



More for the Money: Insurance Design Strategies that Drive Value

Consumer-Centric Network Design

May 27, 2014

THE BOSTON CONSULTING GROUP

Introductions



Sanjay Saxena, M.D.
Partner, San Francisco

- Member of BCG Healthcare practice with over 15 years healthcare experience
- Extensive experience serving boards and senior executives of national insurers, BCBS plans, hospitals and health systems, and AMCs
- Expertise in post-reform strategy, new business and operating models, capability building
- Widely published and speaker on numerous topics, including care and payment innovation
- Previously Medical Director at BCBS plan and co-leader of Booz & Company's North American Provider Practice



Nate Holobinko
Principal, New York

- Member of BCG's Health Care practice with over 11 years of healthcare experience
- Worked with multiple players across the industry including national payers, Blues plans, providers, brokers, and private equity firms
- Supported the development of multiple post reform and consumer centric strategies
- Deep expertise with evolving healthcare business models including post-reform product, network, and distribution

BCG committed to enabling value-based health care

Global consulting firm at the forefront of strategic issues reshaping the industry

Health system evolution

HEALTH REFORM
RPM Report
Health Care Reform and the Changing Dynamics Between Payers and Drug Makers
 Why drug makers should pay close attention to the pressures bearing down on payers
 By Dick Costigan, M.D., and The Boston Consulting Group

WORLD ECONOMIC FORUM
The U.S. Health Care Reform and a Sustainable Model for Health Care
 The U.S. health care reform is a massive, almost insurmountable, task. It will require a fundamental rethinking of the health care system and a commitment to a new model of care. The U.S. health care system is currently in a state of crisis, with rising costs and declining quality. The reform is a necessary step to address these challenges and ensure the long-term sustainability of the system.

Harvard Business Review
The Anatomy of Health Care in the United States
 Special Communication
 Health care in the United States includes a wide array of complex interactions among those who receive services, and those who care for them. The system is a complex, multi-layered structure that is constantly evolving. This article provides a detailed analysis of the various components of the health care system, from the patient to the provider, the payer, and the regulator. It explores the challenges facing the system and offers insights into how it can be improved.

Care models, payment reform, and value-based health care

BCG
Next-Generation Medical Management
 Strategic Responses for Suppliers and Providers

BCG
Working Paper
Perspective on the Current Direction of U.S. Health-Care Reform: Implications for Health Plans
 As of June 22, 2009

JAMA
Improving Health Care Value
 The Case for Disease Registries

BCG
Health Reform Should Focus on Outcomes, Not Costs
 By Peter Laveier, Neil Coderlund, James Kent, and Stefan Lantzer

JAMA
The Accountable Care Organization
 If You Build It, Will They Come?

Leading collaborations

AMMA
 AMERICAN MEDICAL ASSOCIATION

AHRQ
 Advancing Excellence in Health Care

BILL & MELINDA GATES foundation

The Joint Commission

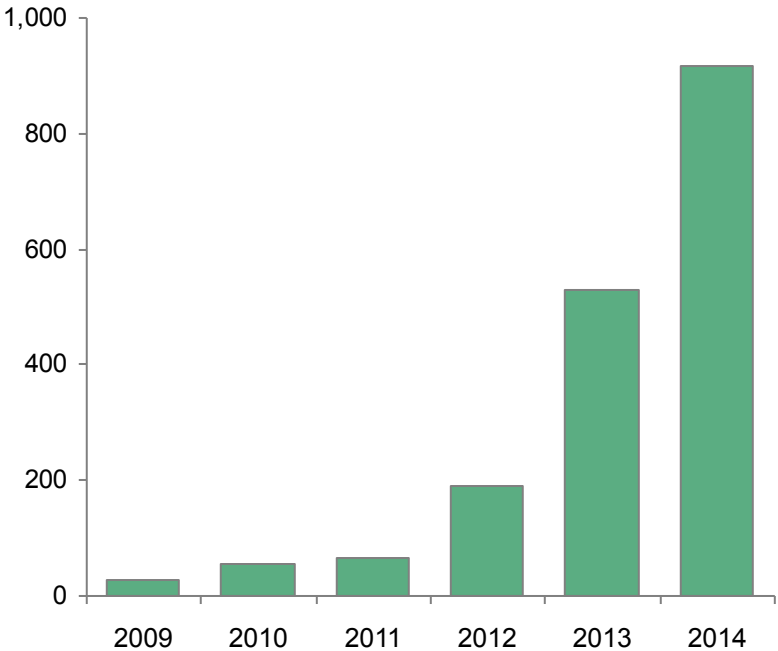
Harvard School of Public Health

WORLD ECONOMIC FORUM

World Health Organization

Narrow, skinny and tiered network discussion increasing exponentially since passage of ACA

