



Session 16:


The Alphabet Soup of Managed
Care Organizations:
Provider Perspective

Society of Actuaries 1997 Annual Meeting
Monday, October 27 10:30 a.m. - 12:00 noon
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PMPM

FFS EPO IPA IDS PPO PSN MSO \$ HCFA
PHO BHO **PSO** PB M
MPP \$ HMO ISDN \$ ASO CISN
SSOP BBA

Provider MCO's - What Are They?

- 
- A provider organization which contracts with an HMO
 - On a capitated or risk-bearing basis
 - Or otherwise
 - A provider organization which accepts risk directly from the purchaser

Examples: “Carve Out” MCO’s

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- PBMs - Prescription drugs
 - BHO - Behavioral Health Organization
 - Laboratory
 - Radiology
 - Capitated Specialties - e.g. Cardiology
 - HIV/AIDS

Examples: General Providers



- Primary Care Physicians
- Multi-Specialty Group Practices
- Hospitals & Health Systems

Examples: Integrated Groups

- MSO's - Medical Service Organizations
- PHO's - Physician Hospital Organizations
- IDS - Integrated Delivery Systems
- PSO's - Provider Sponsored Organizations
- Alphabet Soup - ISDN, CISN, PSN, etc.

Actuarial Roles - Provider MCOs




- HMO's - Capitation Negotiations
- Employers - Direct Contracting
- HCFA - Medicare + Choice
- State DHS - Medicaid Program
- Insurance Department - PSO Formation
- Reinsurer

Basics: Actuarial Pricing Model




- Capitation rate is calculated as:
 - Utilization x Cost per Service = PMPM
- Utilization rate assumptions taken from:
 - Historical results
 - Projected Managed Care improvements
- Cost per service reflects provider costs and discounts


Basics: Shifting Sites of Care

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- Managed care often shifts sites of care
 - Utilization decreases at one site, increases at another
 - *Service Intensity* often increases at both sites
 - Ideally, care is shifted to the most appropriate and efficient location

PHO Formation

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- Hospital and Physicians form PHO
 - PHO contracts with HMO's or employers to accept risk on a capitated basis
 - Entities within the PHO don't always trust one another
 - How do you divide the capitation dollar?
 - How do you align incentives?

