

The tangled web: the rental network PPO industry

Multiple payers could be taking advantage of a physician’s lowest contracted payment rate through the use of a rental network preferred provider organization (PPO). What’s 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 discount 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; or 2) pay the out-of-network physician at a discount 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.

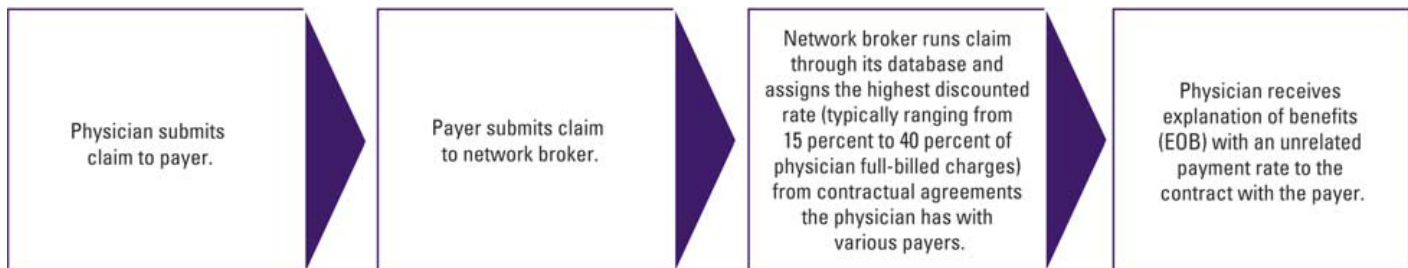
This document discusses payer discounting practices brought to the attention of the American Medical Association (AMA) in an effort to help physicians identify and protect their practices from inappropriate payer discounts.

What is a rental network PPO

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 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 typical rental network PPO 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 advance 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 or ensure that any associated physician claims are paid.

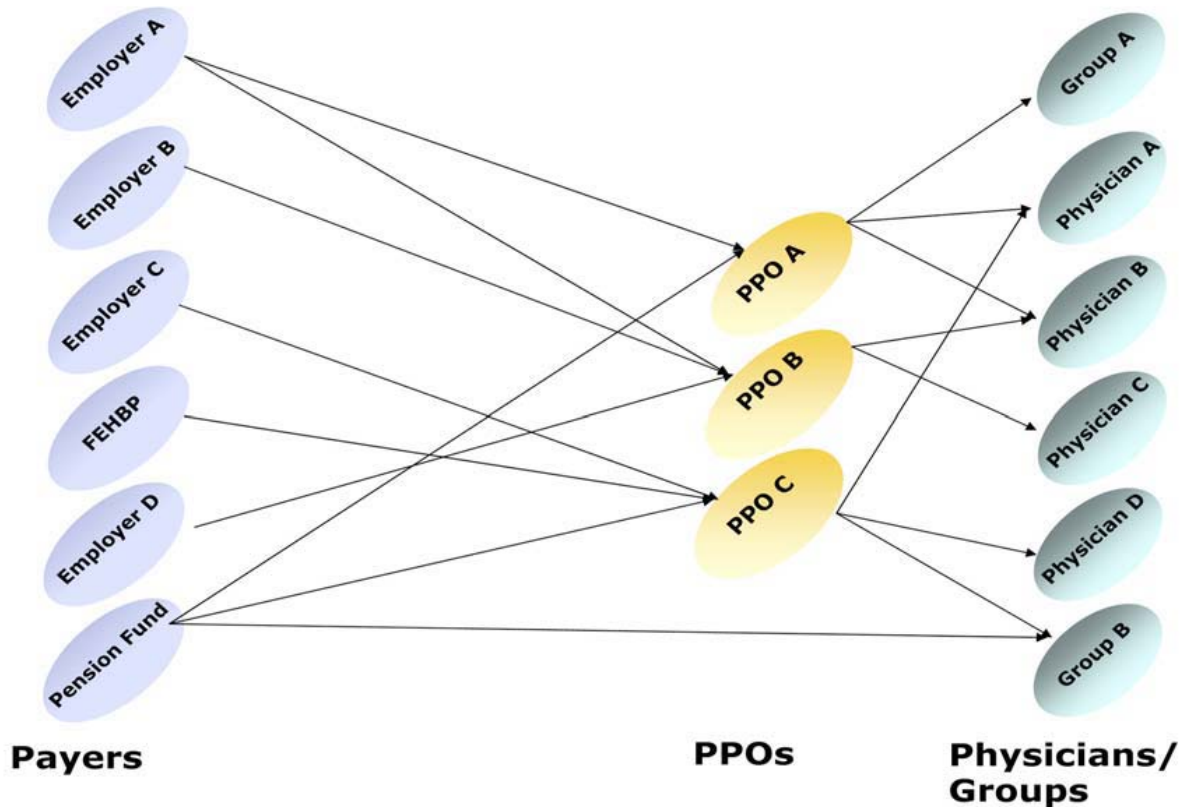
Figure 1: Rental network PPO scenario



A rental network PPO may also rent its network to entities such as “network brokers” or “repricers.” In these situations, a network broker or repricer aggressively markets itself to third-party payers by advertising that it is affiliated with numerous national and local networks, which includes 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 contracts.

