

Dental PPO Network Study

2007 Edition

Prepared by Ruark Consulting LLC and The Ignition Group

Table of Contents

Executive Summary	3
In-Network Discounts.....	3
<i>Table 1: In-Network Discounts by Class of Service</i>	4
Effective Discounts	4
<i>Table 2: Effective Discounts by Class of Service</i>	4
<i>Table 3: Effective Discounts for Passive Plans</i>	5
In-Network Utilization Rates	5
Network Size	5
<i>Table 4: Average Network Size by Counting Method</i>	6
<i>Table 5: Variation in Locations Per Dentist</i>	6
<i>Table 6: Penetration of Unique Dentist Universe</i>	6
Benefit Designs.....	7
<i>Chart 1: Industry Benefit Design Distribution</i>	8
<i>Table 7: In-Network Utilization by Plan Design</i>	8
Conclusions.....	9

Executive Summary

Ruark Consulting LLC (RCL) has completed its fourth annual *Dental PPO Network Study*, and findings show that dental networks and the discount savings they provide continue to grow steadily. Preferred Provider Plans (DPPOs) have been the most popular dental insurance product for the past several years and dental carriers continue to focus on increasing the value of their network. After several years of continued increases in network discounts, as carriers raised fees more slowly than inflation, 2007 saw a shift. Many carriers have begun to pay dentists in their network slightly more, in order to maintain and increase the number of high-quality doctors they contract and improve their network's overall value. The result was 2007 in-network discounts that averaged 31% nationally, down 1% from 2006. But more significantly, effective discounts – measuring the total savings across all claims – continued to increase steadily, to 17% for 2007 from 16% one year earlier. This result is driven by high rates of network expansion over the past two years, allowing more dental claims to benefit from discounted fees.

The RCL study is the only tool available in the dental insurance industry that allows carriers to see how their network results line up against competitors. This year's study was based on all 2007 DPPO claims from 18 participating companies, representing 71.7 million covered lives nationwide. Those carriers provided data on \$28.0 billion of total submitted claims, \$11.8 billion of which were from in-network dentists.

In-Network Discounts

As expected, the lower discounts seen in 2007 correspond with higher increases in dentists' fees. Nationally, carriers increased their fees to in-network dentists by an average of 4.5%, a significant departure from the average of 3% seen for the past few years. However, in contrast to the early days of DPPOs, many companies do not pay these increases consistently to all network providers. Instead, they are differentiating fee changes by market or even by office, to address the specific gaps in their network or needs of their customers. Meanwhile, average dentist charges increased at about 3.7% in 2007, down from 4 – 4.5% the prior two years.

As shown by the table below, discounts fall within a few percentage points for all classes of service, and all have decreased 1-2% in 2007. Discounts for the various classes have been moving closer together in the past two years, although discounts for major services remain slightly lower than for other procedures.

Table 1: In–Network Discounts by Class of Service

	2007	2006	2005
Class I – Diagnostic & Preventive	31.7%	32.1%	30.4%
Class II – Basic	32.3%	33.9%	33.0%
Class III – Major	28.7%	29.4%	28.0%
<i>Total</i>	<i>31.1%</i>	<i>32.1%</i>	<i>30.8%</i>

Effective Discounts

The decreases in network discounts last year are a related to a growing awareness by carriers and their customers that those savings are only valuable if they are used. Since a majority of DPPO claims are still from non-participating dentists, the depth of that in-network discount is not the only important, or even most important, metric to watch. Even more meaningful is the effective discount, or total percentage discount on claims from *all* dentists. This number provides the best indication of how often those in-network discounts are being used, and what overall savings the network provides. Since it is a more direct driver of overall cost and premium than only in-network discount, it is a metric that insurers are watching very closely. As carriers grow their network to realize discounts from more dentists, and particularly as they focus on adding the particular offices their customers use most, they are driving larger increases in effective discounts even if it requires them to pay some dentists more than past fee schedules allowed.

Effective discounts are also very similar by class of service, suggesting that the rate of network usage is consistent for different types of claims. The chart shows how these discounts have increased since 2005.

Table 2: Effective Discounts by Class of Service

	2007	2006	2005
Class I – Diagnostic & Preventive	15.6%	13.8%	12.3%
Class II – Basic	18.2%	17.1%	15.9%
Class III – Major	16.1%	15.4%	14.3%
<i>Total</i>	<i>16.7%</i>	<i>15.5%</i>	<i>14.3%</i>

Because benefit designs can significantly influence how frequently network dentists are used, they are also a determining factor in the level of effective discount realized. Passive benefit plans provide the least incentive for an insured member to use a network dentist, and therefore offer a “baseline” view of the savings generated by only the dental network. Since some carriers emphasize non-passive plans more than others, some companies have found that their effective discounts are competitive overall, but not for passive plans (or vice versa).

