RISK STRATEGIES

RISK STRATEGIES – REDUCING THE RISK OF RISK BASED CONTRACTS

Payers are promoting risk-based contracting as a solution for escalating health care costs. The question health care organizations must ask is, “How much risk can we assume?”

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THE RISK-BASED CONTRACT MOVEMENT IS GROWING

As health care inflation continues to escalate, payers are increasingly focused on controlling costs while simultaneously improving quality of care and patient experience. There is widespread belief that realigning provider financial incentives through risk-based contracting is part of the solution.

As the movement grows, health care organizations find themselves questioning what forms contracts will take and how to protect themselves from potential financial perils associated with assuming risk.

READINESS FOR RISK VARIES

The appetite of health care organizations for entering into risk-based arrangements varies. At one end of the spectrum, organizations embrace the transition from fee-for-service to value-based reimbursement. They are prepared to make the necessary investments and maximize the opportunity.

On the other end of the spectrum, other health care organizations can't see beyond the status quo fee-for-service model. Unprepared, they enter into risk-based contracts only when there is no other option.

Most organizations fall somewhere in between these two extremes.

HOW HEALTH CARE ORGANIZATIONS ASSUME RISK

Depending on market dynamics, health care providers assume risk for the delivery of health care services through a wide range of vehicles.

1. SHARED-SAVINGS/SHARED-LOSS CONTRACTS

These contracts can be with commercial payers, Medicare Advantage plans, Medicaid health plans, or directly with the Centers for Medicare & Medicaid Services (CMS) through one of their Accountable Care Organization (ACO) programs. Often, these contracts ease health care organizations into risk by delaying the shared-loss component until the second or third contract year. Surplus and deficits are most often shared in equal amounts and often there is a defined maximum for both.

2. FULL OR PARTIAL CAPITATION

Under a capitated contract, health care organizations assume full financial risk for providing contracted services. There are rarely limitations to surpluses or deficits such as those seen in shared-risk contracts.

This class of contracts was briefly popular in the 1990s, but many health care organizations suffered significant financial loss under these arrangements. Today, they're resurfacing in a few select geographies; however, a slow but cautious return to capitation is underway on a broader level.

The recent rollout in nearly 70 markets of CMS's Comprehensive Care for Joint Replacement (CCJR) program is certain to fuel growth in bundled payments.

3. BUNDLED PAYMENTS

Since CMS announced its Bundled Payments for Care Improvement (BPCI) initiative, momentum has grown significantly around bundled payment contracts for government programs and commercial payers. These contracts pay a fixed fee for an entire episode of care. The risk for provider organizations are potential outlier cases.

4. DIRECT TO EMPLOYER CONTRACTS

Employers are considering a multitude of new options as they continually seek to control employee medical expenses. One option is to bypass the traditional payers and contract directly with health care providers. While still limited, employers and providers are intrigued by the concept.

RISK-SHARING CONTRACT TYPES

RISK-ASSUMPTION METHOD	CHARACTERISTICS
Shared-Saving/ Shared-Loss Contracts	• Surplus and deficits are most often shared in equal amounts • Often there is a defined maximum for both
Full or Partial Capitation	• Health care organizations assume full financial risk for contracted services • There are rarely limitations to surpluses or deficits
Bundled Payments	• Fixed fee for an entire episode of care • Health care providers at risk for outlier cases
Direct to Employer Contracts	• Employers bypass traditional payers and contract directly with health care providers

5 WAYS HEALTH CARE ORGANIZATIONS MITIGATE RISK

For organizations that have invested in the necessary infrastructure, risk-based contracts represent an opportunity to share in the value they have created. However, these arrangements also come with financial risks.

Under risk-based models, health care organizations can do much to help ensure their success. Risk-mitigation strategies can include:

1. Using outside experts, such as actuaries, care managers and information technology companies.
2. Incorporating risk-limiting factors into contracts. Examples include downside maximums, trend calculations and attribution methodology.
3. Avoiding unintentional settlement errors by incorporating a results-validation process into the contract.
4. Delaying risk contracting until the necessary infrastructure development and the clinical integration model is proven.
5. Mitigating risk through insurance.