Growth in an unregulated industry

Figure 2: PPO industry, pre-1990s



Over the past 20 years, rental network PPOs have provided third-party payers access to physicians in various geographic areas where the payers did not have an established physician network. During this period, the PPO market has expanded to more than 400 rental network PPOs and 4,000 payers that use these networks to provide their members with access to 600,000 physicians across the country.*

The expansion of rental network PPOs in an unregulated industry has allowed discounting methods and practices to flourish and is a major contracting concern for physicians.

The complexity of today’s rental network PPO market and its intertwined payer relationship is illustrated in Figure three (page 3.) This complex situation creates the opportunity for payers to reprice a claim using a lower payment rate (i.e., higher discounted rate) on physician services than the payer may be entitled to. Additionally, navigating and untangling this web requires physician staff to perform costly, time-consuming audits to identify which entity applied the discount and which contractual agreement contained the applied discounted payment

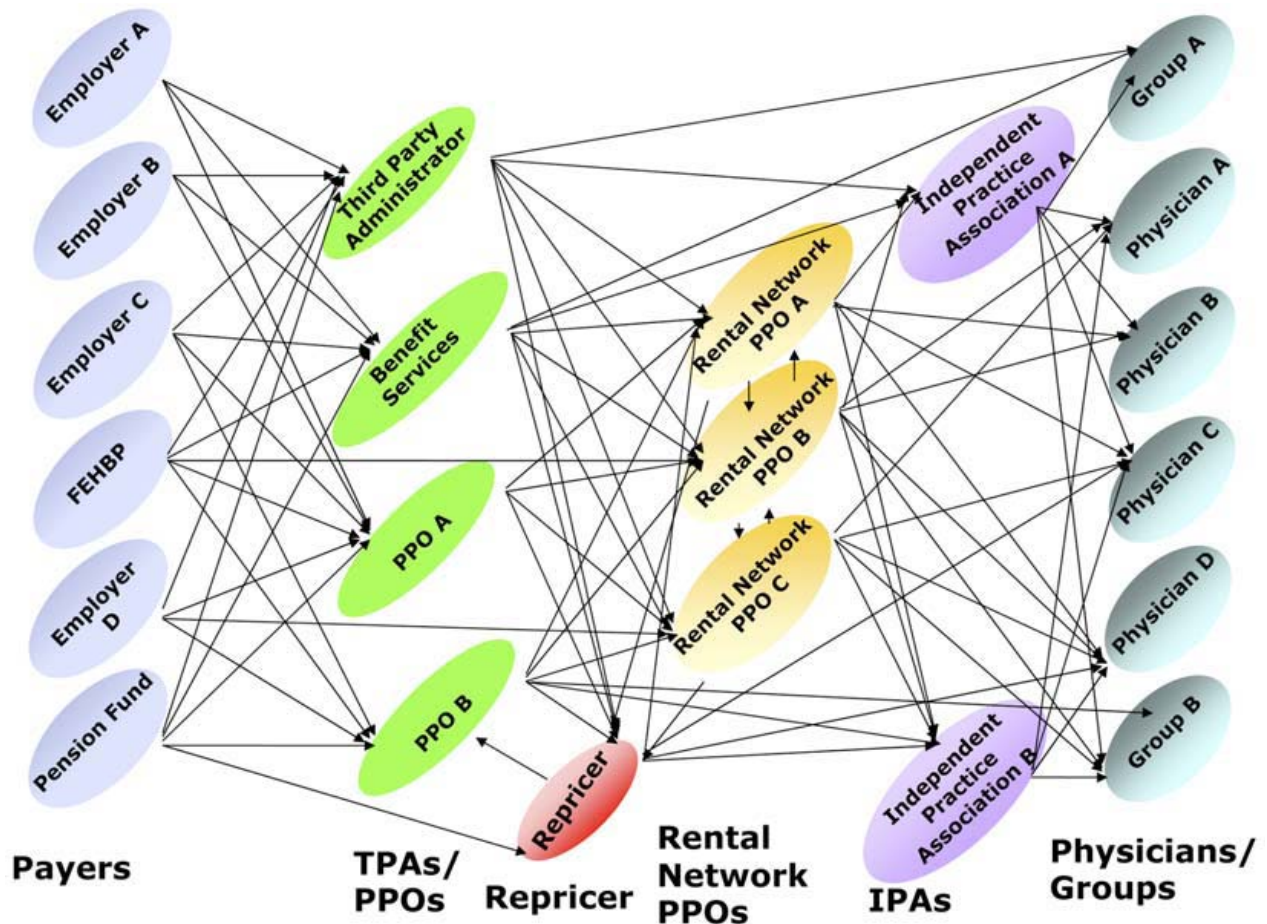
* National Healthcare Exchange Services (NHXS)

rate. Only then can a practice determine and appeal any inappropriate discounts that may have been applied to a claim. The result of unfair discounting practices by payers has added to physician frustration, decreased payments and increased claim payment reviews and auditing expenses.

