

NCN in 2009

A Hard Look at Healthcare

MARCH 2009

2009

Are PPO Networks Relevant?

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For decades, the concept of pre-negotiated discounts for in-network care has been the most common approach for keeping rising healthcare costs at bay. Employers keenly focus their cost-containment efforts on in-network services offered by PPOs, since between 70 and 90% of medical expenses of insured patients are incurred on in-network procedures.¹ So if most insured procedures are in-network with deep, negotiated discounts, why are medical costs so extreme and health insurance premiums so high?

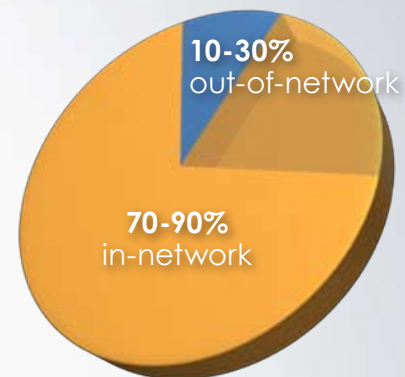
The Promise of Steerage

What does the PPO vendor have to offer a provider in exchange for a deep discount? The answer is, simply, patients—what the healthcare industry refers to as “steerage.” In theory a carrier approaches a provider (facility or physician) and offers a volume of customers—its members—in lieu of discounts passed on to those members. By listing the provider as part of its exclusive network, the PPO can offer its patients better pricing for that service than the patient would get otherwise. Patients want more than just discounts, they want options.

The Appeal of Options

For patients and employee groups, the price of the health insurance premium plays a huge part in selecting a PPO network, but that factor can adjust with co-pay and deductible thresholds. The real appeal is the PPO's size and relevance of its network. For example, brokers to large employers measure their effectiveness on how well they can “fit” a company's plan with a carrier that manages and covers the employee base with as many in-network facilities and doctors as possible. In essence, a larger, more developed network gives patients (the employee base) more choices, making opportunity for in-network pricing more likely. It is the development of these large PPO networks—and even the supplemental (wrap) networks outside them—that are a driving force in the rising cost of healthcare.

If PPOs Are Doing Their Jobs, Why Is The Cost of Healthcare So High?



Even with a well-developed PPO network, 10-30% of claims fall out-of-network—raising the overall cost of care.

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¹ Corte Iarossi, “Out-Of-Network Claims Could Put Squeeze On Your Healthcare Costs,” *Baltimore Business Journal*, April 5, 2004.



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Over-developed Networks

As PPO networks expand their list of “preferred” providers, their steerage becomes less exclusive. Yet deep discounts are still required of providers to maintain their inclusion in the network. As a result, providers have to raise the “retail” cost of care to offset the discounts offered, since the discounts are not overcome by the volume and steerage expected. Bruce Japsen, long-time healthcare business reporter for the Chicago Tribune, puts it in blunt terms: “Once the market is saturated with PPOs (and HMOs), rates must reflect the true costs of delivering care plus a modest profit or the health care market will collapse.”²



A New Model

Industry veterans agree that the quickest way to bring US healthcare costs in check is real price transparency that helps the patient make informed decisions. Dr. Stanley Feld, retired endocrinologist and avid proponent of healthcare reform states that “The consumer is not stupid. When they are in control of their healthcare dollar, they will force real price transparency.”³ The “real price transparency” he refers to is a cost-based model, not a superfluous detailing of charges. Until such cost-based methodology is widely adopted by healthcare payers and providers, patients will suffer the consequences of an industry that ineffectively tries to repair itself through contract negotiations, restructured administration and expanded PPO networks.

About NCN—NCN is the national leader in cost management for out-of-network claims. We use cost-based data and transparent reporting to maximize savings on healthcare claims. At NCN we claim a better way for payers, providers and patients.

² Bruce Japsen, “Seniors spurning pilot Medicare PPO effort,” *Chicago Tribune*, March 23, 2003.

³ Stanley Feld M.D., FACP, MACE, comment on “Can Employers and Patients Trust Healthcare Insurance Companies? Part 2” *Repairing The Healthcare System*, comment posted September 3, 2007, http://stanleyfeldmdmace.typepad.com/repairing_the_healthcare_/2007/09/can-employers-a.html (accessed March 3, 2009).



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