EMHS

Access to Quality Healthcare℠

Managing and Contracting for Risk

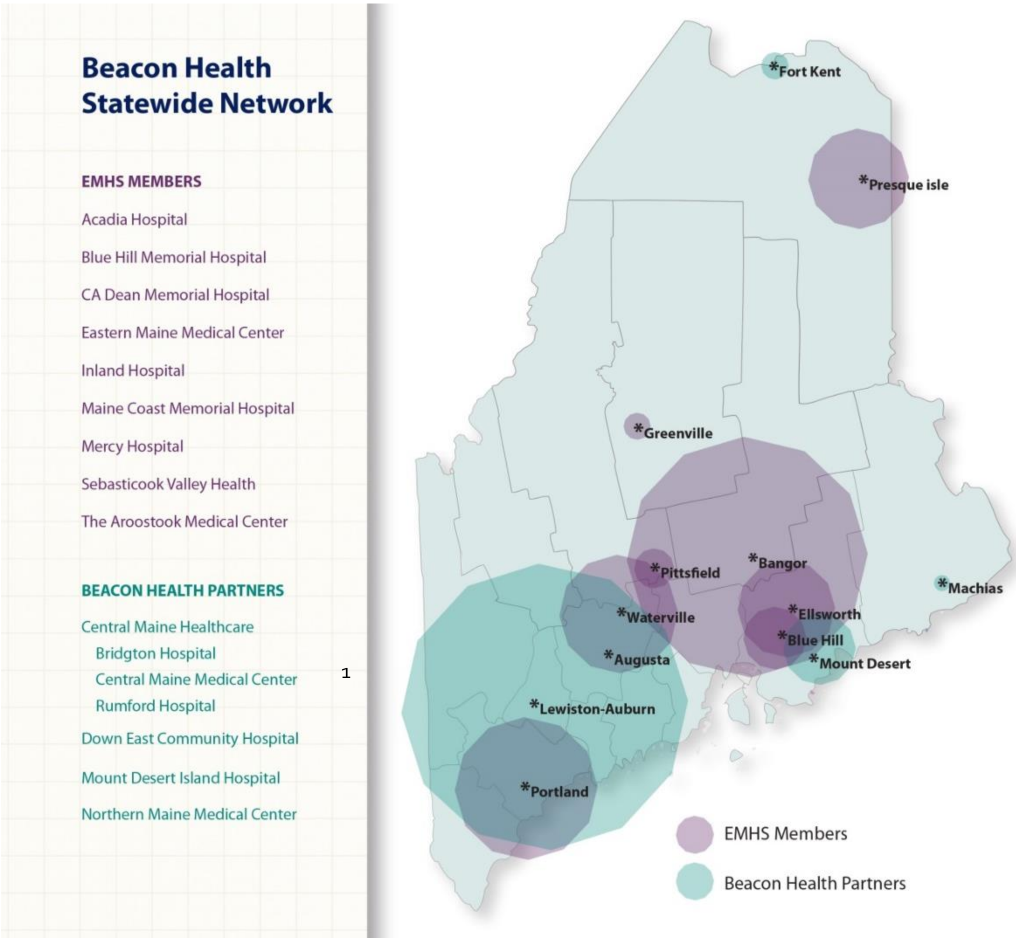
The Leadership Institute

February 2017

EMHS: Statewide Network

- EMHS's service area encompasses the entire state
- 11,000 employees
- 600 employed physicians
- 45 primary care locations
- 9 hospitals located across Maine
- 4 retail pharmacies
- 5 emergency transport companies
- 8 nursing homes
- 108,000 at-risk lives

EMHS' Beacon Health



- Early participant in population health – began in 2010 with a Beacon Community Grant
- Provider network delivering population health and care management services to health plans and employers
- One of 20 Next Generation ACOs in the country

Health Care Cost Equation

Health Care Cost Per Person	=	Health Episodes Per Person	X	Processes Per Health Episode	X	Cost Per Process
		A hospitalization		*Days, MRIs, Lab Tests*		*Cost per day, cost per MRI, etc.*

Traditional Health Insurance

Health Care Cost Per Person

More is <u>Better!</u>

Health Episodes Per Person

More is <u>Better!</u>

Processes Per Health Episode

Manage <u>This</u>

Cost Per Process

<u>1970s</u>

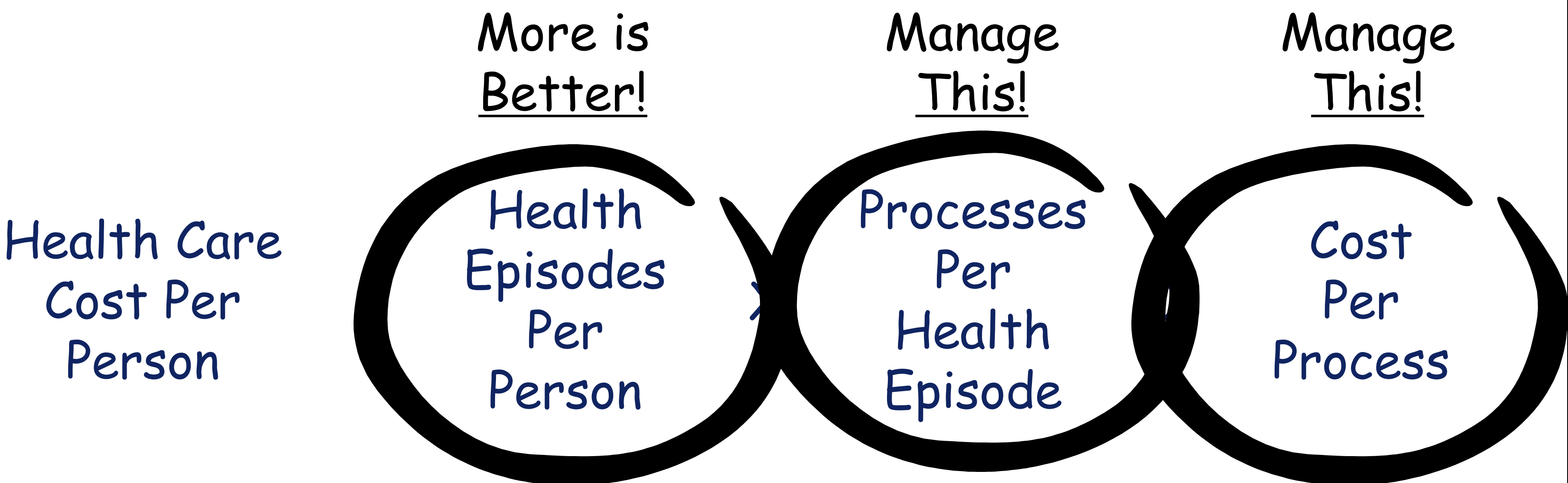
Rules of Engagement: Insurance Companies pay what's billed

Health Care Cost Per Person = Health Episodes Per Person X Processes Per Health Episode X Cost Per Process

Things to focus on when you’re being paid on a fee schedule:

- Supply chain
- Staffing and productivity
- Revenue cycle
- Alternative care providers
- Greater efficiency/use from existing capital investments

DRGs



1980's

Rules of Engagement: Hospitals paid a fixed case rate

Health Care Cost Per Person = Health Episodes Per Person X Processes Per Health Episode X Cost Per Process

Additional things to focus on when you’re being paid on a per case basis:

- Utilization management
- Condition-specific centers of excellence
- Clinical programs/best practices for acute care episodes
- Billing and coding
- Avoiding readmissions

Delivery System Assumes Financial Risk

		Manage This! / Manage Better!		Manage This!		Manage This!
Health Care Cost Per Person	=	Health Episodes Per Person	X	Processes Per Health Episode	X	Cost Per Process

System fully incented to avoid unnecessary healthcare expense and to focus on population health

Health Care Cost Per Person = Health Episodes Per Person X Processes Per Health Episode X Cost Per Process

<u>**Additional**</u> things to focus on when you're taking full risk:

- Wellness and self care
- Chronic disease management (incl. home monitoring)
- Medical home (and other primary care centric models)
- Partnering with post-acute providers
- Selecting less expensive sites of service
- <u>Intense</u> scrutiny of capital/fixed cost investments

Health Care Cost Per Person = Health Episodes Per Person X Processes Per Health Episode X Cost Per Process

These efforts should arguably be targeted to those patients for whom we share <u>significant financial risk</u>:

- Wellness and self care
- Chronic disease management (incl. home monitoring)
- Medical home (and other primary care centric models)
- Partnering with post-acute providers
- Selecting less expensive sites of service
- Intense scrutiny of capital/fixed cost investments

Why?

- Because the delivery system's reimbursement model doesn't inherently support these activities. In fact, quite the opposite—the financial savings from these activities comes at the expense of the delivery side.

- And because for most, the delivery side is still the engine driving the broader system's financial viability…

- …the risk sharing percentage would have to be pretty significant in order for the money made on the insurance/contracting side to balance the loss on the delivery side

But how significant?