Annual media references to "narrow networks" since ACA



Most frequent words and phrases



Note: 2014 article count based on results through May and projected for full year
 Source: BCG analysis of US print media articles 2010 – May 2014

Mix of support and skepticism for "narrow" network construct



Hospitals Get the Squeeze from Insurers' Narrow Networks

Patients aren't the only ones affected when health hospitals from their networks.

The New York Times

BUSINESS DAY

More Insured, but the Choices Are Narrowing

By REED ABELSON MAY 12, 2014

THE WALL STREET JOURNAL

HEALTH

Remember Managed Care? It's Quietly Coming Back

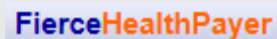
By ANNA WILDE MATHEWS

Updated Aug. 2, 2012 5:02 p.m. ET



A network guy says 'narrow' works

BY ALLISON BELL
April 30, 2014 • Reprints



Insurers must break consumers of choice habit

May 14, 2014 | By Dina Overland

"Narrow" networks not a new idea

Historically developed using cost efficiency, geo-access and some quality measures

Typical approach to "narrow " network development

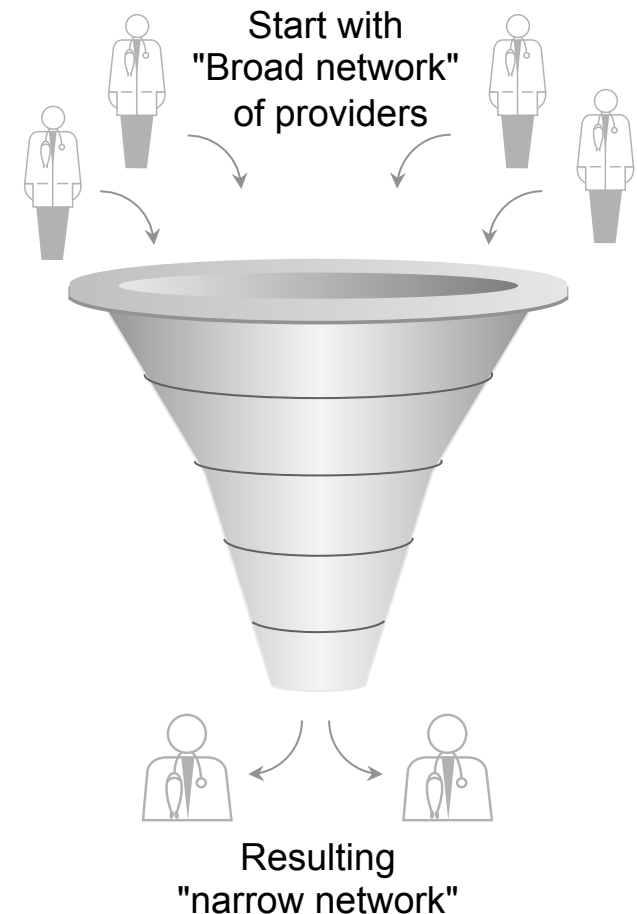
Payers start with their existing list of providers

Providers prioritized for inclusion

- Cost used as primary criteria
- Quality measures used as a secondary filter (often constrained by lack of metrics and sample size)

Standard geographic density analysis used to create boundary conditions for "narrowness"

Adjustments to design made based on outcome of contract negotiations



Several key success factors for future narrow network design

Overcoming adoption challenges of the past

Factors historically limiting consumer adoption

Cost centric approach results in non-coherent network options with limited appeal to members

Benefit design results in stakeholder misalignment

- Authorizations/referrals inconvenient to members
- Minimal incentives for providers to manage costs/outcomes

Provider backlash, regulatory constraints, and unwillingness of employers to "stay the course"