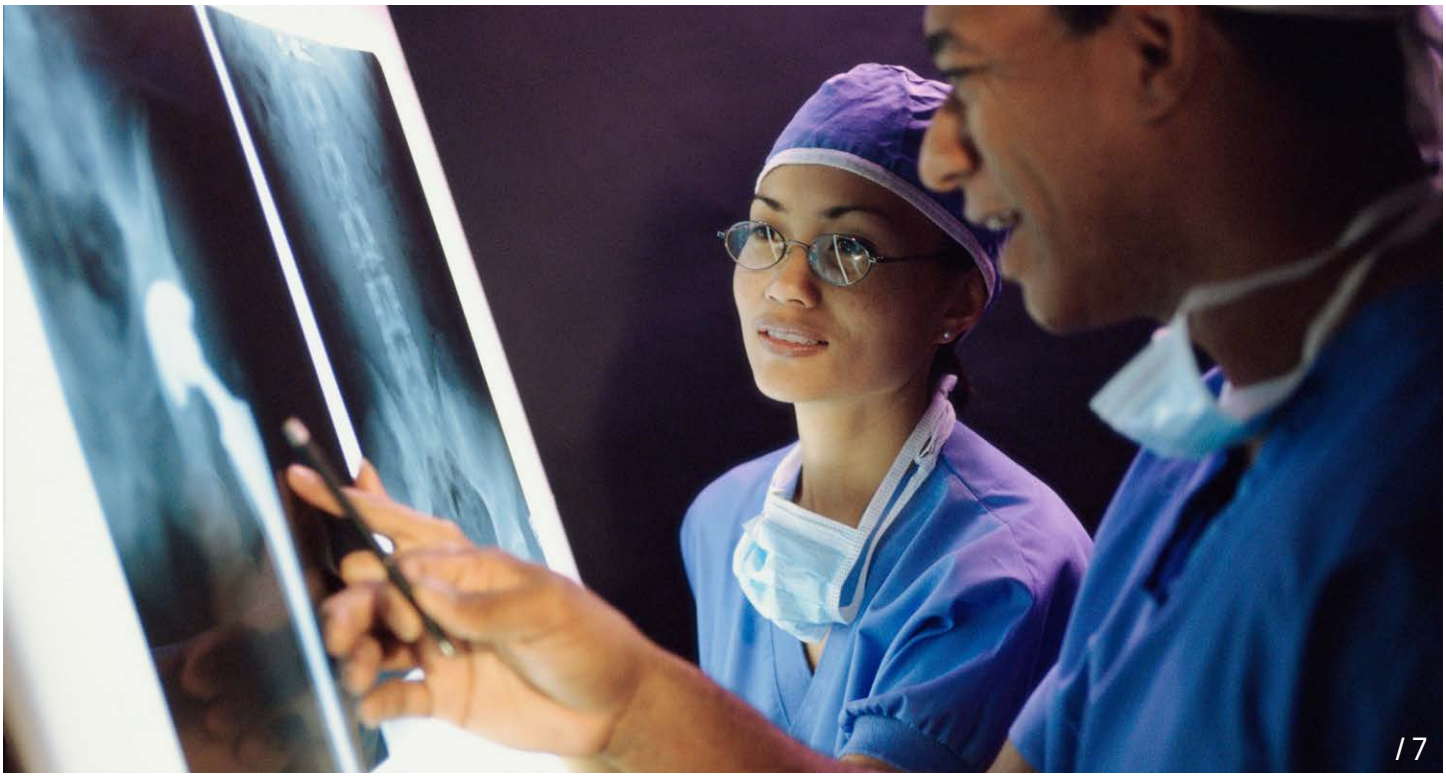
MITIGATING RISK THROUGH INSURANCE

While the most effective strategies can reduce the likelihood of a poor result, it is impossible to eliminate it entirely. Most health care organizations have limited tolerance for volatility and insurance is an effective tool in managing that volatility.

