



SOCIETY OF ACTUARIES

**Health Spring Meeting
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Session # 7: Provider Contracting Current Topics

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Moderator
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Physician Contracting

A Perspective from the Battlefield

Presented by
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- Provider contracting expertise
- Track record of success
- Basic concept – contracting can be good
- Core theme – market share and margin
- Key recommendation – “trust but verify”

In The Beginning.....BMC

- Patient treated by physician
- Physician paid by patient
- Insurance company reimburses patient
- Contracting is not even a concept
- Everyone is happy...on the delivery side

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Fast Forward to Today.....AMC

- Contracts are the norm
- Health products looking for best design
- Reimbursement schedule fragmentation
- Health benefits vary
- Referral guidelines imposing
- Which collectively leads to: *Health care delivery frustration*

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Contract Dilemma for Physicians

- Usually better to be contracted
 - Business principles apply
 - Patients receive maximum benefits
- Sometimes better NOT to be contracted
 - Regulatory standards protection
 - Physicians are empowered

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Contract Benefits for Physicians

- Network participation
 - Provides*
- Patient access
 - Combined with*
- Channeling incentives
 - Leads to*
- More volume
 - Which generates*
- More profit

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Contract Benefits for Payors

- Network differentiation
 - Plus*
- Cost control
 - Creates*
- Value proposition
 - Leads to*
- Increased market share
 - Generates*
- More profit

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Key Contract Issues for Physicians

- Reimbursement
- Reimbursement
- Reimbursement
 - Cost of care inflation is exceeding reimbursement rate increases.*

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Other Contract Issues

- Eligibility verification
- Benefits verification
- Referral responsibilities
- Authorizations
- Claims submission

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Big Picture Reimbursement

- Charge based reimbursement evaporating
- Medicare payments dropping below cost
- Medicare is a model for other payors
- Costs shifted to other payors
- But other payors use Medicare model
- So, who pays the cost of care?

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Reimbursement Challenges

- Claim denials increasing
- Service downcoding more prevalent
- Claim adjudication rewards
- Bottom line #1 – net reimbursement is decreasing
- Bottom line #2 – physicians now fighting for contract rates – used to fight for charges

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High Deductible Plans

- Provides premium savings – for how long?
- Empowers patients to be “consumers”
- HSA financial incentives for patients may be deterrent for care
- Physicians collect more from patients
- “Concierge” physician practice developing

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P4P – The Good

- Rewards quality
- Aligns incentives with outcomes
- Shifts focus from cost to quality
- Brings new stakeholders into system
- Encourages industry collaboration
- IHA partnership with HMOs gives \$65M to 235 medical groups (40,000 physicians and 1.2M HMO members)

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P4P – The Challenges

- Promotes the digitization of health care
- Distribution to all care givers
- Initiative variations
- Validation of findings
- Contractual binding
- Funds diverted from other initiatives
- Physician reliance on claim payments

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Physician Impact

- Individual physician clout is decreasing
- Physicians associating for common good
 - Medical groups/IPA provide solution
 - Legalized contracting entities are effective
- Capitation arrangements re-emerging
 - Usually partnership with hospital(s)
 - Assuming risk for services they control

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Claims Compliance – New Industry

- Regulation for claims payment is complex
- Niche market for new service
- “Fighting Back” works
- Focus on payors – not patients
- Legal approach – beyond most physician means

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In Closing

- Contracts are what they are
- Win-win is possible – so is win-lose
- Leverage is your ally

Major Trends Shaping the Future of Hospital/Health Plan Contracting

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Hospital/Health Plan Contracting

- Rates/Pricing is still the most important factor when negotiating contractual arrangements with the plans. However,
- Increased focus on quality and the desire to inform the Consumer/Patient have become much more prominent factors and are setting the foundation for Hospital/Health Plan contracting for the very near future.

