

# Read your contracts: Is your practice losing revenue through rental network PPOs?

## Are payers renting your lowest contracted payment rate without your knowledge?

Multiple payers could be taking advantage of your lowest contracted payment rate (i.e., highest discounted rate) through the use of a rental network preferred provider organization (PPO). What is more surprising, however, is that many physicians do not realize how easily and often this occurs. It is possible for a physician to sign a contract with a single rental network PPO that may allow multiple payers to access this network's contracted discounted rate. When this occurs, the payer will either: 1) pay the in-network physician at a lower payment rate (i.e., higher discounted rate) than the contractual agreement between the payer and the physician permits; or 2) pay the out-of-network physician at a discounted rate when there is no contract between the payer and the physician and therefore, no agreed upon discount. Either way the physician practice loses revenue as result of the unfair business practice.

This document discusses payer discounting practices brought to the attention of the American Medical Association (AMA) in our efforts to educate physicians about how to identify and protect their practices from inappropriate payer discounts.

### Rental network PPOs: how they operate

A rental network PPO is **not** a managed care product offered by a payer to its clients. Rather, a rental network PPO exists to market a physician's contractually discounted rates primarily to third-party payers, such as insurance brokers, third-party administrators, local or regional PPOs, or self-insured employers.

Here is how a rental network PPO generally works: a physician contracts with a rental network PPO and accepts a discounted rate in exchange for identification as a network physician in the PPO directory. Under this arrangement, the third-party payers that contract with the rental network PPO usually gain the advantage of having access to any and all discount agreements that the rental network PPO has negotiated with the physician, and usually without the physician's prior knowledge or permission. A rental network PPO, which "sells" or "rents" its physician network to a third-party payer, generally takes no financial risk and does not pay claims or ensure that any associated physician claims are paid.

The opportunity for payers to shop for the physician's lowest contracted payment rate (i.e., highest discounted rate) is created when a physician signs contracts with multiple rental network PPOs. By renting multiple physician networks, a third-party payer can then load all of the physician's available discounts into its claims system. When claims are submitted, the payer will then search for and pay the lowest contracted payment rate (i.e., highest discounted rate) available (see [Figure 1](#)). This rate may not necessarily be the rate associated with the rental network PPO on the patient's insurance card. Payers also apply this discounting practice to "out-of-

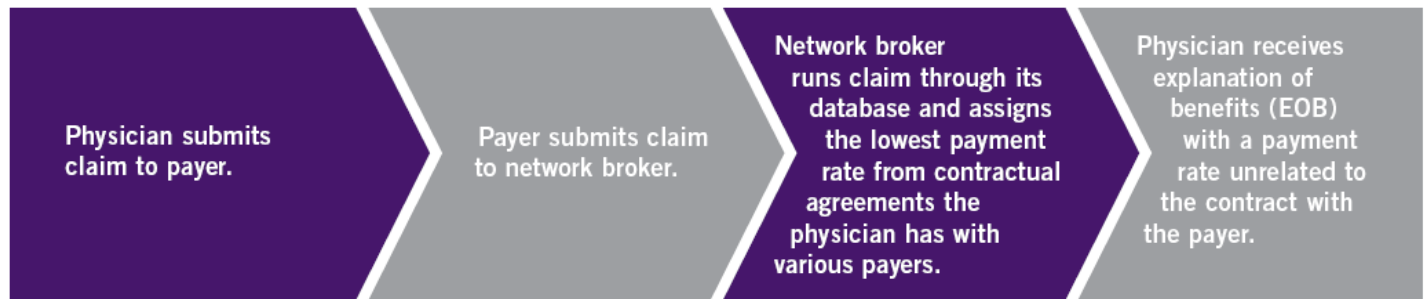
This resource document is not intended to provide legal advice. Consultation with legal counsel is highly recommended prior to making any decision that may affect your practice.

network” claims, which virtually eliminates the out-of-network payment rate to physicians in a given geographic area.

### Rental network PPOs: how they generate revenue

Rental network PPOs charge their clients (i.e., payers, employers, third-party administrators) a fee to access their physician networks. Historically, the rental network PPO industry used shared savings arrangements as the primary revenue model. However, over time, an access fee (such as a set fee per member per month) in combination with a cost-sharing arrangement has become common, especially for physician services.

**Figure 1: Rental network PPO scenario**



### “Network broker” or “repricer” role

The rental network PPO may also rent the network to entities such as “network brokers” or “repricers.” In these situations, the network broker or repricer aggressively markets itself to third-party payers by advertising that it is affiliated with numerous national and local networks, which include hundreds or thousands of physicians. Payers use the services of repricers to obtain access to the deepest discounts that a physician has agreed to with a rental network PPO. This often results in a discounted rate being applied that is unrelated to any rate that the physician has agreed to in the associated payer contract.

### Growth in an unregulated industry

Over the past 20 years, the unregulated expansion of rental network PPOs has allowed discounting methods and practices to flourish and is a major concern for physicians. Additionally, these discounting practices require physician staff to perform costly, time-consuming audits to identify which entity applied the discount and which contractual agreement contained the applied discounted payment rate. Only then can a practice determine and appeal any inappropriate discounts that may have been applied to a claim.

