Session 27IF, Is Your Integrated Delivery System Throwing Away Free Money?

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2018 SOA Health Meeting

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Introductions

Karan Rustagi, FSA, MAAA

- VP of Plans, Pricing, and Underwriting at Oscar Health
- Specialize in integrated delivery systems strategies
- Strategic actuarial consulting to health plans, providers, local and foreign governments
- ACA and Medicare Advantage

Introductions

Tim Murray, FSA, MAAA

- Senior Consulting Actuary at Wakely
- Strategic actuarial and finance consulting to health plans and provider groups
- Medicare Advantage and Corporate Finance

Agenda

- Understanding Integrated Delivery Systems (IDS)
- Expected outcomes vs. reality
- Potential self-defeating pitfalls to avoid
- An actuarial example
- Recipes for success

What are Integrated Delivery Systems?

What?

- A system consisting of both a network of medical providers and hospitals (or just hospitals) and a health plan
- Typically created by providers (provider-sponsored health plans)

Why?

- Providers don't like negotiating with insurance companies
- Providers want to control both their reimbursement and the market share

How?

- A hospital company or its parent company will create a subsidiary insurance company that typically offers a narrow network product consisting of only its owned providers in the network

New Types of Integrated Delivery Systems Coming?




- Significant recent horizontal mergers have been blocked by federal antitrust regulatory bodies
- Vertical integration of healthcare is a recent theme in Merger & Acquisition activity
- Large retailers are getting involved in the health care ecosystem
- Managed care companies have increasingly invested in health care service delivery

Expectation vs. Reality

What causes integrated delivery systems to not deliver?

Possible explanations:

- Improperly aligned incentives
- Negative correlation between payer and provider margins
- Lack of strategic actuarial insights
- Internal competition destroys significant market power of the IDS

System Pitfalls and Failures

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Example: MA bid for an IDS

PMPMs

Item	Formula		Current Contract
		CMS Reimbursement Rate	
a		**Standardized Benchmark Rate**	**$800.00**
b		**Risk Score**	**1.000**
c	a*b	**Risk-Adjusted Benchmark Rate**	**$800.00**
		Plan Basic Bid	
d		Basic Claims Cost @ 1.0 Risk Score	**$525.00**
e		Administrative Expenses @ 1.0 Risk Score	**$50.00**
f		Profit Margin @1.0 Risk Score	**$25.00**
g	d+e+f	**Standardized (@1.0 Risk Score) Plan Bid**	**$600.00**
h	b*g	**Risk-Adjusted Plan Bid**	**$600.00**
		Rebate Calculation	
i	c-h	**Plan Savings**	**$200.00**
j		**Plan Rebate %**	**70.0%**
k	i*j	**Plan Rebate Revenue**	**$140.00**
l	k*d/g	Supplemental Benefit Claims Cost	**$122.50**
m	k*e/g	Supplemental Admin Expense	$11.67
n	k*f/g	Supplemental Benefit Profit Margin	$5.83
		Plan Financial Impact	
o	h+k	**Total Part C (MA) Revenue**	**$740.00**
p	d*b+l	**Total Part C (MA) Claim Cost**	**$647.50**
q	e*b+l	**Total Part C (MA) Admin Expense**	**$61.67**
r	o-p-q	**Part C Margin PMPM**	**$30.83**

Reimbursement up 5%: Impacts three P&Ls

Item	Formula	PMPMs	Current Contract	+5% Contract Assuming No Benefit Cuts	Difference
		CMS Reimbursement Rate			
a		**Standardized Benchmark Rate**	$800.00	$800.00	$0.00
b		**Risk Score**	1.000	1.000	0.000
c	a*b	**Risk-Adjusted Benchmark Rate**	$800.00	$800.00	$0.00
		Plan Basic Bid			
d		Basic Claims Cost @ 1.0 Risk Score	$525.00	$551.25	$26.25
e		Administrative Expenses @ 1.0 Risk Score	$50.00	$50.48	$0.48
f		Profit Margin @1.0 Risk Score	$25.00	$5.98	($19.02)
g	d+e+f	**Standardized (@1.0 Risk Score) Plan Bid**	$600.00	$607.71	$7.71
h	b*g	**Risk-Adjusted Plan Bid**	$600.00	$607.71	$7.71
		Rebate Calculation			
i	c-h	**Plan Savings**	$200.00	$192.29	($7.71)
j		**Plan Rebate %**	70.0%	70.0%	0.0%
k	i*j	**Plan Rebate Revenue**	$140.00	$134.60	($5.40)
l	k*d/g	Supplemental Benefit Claims Cost	$122.50	$122.09	($0.41)
m	k*e/g	Supplemental Admin Expense	$11.67	$11.18	($0.48)
n	k*f/g	Supplemental Benefit Profit Margin	$5.83	$1.32	($4.51)
		Plan Financial Impact			
o	h+k	**Total Part C (MA) Revenue**	$740.00	$742.31	$2.31
p	d*b+l	**Total Part C (MA) Claim Cost**	$647.50	$673.34	$25.84
q	e*b+l	**Total Part C (MA) Admin Expense**	$61.67	$61.67	$0.00
r	o-p-q	**Part C Margin PMPM**	$30.83	$7.30	($23.53)

System Margin: Net Impact of two P&Ls

The net financial impact to the insurer
= -$23.53 PMPM

The financial impact to the hospital
= +$26.25 PMPM
(equivalent to the increase in plan's claim costs)

The net financial impact to the integrated system
=$26.25 - $23.53 = +$2.72 PMPM

Where do you go from here?

Possible solutions

- Align CEO incentives to system P&L, not plan/payer P&L
- Remove stale incentives tied to volume (for hospitals) and MLR (for health plans) that cultivate the tug-o-war
- Align actuarial work (rate filings and MA bids) with system strategy
- Communicate and understand the company strategy and direction and make your voice heard. Surprisingly difficult!
- Critically consider how each subsidiary fits into a rapidly-evolving health care ecosystem
- Evaluate changes in hospital portfolio over the next 5 years
- Identify strategic investments/acquisitions
- Incentivize investments that drive care delivery to the appropriate acuity level

Thank you!

Questions?

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