Table 3: Effective Discounts for Passive Plans

	2007	2006
Class I – Diagnostic & Preventive	12.7%	9.8%
Class II – Basic	14.8%	11.9%
Class III – Major	13.3%	11.1%
<i>Total</i>	<i>13.7%</i>	<i>11.0%</i>

In-Network Utilization Rates

Driving utilization into the network is a critical component of higher effective discounts and total DPPO savings. In fact, analysis of the carriers with the highest effective discounts in each market suggests that the in-network utilization rate is even more important in their success than the in-network discount. The study results show that companies are raising the bar for this metric also. In 2007 42% of submitted claims were from in-network providers, compared to 39% in 2006.

Network size and benefit designs are the most important factors to influence in-network utilization. But an interesting find of the study is that even with similar benefits, larger networks do not always produce greater network use. It is clear that there are other points to consider beyond just contracting as many dentists as possible, such as recruiting the ones that have strong reputations, are in convenient locations, are participating in multiple PPO networks, and are already popular with insureds.

Network Size

Dental PPO networks have consistently grown every year, and the growth was especially rapid in 2007 and year-to-date 2008 as expected from the higher fees observed. The average size of national networks¹ based on access points (each dentist / location combination listed in a carrier's network directory), grew 16.4% between July 2007 and September 2008, on top of 16.8% growth in the prior 12 months. While access points are the most commonly used counting methodology for network size, this metric does not tell the whole story. There is significant industry variance in the way each network determines how many offices to list for each dentist. For example, in a multi-office group practice, a dentist may be contracted (i.e. potentially submit a claim) at 10 offices, but may only actually regularly practice at two locations.

This counting methodology variation can be controlled for by counting unique dentists (each dentist one time regardless of the number of practice locations). The table below shows unique dentist counts are also growing, although not as quickly as access points. This gap results in an increasing number of listed locations per dentist for each network,

¹ Source: NetMinder, powered by The Ignition Group. Analysis based on 12 largest national dental PPO networks.

which may or may not impact in-network utilization and effective discounts. The significant variance in the ratio of listed locations per dentist can be seen in Table 5 below. Not only is the average number of locations per dentist growing among the national PPO networks, the range of values is also widening. The gap between the network with the largest ratio (2.53 locations per dentist) and the network with the smallest ratio (1.38) is larger than it was three years ago (1.15 versus .94). This reinforces the use of unique dentists as a more consistent way to measure network size.

Table 4: Average Network Size by Counting Method

	September 2008	July 2007	July 2006	July 2005
Access Points	93,381	80,235	68,668	66,976
<i>% change</i>	16.4%	16.8%	2.5%	
Unique Dentists	52,299	47,266	42,372	41,310
<i>% change</i>	10.6%	11.6%	2.6%	
Locations per Dentist	1.79	1.70	1.62	1.62

Table 5: Variation in Locations Per Dentist

	September 2008	July 2007	July 2006	July 2005
Largest Ratio	2.53	2.45	2.28	2.24
Smallest Ratio	1.38	1.32	1.30	1.30
<i>Range</i>	1.15	1.13	.98	.94

While the total number of dentists participating in PPOs has grown significantly over the last few years, there still appears to be room for additional growth. The average national PPO network's penetration of the universe of unique dentists who participate in at least one PPO network ("universe") is only 27.7%, up slightly from 25.2% in July 2007. Additionally, approximately 50% of the universe participates with only one or two PPO networks. The prospects for network expansion are still good.

Table 6: Penetration of Unique Dentist Universe

	September 2008	July 2007
Average National PPO	52,299	47,266
Universe	188,666	187,386
<i>Penetration</i>	27.7%	25.2%