Critical success factors for narrow network design

Network design factors include desirability to consumers

Medical management process considers consumer experience

Benefit designs reward both consumers and providers for thoughtful utilization

Employers and employees support for the narrowing – consumer-centric design critical

Resulting opportunity for health plans to adopt techniques traditionally used by consumer product companies



Consumer focus groups

- Enable both structured and unstructured consumer feedback
- Help with both initial brainstorming and late stage refinement
- Generate/test hypothesis of a priori segmentation



Maximum-Differential surveys

- Identify most and least important features
- Create ordinal ranking of consumer preferences
- Triangulate other research techniques and identify dissonant responses



Conjoint Research

- Test utility of specific features and attributes
- Understand consumer trade-offs
- Create empirical validation of consumer segments



Shopping simulators

- Validate how consumer preferences translate into real-world behavior
- Understand how sequencing and other presentation factors influence selections

Highlights of our recent research on narrow networks

Redesign of hospital networks for an individual insurance portfolio

Example client situation

A large national insurer was preparing a new individual product portfolio for launch both on and off the exchange

Client had completed previous research to create consumer centric benefit plans but had not done a similar review of its network

Research design

Multiple conjoint surveys with n of 20,000+ consumers

Intensive profiling criteria used including an in-depth HCC-based HRA to segment consumers

Detailed trade-offs between price, benefit design, and network components measured

Secondary surveys measured consumer ratings of hospitals



**Harvard
Business
Review**

Why Less Choice is More in Health Insurance Exchanges

by Sanjay B. Saxena and Nate Holobinko | 8:00 AM October 10, 2013

The top line results yielded some surprising findings

**For most,
price trumps
network**

In aggregate, consumers are highly price sensitive; price makes up as much as 45% of the decision and is a more important consideration than both hospital and PCP inclusion

**But not all
consumers
"buy down"**

Some segments diverge from the overall population; about 30% of consumers equate price with quality, and as such, perceive low price products as inferior

**Non-intuitive
network
values**

Conventional wisdom around branded and must-have providers does not necessarily hold true – consumers are willing to trade-off access for price; bigger not always better

