



# HM STOP LOSS

## HM InSights: Narrow Networks

In the current health care environment, there is some movement toward establishing narrow provider and hospital networks that can meet patients' needs while delivering quality outcomes at a lower cost. These narrow networks may act as a cost-saving alternative to the more traditional open access PPO and fee-for-service payment systems in the marketplace today.

### **Narrow networks can help providers and hospital networks to meet clients' needs affordably by:**

- Directing patients to providers with excellent performance and lower costs
- Changing members' utilization patterns
- Impacting Stop Loss insurance when price efficiencies keep high-cost claims from reaching the Specific deductible

While the concept of narrow networks has been around for years, the Affordable Care Act (ACA) has made narrow networks far more relevant as a quality and cost-savings approach. Narrow networks generally impact first-dollar claims; however, when used by self-funded plans, they potentially would keep some high-cost claims from reaching the Stop Loss Specific deductible, thereby impacting Stop Loss premium rates as well.

### ABOUT HM INSIGHTS

HM developed InSights to provide producers and their clients with information about industry trends that impact Stop Loss insurance. The information is intended to empower readers with market knowledge that can help them to better make coverage decisions in the changing health care environment.

### Narrow Networks Help to Control Costs

In today's marketplace, health insurers and employers are seeking to control premium increases and lower health care costs by steering patients to the best performing and most cost effective providers.

Most narrow networks are utilized to keep public exchange plans inexpensive. According to a recent study conducted by McKinsey & Company, 70 percent of hospital networks on exchanges are narrow or "ultra narrow,"<sup>1</sup> demonstrating significant interest in these networks by fully insured carriers.

The trade-off from a broader network to a narrow network is that a narrow network restricts choice leading to cost savings that are reflected in lower premiums. More employers are making this trade-off in their group plan and offering narrow networks. Nationally, 20 percent of all firms offer a narrow network option to their employers.<sup>2</sup>

### Narrow Networks are Changing Utilization Patterns

The success of narrow networks from a cost savings perspective is driven by the total potential savings and the ability to change utilization patterns to capture that potential savings. The size of potential savings is determined by the scope of the narrowing (e.g., hospitals only, hospitals and specialists, outpatient, labs, etc.), cost differences between what is in and out of network and other factors.

### **Changes in utilization patterns are driven by:**

- Available capacity in the narrow network (e.g., ability to handle the members' needs and length of stays)
- Member and provider incentives in the plan design contracts
- Local market dynamics (Is the network geographically accessible to members? Are customers willing to switch?)

Brokers and groups should take all of these factors into account when evaluating a network.



It's our policy to protect.<sup>SM</sup>  
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<sup>1</sup> As defined by McKinsey & Company, narrow networks have 30-69 percent of the 20 largest hospitals not participating and ultra-narrow networks have at least 70 percent of the 20 largest hospitals not participating, with the largest 20 hospitals representing ~80-85 percent of beds on average across rating areas; McKinsey Center for Healthcare System Reform, December 2013.

<sup>2</sup> "Narrow, Tailored, Tiered and High Performance Networks: An Emerging Trend," BDC Advisors, January 2013.

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