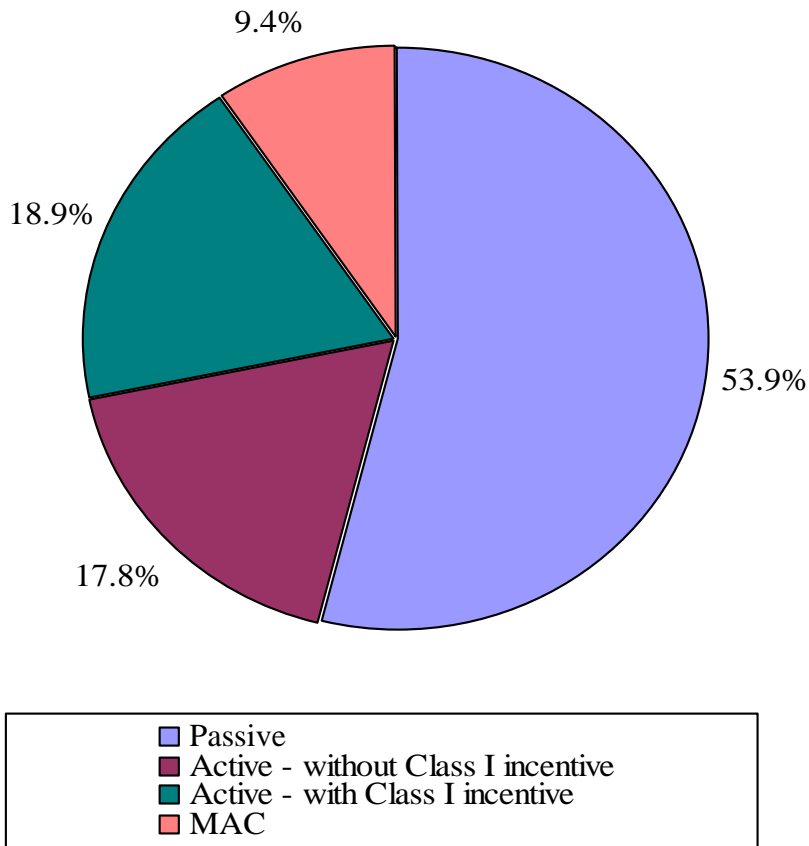
Benefit Designs

For years, Dental PPO sales primarily consisted of passive benefit plans, where all benefit parameters like coinsurance, deductible and annual maximum are the same for in-network and out-of-network claims. This type of design provides little to no incentive for an insured member to actively seek out an in-network dentist, limiting network savings to those people who already happen to use those dentists and making network recruitment more difficult for carriers.

This pattern has shifted more recently, with passive business now representing just over half of the total book of business across participating companies. Almost all participating companies showed passive plans to be a smaller percentage of their business in 2007 than in 2006. Active plan designs, which increase at least one of the benefit parameters on in-network claims, now make up over a third of these carriers' business. These plans vary by whether they offer incentives to use the network for basic and major services, or keep coinsurance and deductibles for preventive and diagnostic services the same whether performed in our out of the network.

Most plans still cover out-of-network charges up to a "reasonable and customary" (R&C) fee amount, but Maximum Allowable Charge (MAC), plans have also become significant. These limit the plan's reimbursement for all claims to the in-network fee schedule used; insureds who go out-of-network pay the discount difference out of pocket along with their coinsurance percentage of the fee schedule. The plan can dramatically influence effective discounts by both increasing the number of in-network claims and by reducing the insured portion of out-of-network claims. Savings on out-of-network claims within R&C plans average only 3%, but MAC plans realize the full in-network discount. MAC business is only about 10% of the industry portfolio, and for many carriers is less than 5% of their business, but there are a few carriers who specialize in this low-cost plan design.

Chart 1: Industry Benefit Design Distribution



The following table shows the amount of in-network steerage provided by these different plan designs. The difference between the two types of active plans is significant, showing very little impact without a Class I incentive. Since most insureds only expect to have preventive and diagnostic work each year, and these services are often covered at 100%, many will see no incentive to use the network. And they are unlikely to switch dentists once they are in the middle of more extensive treatment. MAC plans show an even more dramatic impact.

Table 7: In-Network Utilization by Plan Design

	2007 In-Network Utilization	vs. Passive	2006 In-Network Utilization
Passive	35%	-	29%
Active – without Class I incentive	42%	7%	35%
Active – with Class I incentive	46%	11%	43%
MAC	56%	21%	54%

Conclusions

As the dental insurance industry matures, carriers have become increasingly sophisticated in the tools they use to improve the value of their PPO networks. It is no longer enough to show customers the lowest in-network fee schedule or a large number of access points to demonstrate network savings. It is also important to track and use metrics like in-network utilization rates to demonstrate that contracted dentists are convenient and accepted by members, and the number of unique dentists in the network to support the quality of access points.

Perhaps most important is measuring effective discounts to demonstrate total savings, or the balance between having low in-network costs and having a network that is widely utilized. To stay competitive, DPPOs cannot just hold fees low and grow the network count as high as possible. They must monitor their competitive performance across all of these parameters and use that information to develop specific strategies to optimize their network development in each target market.

For more information on this report or on the Ruark Consulting Dental PPO Network Study, contact Ruth Ann Woodley at ruthann@ruarkonline.com or at 860-651-6236. For more information on The Ignition Group and NetMinder, contact Aaron Groffman at agroffman@ignitiongroup.net or 954-703-3566.

For the purpose of this study, discounts are calculated as the percentage difference between each company's actual covered charges and area average charges for the same set of procedures. Covered charges reflect negotiated discounts on in-network claims and any fee limitations used on out-of-network claims, but do not include savings from deductibles, coinsurance or benefit maximums. All discounts are calculated from actual 2007 claims; the carriers' standard fee schedules, which may be misleading if not used for every contracted dentist, were not used.

Participants in the study may receive a more detailed version of these results by geographic region and procedure category, including the distribution of in-network and effective discounts and of network size totals across all companies.