#### **AMA Practice Management Center resource tip**

The AMA has resources available to help physicians and their practice staff put an end to inappropriate payer discounts. AMA members can visit the AMA Practice Management Center Web site at [www.ama-assn.org/go/pmc](http://www.ama-assn.org/go/pmc) to download a complimentary copy of the interactive **Appeal that claim** resource, which explains the process of identifying and appealing inappropriate payer discounts. Downloadable claim appeal form letters are also available to AMA members.

## What you can do to protect your practice—review and understand contracts before signing

### Rental network PPO contracts

Physicians need to exercise caution before signing **any** managed care contract. With rental network PPOs contracts, physicians need to keep in mind that the entire purpose of these contracts is to build a physician network to “rent” to numerous payers. Signing a single contract can have significant unintended consequences for the physician’s practice.

Rental network PPOs are often not subject to state regulation, which can make it difficult to get the kind of information that is typically publicly available about health insurers and third-party payers. Physicians may only receive an “invitation” to contract with a rental network PPO that provides very little information on the company, and even fewer details of what entities rent the physician discount. Physicians should be leery of such invitations.

Before considering signing any rental network PPO contract, physicians should request at a minimum the following information.

- Who are the payers (clients) entitled to access the physician discounted rate? Physicians should obtain a complete list of all payers entitled to the negotiated discount rate.
- What, if any, notice does the rental network PPO give when a payer is added to its client list?
- Can a physician opt-out on a payer-by-payer basis?
- How does the rental network PPO determine the physician discounted rate? Is it a percentage of billed charges? A calculation of “usual, customary and reasonable” charges? Or is another discounting methodology being used?
- Does the contract permit payers to apply their own payment methodology? If so, can this result in further reductions to the amount paid to the physician?
- How does a patient’s health insurance card identify the rental network PPO name?
- Does the rental network PPO rent physician discounts to repricers, brokers and other parties? If so, remember that those parties operate to make a profit by renting of the physician’s lowest contracted payment rate (i.e., highest discounted rate).

### Third-party payer contracts: beware of “payer” and “affiliate” definitions

Third-party payers can also rent their physician networks. Physicians need to watch for broad definitions of “payer” or “affiliate” that may permit the renting of their negotiated discount rates. An example is a definition that describes a payer as “any other entity which has contracted with the company to use the company’s provider network.”

The AMA’s ***Model Managed Care Contract*** includes a definition of “Payer” that makes it clear that the third-party payer cannot rent or lease the terms of the agreement to other entities. Provision 1.13 defines “Payer” as:

“The entity or organization directly responsible for the payment of Managed Care Organization (MCO) compensation to the physician under a Plan. Under no conditions shall the parties interpret “Payer” to be, nor shall the negotiated rates herein described be assigned or accessible to, any party other than the MCO or an employer offering a self-funded product that contracted with the MCO to administer such product.”

Physicians should also determine whether the contract permits “payers” to apply their own payment methodology to claims, which can result in further reductions in the amount paid to the physician.

Physicians should understand the implications of contract provisions on their practice. Physicians should review all payer and rental network PPO contractual agreements before signing them. The AMA provides several useful tools to educate physicians on managed care contracts. The AMA *[Model Managed Care Contract](#)* contains sample contract language designed to assist physicians in avoiding common contracting pitfalls. This material is available on the AMA Web site at [www.ama-assn.org/go/psa](http://www.ama-assn.org/go/psa).

Additionally, some of the recent class action Multi-District Litigation settlements with major health insurers contain provisions prohibiting certain business practices and contractual provisions associated with the renting of physician discounted fee schedules to other entities. For additional information on these settlements and their provisions related to rental networks, visit [www.ama-assn.org/go/settlements](http://www.ama-assn.org/go/settlements) and [www.hmosettlements.com](http://www.hmosettlements.com).

### **For additional information**

Explore the AMA Practice Management Center Web site at [www.ama-assn.org/go/pmc](http://www.ama-assn.org/go/pmc) to learn more about our advocacy efforts in the private sector, recent victories in combating unfair managed care business practices, and new practice management educational tools for physicians and their patients. Resources include:

- [Prepare that claim](#)
- [Follow that claim](#)
- [Appeal that claim](#)
- [How to prepare for a health plan retrospective audit](#)
- [What to do about unfair payer practices](#)
- [Understanding your health insurance policy and payment practices](#)
- [Competition in health insurance: A comprehensive study of U.S. markets](#)
- [Fourth Edition, AMA Model Managed Care Contract \(2005\)](#)
- [15 questions to ask before signing a managed care contract](#)

#### **Questions or concerns about practice management issues?**

AMA members and their practice staff can e-mail the AMA Practice Management Center at [practicemanagementcenter@ama-assn.org](mailto:practicemanagementcenter@ama-assn.org) for assistance.

For additional information and resources, there are three easy ways to contact the AMA Practice Management Center:

- Call (800) 621-8335 and ask for the AMA Practice Management Center.
- Fax information to (312) 464-5541.
- Visit [www.ama-assn.org/go/pmc](http://www.ama-assn.org/go/pmc) to access the AMA Practice Management Center Web site.

The AMA Practice Management Center is a resource of the AMA Private Sector Advocacy unit.

# The tangled web: the rental network PPO industry

