



## Health Insurance Cost Control

Fallon Community Health Plan  
Worcester, MA

### BACKGROUND

The combined use of limited, or selective, provider networks and a defined contribution strategy presents an immediate opportunity for government entities and employer groups to achieve significant and sustainable health insurance savings and reduce medical cost trends, while maintaining coverage levels and quality of care. This solution illustrates the impact of changes in consumer behavior that occur as a result of economic conditions and opportunities. Offered together, limited networks and a defined contribution strategy will produce the following benefits:

- Immediate and material savings in employer contribution dollars
- Consistent health insurance benefit and customer satisfaction levels
- Reduction in year-over-year medical cost trends
- Increased predictability in year-over-year employer contributions
- Increased number of consumers making value-based decisions
- Reinforced value of community hospitals

Limited networks include providers carefully chosen using objective clinical and service quality measures. Fallon Community Health Plan's (FCHP) experience proves that the delivery of care by these providers is more efficient and effective. Annual medical costs in FCHP's limited networks are 15% lower than costs in our more expansive network. Consumers receive the same level of benefits and have the same level of satisfaction in the limited network option as they do within a broad

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network. A defined, “equal dollar” contribution strategy, typically between 80% and 100% of the lowest cost option, is successful in driving consumers toward efficient and effective providers. Increased consumer choice in turn motivates other providers to improve quality, efficiency and infrastructure, ultimately driving down healthcare costs.

Leveraging limited network options in combination with an equal dollar contribution strategy can produce immediate and significant savings for all stakeholders in the health care system and pave the way for sustainable change in the marketplace.

**PROBLEM**

Health care spending in Massachusetts is 33% higher than the U.S. average.\* Ever-rising health care costs and the recession have combined to create unpalatable decisions for business and government. For employers, health care spending is the second highest expense behind salaries. Employers, government entities and municipalities in Massachusetts looking for ways to reduce their health care expenses have typically been forced to cut back on benefits or switch to high-deductible health plans for budget relief. These solutions are unfavorable for consumers because it reduces and/or complicates how they are covered. The combined use of a limited provider network and a defined contribution strategy is an immediate opportunity for these entities to achieve significant savings without reducing the level of coverage and quality of care offered to employees.

**SOLUTION**

The solution calls for providing a group health insurance plan that is supported by two components: a limited network of providers and a defined contribution strategy.

Providers in the limited network are selected using objective clinical and service quality measures. Most providers in FCHP’s limited network have a proven track record of innovation, including the implementation of an electronic medical record

system. The level of benefits in the plan design supported by the limited network is identical to the level of benefits of the plan design supported by the more expansive network. The premium is favorably impacted by the combined efficiency and effectiveness of network providers.

Employer contribution strategy is a critical component of health insurance costs. With an equal percentage strategy, the employer contributes an equal percentage across all health plan options offered to employees and employees pay the remaining percentage. With an equal dollar strategy, the employer contributes a fixed dollar amount based on the lowest cost option and employees contribute any premium beyond the fixed dollar amount.

Illustrative example:

Employer group with 70 employees that offers employees a choice of two plans:

- Plan A (expansive network; total cost of \$500 per month per employee)
- Plan B (limited network; total cost of \$425 per month per employee)

Scenario I. Equal percentage contribution strategy - employer contributes 80% regardless of plan design

- Plan A - 50 employees enrolled; employer contributes \$400 per employee/\$20,000 total per month; employees each contribute \$100/month
- Plan B - 20 employees enrolled; employer contributes \$340 per employee/\$6,800 total per month; employees each contribute \$85/month
- Total employer contribution = \$26,800/month

Scenario II. Equal dollar contribution strategy - employer contributes an equal dollar amount set at 80% of the lowest cost plan (\$340 per employee per month)

Without a change in plan choice by employees:

- Plan A - 50 employees enrolled; employer contributes \$340 per employee/\$17,000 total per month; employees each contribute \$160/month
- Plan B - 20 employees enrolled; employer contributes \$340 per employee/\$6,800 total per month; employees each contribute \$85/month
- Total employer contribution = \$23,800/month for a total savings of \$3,000/month.

Scenario III. Equal dollar contribution strategy - same as above but 50% of employees shift from Plan A to Plan B

In this scenario, if 50% of the consumers with Plan A make value-based decisions and shift to Plan B (savings to them of \$75/month), the employer contribution (as in Scenario II) is reduced by \$3,000/month, but in addition, the total employee contribution is reduced by \$1,875/month.

## **BENEFITS**

- Annual medical costs in FCHP's limited network plan are 15% lower than costs in the expansive network plan.
- FCHP's limited network performed, on average, 1.5% better on four key HEDIS metrics related to preventive care (breast cancer screening, cervical cancer screening, HbA1c screening for diabetics, cholesterol screening for diabetics). Improvements in quality of care can be extended into improved productivity (via attendance) in the workplace.
- Customer satisfaction results are consistent between FCHP members in the limited network plan and the expansive network plan. Consumers are not subject to cost shifting or reduction in benefits which negatively impact their satisfaction.
- Consumer behavior is driven by contribution strategy and influenced by economic conditions that have lowered the threshold for consumers to make value-based decisions.

- FCHP has continued to seek out providers in Massachusetts who have demonstrated their ability to deliver high quality, cost-efficient and cost-effective care. The network now includes 15 provider groups in central and eastern Massachusetts and the North and South Shores. Because of this expansion, approximately two-thirds of this state's population lives within the limited network's service area.
- Membership in the FCHP limited network product has grown by 40% since 2006 and now includes more than 50,000 members.

## **CONCLUSION**

Through the Group Insurance Commission, state employees are offered a robust portfolio of plan designs, including FCHP's limited network product. However, the contribution strategy is legislated. Commercial insurance costs are estimated at \$983M of which the GIC incurs \$830M and employees contribute \$153M. Under certain assumptions including an equal dollar contribution strategy based on 100% of the lowest cost plan option that engages employees to "buy down" to the next plan design, the GIC contribution could be reduced significantly (an estimated \$82M per year) without a change in the aggregate cost to employees.

The program should be implemented for municipalities, state entities (i.e. transportation authority) and the Group Insurance Commission. As the economic woes aggregate, more consumers may welcome the choice of a lower cost plan offering high quality care and benefits. It is incumbent upon the leaders of organizations in Massachusetts to become educated about the opportunities that limited networks present for them and their constituencies.



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