

Benefit Fact Sheet

What is it?

Preferred Provider Organizations (PPOs) contract with health care providers (e.g., doctors, hospitals, and medical groups) to deliver medical services at discounted prices. Benefit schedules encourage members to utilize PPO providers through a combination of increased reimbursement rates and lower deductibles, co-payments and out-of-pocket maximums. Members retain the right to use providers outside of the PPO network, but are subject to higher out-of-pocket costs.

Why offer it?

- Provides individuals with the freedom to access both network and non-network providers.
- Provides a certain level of initial and ongoing review with respect to the quality of network providers and the care they deliver.
- Provides members with medical care at a lower cost than traditional indemnity plans.
- Networks are mature, with coverage available in many national locations.

What types of employers offer it?

- Employers with various locations nationwide.
- Employers seeking a comprehensive, flexible health plan that gives their employees a freedom of choice.
- Employers who desire a plan allowing cost containment elements and flexibility.

What size employers offer it?

All sizes of employers offer PPO plans.

What are the critical underwriting or participation requirements?

- Minimum of two employees (varies by insurer).
- Employer location and industry.
- Employee demographics.
- Past claims experience may apply, depending on employer size.
- PPO offering must be coordinated with other employer sponsored health plans. Plans may impose specific requirements to ensure all plans are offered on equal standing in terms of benefits and employer funding. Some carriers may decline to underwrite under certain circumstances.

What's new in this area?

PPO premium trend for 2011 was 11.4% an increase attributable to prescription drug increases, advances in medical technology, increased utilization, increases in provider fees, and the broadening of provider networks, and compliance with health care reform.

Enrollment in PPO plans has remained high. According to AAPPPO, 69% of Americans with health insurance are enrolled in a PPO plan.

Taking their cue from the success of tiered pharmacy copayments, some insurers have begun rolling out tiered networks where hospitals are designated as higher -- or lower -- cost facilities. Members are then subject to higher copays or deductibles for services at higher-cost hospitals. Insurers hope this will help involve members in making more cost-conscious health care choices, and positively affect medical inflation trends.

PPOs form the backbone of proposed "consumer driven" health plans in the form of high-deductible catastrophic coverage.

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How much does it cost?

Average 2010 monthly premium costs (source: Kaiser Family Foundation):

- Employee Only: \$427
- Family: \$1,169

Informational link(s)

- [PPO Overview](#) (American Association of PPOs)
- [Definition of PPO](#) (American Association of PPOs)
- [Kaiser Family Foundation Employer 2010 Health Benefit Survey](#)

Pros and cons

Pros

- Offers employees a wide choice of providers.
- Allows employees the freedom to visit specialists without referral from a primary care physician.
- Reduces cost by steering members to contracted providers through the use of cost incentives.

Cons

- The cost of offering a PPO is greater than other forms of managed care.
- The burden of directing care is placed on employees.
- Changes inside of the network can create employee relations and continuity of care issues.

Notes

As provider networks and hospital systems have merged and gained leverage on health insurance carriers, the contract negotiation process has become more arduous, in some cases leading to terminations. This causes disruption for members whose PPO physicians or hospitals are part of the terminated group. For this reason, the length of the current contract periods between major provider networks and carriers is an important consideration when choosing a health plan.

Monthly premium information compiled from industry surveys completed by ArlenGroup and the Kaiser Family Foundation.

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