Transparency

- Reduction of Charge Based Reimbursement
 - Health Plan Push towards “Price Predictability”
 - Charge Master increase limiters
 - Difficult to administer
 - Difficult to achieve full hospital buy-in
 - Use of “Black Box” or UCR Repricing
 - Line item denials
 - Claims payment delays
 - Legal issues
 - Billed Charges versus “UCR”

Transparency - Cont'd

- Hospital Perspective
 - Charge based reimbursement much easier to contractualize
 - Cleanest way to cover costs of high-cost items
 - AICDs, Pacemakers, Stents, etc.
 - Major impact on A/R
 - Claims payment delays
 - Manual adjudication
 - Line item denials
 - Legal costs – “Chasing Dollars”

Transparency – Cont'd

■ Product Line Specific Rates

- Overall, a contract may be profitable, but lose on specific product lines, e.g., Bariatric Surgery.
 - Hospital management measures profitability on a product line basis
 - Plans look at overall claims expense pmpm (MCR)
- DRG defined per diem rates
 - Ortho, Cardiac, Neuro, etc.
 - Inclusion of Implant and High-Cost pass-through costs
 - Per diems may be substantial, but provide predictability

Increased Focus on Quality

■ Historically very difficult to measure

- Quality versus Cost
 - Early attempts
 - Plan cost as indicator of efficiency?
 - “Value Networks”
 - Centers of Excellence
 - Hospital “Report Cards”
 - Ignored acuity and case mix indices
 - Little or no hospital input prior to publishing

Quality – Cont'd

■ The Next Generation

- Greater hospital input
 - Collaborative efforts to define Quality and Hospital Report Cards
 - Plans seeking input prior to implementation
- Contractual quality incentives
 - Hospital “Pay for Performance”
 - Historical physician focus
- Initial implementation was “rocky”, however, it forced both parties to focus on quality, to the benefit of the patient/consumer.

Plan/Benefit Design

■ Emergence of high-deductible plans

- Rising premiums create the need to shift more cost to the consumer
 - Employers faced with eliminating employee coverage
 - Perception that high-deductible plans are “better than nothing”
- Impact on hospital bad debt
 - Difficulty in collecting co-pays and deductibles

Plan/Benefit Design – Cont'd

- Greater focus on contractual protections
 - Desire to move late stage collection efforts to the Health Plan
- Next generation high-deductible plans
 - Inclusion of a credit component that will allow for the real time up-front collection of accurate co-pays and deductibles

Hospital Capitation

- Renewed interest in taking on risk with certain products
 - Medi-Cal
 - Medicare
- Perception that these populations can be more effectively managed
 - Focus on chronic disease management
 - Provide the appropriate care and the appropriate place at the appropriate time.
- Improving overall health status
 - Hospital and Health plan wellness initiatives

Hospital/Health Plan Partnerships

- Slow move from contractual relationship to true partnership?
 - Focus on the uninsured
 - Inclusion of fund raising efforts in contract negotiations
 - United and Wellpoint funds
 - Ultimate desire of both hospitals and health plans to improve the overall health status of a community

Provider Contracting: When Catastrophe Strikes



Society of Actuaries
Spring Health 2008
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Traditional cat claims

- » **Cancer**
- » **Neonates**
- » **Cardiovascular**
- » **Trauma**

Emerging Cat exposures

- MRSA
- TB
- HPV
- Role of Quality of Care

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The role of data

- Garbage in/ garbage out
- Timeliness- if only we had known...
- Enhanced decision making on cat situations
- “Even if we can’t get it in the marketplace, what is the right rate for this contract?”

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Frequency of very high cost claims

- What is behind the increasing frequency?
- Contracting for the uncommon
- Demographics
- Obesity
- Rx: expensive and new releases are additive to existing treatment
- Poor quality care

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Identifying potential cat claims

- We can't avoid them but maybe we can manage them more effectively
- Complex co-morbidities
- Chronic diseases
- Data mining and predictive modeling
- Role of excess insurance coverage- what it does and *doesn't* do

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Physician Cat claim example

- Situation
- Management
- Contracting
- Rx
- Role of excess coverage

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Hospital Cat Claim example

- Situation
- “you’ve seen one, you’ve seen one”
- Contracting
- Role of excess coverage
- Communication

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Questions and discussion