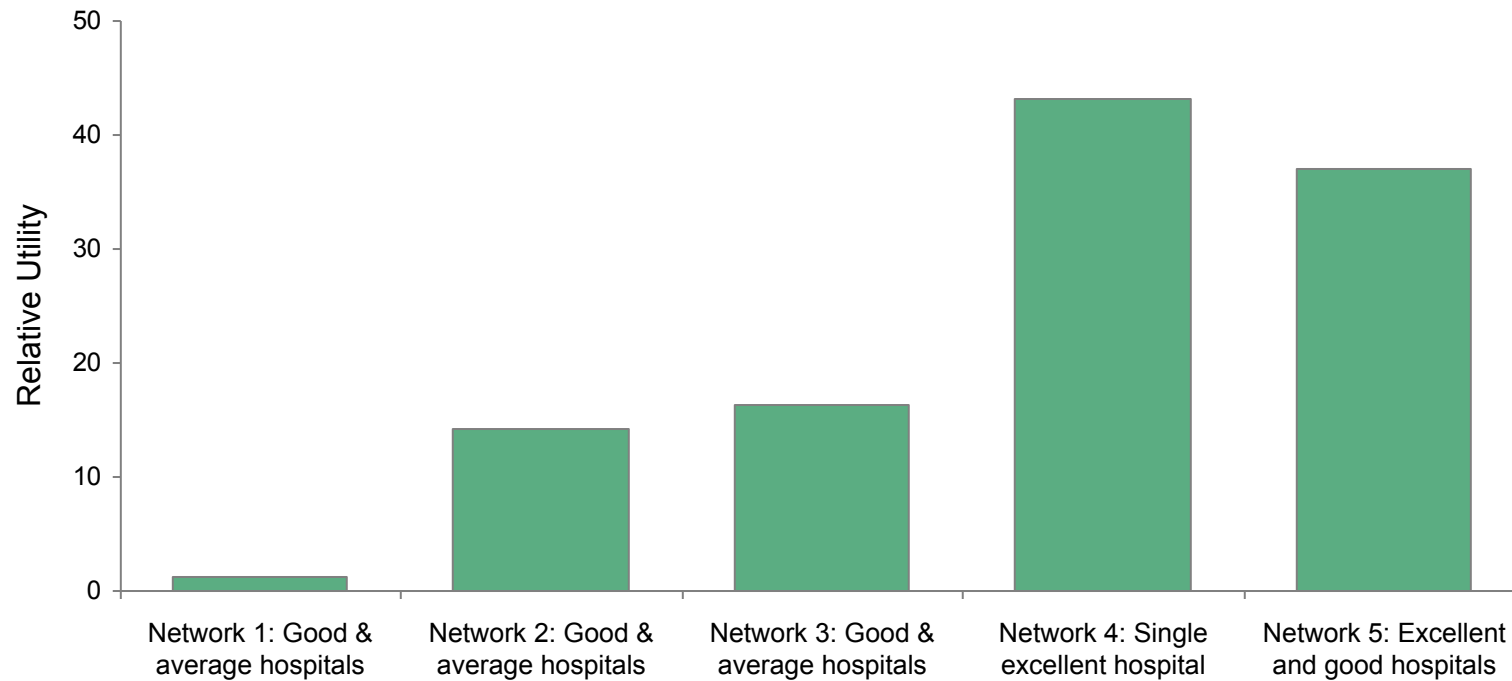
**Low utility of
"classic"
services**

Consumers are willing to pay little for services desired by employers such as medical management, wellness programs, and gym membership

Case study highlight

Consumer utility is driven by quality, not breadth, of networks

Relative utility of different network bundles to consumers

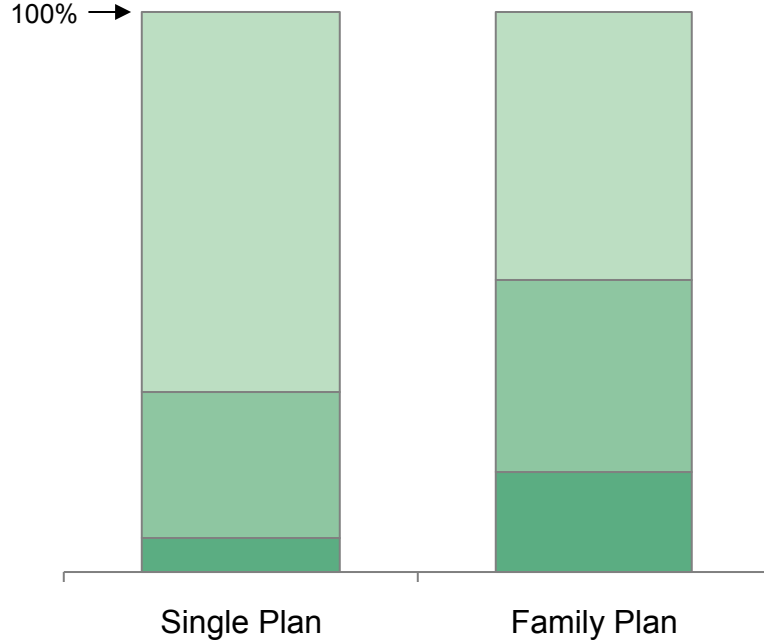


Once at least one excellent system is in network, additional systems do not create material utility

Case study highlight

Few consumers consider pediatric hospitals very important

Importance of having a children's hospital in network



- Not important to have pediatric hospital services
- Important but doesn't have to be at a dedicated children's hospital
- Important to have a dedicated children's hospital

Implications

Majority of respondents say it is not important to have pediatric hospital services in network

Many family plan purchasers also indicate it is not important to have pediatric hospital services

Only a small minority of purchasers prefer to have a dedicated children's hospital

Key takeaways

Historic efforts to implement narrow networks have been met with limited success for many reasons – but mostly because they weren't designed around consumers

Today, narrow networks seen in first-generation exchange insurance products are largely designed to maintain low premiums

Going forward, a more significant opportunity exists for network innovation and redesign around the attributes consumers actually value in their providers

Our recent consumer research suggests many of these findings will be counterintuitive to long-held truisms around network design

As such, the industry must be willing to transition to a paradigm where

- **Price becomes the most meaningful differentiator for a majority of consumers**
- **Products are composed of fewer providers but include those who are highly valued by consumers**



Thank you

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