Health care organizations already in or considering some form of risk-based contracting should investigate insurance options for mitigating risk and helping to accomplish goals.

A positive outcome of the Affordable Care Act in 2010 is a revitalization of somewhat stagnant health care service industry. To capitalize on this opportunity, health care system suppliers began innovating solutions for health care organizations.

The insurance industry was part of this wave of innovation.
New capital and talent flooded the insurance market. The result is many new insurance programs for managing risk in the rapidly evolving health care environment.



Nationally, the number of individual members with claim payments in excess of $1 million in a single year is estimated to have increased by 75% between 2011 and 2014.

RISK-MITIGATION INSURANCE PRODUCTS

SPECIFIC EXCESS-OF-LOSS INSURANCE

Specific insurance provides protection against the volatility associated with high-dollar or catastrophic claims on individual members. It's intended to address abnormal severity rather than frequency of claims. Catastrophic claims are rising rapidly.

Specific excess-of loss coverage terms are very flexible. Organizations with a history of assuming risk and a tolerance for volatility can retain more risk, while organizations new to the risk business should consider transferring more risk to an insurance company.

Any organization not protected within its contract should consider specific excess-of loss coverage, regardless of population type or size. Even if protection is provided within the contract, canvassing the commercial insurance market for insurance coverage may provide more flexible terms and lower overall cost.

AGGREGATE STOP-LOSS INSURANCE

Aggregate coverage protects against abnormal claims frequency in the aggregate. Organizations new to risk and/or those wanting to quantify the worst case contract scenario commonly consider this coverage.

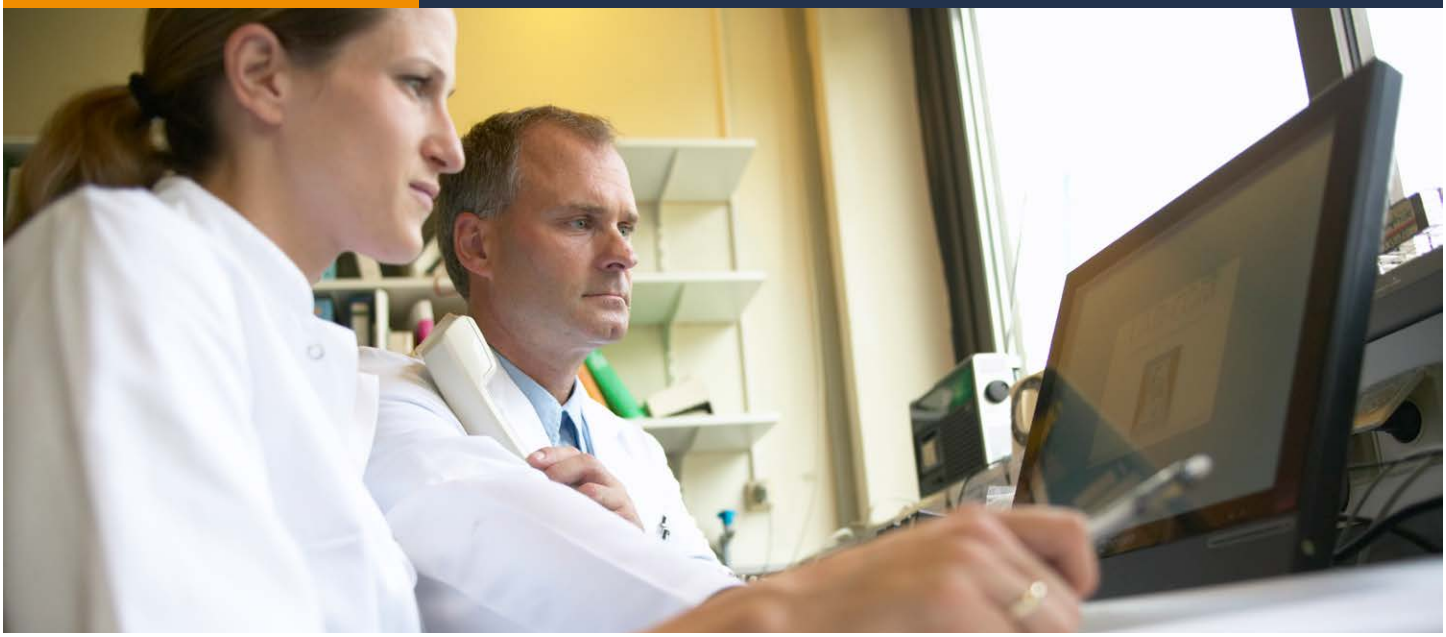
Aggregate policies allow health care organizations to transfer risk to an insurance company once expenses exceed a certain percentage of the budget. For example, a policy with an attachment point of 105 percent provides protection in the event actual claims exceed 105 percent of the budget. In this case, the organization has limited its risk to five percent of the budget amount.

