

Dental PPO Network Study

2008 Edition

Prepared by Ruark Consulting, LLC and The Ignition Group

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Executive Summary

Ruark Consulting, LLC (RCL) has completed its fifth annual *Dental PPO Network Study*, showing that dental networks and the discount savings they provide are growing 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. In 2008 the number of network dentists and the discounts received from those dentists both increased slightly. This result follows an unusual year in 2007 where companies grew their networks dramatically by increasing payments to dentists, rather than working to maintain or increase discounts. But in a return to the longer-term pattern, 2008 in-network discounts increased to 32%, up 1% from 2007. Meanwhile, effective discounts – measuring the total savings across all claims – were roughly unchanged, after relatively large increases in 2007.

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 2008 claims from 18 participating companies, representing 83 million covered lives nationwide. Those carriers provided data on \$30 billion of total submitted claims, over \$13 billion of which were from network dentists.

In-Network Discounts

As they have for most years of the study, network discounts increased slightly in 2008, from 31.1% to 31.9%, suggesting that 2007's decrease may have been an aberration. Carriers increased the fees paid to participating dentists by a national average of only 1.9%, much lower than 2007's 4.5% and also lower than the 3% average seen in prior years. Companies continue to pay out these increases selectively, 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 3.1% in 2008, .6% less than in 2007. This was the second year where the rate of dentist charge increases dropped off, from 4.0% to 4.5% increases seen the prior two years.

As shown by the table below, discounts fall within a few percentage points for all classes of service, and all increased consistently in 2008.

Table 1: In-Network Discounts by Class of Service

	2008	2007	2006
Class I – Diagnostic & Preventive	32.3%	31.7%	32.1%
Class II – Basic	33.0%	32.3%	33.9%
Class III – Major	29.7%	28.7%	29.4%
<i>Total</i>	<i>31.9%</i>	<i>31.1%</i>	<i>32.1%</i>

Effective Discounts

In the last few years dental insurers and their customers have become more focused on the fact that network discount savings are only valuable if those dentists are used by patients. 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 is the best indication of how often the 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 networks to realize discounts from more dentists, and as they focus on adding the particular doctors and offices their customers use most, they are driving larger increases in effective discounts even if it requires them to pay some dentists more than previous 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 2006. Overall discount increases in 2007 and 2008 appear similar, but are actually have very different causes. In 2007, large growth in the number of participating dentists was the primary driver, somewhat offset by decreasing network discounts as noted above. In 2008, network discounts increased again, and were helped by slight growth in participating dentists and some shift to plan designs that encourage more members to use network dentists.

Table 2: Effective Discounts by Class of Service

	2008	2007	2006
Class I – Diagnostic & Preventive	16.2%	15.6%	13.8%
Class II – Basic	19.1%	18.2%	17.1%
Class III – Major	17.0%	16.1%	15.4%
<i>Total</i>	<i>17.6%</i>	<i>16.7%</i>	<i>15.5%</i>

Because benefit designs can significantly influence how frequently network dentists are used, they are also a factor in the level of effective discount realized. Passive plans (offering the same benefit structure for all dentists) provide the least incentive for an insured member to use a network dentist, and therefore offer a truer view of the savings generated by only the dental network. The table below shows that while these savings increased significantly in 2007, they leveled off again in 2008.

Table 3: Effective Discounts for Passive Plans

	2008	2007	2006
Class I – Diagnostic & Preventive	12.3%	12.7%	9.8%
Class II – Basic	14.3%	14.8%	11.9%
Class III – Major	12.9%	13.3%	11.1%
<i>Total</i>	<i>13.2%</i>	<i>13.7%</i>	<i>11.0%</i>

Network Size

Dental PPO networks have consistently grown every year, and that growth continued in 2008. Network size increases were down, however, from their especially large changes during 2007. The average size of national networks in the study,¹ based on access points (each dentist / location combination listed in a carrier's network directory), grew only 8% between April 2008 and April 2009, compared to over 16% growth from January 2007 to April 2008.

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 practice regularly at two locations. Counting unique dentists (each dentist one time regardless of the number of practice locations) instead is a way to control for this variation in counting methodology. The table below shows these counts have also grown for the past two years, but much less quickly than access points.

Table 4: Average Network Size by Counting Method

	April 2009	April 2008	January 2007
Access Points	93,898	86,929	74,824
<i>% change</i>	<i>8.0%</i>	<i>16.2%</i>	
Unique Dentists	51,662	49,657	45,587
<i>% change</i>	<i>4.0%</i>	<i>8.9%</i>	
<i>Locations per Dentist</i>	<i>1.82</i>	<i>1.75</i>	<i>1.64</i>

This gap in the growth rates of the two counting methods results in an increasing number of listed locations per dentist for each network, which many people believe does not impact in-network utilization and effective discounts. There is significant variance across networks in the ratio of listed locations per dentist. Networks in the study ranged from 1.4 to 2.6 locations per dentist in April 2009, and that range has

¹ Source: NetMinder, powered by The Ignition Group.

widened over the last few years. This reinforces the use of unique dentists as a more consistent way to measure network size.