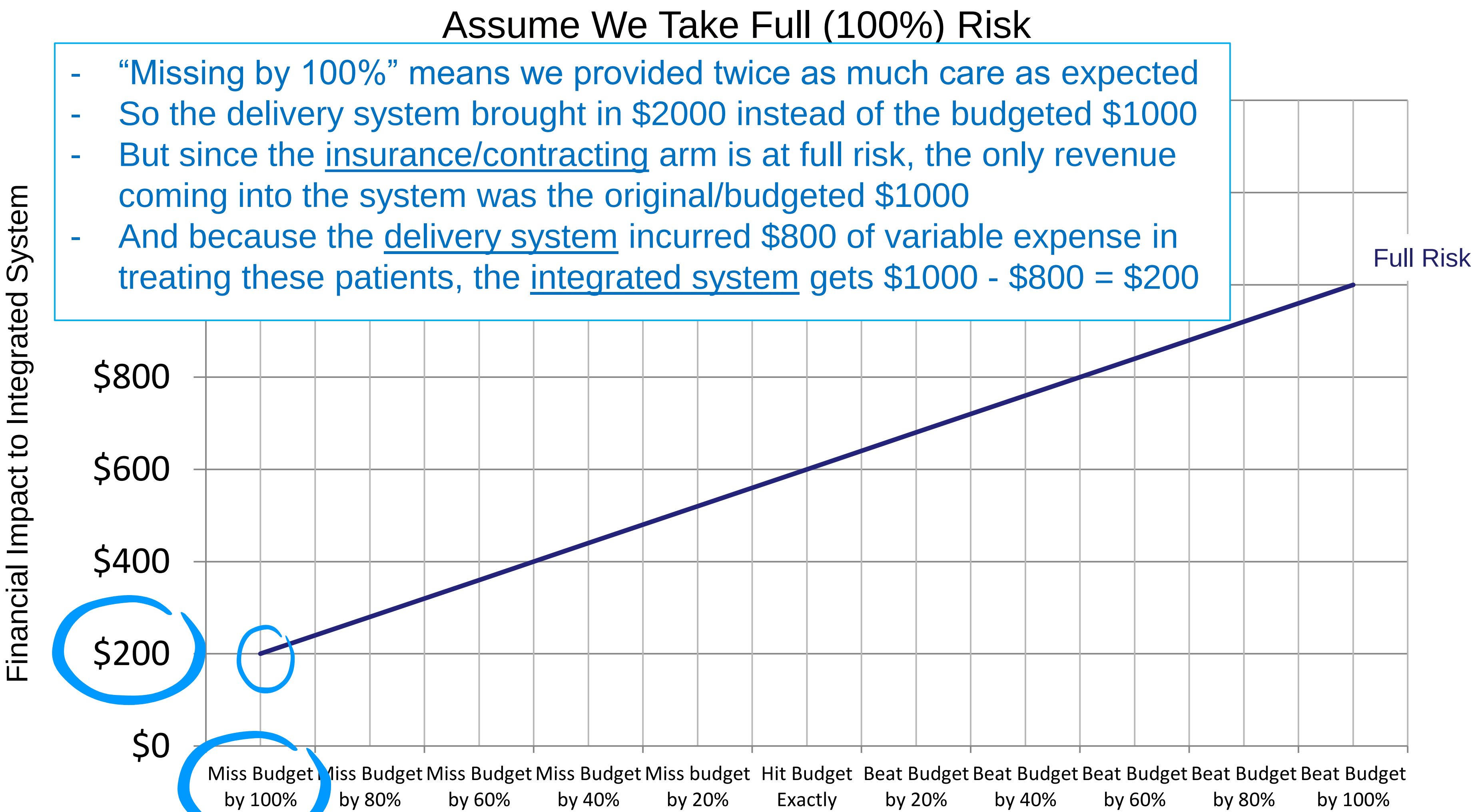
Where is that crossing point?

At what level of risk assumption does the integrated organization have the financial incentive to focus on all three variables for a given contract?

Assume the payor's actuaries have projected $1000 for the coming period's medical spend (i.e. "risk budget"), and assume that the delivery system's contribution margin is 60%

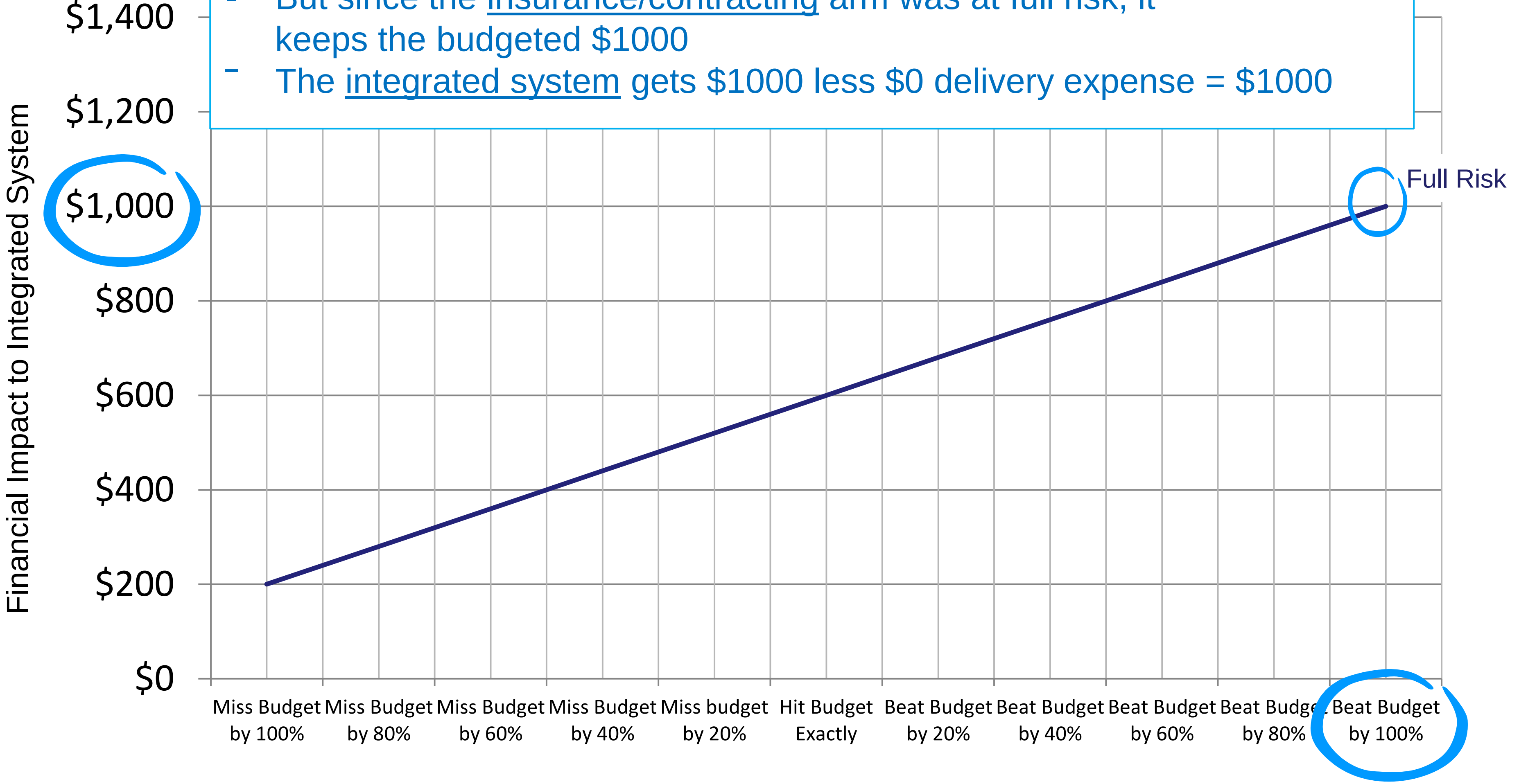
Assume a risk budget of $1000, and a <u>delivery side</u> contribution margin of 60%

- “Missing by 100%” means we provided twice as much care as expected
- So the delivery system brought in $2000 instead of the budgeted $1000
- But since the <u>insurance/contracting</u> arm is at full risk, the only revenue coming into the system was the original/budgeted $1000
- And because the <u>delivery system</u> incurred $800 of variable expense in treating these patients, the <u>integrated system</u> gets $1000 - $800 = $200



Assume a risk budget of $1000, and a delivery side contribution margin of 60%

- "Beating budget by 100%" means we didn't provide any care
- So the delivery system brought in $0 (at zero variable expense)
- But since the insurance/contracting arm was at full risk, it keeps the budgeted $1000
- The integrated system gets $1000 less $0 delivery expense = $1000



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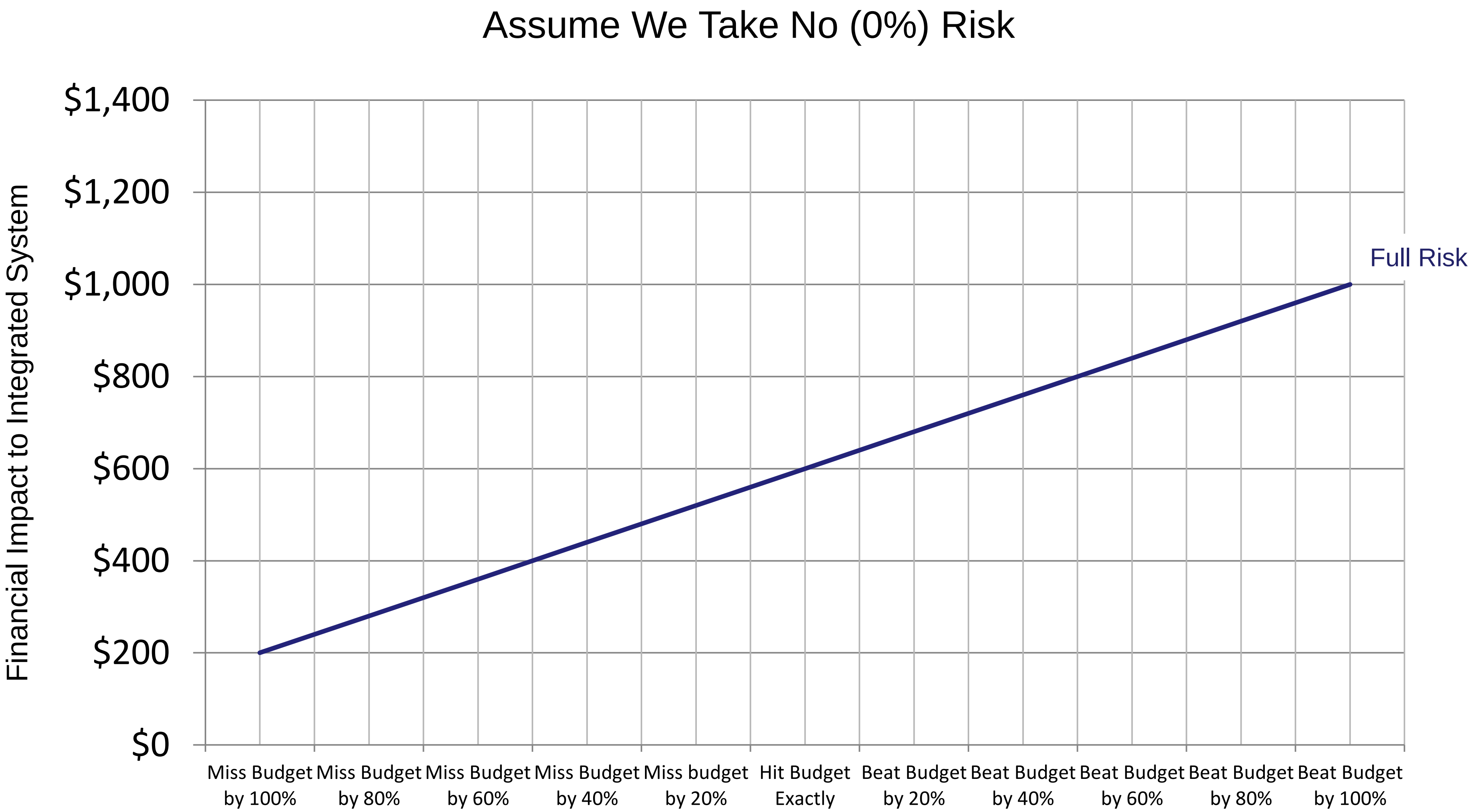

