
Consulting on Payor-Provider Relations

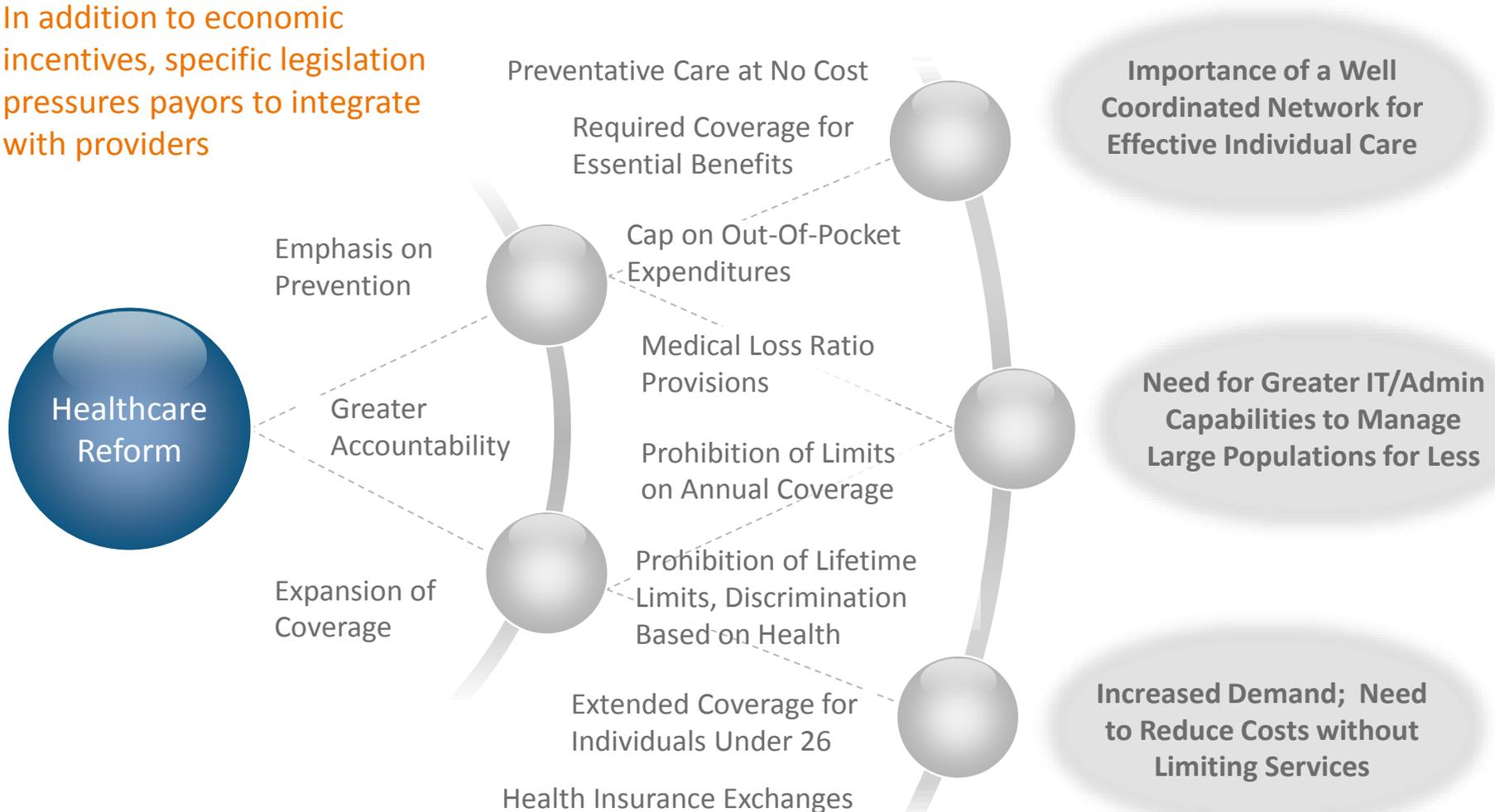
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Implications of the ACA and Healthcare Reform

