Changing Role of Networks in Health Plans
Back to the Future?

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Linda Andreae, SVP & Chief Marketing Officer, BCBST

The "Good Old Days"

- HMOs and managed care became popular in the Southeast in the early to mid-80s.
- Managed care was a proposed solution to the rising cost of health care coverage.
- Economic environment and unemployment issues were not much different than today – and employers were looking for solutions to the high cost of care…
- Concept of limited networks with steerage to providers who shared risk was the proposed solution.

Then What Happened?

- HMOs initially had low rates, due to a combination of utilization control and good risk selection
- Carriers that didn't have tight underwriting guidelines on slice business got hurt.
- Risk sharing with providers did not work in many markets.
- Eventually HMO rate increases approached those of PPOs.
- Employer and employee appetite for closed networks declined, many HMOs moved to an open access model.

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What Happened at BCBST

- BCBST enjoyed strong membership growth, primarily in its PPO product in the late 1990s – 2006.
- The market demanded more options to control costs, and BCBST began offering multiple options within groups in early 2002.
- Options were available to groups 2+
- The number of options were limited based on size of the group, and contribution requirements ensured participation guidelines were met.
- Network was an option for all sizes, but network and benefit not allowed for groups under 10.

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Network Options

- There are two network options.
- Network P is a large network that contains all hospitals and most physicians.
- Network S has 80% of hospitals, 90% of physicians.
- Pricing differential ranges from 8%-20% (varies by region).
- Pricing differential composed of unit cost difference and utilization difference.

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Where Are We Today

- Multi-option strategy was successful.
- Today, around 40% of BCBST's fully insured groups have more than one network or benefit option.
- 53% of fully insured membership on Network S.
- Anti-selection and pricing issues have been controlled by capping the overall rate differential allowed between the lowest premium option and the highest premium option.
- Frequent experience analysis and adjustment is important.
- Responding to the market is important as well – e.g. HDHPs.

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Emerging Trends

- Health insurance affordability and the economic environment continue to put pressure on employers and employees.
- And then there is Health Care Reform…
- Employers are looking at a variety of options to reduce health care costs and control trend
  - Increase employee cost share
  - Move employees to HDHP/other benefit changes
  - Tiered networks, ACOs, medical homes
  - Onsite clinics
  - Wellness strategies

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Network Trends

- Employers have increasing interest in smaller “high performance” networks to steer and control costs.
- BCBST won offering in State of Tennessee account with Network S – expect State to evolve to high performance network.
- Many Blue national account wins have been with smaller “Alt” networks.
- Success of Blue Distinction Centers of Excellence.
- Emergence of Medical Homes and ACOs.
- What will network role be on the exchange?

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How Do You Price All This?

- Increased consumer choice is reality – actuaries need to be ready to respond.
- Analysis, analysis, analysis.
- Understanding how consumers choose network and benefits is important.
- Controlling risk on front end moves to managing populations on back end.
- Actuaries and Sales and Marketing need close communication.
- Throw out the old ways of thinking…but not all of them!

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Questions

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