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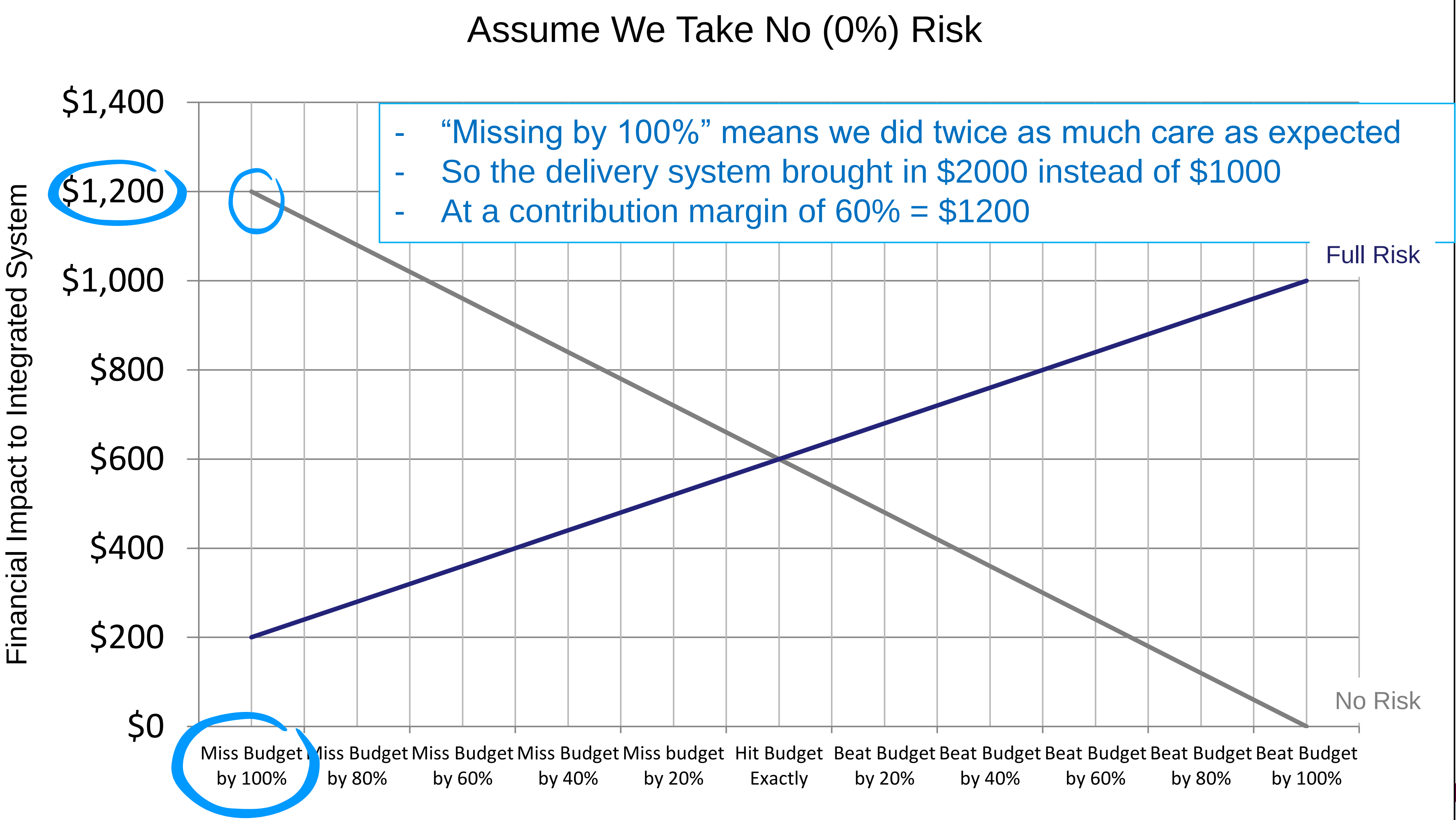

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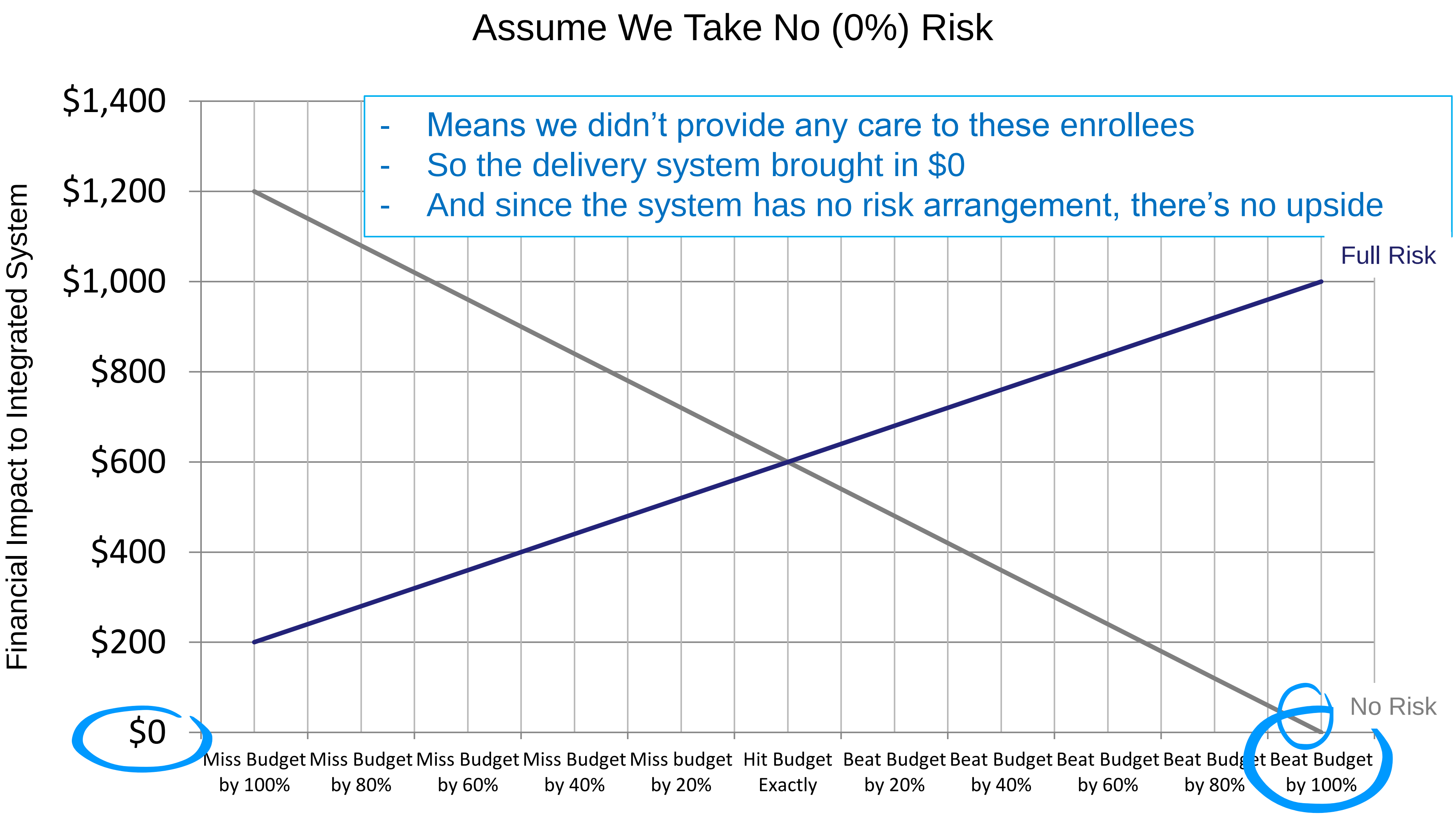

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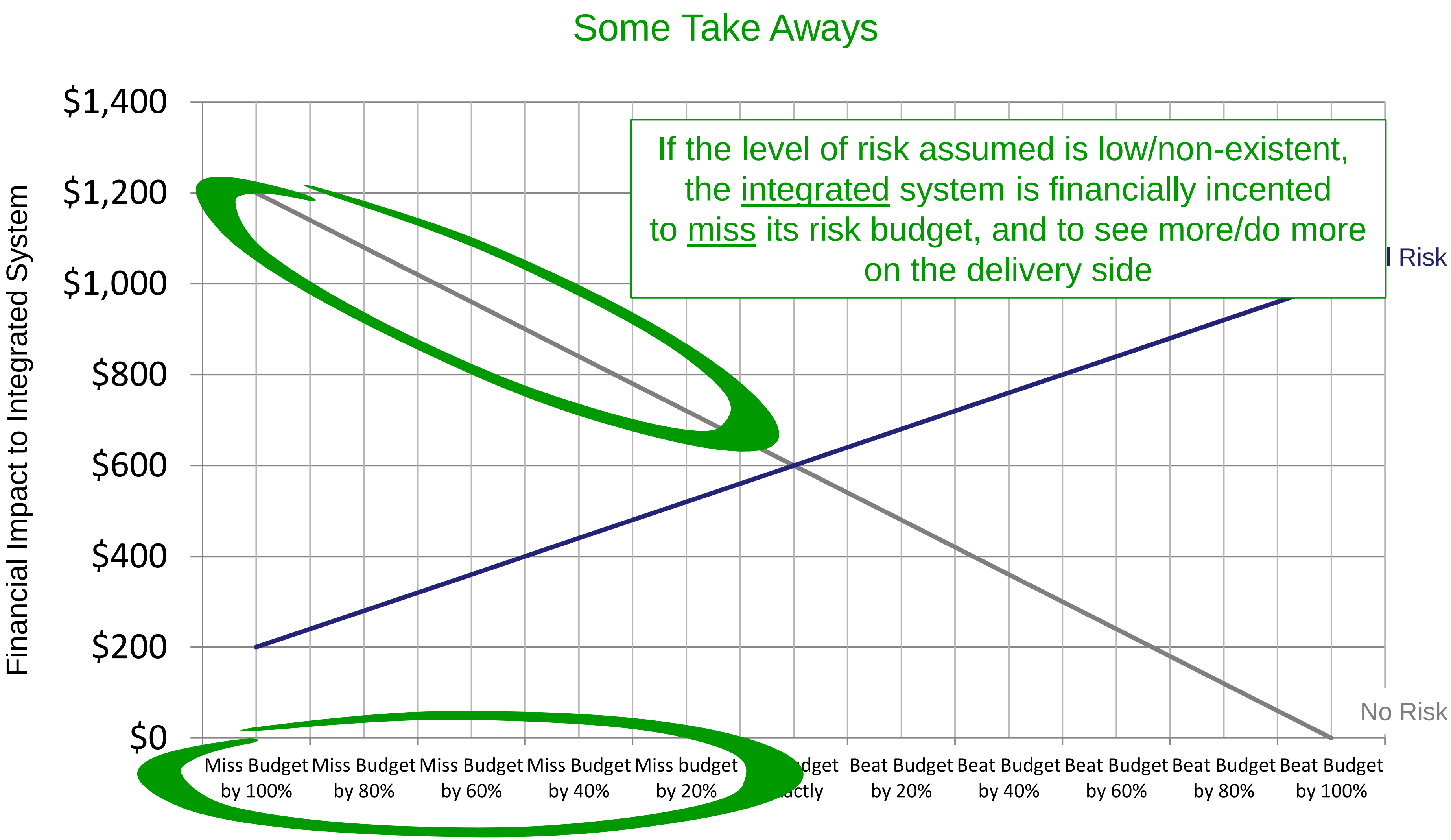