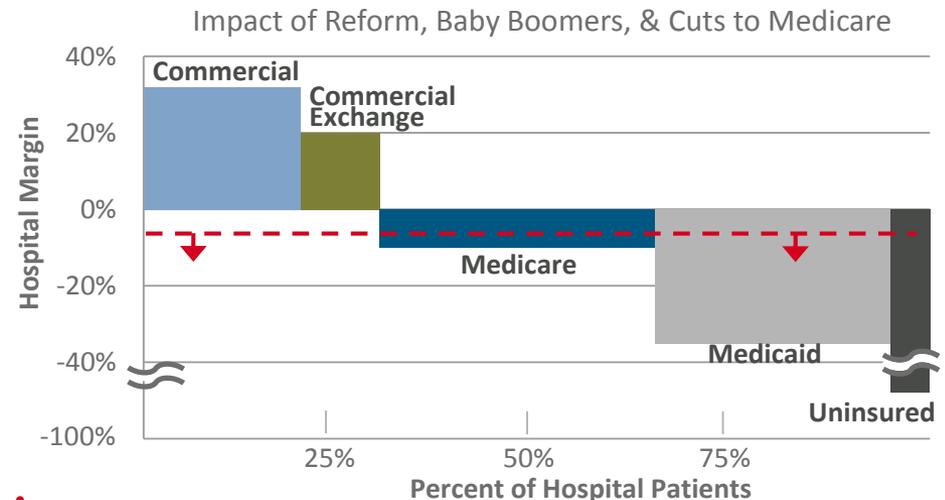
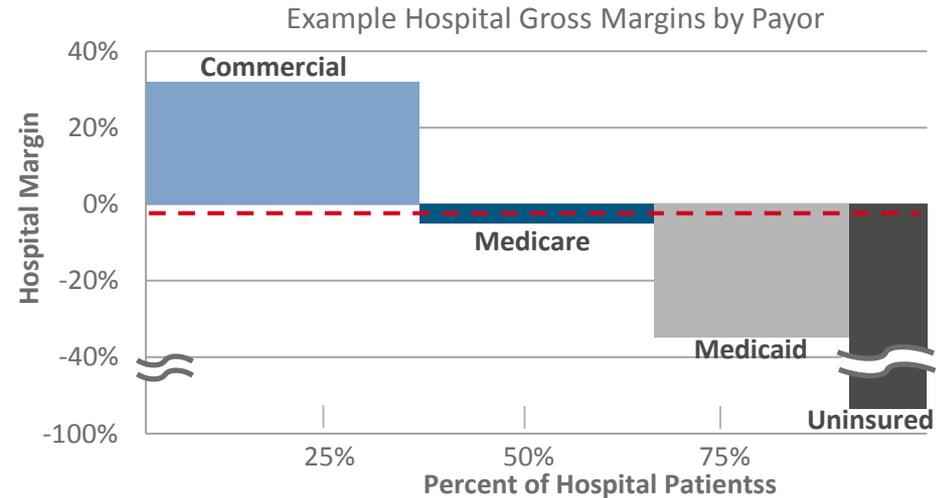
In addition to economic incentives, specific legislation pressures payors to integrate with providers



