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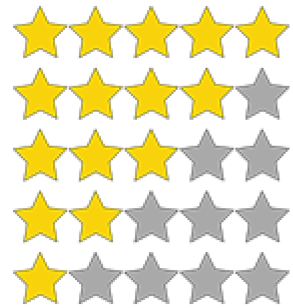
FEE-FOR-SERVICE TO VALUE-BASED PAYMENT TRANSFORMATION, PART 3 : BEARING FINANCIAL RISK IN A CHANGING LANDSCAPE: ARE YOU READY? PART B

Introduction

This article is part of a series about value-based payments and their application in the healthcare landscape. This is the fourth article in the series.



Entering into value-based payment (VBP) arrangements are designed to reward physicians, hospitals, and health systems for achieving positive health outcomes while simultaneously decreasing or maintaining costs. In this installment of our value-based payment series, we will look at some more characteristics of evaluation readiness to move away from traditional fee-for-service payments and toward an alternative payment mechanism or some risk-bearing arrangement(s). Organizational readiness characteristics fall into several domains, including but not limited to these six:

- Clinical Care Model and Provider Culture
- Care Management Programs
- Provider Network Makeup
- Previous Experience with VBP and/or Bearing Financial Risk
- Administrative and Contracting Infrastructure
- Financial Standing and Capital Investment Capacity

In our last installment (Part A), we outlined the first four readiness characteristics. In this article, we will outline the rest of these broad domains, including indicators of readiness and characteristics of "ready" organizations.

Previous Experience with VBP and/or Bearing Financial Risk

Novelist Neil Gaiman is quoted as saying: "*Sometimes the best way to learn something is by doing it wrong and looking at what you did*." This thinking applies to organizational change as much as it does to learning a new skill or methodology. Healthcare enterprises that have entered into risk-bearing financial arrangements resulting in either success or failure are likely more in tune with organizational strengths or weaknesses to be cognizant of while considering potential opportunities. Further, even when not having entered into risk-bearing arrangements, other VBP programs, such as shared savings, offer lessons to be learned and/or tools to apply. Sometimes with leadership change, the lessons of the past are lost, so seeking knowledge from longer-tenured governance bodies (such as the Board of Trustees or Board of Directors) can shine a light on the past. Further, physicians/providers can offer their perspective on past arrangements and performance, and may have a different and oftentimes valuable perspective on successes and failures than administrators.

Indicators of Readiness for Risk-Bearing Arrangements include:

- documented lessons learned from prior financial losses and/or under performance and,
- investments made since that time in: information technology, partnerships, affiliations, quality improvement, clinical care model re-design such as care pathways and other core domains.

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FEE-FOR-SERVICE TO VALUE-BASED PAYMENT TRANSFORMATION, PART 3 : BEARING FINANCIAL RISK IN A CHANGING LANDSCAPE: ARE YOU READY? PART B *continued*

Administrative and Contracting Infrastructure
All risk-bearing arrangements have some level of administrative overhead and require the capacity and ability to handle those demands; this is no different than administering more traditional fee-for-service payment arrangements. However, in risk-bearing arrangements, these administrative requirements not only can vary widely but also can often be more complex than those needed under fee-for-service.

For example, entering into a bundled payment arrangement often requires the lead contractor (risk-bearing organization or RBO) to build a network for all services covered within the bundle, as well as to calculate payments to each of their partners. This administration requires dedicated resources (i.e., staff) to monitor the various metrics employed in payment calculations. Outside of financial requirements, there must be adherence to clinical care standards and quality measures. Depending on the arrangement, these standards and measures can impact payment and also may trigger necessary clinical performance improvement interventions.

In another example, entities entering into full-risk arrangements (e.g., sub-capitated or global payment) may choose to pay fee-for-service to downstream providers in their network, such as to facilities (hospital or other) or to specialists/sub-specialists. This requires the ability for this entity to process fee-for-service claims, or at least to procure and administer a vendor arrangement with a third party administrator (TPA) to conduct these functions.

The entity's contracting infrastructure requires many tools to effectively negotiate with managed care health plans for risk-bearing arrangements. Pricing risk-bearing arrangements properly requires a complete understanding of costs (in many cases, not equal to charges in FFS) for delivering clinical care across the full continuum. In addition, an effective cost accounting system or a proven cost allocation methodology is critical to attain a complete understanding.

Armed with these tools, contractors/RBOs will be optimally equipped to calculate pricing levels that help set them up for financial success when managing utilization in various expense categories (a.k.a. risk pools) and other key metrics. Further, clinical quality is a key upstream measure of overall utilization and ultimately population health management; therefore, the ability to employ clinical data in the contracting function is important. Clinical leaders are able to highlight where there are opportunities to manage clinical quality indicators, thereby potentially impacting downstream financial metrics. Seeking support from both in-network and external partners/providers during the contracting process is important to ultimately achieving success during the performance periods of the final contract.

Indicators of Readiness for Risk-Bearing Arrangements include:

- mature accounting systems or contracted partnerships for calculating total cost of care and grouping by expense category and establishing a risk pool
- ability to track utilization patterns in near real-time, such as a data warehouse containing claims and/or billing data, and a toolset to analyze and generate utilization reports
- highly competent, experienced healthcare finance and accounting staff to generate projections and advise management/leadership on strategies/tactics for managing performance as well as to calculate payments as required
- and for successful contracting, access to actuarial support (in-house or contracted) to support pricing for risk-bearing payment arrangements

FEE-FOR-SERVICE TO VALUE-BASED PAYMENT TRANSFORMATION, PART 3 : BEARING FINANCIAL RISK IN A CHANGING LANDSCAPE: ARE YOU READY? PART B *continued*

Financial Standing and Capital Investment Capacity
Entering into risk-bearing arrangements can be a costly endeavor. Throughout this article series, we have discussed many indicators of readiness for risk-bearing arrangements. For organizations that currently do not have these capabilities, they need to be built or bought. Because these kinds of investments can be costly, good financial standing – including generating margin in the existing fee-for-service/pay for performance (P4P) environment - is important.

Even for those RBOs that have carefully prepared to enter into risk, they should build in requirements to keep risk-based capital in reserve. Names for this reserve vary from state to state, however the concept is the same: sufficient cash on hand (or easily accessible) to cover financial losses and ultimately payments to parties owed. The more risk an arrangement transfers from the licensed insurer (plan) to the new risk-bearing entity, the higher the reserves required. In addition to capital reserves, in many states, full risk or near-full risk requires regulatory licensure; in California, for example, this licensure is called a Knox-Keene or, more commonly for providers, a Restricted (Limited) Knox-Keene. This licensure process also requires investment and often third-party support.

Additional Indicators of Readiness for Risk-bearing Arrangements include:

- access to capital to cover requested investments and/or risk-based capital
- willingness to make major investments as recommended by management and/or executive leadership
- appropriate licensure procured, or planned/in progress
- and access to lines of credit, if necessary, for short-term leverage (in compliance with regulatory requirements – varies by state).

Conclusion
In conclusion, organizational readiness is not limited to the six described domains, but organizations with these readiness indicators are better poised for adoption of value-based payment models and success under these arrangements.

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