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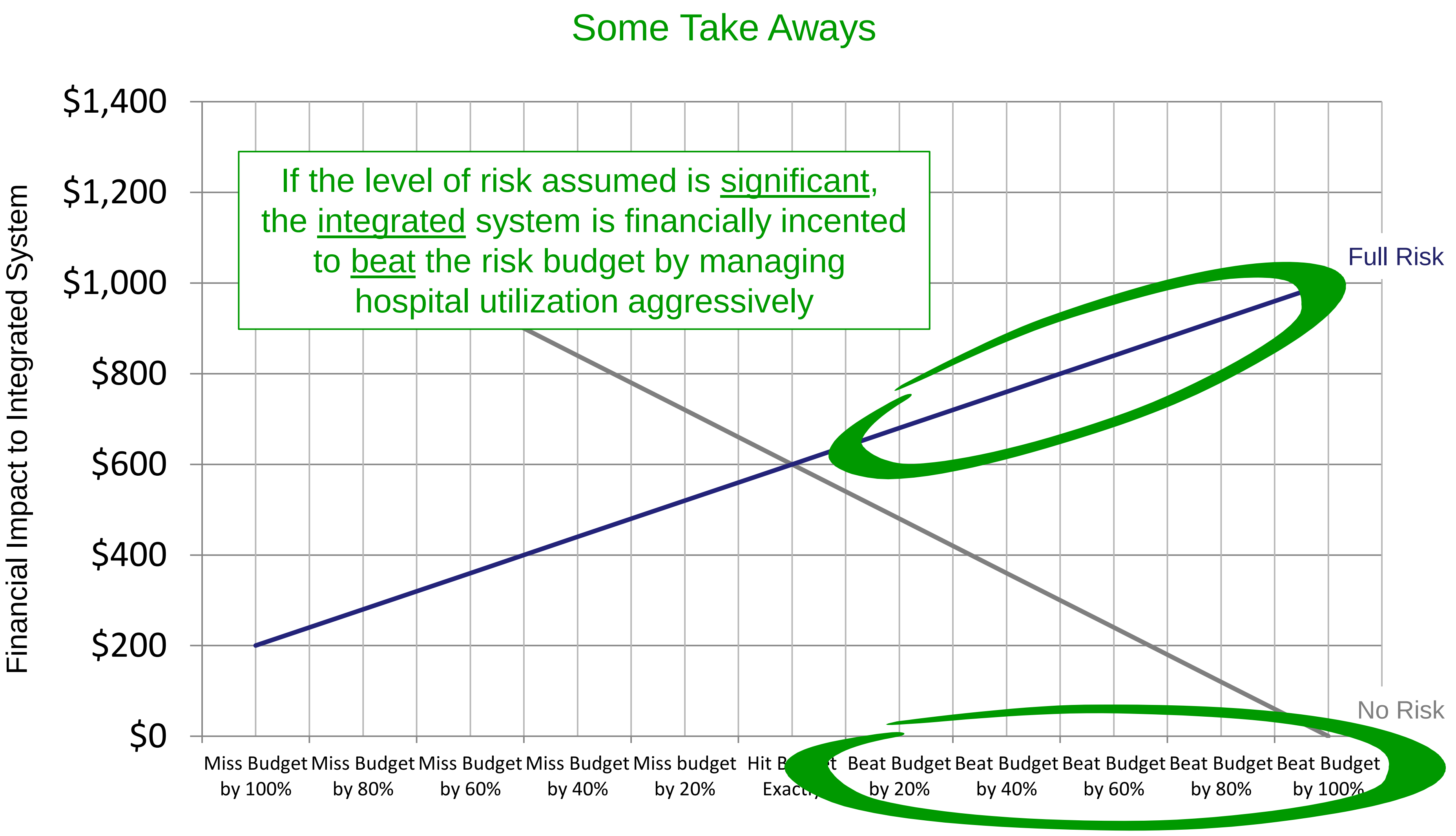

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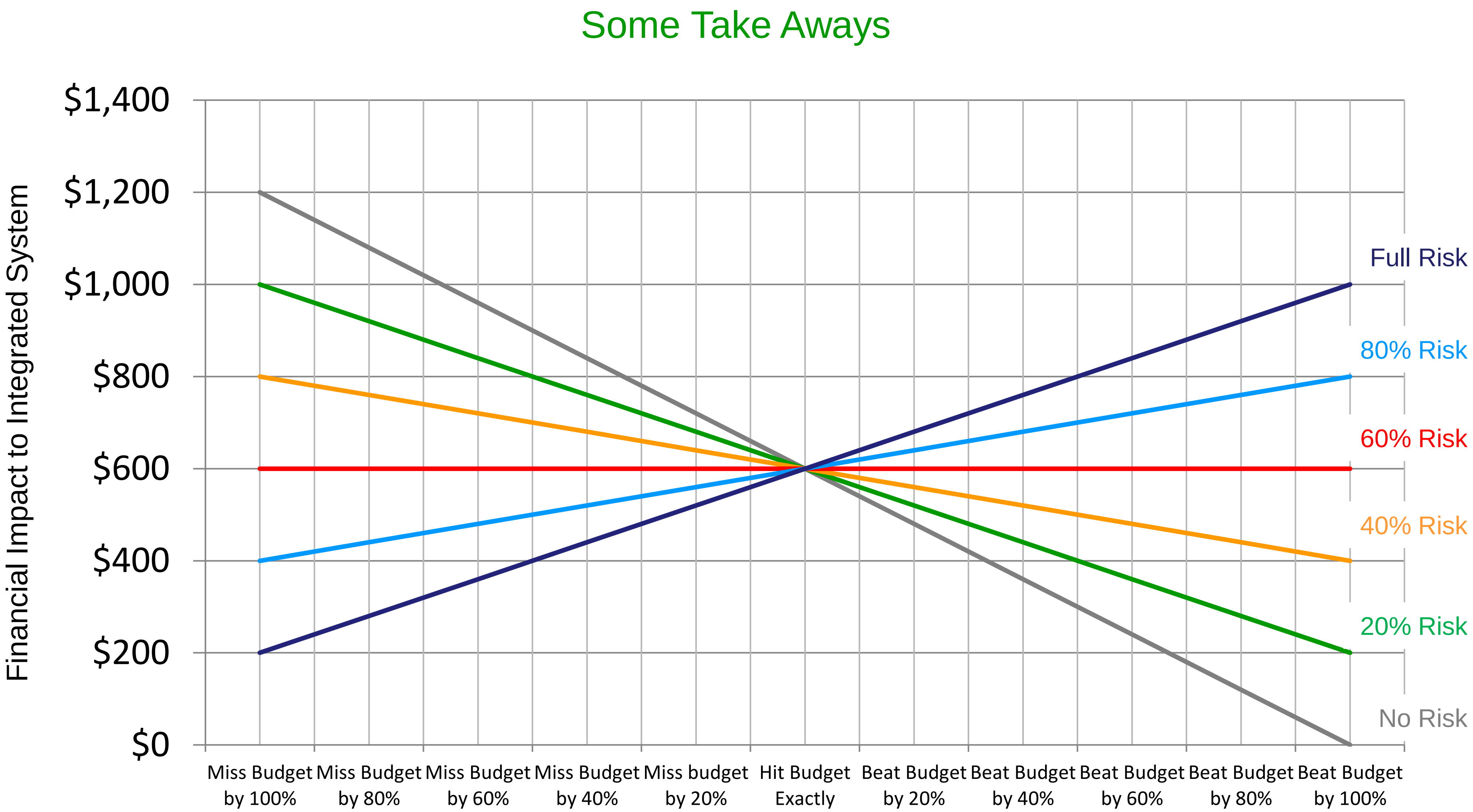