Systems Cannot Shift Costs Anymore

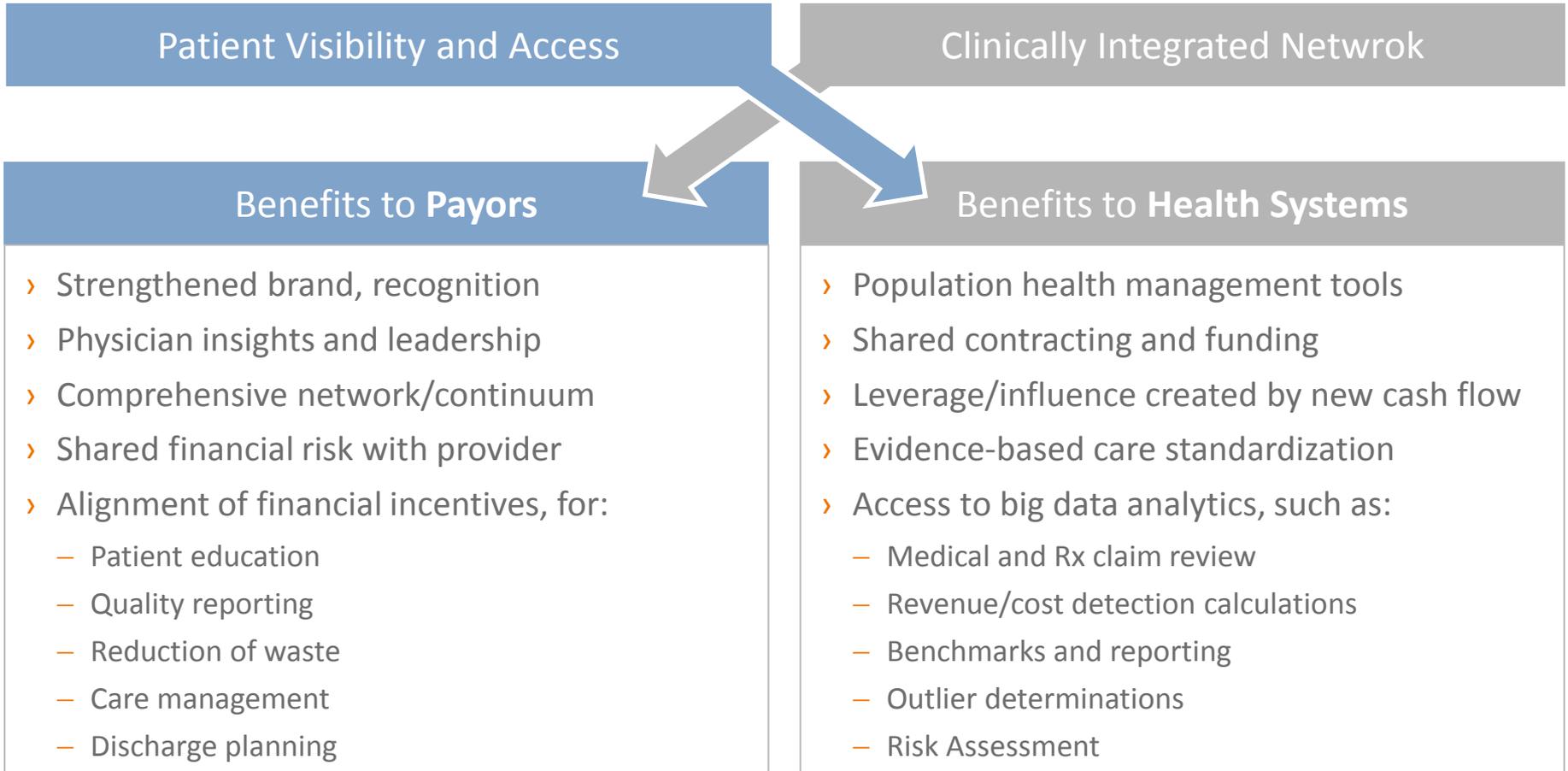
A number of factors are pushing health systems to be more efficient

- › Baby boomers who were largely commercial, will transition to Medicare, reimbursing at much lower rates
- › While cuts to Medicare have historically been pushed back, eventual decreases in Medicare reimbursement is likely
- › Price is important to individual shoppers who use the exchanges, encouraging payors to offer cheaper plans
- › In order to access new patients in the exchanges, systems will need to accept lower contracted reimbursement rates
- › The required adoption of ICD-10 will be expensive, and force systems to invest heavily or outsource IT capabilities



Benefits of a Payor-System Partnership

There are numerous benefits to be realized from payors and health systems working together