PHO Capitation Split

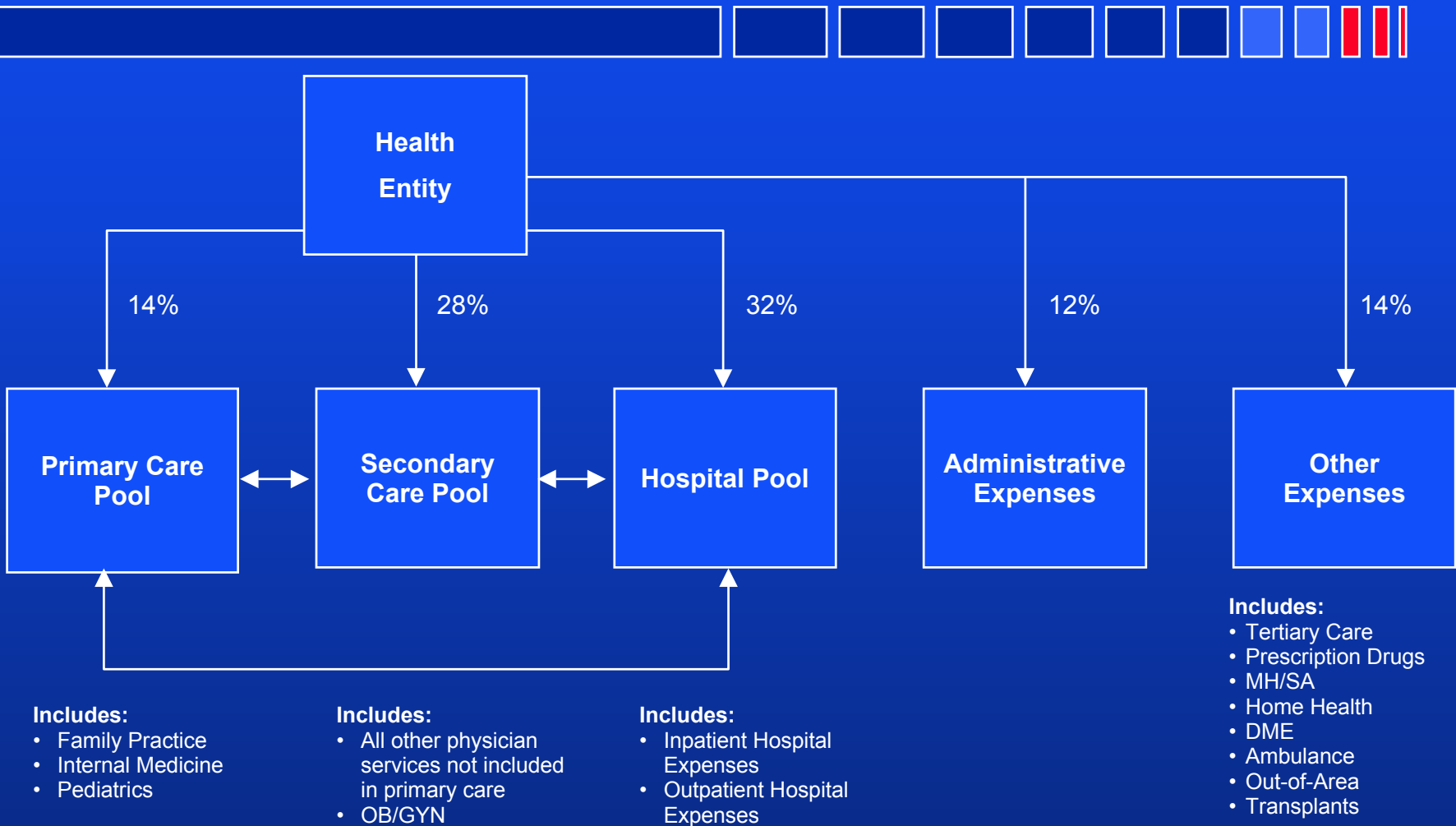
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- Negotiated process
 - Actuarial pricing model under various scenarios of reimbursement, utilization
 - Selection of assumptions is part of the negotiation
 - Comparison to market benchmarks