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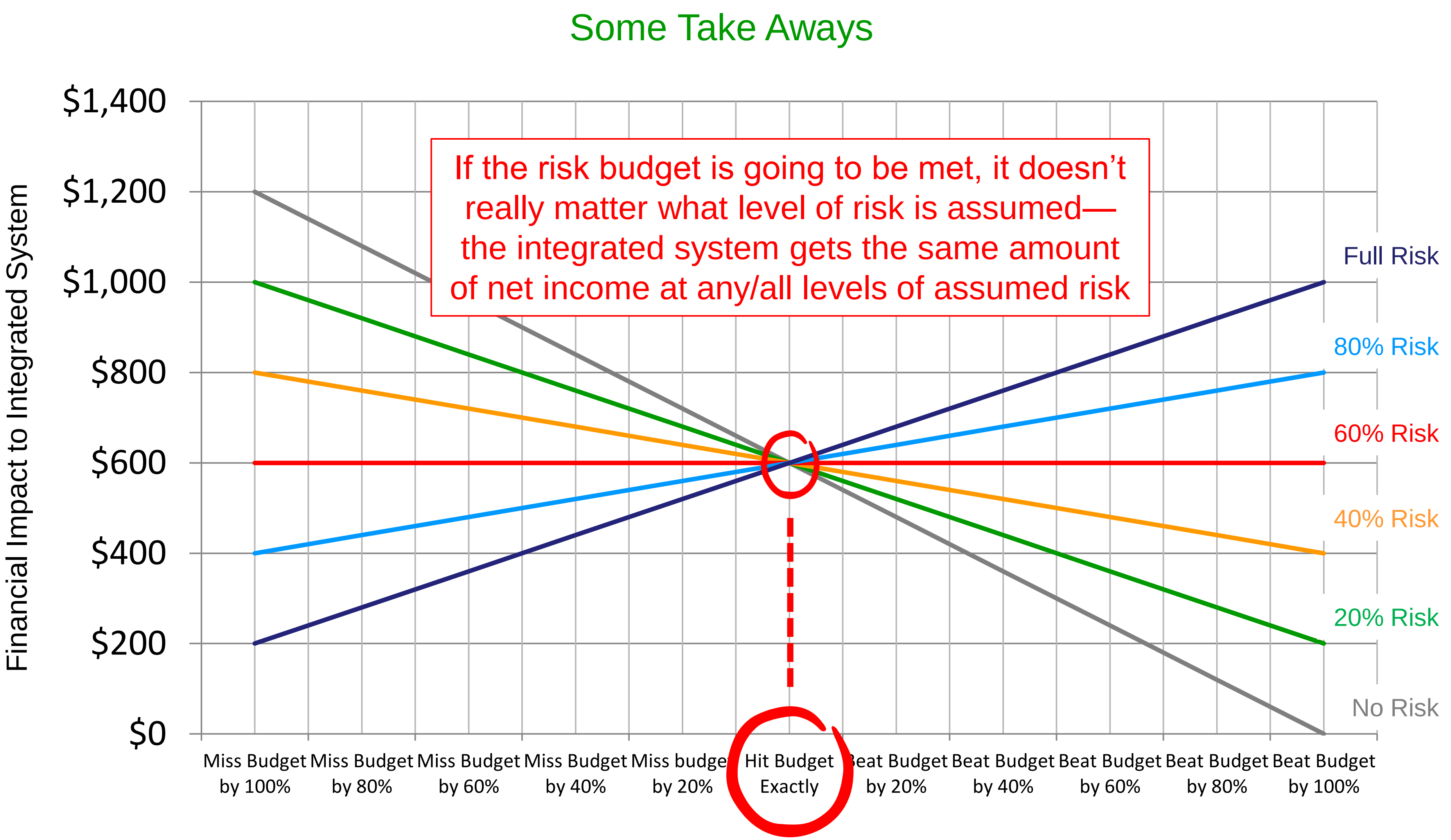

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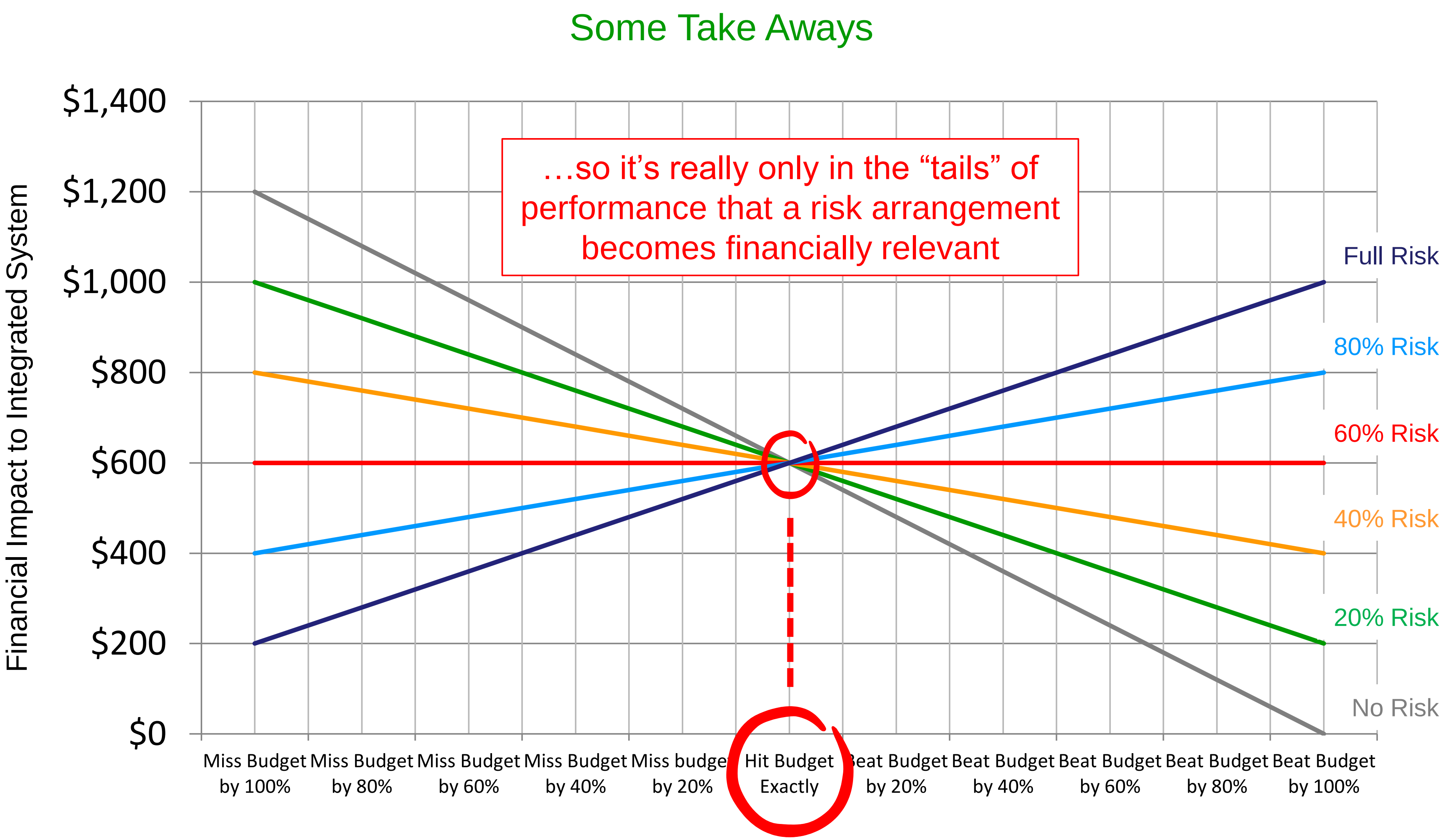

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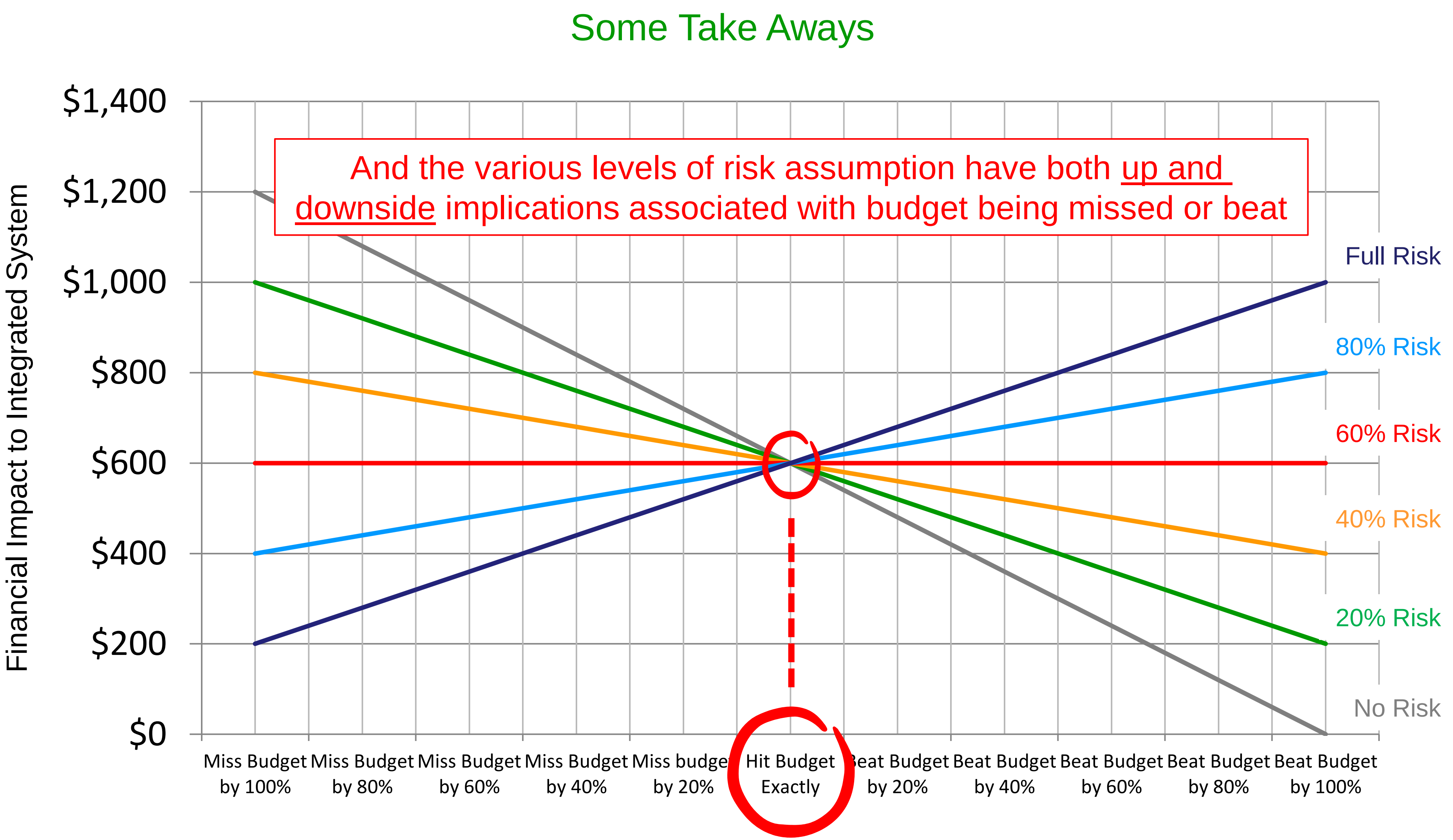

