves from lower-cost providers. In some cases providers are able to link the perception of high quality equating to higher costs. Thus, many consumers will not be dissuaded by higher out of pocket costs and will actively seek out the higher cost providers.

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In southeast Minnesota, it is not surprising that one of our larger, most popular healthcare providers is firmly ensconced in the latter category. Most of the accommodations made by the unions for the employees in the SEGIP program were motivated by this fact. Thus, the cost model for a tiered network program in southeastern Minnesota is seriously compromised. Essentially, in far too many cases, low cost tier benefits are being paid, even when high cost tier healthcare costs are being incurred.

The only way tiered network plans can be effective is if they truly provide consumers with incentives to make choices based on cost and quality – and that consumers will make choices on that basis. To the extent tiered networks make accommodations or simply enable patients to seek out higher cost care, the potential savings effects of the tiered network will not be realized.