Special Report
Health Care Plans

Direct Provider Networks Seen as Alternative to PPOs, HMOs

When Perdue Farms Inc. begins operations at its newly acquired Perry, Ga., poultry processing plant, the company will continue its trend of negotiating its own preferred provider networks directly with local health care providers, Roger Merrill, Perdue's corporate medical director told BNA Feb. 16. The Salisbury, Md.-based poultry company already has negotiated or ''rented'' direct provider networks (DPNs) for all of its 21,000 employees spread across 15 states, Merrill said.

While a DPN can be designed for a small number of employees, Merrill said, Perdue considers negotiating its own DPN after looking at the ratio of employees in an area to the number of health care providers. For example, he said, where there are few employees in an area with hundreds, or thousands of doctors, Perdue would probably rent a network.

Putting in place a DPN depends not so much upon how many employees an employer has in a given area, but ''is more a function of where [the] employees are,'' Howard ''A.J.'' Lester, of A.J. Lester & Associates, Houston, Texas, told BNA Feb. 11. Lester, whose firm helps companies and providers negotiate DPNs, said a company typically must be large enough to be self-insured, but can provide a DPN for a small number of employees in some rural areas, he said. For example, he said, Perdue has been able to negotiate DPNs for its employees because in many of the areas where the company has facilities, it is the largest single employer.

Lester added that liability concerns are typically no more than under an indemnity contract, and that employers keep an ''absolute arm's length'' between themselves and their health care providers' decisions.

Incentives for Providers

Health care providers look favorably upon such arrangements, Lester said, for several reasons. First, direct contracting ''allows doctors and hospitals to practice medicine they way they see fit,'' he said.

Secondly, direct agreements create win-win terms for the employer and the provider, Lester said. Terms of the contract are fully disclosed to both the employer and the providers.

Thirdly, providers know who is ultimately responsible for health care payments. And DPNs work very well because providers are given assurances beforehand that they will be paid quickly and accurately, and they will always have direct access to the employer on the occasions when that doesn't happen, Lester said.

Providers also are willing to try out DPNs simply because they are different, Lester said, and would welcome a direct relationship with employers.

Ways to Save

Directly negotiating with health care providers gives companies two ways to save money, Lester said. First, companies can save in the long run on fixed costs. For example, the standard preferred provider organization or health maintenance organization plan charges regular administrative access fees per covered person. Fees can also include costs for publishing directories, and costs reports. When the company owns the network, however, Lester said, all of these fees are eliminated.

DPNs also help employers with holding down variable costs. Companies that go with the traditional PPO or HMO will be buying into a network of providers meant to benefit many employers. Before negotiations begin for a DPN, however, companies examine which health care providers its employees are already using.

Furthermore, direct negotiations can bring down costs 20 percent to 40 percent lower than through HMOs or PPOs, Lester said.

The return on investment in a DPN depends on the length of the contract, according to Merrill. A contract that lasts for 15 years will have an ROI of 100 to one; a contract that is over in six months will have an ROI of only two to one, he said. But positive returns can be seen by only the second or third year. And the contracts are ''quite stable,'' Merrill said.

Parker Hannifin

Cleveland-based Parker Hannifin Corp. demonstrated in 2003 that a DPN can be negotiated even for a very small number of employees. The contract, handled by Lester, helped the manufacturer of motion control technologies benefit its approximately 25 employees at its Canton, Pa., facility, Annette Jessop, Parker's manager of Managed Care Provider Networks told BNA Feb. 16.

Parker uses its own preferred provider network, called Parker Preferred, which deals directly with hospitals, PPOs, and physician groups. The Canton arrangement, for example, covers a few hospitals and a couple hundred doctors. In some cases, Parker will negotiate arrangements with independent doctors to supplement the network, typically in rural areas where there are very few doctors, or with doctors who practice in a specialty not already covered under the plan, Jessop said.

Parker also seeks ''a very hands-on approach,'' Jessop added. For example, while the company uses a third party administrator to handle the plan, the TPA designed an account to ''handle our claims, and no one else's claims,'' Jessop said.

From the satisfaction standpoint, Parker has reaped well. Before using the dedicated TPA account, Jessop said, reprocessing claims issues had been much higher.

Echoing Merrill, Jessop found its DPNs to be ''very stable.'' While the majority of Parker's contracts are evergreen—they are renewed each year with little adjustment—the company is ''always looking at the contracts'' in order to find ways to save money, such as through minimizing administrative fees, Jessop said.

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  BCMU ISSN 1526-3932