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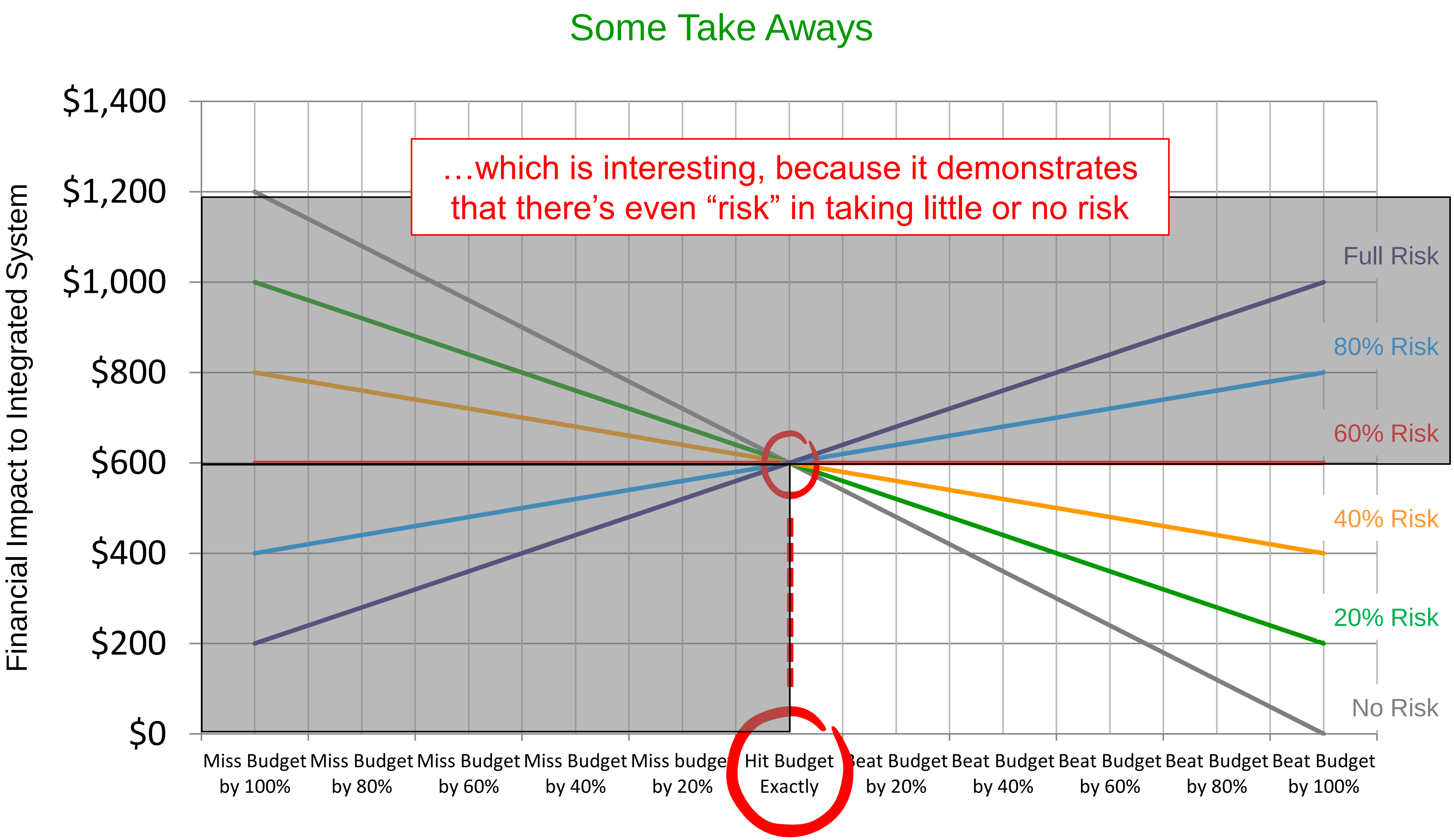

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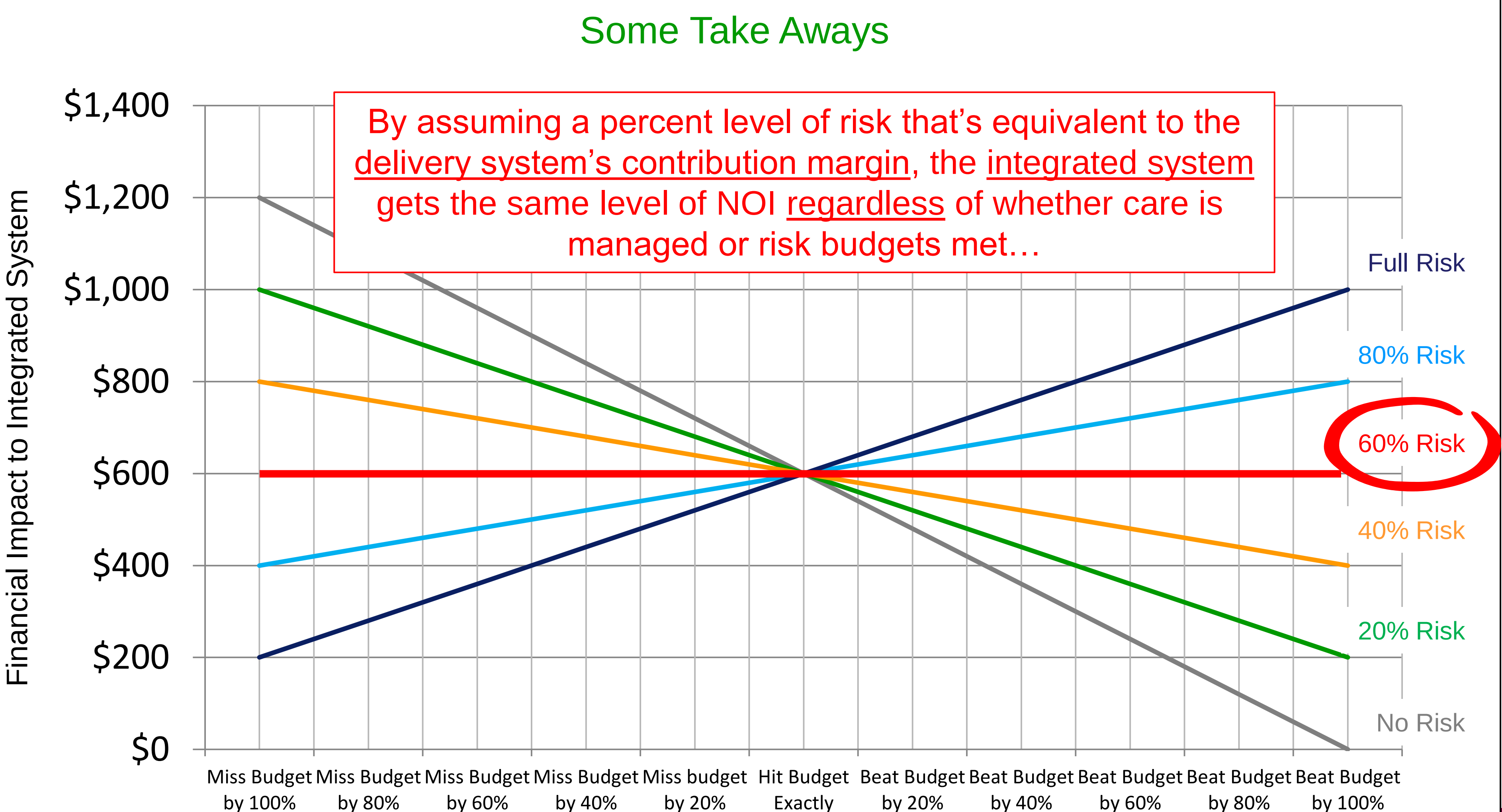

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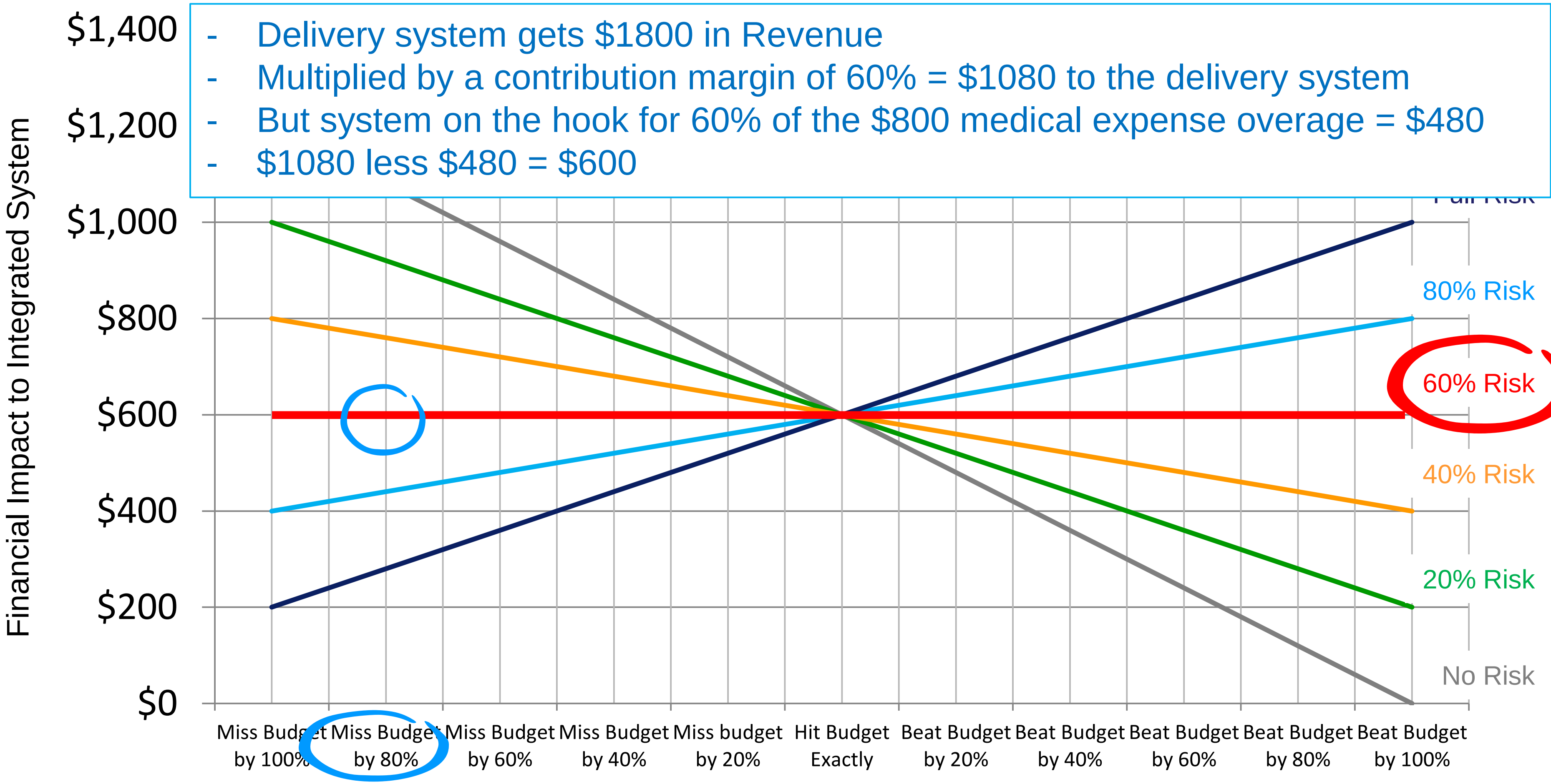
Some Take Aways