BUNDLED PAYMENT STOP-LOSS INSURANCE

This insurance provides protection from outlier cases for organizations in bundled fee arrangements, whether with CMS or another payer. Bundled payment contracts can take many forms, so this insurance can accommodate many different variables.

CHARACTERISTICS OF RISK MITIGATION PRODUCTS

RISK-MITIGATION INSURANCE PRODUCTS:	PROTECTS AGAINST:	FOR HEALTH CARE ORGANIZATIONS UNDER THESE CONTRACT AGREEMENTS:	FLEXIBILITY:
Specific Excess of Loss Insurance	Abnormal severity of individual claims	Risk-based contract w/o built in risk protection	Flexible based on organization's risk tolerance
Aggregate Stop-Loss Insurance	Abnormal frequency of claims in the aggregate	Risk-based contracts, to limit downside exposure	Tailored to organization's budgetary goals
Bundled Payment Stop-Loss Insurance	Outlier cases whether with CMS or another payer.	Any type of bundled payment contracts	As flexible as bundled payment contracts are varied



CONCLUSION

CMS, state governments, private employers and individuals all expect health care organizations to partake in the challenge to control escalating costs. As risk-based contracting becomes a more common part of the solution, health care organizations need to consider a range of risk-mitigation strategies, including insurance.

WHY PARTNER WITH RISK STRATEGIES?

Risk Strategies is a privately held, national brokerage and consulting firm. Ranked in the top 20 brokers in the country, we offer risk-management advice and insurance and reinsurance placement for property and casualty, health care and employee-benefits risks.

*The Risk Strategies National Health Care Practice incorporates the experience and expertise of **Dubraski & Associates**, a national health care specialty broker, **Re-Solutions**, one of the largest A&H reinsurance intermediaries in the United States, and **Cornerstone**, a medical malpractice specialist broker.*

RISK STRATEGIES

A TEAM OF EXPERIENCED INSURANCE PROFESSIONALS TO THE HEALTH CARE INDUSTRY

Working with our national health care practice gives your organization access to one of the largest, most experienced, teams of health care insurance and reinsurance professionals operating across the country under one national profit center.

We bring to our health care clients a focused, integrated and responsive liability and risk management service that is best in class, including an analytics group to helping clients better understand their risk and how best to protect that risk, and a proactive claims service center that ensures claim payments are expedited.

We deliver experience and innovation to a wide array of health care liability and risk management challenges, including:

- Specific Excess of Loss Insurance
- Aggregate Stop-Loss Insurance
- Bundled Payment Stop-Loss Insurance
- Provider Excess of Loss Insurance
- ACO Insurance
- HMO Reinsurance
- Employer Self-Funded Stop Loss Insurance
- Medicare Supplement Insurance
- Carve-out Programs
- Managed Care Errors and Omissions
- Director & Officers Liability
- Health Care Professional Liability
- Health Care Property and Casualty Products

For more information about Risk Strategies' National Health Care Practice please visit **www.risk-strategies.com/healthcare**