Alignment Options for Health Systems

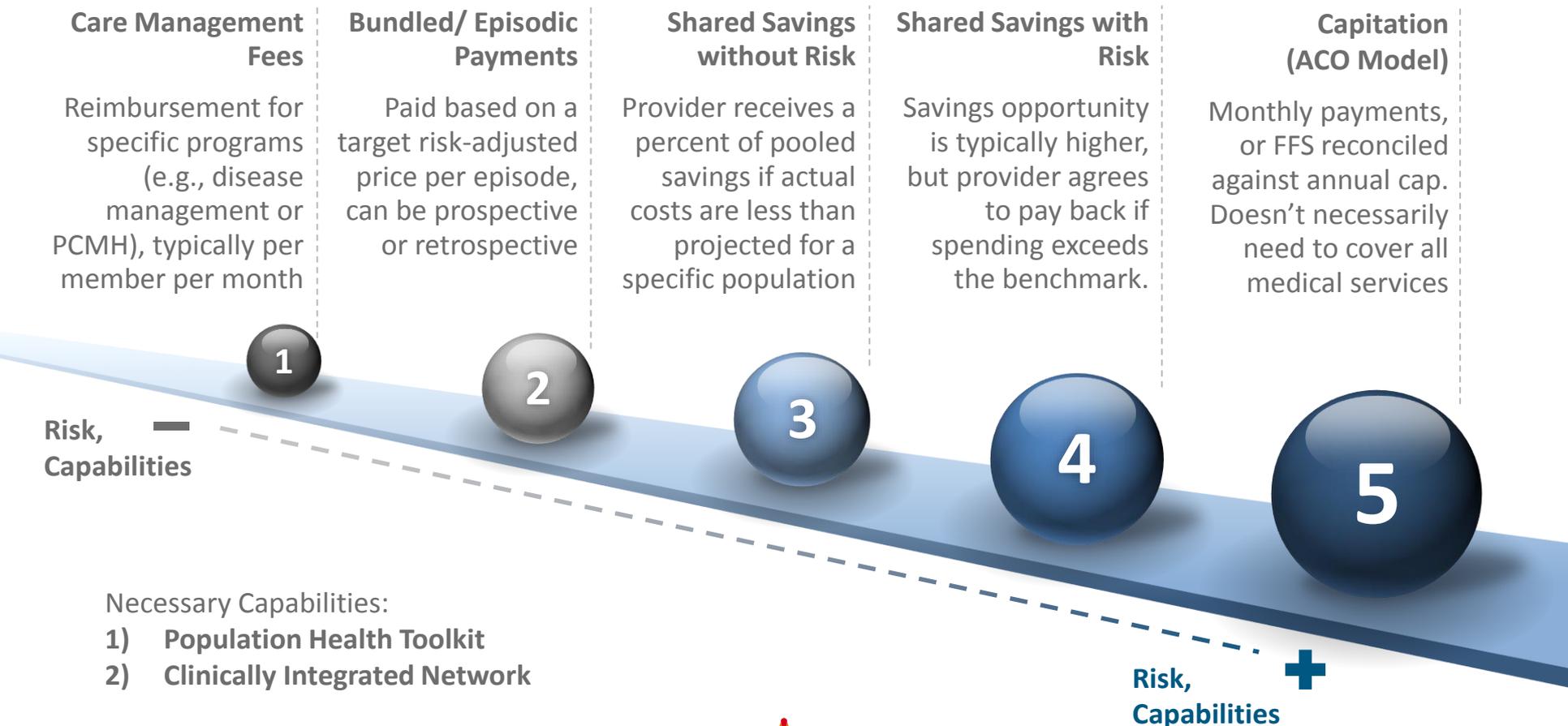
Systems are looking for a way to earn a piece of the patient premium dollar. The table below outlines the advantages and disadvantages of various models that allow systems to enter the payor space:

	Carve Out for a Specific Service	Create an ACO Strategy	Forge a Partnership with a Payor	Start a Proprietary Health Plan
Advantages	<ul style="list-style-type: none"> › Brings care management in-house and allows systems to capitalize on areas of expertise with certain high-cost patients 	<ul style="list-style-type: none"> › Allows organizations to share in the benefit of reduced costs, while keeping many delivery models in place 	<ul style="list-style-type: none"> › Expands market share and allows sharing of payor-system competencies with relatively low risk or financial commitment 	<ul style="list-style-type: none"> › Provides the organization with the most flexibility and control in their alignment of physician and system incentives
Disadvantages	<ul style="list-style-type: none"> › Benefits are limited to one service line, often with a lack of integration with the primary care network 	<ul style="list-style-type: none"> › Little benefit for already efficient providers, and may not reshape payment models to properly align incentives 	<ul style="list-style-type: none"> › System may be required to adhere to payor's desired direction and take lower negotiated reimbursement rates 	<ul style="list-style-type: none"> › Requires a very large patient base in order to spread risk and major financial resources to support strategy