- Delivery system gets $1800 in Revenue
- Multiplied by a contribution margin of 60% = $1080 to the delivery system
- But system on the hook for 60% of the $800 medical expense overage = $480
- $1080 less $480 = $600



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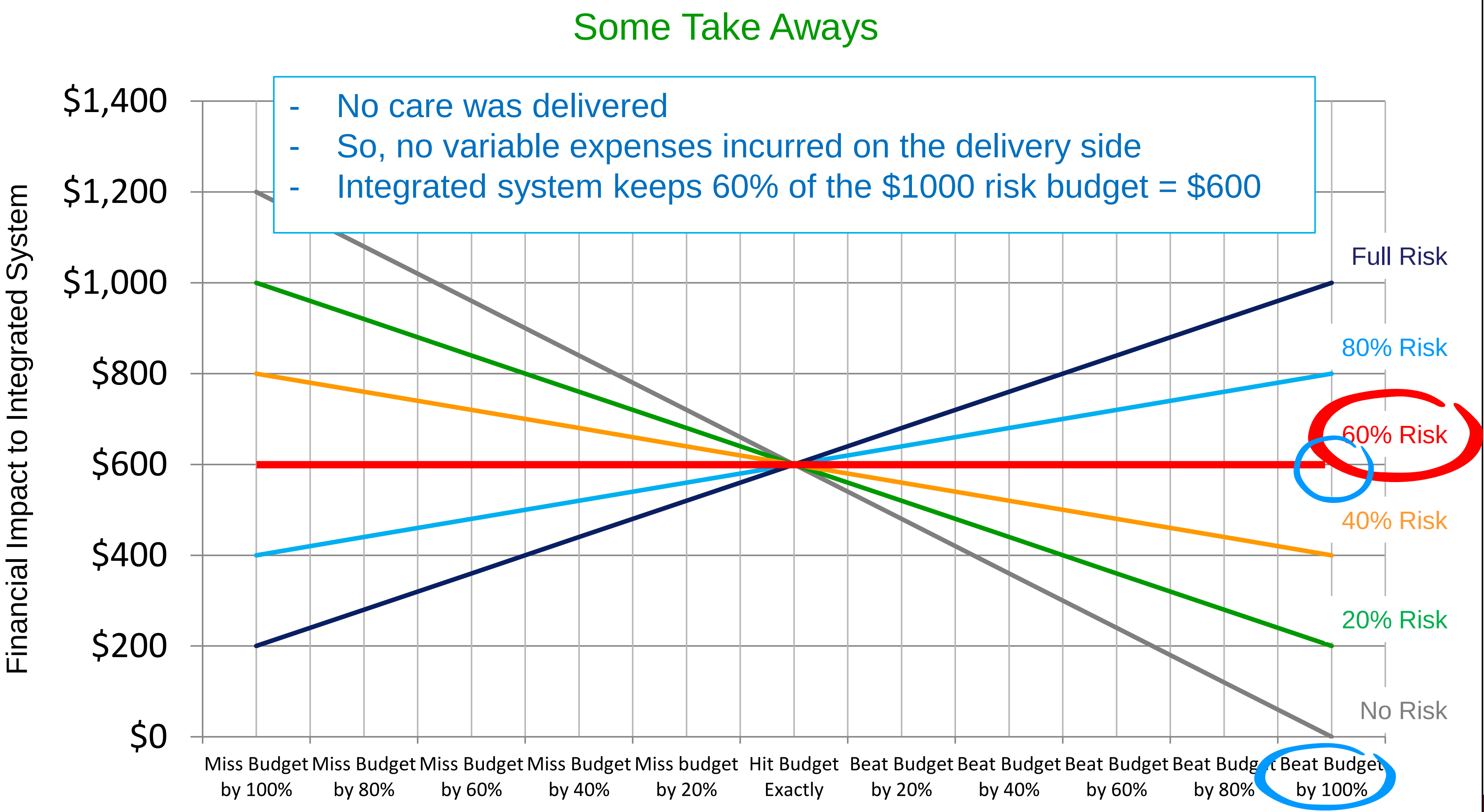

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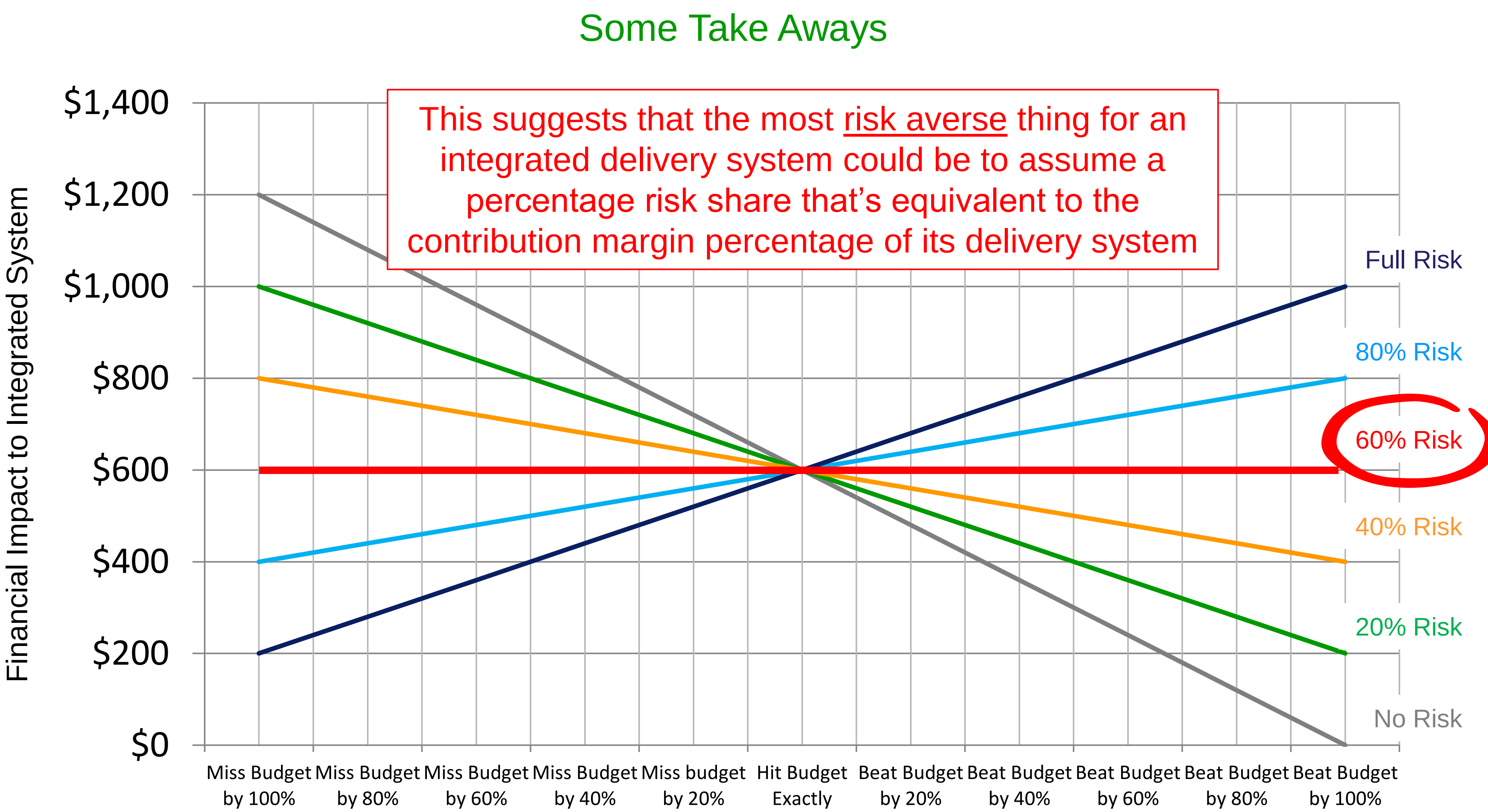
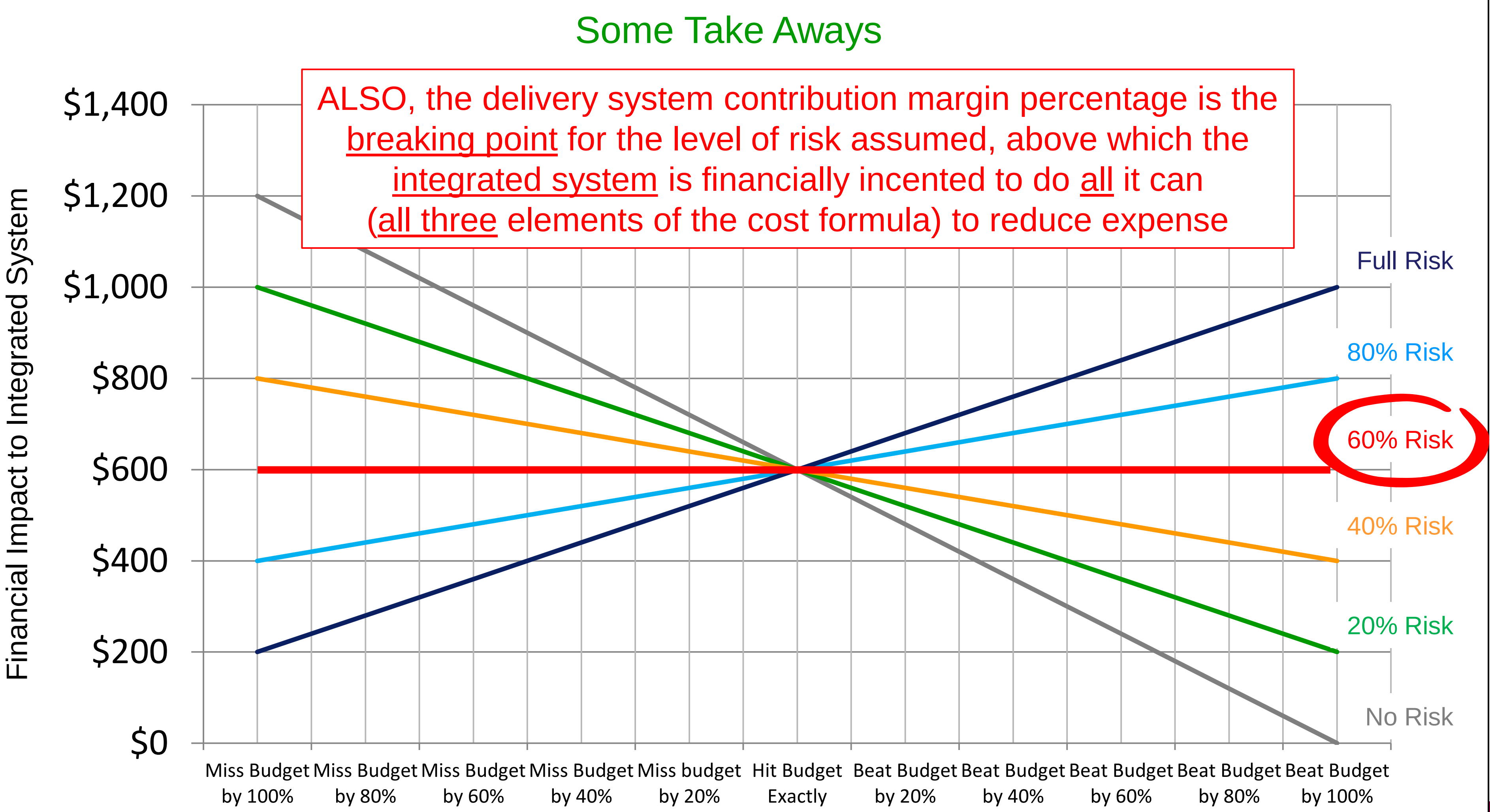