AMA Practice Management Center resource tip:

The American Medical Association (AMA) has resources available to help physicians and their practice staff addresses inappropriate payer discounts. The AMA “**Appeal that Claim**” resource explains the process of identifying and appealing inappropriate payer discounts. **Claim appeal form letters** for modification by the physician practice are also available on the Web site as a member benefit.

Figure 3: The tangled web: the rental network PPO industry



Rental network PPO's and other payer's discounting practices

The use of rental network PPOs and the application of discounting practices by payers can adversely affect patients and physicians. Patients may be required to pay a higher percentage of the physician's full-billed charges, if the lowest payment rate (i.e., highest discounted rate) is applied to the patient's claim when submitted by an out-of-network physician. Physicians, in turn, may lose significant revenue as a result of giving discounts to payers that should, in fact, be paid based on the physician's full-billed charges. In such instances, these payers have no legal basis for accessing the discounted rate. Physicians offer discounts in exchange for increased patient volume directed to them by the payer. In these situations, these discounts are frequently given without any apparent value to the practice since no patient steerage results from these types of arrangements.

The opportunity for payers to shop for the physician's lowest payment rate (i.e., highest discounted rate) is created when a physician signs contracts with **multiple** rental network PPOs. By renting multiple networks, a rental network PPO or other third-party payer can then load all of the physician's available discounts into its claim system. When claims are submitted, the payer will then search for and pay the lowest payment rate available. 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-network" claims, which virtually eliminates out-of-network payments to physicians in a given geographic area.

How rental network PPOs 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 the norm, especially for physician services.

How to protect physicians and their practices

Review and understand contracts

The first step in determining if physicians are unintentionally giving away their lowest contracted discounted payment rate to multiple payers is to review all contracts. Specifically, physicians should review the provisions that allow payers to rent a physician's deepest discount. As a general rule, physicians should review all managed care contracts annually. It is important for physicians to understand whether the entity they are contracting with is a payer or a company whose sole business is renting physician networks.

Rental network PPO contracts

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

Rental network PPOs are not subject to state regulation, which means it can be difficult to get the kind of information that is typically publicly available about health insurers and third-party payers. Physicians may 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 lease the physician discount. Physicians should be leery of such invitations. They should do their homework on any rental network PPO.

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

- Who are the payers entitled to access the discount? Physicians should obtain a complete list of all payers (clients) that are entitled to the discount.
- What, if any, notice does the 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 determine the discount? Is it a percentage of billed charges? A percentage of “usual and customary” charges? Or another methodology?
- Does the contract permit payers to apply their own payment methodology? If it does, can this result in further reduction of the amount paid to the physician?
- How does a patient’s health insurance card identify the rental network PPO name?
- Does the PPO rent discounts to repricers, brokers and other parties? If it does, remember that those parties operate to earn revenue through the renting of your lowest payment rate (i.e., highest discounted rate).

If the rental network PPO does not provide the above information, the physician is encouraged to consider if the proposed agreement represents a workable relationship.

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

Third-party payers also can lease their networks. Physicians need to watch for broad definitions of “payer” or “affiliate” that may permit the leasing of their discount rates. An example is a definition that describes payer as “any other entity which has contracted with the company to use the company’s provider network.” Broad definitions allow the third-party payer to rent the physician’s discount contained in its contractual agreement to all interested third-parties.

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 could result in a further reduction of the amount paid to the physician.

Understand the implications of contract provisions

Physicians should review all payer and rental network PPO contractual agreements before signing. The AMA provides several useful tools to educate physicians on managed care contracts. The AMA/Federation **National Managed Care Contract** contains sample contract language designed to assist physicians in avoiding common contracting pitfalls. Visit the AMA Web site at www.ama-assn.org/go/nationalcontract, where this material is available free of charge to all AMA members.

Additionally, some of the recent class action MDL Settlements against 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 and www.hmosettlements.com.

Whom do I contact about unfair payer business practices

Physicians and their staff can help confront questionable payer actions by voicing concerns about unfair payer business practices to state insurance regulatory agencies. Physicians need to be aware of relevant state laws and regulations in the area of contracting to ensure that they are receiving all available protections. AMA members can download a complimentary copy of the AMA [What to do about unfair payer practices](#) resource, which explains the process of working with state insurance regulatory agencies to file a complaint.

Physicians and their staff can also alert the AMA to problems that they are experiencing with rental network PPOs and payers through the AMA's Health Plan Complaint Form. To access this form, visit www.ama-assn.org/go/clickandcomplain.

Physicians may also contact their state medical association and national medical specialty society to determine the prevalence of inappropriate payer discounting practices that physicians are experiencing through a certain rental network PPO or payer.

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 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 to access the AMA Practice Management Center Web site