Continuum of Payment Models

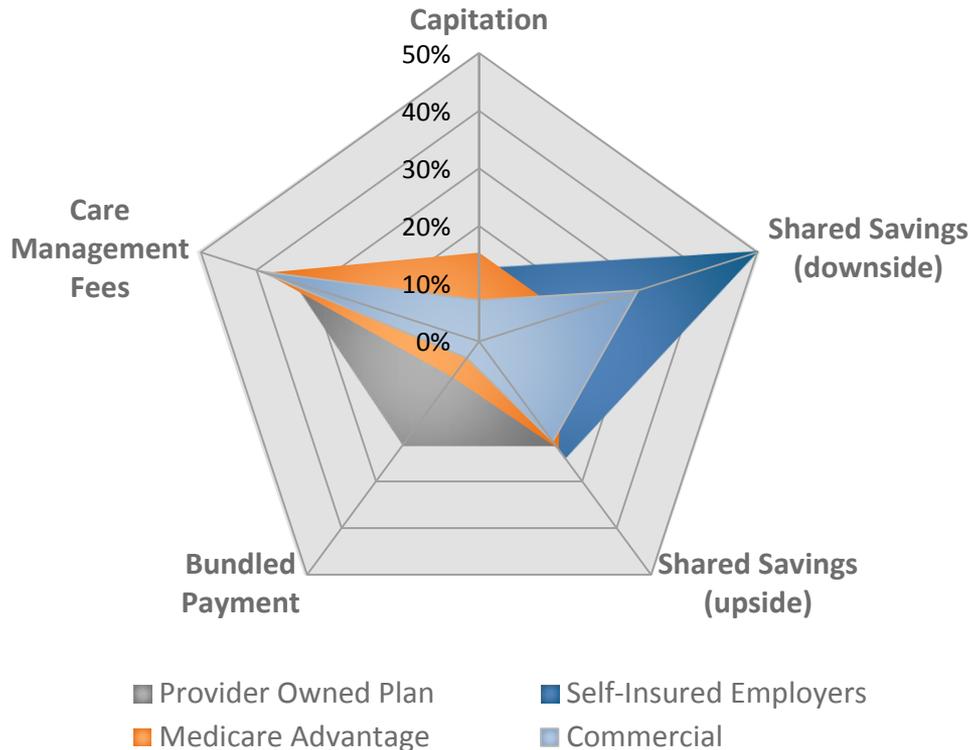
The capitated payment model aligns the incentives of payors and providers, but a system's ability to get to this point will depend on their capabilities and experience handling risk



Choosing the Right Payment Model

Market power, risk tolerance, and provider capabilities will determine the appropriate payment model for new payor-system arrangements

Percent of Payment Arrangements by Payor Partnership:



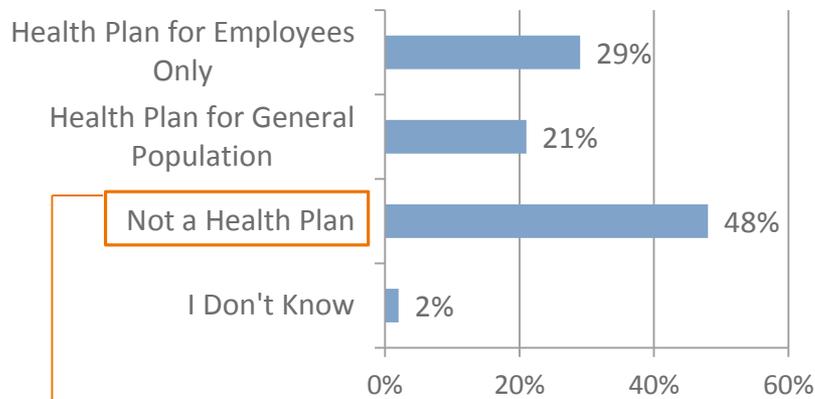
- › Care management fees are the most attractive in the **early years** of accountable care when providers do not have the financial resources to switch to new models of care delivery
- › Bundled payments can be an effective way to transition out of fee-for-service but it requires a **firm understanding** of the care delivery process in order to select the correct prices/services
- › Shared savings provides players in the market a means to reduce costs and **test a new partnership** but is not effective in transitioning to capitation and restructuring the delivery model
- › Shared savings with downside risk is particularly attractive to organizations focused on their **bottom line** in the immediate future (commercial insurers and employers)
- › Capitation has **significant risk** associated with it so many providers will likely experiment with a smaller-sized population



The Prevalence of Payor-Provider Arrangements

Providers should continue to be active in their pursuit of effective patient management. Over the next 5 years this will take any number of forms with the only certainty being a reduction in fee-for-service arrangements.