PHO: Aligning Incentives

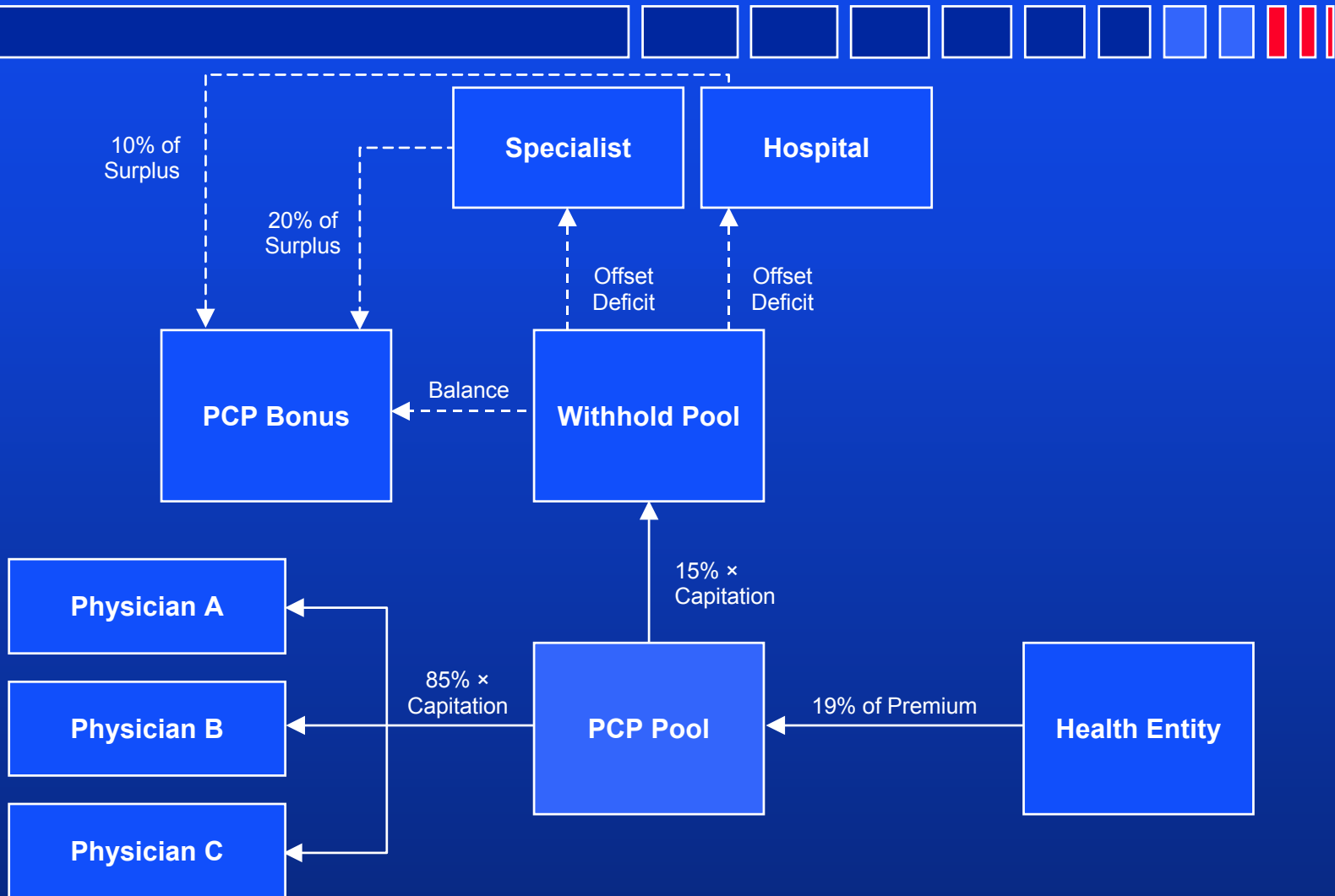
■ Need to align incentives to:

- Put providers most at risk for the services they provide directly
- Put providers at risk for services they can influence directly or indirectly
- Encourage use of most appropriate site of care
- Reward providers for favorable results overall

