# Tiered Networks

## The *What*, the *Huh*, and the *Hmm*.

Employers continue to gain interest in tiered network health plans that steer their employees towards lower-priced, higher quality care providers. In a tiered plan, cost-sharing is lowest if members choose providers from a preferred group of doctors. Member cost-share increases significantly if patients use providers in the middle or non-preferred group tier. In a nutshell, Tiered Networks benefit employees through lower co-pays and contributions in exchange for less flexibility in choosing hospitals or doctors. The hospitals and doctors who agree to participate in these networks have accepted lower rates of reimbursement in exchange for an agreed upon volume of patients.

Let's take a look at the types of Tiered Networks to help you get a better understanding of what they are and what they do.

### Tiered Provider Networks

Tiered Provider Networks are essentially the next evolution of 'Managed Care'. They are a variation of the widely used practice of providing a higher benefit for employees who choose to seek care "in-network." Conversely, a lower level of benefits is provided to those seeking care "out-of-network." The evolution of Tiered Provider Networks expands on this original premise and seeks to raise awareness to the real cost of healthcare. In theory, Tiered Networks drive lower cost by providing a higher level of quality to their patients.

### Tiered Hospital Networks

Tiered Hospital Networks may also offer some savings to employers. This is largely due to the wide disparity of costs and price variation associated with hospital services. Tiered Hospital Networks can be tricky, as few employers have the volume necessary to move the needle on cost.

### Tiered Provider vs. Tiered Hospital Networks

In either Tiered Provider or Tiered Hospital Networks, measuring the cost and efficiency of hospital and physician services is difficult. Providers in a community tend to vary widely based on cost, quality, and accessibility. Further, Third Party Administrators and insurance companies have yet to fully embrace either approach on a national scale. Tiered Networks of any sort can be very spotty for employers seeking a national strategy.[1]

### Narrow Networks

Narrow Networks have seen explosive growth under the ACA, particularly for individual insurance policies marketed on the Federal Marketplace.[1] A Narrow Network limits patients to a very small group of providers and tends to be more restrictive than standard HMO networks.[2] It may also restrict a patient from seeking care outside of that network. These providers are typically chosen based on lower reimbursement rather than higher quality.

## Tiered and Narrow Network Perceptions and Challenges

There are some signs that employers' interest in narrow networks may increase in the future. More than one-third of employers with health plans that have 5,000 or more workers now offer some type of alternative network, including a tiered or high-performance network. Industry research indicates an increasing adoption of narrow networks by both large and small employers, particularly in urban markets around the country.[1]

In recent interviews with Benefit Managers, employers remained skeptical about the claims that these types of networks can "bend the trend" and offer sustainable savings. Given the potential for major disruption in clinical relationships, employers are hesitant to move forward. In addition, Benefit Managers tended to worry that employees would blame the employer for forcing them to abandon their Provider relationships.[1] However, savvy employees may simply view the restrictions as another effort to contain costs.

The biggest challenge in implementing these types of network strategies is the ability to harness data. Employers must have access to claims and price data in order to build defensible health plan strategies. This can help determine the relative efficiency of providers based not only on cost but, more importantly, on quality of care and outcomes. It can also help to weed-out the low-value providers based on real data.

**Sources:**
(1) Hall, Mark and Paul Fronstin. "Narrow Provider Networks for Employer Plans." Employee Benefit Research Institute Issue Brief. 428. (2016): Web. https://www.ebri.org/pdf/briefspdf/EBRI_IB_428.Pvdr-Nets.13Dec16.pdf.

(2) Claxton, Gary , Matthew Rae, Michelle Long, Anthony Damico, Bradley Sawyer, Gregory Foster, Heidi Whitmore and Lindsey Shapiro. "Employer Health Benefits 2016 Annual Survey." The Kaiser Family Foundation and Health Research & Educational Trust. (2016): Web. http://files.kff.org/attachment/Report-Employer-Health-Benefits-2016-Annual-Survey.