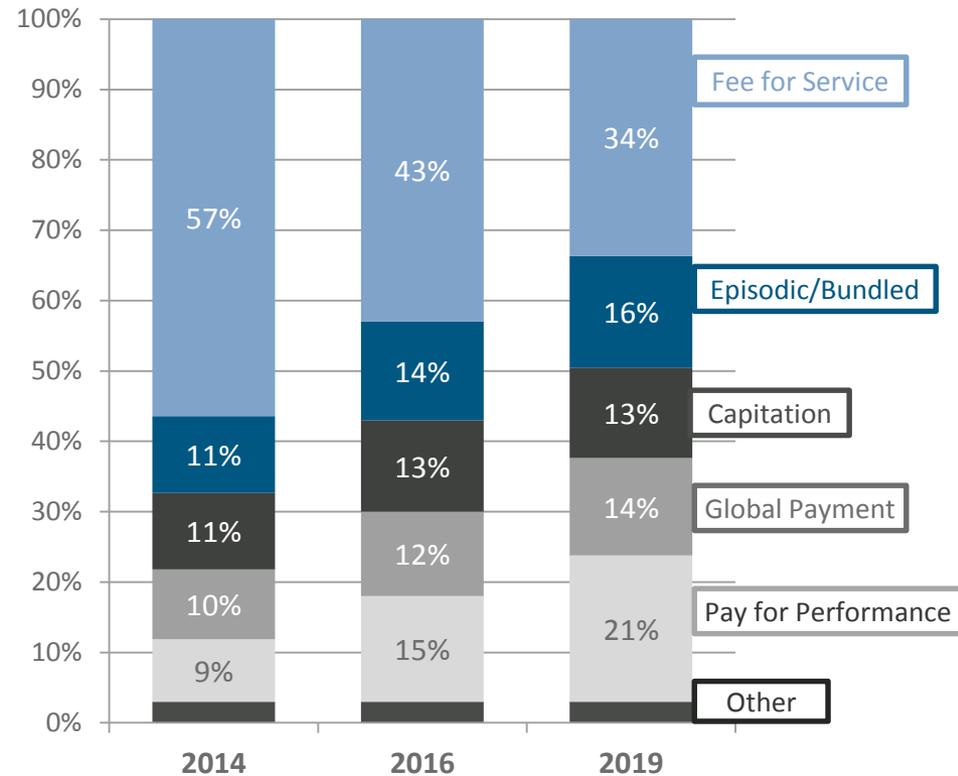
Availability of a Health Plan in an Organization



Anticipate Becoming a Health Plan in Next 5 Years

Yes	22%
No	52%
Don't Know	26%

Provider Mix of Payment Models



Building Successful Partnerships

Success is created by establishing a partnership based on transparency, shared value propositions, aligned incentives and shared risk

› In a full partnership model, the new entity will need to be able to do the following:

Design effective shared savings distributions and incentives

Integrate care management activities

Move from silos to integrated activities

Risk-adjust the population and establish outlier protections

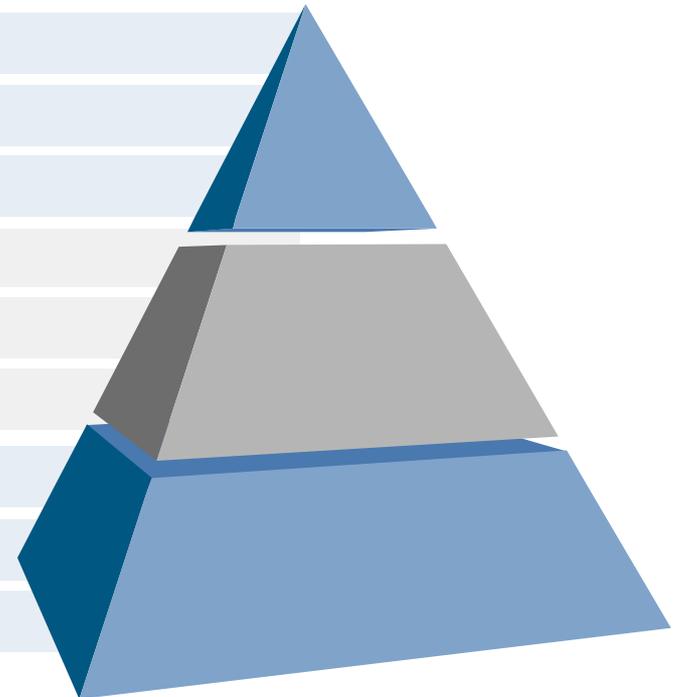
Perform financial due diligence to fund new operating activities

Receive, share, and analyze data

Set realistic contract terms based on cost, quality

Engage senior level leaders to create a strong culture

Clearly delineate roles and responsibilities of the partners



Anticipating Client Needs

Providers at both ends of the spectrum will need assistance in how they approach payor-provider relationships