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 includes only about one quarter of the universe of over 187,000 unique dentists who participate in at least one PPO network. Despite recent growth, the prospects for ongoing network expansion are still good.

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 amount of claims going to a network dentist is even more important in their success than the network discount. The study results show that companies are incrementally improving performance on this metric also. In 2008 47 percent of claims were from network providers, compared to 45 percent in 2007.

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 with as many dentists as possible, such as recruiting those with strong reputations, convenient locations, participation in multiple PPO networks, and popularity with patients.

Benefit Designs

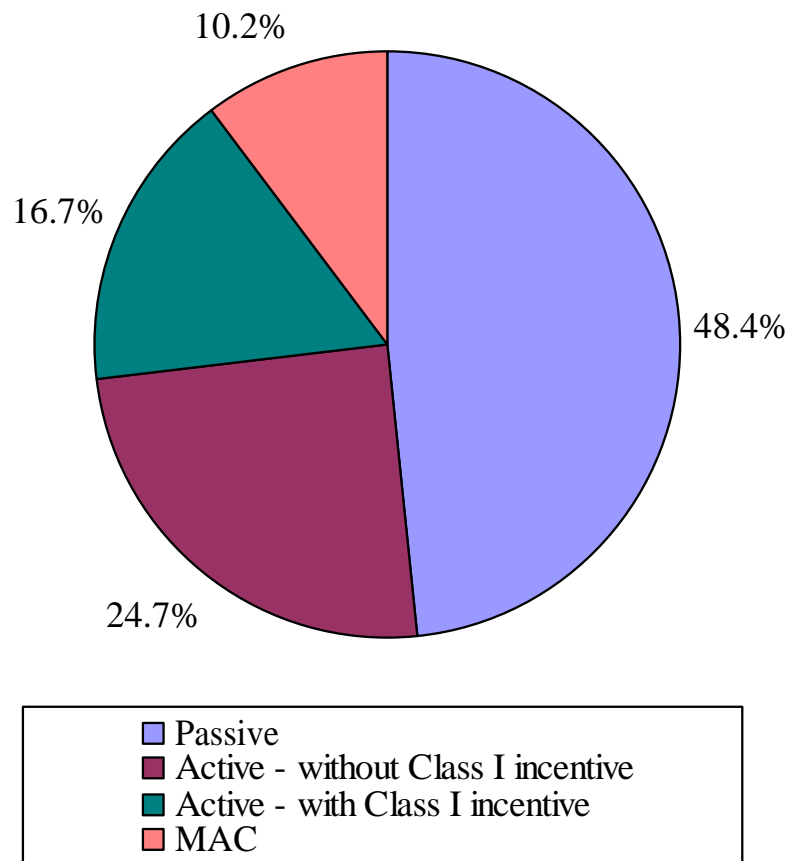
In the past, Dental PPO sales primarily consisted of passive benefit plans, where benefit levels are the same for visits to in-network and out-of-network dentists. This type of design provides little to no incentive for an insured member to actively seek out a network dentist, limiting savings to those people who already happen to use those dentists and making network recruitment more difficult for carriers.

This pattern has shifted in recent years, with passive business now representing just under half of the total book of business across participating companies. Almost all participating companies show passive plans to be a smaller percentage of their business each year. Active plan designs, which provide richer benefits for treatment provided by a network dentist, now make up over 40 percent of these carriers' business. These plans vary by whether they offer incentives to use the network for only basic and major services, or also for preventive and diagnostic services (Class I).

Most plans still cover out-of-network charges up to some "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; insureds who go out of network pay the full amount of the discount out of pocket, along with their coinsurance percentage of the fee schedule and possibly a deductible. This plan can dramatically influence effective discounts both by 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 4%, but MAC plans realize the full network discount. MAC business is only about 10% of the industry portfolio, and for most carriers is no more 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 network steerage provided by these different plan designs. The difference between the two types of active plans is significant, showing the impact of 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 choose a network dentist. And they may not be willing to switch dentists once they are in the middle of more extensive treatment. MAC plans, with the highest costs to patients going out of network, show significantly higher network utilization rates than even the strongest Active plans.

Table 5: In-Network Utilization by Plan Design

	2008 In-Network Utilization	2007 In-Network Utilization
Passive	37.6%	37.3%
Active – without Class I incentive	43.2%	44.4%
Active – with Class I incentive	50.6%	48.8%
MAC	70.9%	69.8%

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 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.

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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 2008 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.