More for the Money: Insurance Design Strategies that Drive Value
Consumer-Centric Network Design

May 27, 2014
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

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

Leading collaborations
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 insurers eliminate hospitals from their networks.

- More Insured, but the Choices Are Narrowing
  - The New York Times
  - By Reed Abelson

- Remember Managed Care? It's Quietly Coming Back
  - The Wall Street Journal
  - By Anna Wilde Mathews

- A network guy says ‘narrow’ works
  - Benefitspro
  - By Allison Bell

- Insurers must break consumers of choice habit
  - FierceHealthPayer
  - 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 "narrowsness"

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

Why Less Choice is More in Health Insurance Exchanges
by Sanjay E. Saxena and Nate Holobinko | 8:00 AM October 10, 2013
The top line results yielded some surprising findings

<table>
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<th>For most, price trumps network</th>
<th>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</th>
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<tr>
<td>But not all consumers &quot;buy down&quot;</td>
<td>Some segments diverge from the overall population; about 30% of consumers equate price with quality, and as such, perceive low price products as inferior</td>
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<td>Non-intuitive network values</td>
<td>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</td>
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<td>Low utility of &quot;classic&quot; services</td>
<td>Consumers are willing to pay little for services desired by employers such as medical management, wellness programs, and gym membership</td>
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Case study highlight
Consumer utility is driven by quality, not breadth, of networks

Relative utility of different network bundles to consumers

Relative Utility

Network 1: Good & average hospitals
Network 2: Good & average hospitals
Network 3: Good & average hospitals
Network 4: Single excellent hospital
Network 5: Excellent and good hospitals

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

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<th>Single Plan</th>
<th>Family Plan</th>
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- 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