

# [ TREND WATCH ]

Risk-based contracting and the future of health care payment and delivery

Accountable care organizations, patient-centered medical homes, bundled payments and other fee-for-value arrangements will continue to gain in popularity among insurers, providers, and consumers

## The Trend to Watch

HEALTH PLANS  
EXPANDING  
RISK-BASED  
CONTRACTING  
EFFORTS



### **Are risk-based contracting arrangements between health insurers and providers here to stay?**

The answer can be summed up in three words: "Follow the money." In health care, the lion's share of the money is controlled by payers, and payers are investing in and paying for an increasing amount of care covered by risk-based contracts. And these contracts aren't just with the obvious accountable care organizations (ACO) and patient-centered medical homes (PCMH)—large health systems and integrated delivery networks are also engaging in various forms of risk contracting.

## Key Factors

Why is risk-based contracting gaining such a foothold with health plans?

Fee-for-service models become obsolete quickly as patient care shifts predominantly to chronic disease management rather than treatment of acute illness and injury.

- Insurers can't do much more with fee-for-service programs to keep costs down. At its core, fee-for-service incentivizes providers for seeing more patients.
- Insurers are keenly aware that the price point of their product is becoming cost prohibitive.
- The big insurers are pushing value-based contracts with providers, and have announced plans for more.

"FOR THE HEALTH PAYER INDUSTRY,  
WE HAVE A PRODUCT THAT PEOPLE  
LIKE AND INCREASINGLY CAN'T  
AFFORD. THAT'S A PROBLEM FOR  
EVERYONE.<sup>1</sup>"

— Stephen Ondra  
Chief Medical Officer  
Health Care Services Corporation



## Data Points

Large health plans have made significant inroads into risk-based contracting:

**\$500  
MILLION SAVINGS FOR  
24 MILLION** members

The Blue Cross Blue Shield Association announced in July 2014 that approximately one out of every five dollars BCBS companies spend on medical care—**AROUND \$65 BILLION**—will now be directed through value-based programs. About **24 MILLION MEMBERS** are accessing care through such programs, which they estimate saved their plans \$500 million in 2012.<sup>2</sup>

UnitedHealthcare said it will **SPEND \$30 BILLION** on medical care for members within risk-based arrangements this year, and they plan to be **SPENDING \$65 BILLION** on value-based care by 2018.<sup>3</sup>

Aetna's members in value-based care arrangements numbered about **1.7 MILLION**, and **20 TO 25 PERCENT** of their medical costs go through value-based networks. By 2017, they see that percentage **RISING TO 45 PERCENT**.<sup>4</sup>

Humana anticipates that **HALF OF ITS MEDICARE ADVANTAGE MEMBERSHIP** will be enrolled in full-risk bearing accountable care organizations by 2017.<sup>5</sup>

**"AS WE THINK ABOUT HEALTHCARE, I'M EXCITED ABOUT THE FUTURE. WE ARE MOVING FROM TALKING ABOUT SICK CARE TO FOCUSING ON HEALTH."**

— Bruce Broussard, President and CEO of Humana

Providers are lining up to participate in risk-based contracting arrangements:

Medicare-recognized accountable care organizations number more than 360, most of which are enrolled in the Medicare Shared Savings Program. In year one of the MSSP, the organizations saved the Medicare trust fund **\$345 MILLION**. The 23 organizations enrolled in the Pioneer ACO model saved the trust fund approximately **\$74 MILLION** within the pilot program's first two years.<sup>6,7</sup>

CMS's Innovation Center, as of July 2014, is piloting 13 new payment and service models, including the Pioneer ACO pilot. More than **3,728 HEALTH CARE ORGANIZATIONS** are participating.<sup>8</sup>

Approximately **2,500 HOSPITALS** are participating in Medicare's Hospital Value-based Purchasing program, of which about **25 PERCENT** will receive an increase in Medicare payment in fiscal year 2014.<sup>9</sup>

According to Becker's Hospital Review, **70 ACCOUNTABLE CARE AGREEMENTS** have been announced in the first half of 2014.<sup>10</sup> [Announcements by month: January: 13; February: 8; March: 18; April: 11; May: 6; June: 14]



## Business Impact

### How will these developments impact the health care industry?

The degree to which providers can successfully manage risk for patient care and outcomes will become a competitive advantage.

