Portfolio Network Strategy Delivers Broader Options, Greater Flexibility and Increased Savings

Contracting with a single national PPO network cannot deliver optimal results. Solutions must be flexible and specific to each organization's unique needs.

Not too long ago, the economy was strong and workers' compensation claims were on the decline. In fact, in 2001, the rate of lost workdays was the lowest ever recorded by the Bureau of Labor Statistics.* In that environment, many of the tried and true approaches to workers' compensation medical management controlled costs adequately. That is no longer the case. Workers' compensation spending is on the rise, costing employers approximately $56 billion in 2002, up nearly three percent from the previous year. Half of the direct benefit dollars will be spent on medical costs, which are rising at double-digit rates. The issue is further complicated by variations in medical cost drivers and in regulatory controls from one jurisdiction to the next.

CHALLENGE:
Depth and diversification

One particular challenge for risk managers is to find a network program that delivers the greatest savings. The current state of the PPO industry makes that job difficult. With more than 270 viable workers' compensation PPOs, providers may maintain an average of 30 to 40 contracts at any given point in time. Many networks are consolidating in an attempt to streamline contracting and credentialing activities, but remain relatively internally focused as a result. Close monitoring of provider practices is required to ensure that networks are delivering on their value proposition to clients and patients. These forces, combined with strong competition—and demand—for resources, point to the need for expert execution of a network strategy. It is increasingly clear that contracting with a single national PPO network cannot deliver sufficient results. Solutions must be far-reaching and flexible, and specific to each organization's unique needs. What's needed is a more strategic approach to network relationships.

The best practice appears to be a network portfolio that includes contracts with multiple, best-in-class national, regional and specialty networks. By diversifying, coverage is optimized for specific employers based on their claims history, utilization patterns, jurisdictional locations and other factors. The advantages of this approach include more effective network administration, greater flexibility and the most favorable financial results.

INFRASTRUCTURE:
Size and strength

A single network portfolio manager has responsibility for network oversight, relieving the employer and payor of administrative burdens that range from handling grievances and changes in provider information to complex data management and network analysis. A portfolio network manager can offer a level of service that few single network programs can offer, including the complex task of continually updating provider data and fee schedules to ensure currency.

With its resources and buying power, a multiple network manager is better positioned to negotiate with credentialed network partners and to profile providers within those networks. Employers and payors also benefit from the strength of a network manager's relationship with individual networks when

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Intracorp's PPO strategy has yielded savings increases of 15 to 20 percent and charge penetration increases of five to 10 percentage points.

**In 2001, a total of 5.2 million injuries and illnesses occurred in private industry workplaces, resulting in a rate of 5.7 cases for every 100 equivalent full-time workers. Source: The Bureau of Labor Statistics, U.S. Department of Labor, December 2002.*

requesting that specific providers be added or dropped from networks, and receiving reports regarding those changes. A multiple network manager often implements these processes much more quickly than a single network manager.

FLEXIBILITY:
Options and optimization

A single-contract approach simply cannot offer the flexibility of a network portfolio —agility that is critical in today's business environment. A portfolio network manager assembles the components that make the most sense for the employer or payor. The first step is a needs assessment, based on historical analysis of bills, charges, providers, injuries, demographics, etc.

With those findings, the network manager can then compare various options to determine which will yield the deepest penetration and greatest savings. A portfolio can include different primary and secondary networks for each state in which the employer has operations. Having evaluated networks on a state-by-state basis, the manager can recommend the strongest network for each state—an option that can't be offered by a single network entity.

The network manager can also analyze utilization patterns and worker population to ensure that the portfolio includes appropriate complementary and specialty networks. For example, if an employer in Texas is spending a high percentage on chiropractic care, including chiropractors in the network composition can help control those costs. Without the appropriate specialists in network, savings opportunities are lost.

Another advantage of a portfolio approach is that it can be adapted as the employer's needs change. If an employer acquires a new subsidiary or opens a division in a different state, network components can be changed to address the new requirements. A multiple network portfolio also provides a competitive advantage to payors who want to write more business with large national companies that demand a comprehensive, best-in-class approach with a great degree of flexibility.

FINANCIAL IMPACT:
Penetration and pay-off

Access fees for traditional single-network contracts and network portfolios are competitive. On first examination, employers and payors may see slightly lower costs when dealing directly with a single network provider; however, the longer term, overall savings that a comprehensive network portfolio can deliver far outweigh slight differences in access fees.

A network portfolio reduces medical costs by delivering the best possible contracts for each customer in each jurisdiction. For example, rather than obtaining across-the-board discounts, the network manager can often negotiate higher discounts from select network partners and pass those savings to the customer. A network portfolio also reduces medical costs through deeper penetration. A higher number of claims stay in network because the portfolio includes more providers. This approach is particularly advantageous in employee-choice states.

SUMMARY:
Strategy and savings

A strategically devised network portfolio can help employers control workers' compensation medical costs, enable claims payors to offer the best possible solutions for each customer and allow carriers to achieve greater savings. For one major program provider, the portfolio approach increased savings nationwide by 15 to 20 percent and boosted charge penetration by five to ten percentage points. In today's world of double-digit medical inflation, these figures represent significant savings that can dramatically impact an organization's bottom line.

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