Assume a risk budget of $1000, and a <u>delivery side</u> contribution margin of 60%

ALSO, the delivery system contribution margin percentage is the <u>breaking point</u> for the level of risk assumed, above which the <u>integrated system</u> is financially incented to do <u>all</u> it can (<u>all three</u> elements of the cost formula) to reduce expense



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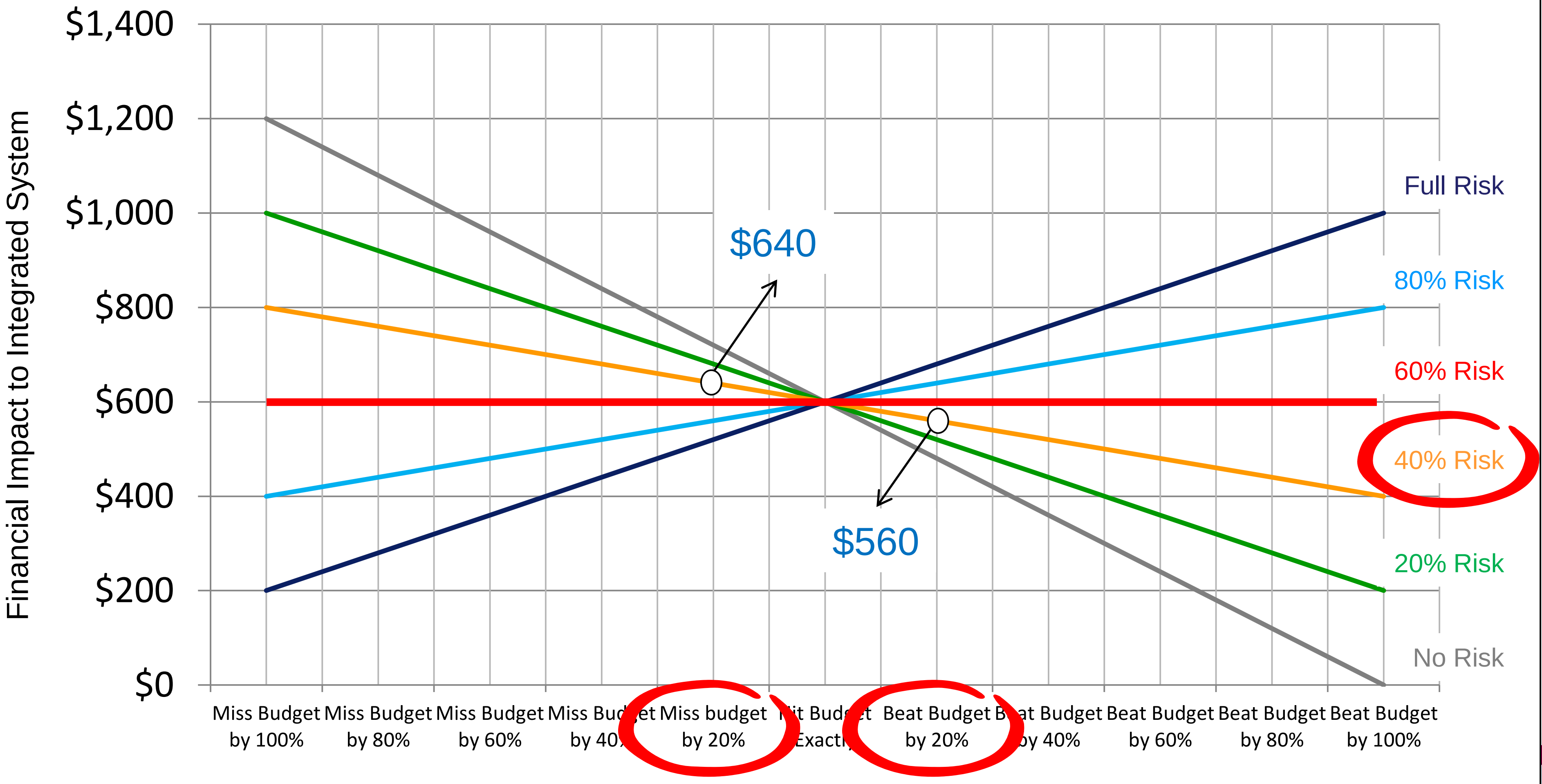

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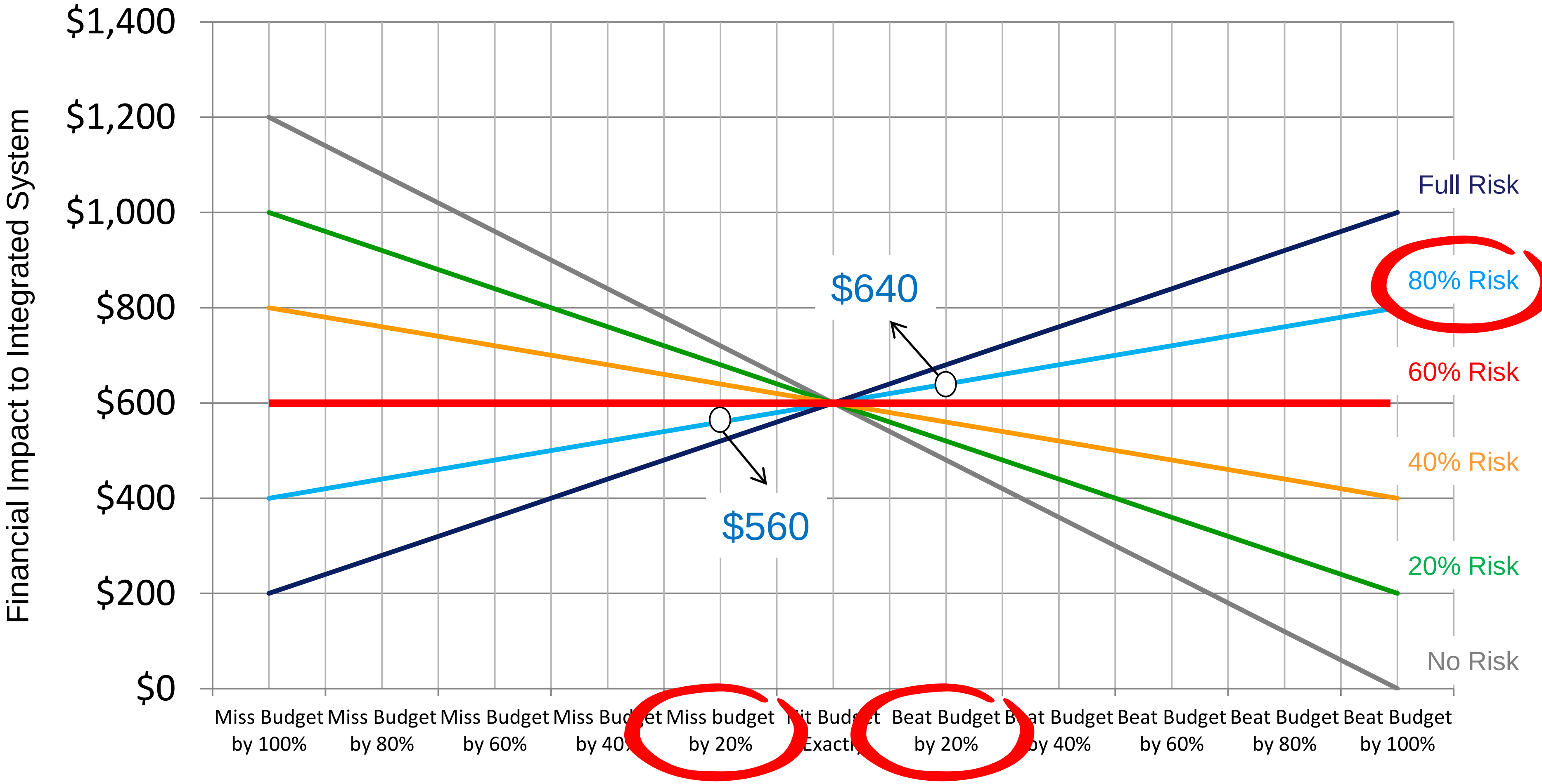

Summary

- If the integrated system's risk share is low, it's not being financially incented to reduce episodes of care

- The least financially risky approach for an integrated delivery system would be to assume a percentage of risk that is equivalent to the delivery system's contribution margin percentage (no "high highs," but neither are there "low lows")

- This level of risk also represents the crossing point above which the integrated system becomes financially incented to do all it can to reduce unnecessary cost (also including wellness and reducing episodes of care)