- Health care is local, therefore risk-based arrangements will vary based on the unique needs of each market. Organizations that are first in meeting the needs of their market will seize the upper hand.
- If ACOs and other risk-based provision methods continue to increase quality and lower costs, Medicare and large commercial insurers will invest even more in risk-based plans.
- As insurers reduce prices for risk-based plans, they will become more attractive to employers, consumers and other purchasers.
- Physicians who want to practice fee-for-service medicine will have fewer options; concierge medicine may gain in popularity.

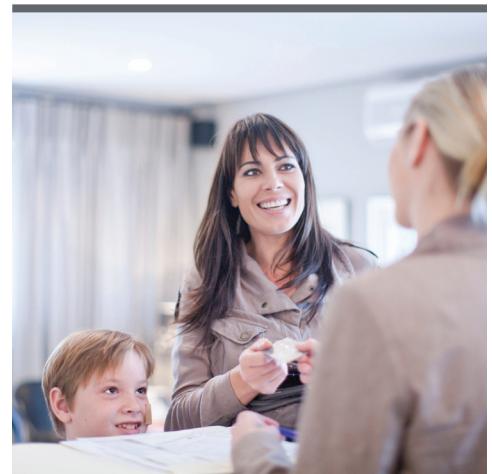
**"THE DOMINANT THEME IS FOR AFFORDABLE PRODUCTS. CLEARLY, THE UNDERLYING DRIVER IS COST FOR EMPLOYERS. THAT'S THE FOCUS ACROSS THE LARGEST EMPLOYERS, AND ALL THE WAY DOWN TO THE SMALLEST."**

— Gail Boudreax, CEO of UnitedHealthcare

## Takeaways

### What are the next steps?

- Health insurers large and small will need to take a market-focused, population-centric view to determine how quickly to accommodate fee-for-value in their coverage options.
  - Health care providers should prepare for continued change:
    - Improve financial performance through revenue cycle optimization.
    - Determine market dynamics (i.e., population growth, coverage shifts, speed of change, etc.).
    - Appraise financial impact of transition from fee-for-service to fee-for-value.
    - Define population health needs.
    - Assess provider network and care management resources.
    - Invest in data and analytics necessary for risk-based decision-making.
    - Build capabilities around population health management.
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### SOURCES

<sup>1</sup> All quotes were taken from a panel discussion at Forbes Healthcare Summit 2013.

<sup>2</sup> Blue Cross Blue Shield, "Blue Cross and Blue Shield Companies Direct More Than \$65 Billion in Medical Spending to Value-Based Care Programs," news release, July 9, 2014, <http://www.bcbs.com/healthcare-news/bcbssa/bcbs-companies-direct-more-than-65b-in-medical-spending-to-value-based-care-programs.html>.

<sup>3</sup> Bruce Japsen, "How Accountable Care is Transforming U.S. Healthcare," *The Motley Fool*, June 27, 2014, <http://www.fool.com/investing/general/2014/06/27/how-accountable-care-is-transforming-us-healthcare.aspx>.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Centers for Medicare and Medicaid Services (CMS), "Medicare ACOs Continue to Succeed in Improving Care, Lowering Cost Growth," news release, September 16, 2014. <http://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2014-Fact-sheets-items/2014-09-16.html>

<sup>7</sup> CMS, "Pioneer Accountable Care Organizations succeed in improving care, lowering costs," news release, July 16, 2013. <http://www.cms.gov/newsroom/midiareleasedatabase/press-releases/2013-press-releases-items/2013-07-16.html>

<sup>8</sup> "Innovation Models," Centers for Medicare & Medicaid Services, accessed July 24, 2014, <http://innovation.cms.gov/initiatives/index.html#views=models>. Downloaded and reviewed participation statistics from ongoing innovation models.

<sup>9</sup> Patrick Conway, "CMS Releases Latest Value-Based Purchasing Program Scorecard," *The CMS Blog*, Centers for Medicare & Medicaid Services, November 14, 2013, <http://blog.cms.gov/2013/11/14/cms-releases-latest-value-based-purchasing-program-scorecard/>.

<sup>10</sup> Dani Gordon, "70 Accountable Care Agreements Announced So Far This Year," *Becker's Hospital Review*, July 9, 2014, <http://www.beckershospitalreview.com/accountable-care-organizations/70-accountable-care-agreements-announced-so-far-this-year.html>.



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