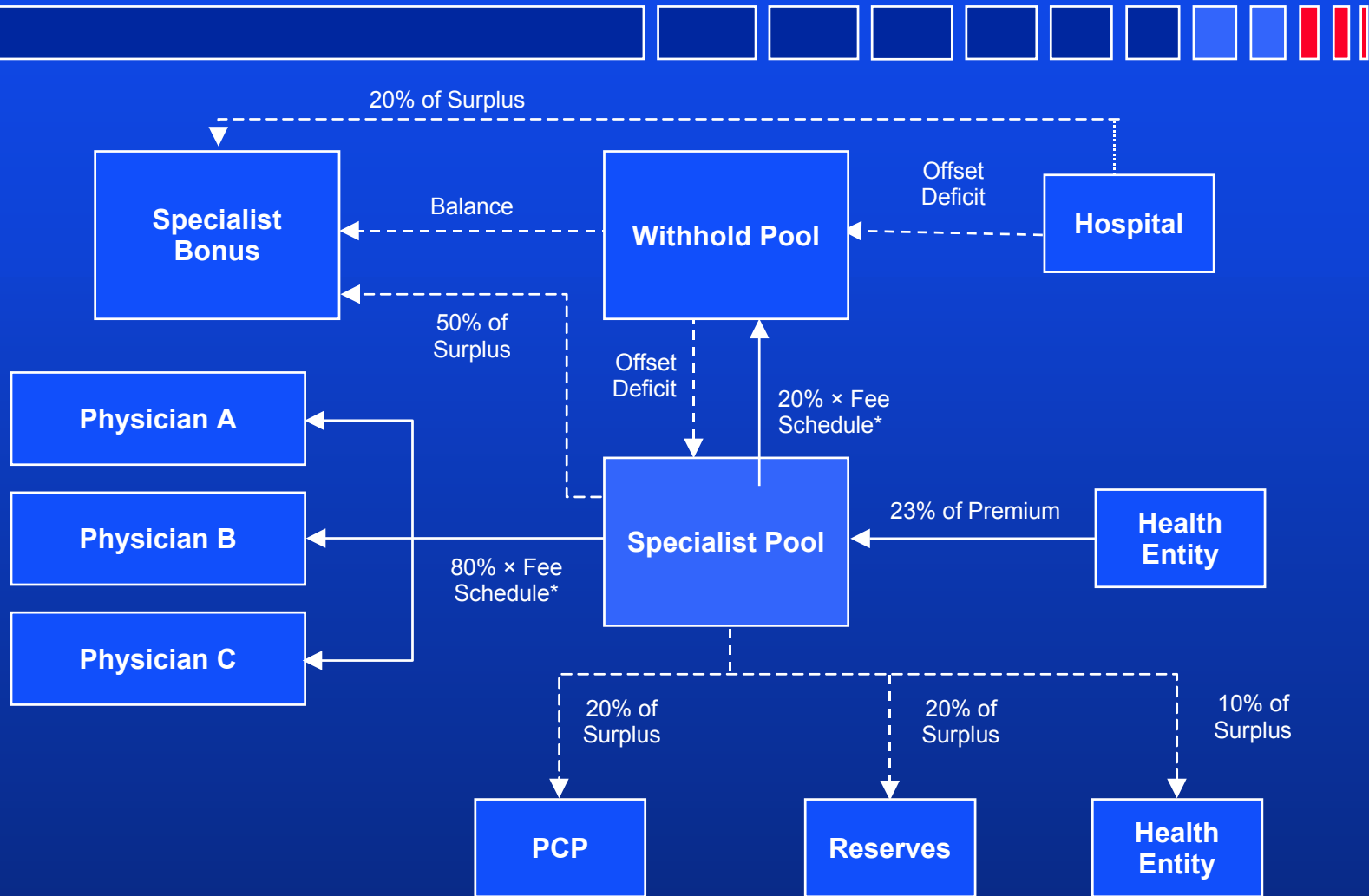
Premium Funds Flow



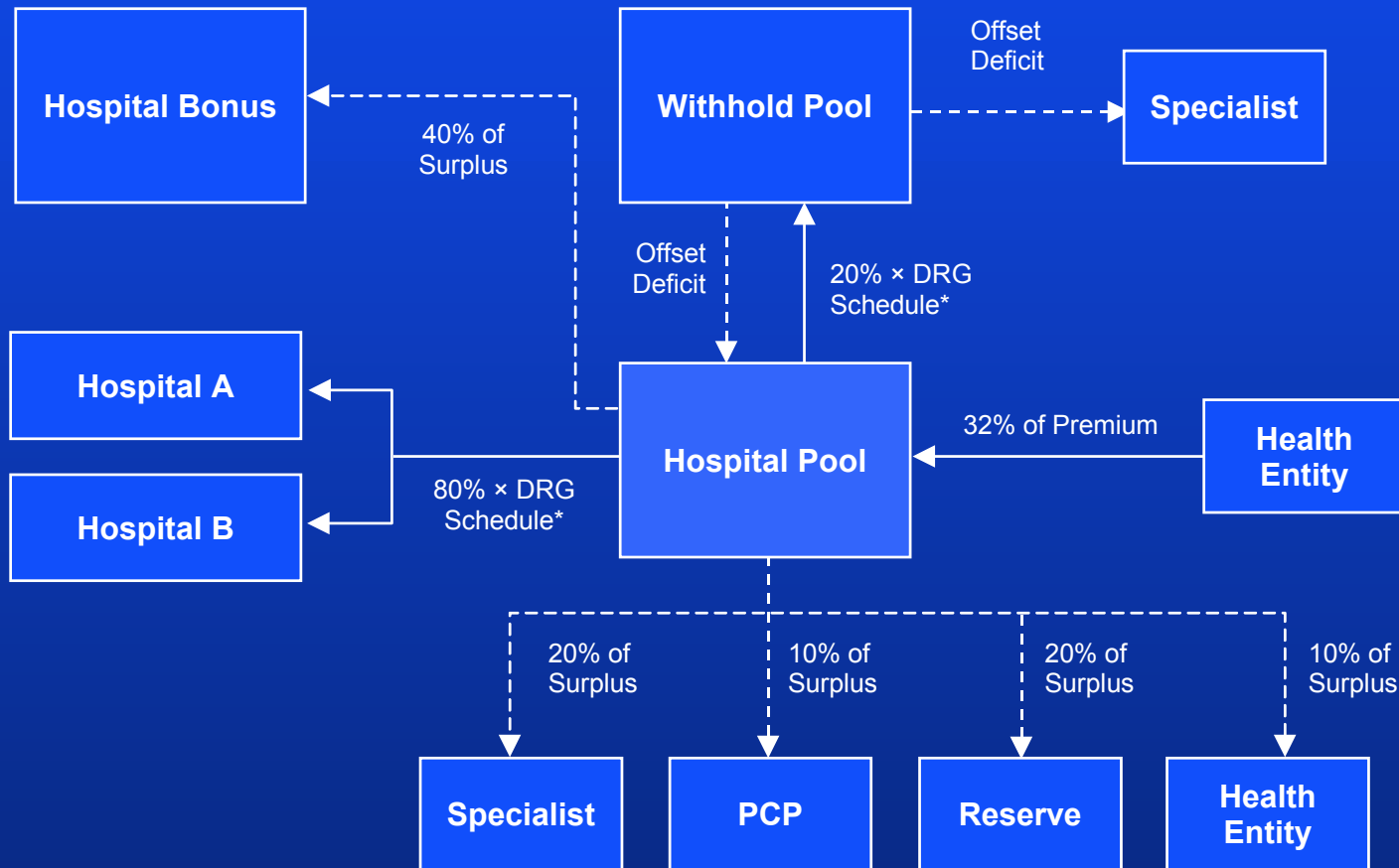
PCP Pool Fund Distribution




Specialist Pool Fund Distribution



Hospital Pool Fund Distribution




Competitive Capitation Pricing: Challenges for the Actuary

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- Excess supply of providers/specialists
 - HMO's are using competitive bidding
 - 300-500,000 lives to a single vendor
 - Providers face gain/loss of market share
 - Assisting these providers presents some challenges to the actuary


Competitive Capitation Pricing

Challenge #1: Data Quality

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- HMO may provide only demographic data
 - HMO does not want bids based on historical costs and utilization
 - Challenge to identify normative utilization
 - Challenge to identify “best practices”
 - Will the provider be able to achieve the assumed utilization levels?


Competitive Capitation Pricing

Challenge #2: Unit Costs

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- Marginal pricing may be appropriate for incremental volume
 - Restructuring may be required to reduce costs - Can this be achieved?
 - Can the provider serve all the members directly?
 - *If not, can they subcontract at the same unit price level assumed in the bid?*


Competitive Capitation Pricing

Challenge #3: Optimal Price

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- Increasing capitation price bid:
 - Decreases likelihood of winning the bid
 - Increases risk of losing current market share
 - Decreasing capitation price bid:
 - Increases likelihood of winning the bid
 - Decreases profitability if the bid is won
 - Optimal bid price hard to determine


Competitive Capitation Pricing

Challenge #4: Documentation


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- New standard of practice
 - How do you document all of this?
 - Not as simple as putting together a pricing model

Competitive Capitation Pricing

Challenge #5: Professional Risk

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- Provider will lose market share if the bid is lost
 - Provider is most likely to win the bid if costs are underestimated
 - Many uncertainties in estimating the costs
 - Need for appropriate communication with provider as to decision-making roles

Resources

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- Relevant ASOP's: 5, 8, 16, 23, 25, New
 - BBA of 1997
 - Medicare: Provider at Risk Rules
 - NAIC: RBC for MCO's
 - This meeting: Sessions 98, 114, 133

For Further Information



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