Your First Capitation Contract: How to Ensure That You Have an Adequate Cap Rate

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Introduction

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Questions

To Submit Questions
1. Click **Chat**
2. Send to: **Speakers**
3. Type question in the box
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Calculating a Cap Rate

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Agenda

• Overview of capitation and its various forms
• Different forms of capitation rates
• Defining the services covered
• Evaluating capitation rate offers
• Keys to successful offer evaluation
Capitation Definition

Capitation is defined as…

A contractual arrangement to accept pre-determined payment per member, in return for agreeing to provide health care services needed by that member

Accepting Capitation = Accepting Insurance Risk
Capitation Types: Services Covered

- Professional services only
- Facility services only
- Professional & facility services (full risk or global risk)
- Shared risk
- PCP only
- Specialists (e.g., orthopedics, ophthalmology)
Types of Capitation Rates

- Fixed dollar amounts per member per month (PMPM)
- Percent of “premium”
Capitation Rates May Vary By…

- **Type of insurance**
  - Medicaid, Medicare Advantage, Employer Group, Individual

- **Eligibility category, for Medicaid**

- **Other indicators of member morbidity**
  - Age
  - Gender
  - Risk score

- **Benefit plan**
  - For example, a plan having a $0 office visit copay should have a higher cap rate than a plan having a $40 office visit copay
What am I taking risk for?

The contract should define the following...

- Who has risk for which health care services. This is defined in the division of financial responsibility (DOFR).
- Any administrative functions delegated to the capitated entity
- Any stop-loss protection
### Example of a DOFR

<table>
<thead>
<tr>
<th>Service</th>
<th>Medical Group Risk</th>
<th>Shared Risk</th>
<th>Health Plan Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acupuncture</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ambulance</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Blood</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Chemical Dependency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inpatient Facility</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Outpatient Facility</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Professional Services</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Emergency Room</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Facility</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Out-of-area Facility</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Out-of-area Professional</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Etcetera...</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Common Carve-outs

Timeless Advice
Don’t take risk for what you cannot control

Examples of common carve-outs
- Services provided out-of-area
- Injected or infused drugs
- Immunization serums
- Diabetic supplies
- High-cost durable medical equipment
- Behavioral health services
- Chiropractic services
- Infertility treatments
- Routine eye exams and eyewear
Evaluating Cap Rate Offers

A capitation rate should compensate you for

– health care services you are obligated to provide

– all administrative functions you are assuming
# Illustrative Actuarial Cost Model

<table>
<thead>
<tr>
<th>Types of Professional Services</th>
<th>Annual Utilization Per 1,000 Members</th>
<th>Average Charge per Service</th>
<th>Copay Per Service</th>
<th>Net Cost per Service</th>
<th>Net Cost PMPM (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Surgery</td>
<td>100 cases</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$1,200</td>
<td>$10.00</td>
</tr>
<tr>
<td>Outpatient Surgery</td>
<td>500 cases</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>20.83</td>
</tr>
<tr>
<td>Inpatient Visits</td>
<td>2,600 visits</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>43.33</td>
</tr>
<tr>
<td>Offices Visits</td>
<td>8,000 visits</td>
<td>120</td>
<td>20</td>
<td>100</td>
<td>66.67</td>
</tr>
<tr>
<td>Urgent Care Visits</td>
<td>100 visits</td>
<td>150</td>
<td>40</td>
<td>110</td>
<td>0.92</td>
</tr>
<tr>
<td>ER Visits</td>
<td>360 visits</td>
<td>250</td>
<td>250</td>
<td>7.50</td>
<td></td>
</tr>
<tr>
<td>Physical Therapy</td>
<td>1,000 visits</td>
<td>100</td>
<td>20</td>
<td>80</td>
<td>6.67</td>
</tr>
<tr>
<td>Radiology</td>
<td>3,500 procedures</td>
<td>80</td>
<td>80</td>
<td>23.33</td>
<td></td>
</tr>
<tr>
<td>Pathology/Lab</td>
<td>6,600 procedures</td>
<td>30</td>
<td>30</td>
<td>16.50</td>
<td></td>
</tr>
<tr>
<td>Routine Physical Exams</td>
<td>200 visits</td>
<td>130</td>
<td>130</td>
<td>2.17</td>
<td></td>
</tr>
<tr>
<td>Hearing/Speech Exams</td>
<td>50 visits</td>
<td>80</td>
<td>20</td>
<td>60</td>
<td>0.25</td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total</strong></td>
<td><strong>$250.00</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Net Cost PMPM = (annual utilization per 1,000 members) x (net cost per service) / 12,000.
Evaluating Cap Rate Offers

Where can I get data to help project the health care expenditures?

– Your own historical data
– The capitating entity
– CAPG benchmarks
– A consultant
Evaluating Cap Rate Offers - Example

THE SITUATION:
You are a very large multi-specialty medical group. You have received a Medicare Advantage capitation rate offer of $250 PMPM from Gargantuan Insurance Company. Your own data from the last year says that your group has received $180 PMPM in fee-for-service claims from Gargantuan’s Medicare Advantage members.

CONCLUSION:
You will make huge profits! Right? Maybe not.
What Else Should You Consider?

• Is my data missing any services for which I am accepting risk, such as:
  – Outside labs or other diagnostic services
  – Services provided by physicians outside my group
  – Review the DOFR carefully for other possibilities

• Does my data include services for which I am NOT accepting risk?

• If I need to contract out for some services, will my expenses be more or less than is baked into my data?
What Else?

- Inflation
- Changes in average member morbidity
- Changes in mix of members by benefit plan
- Changes in care management
- Administrative functions
- Capital investments
- Stop-Loss Insurance
- Profit
Keys to Cap Rate Evaluation

- Collect appropriate data for comparison
- Adjust that data, as needed, to most accurately match expectations for the cap contract and the capitated population
- Study data from more than one source
- Call out sources of uncertainty in your data
- Project some scenarios which are unfavorable. Can you live with the outcomes?
- Ask the offerer: **How do I know this offer is fair?**
- Be prepared to counteroffer, or even walk away
- Monitor experience regularly. Take action if needed.
Questions

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Servicing a Risk Contract

Bill Gil, CAPG Consulting

Former VP and CEO, Providence Southern California Market Foundation
Why Capitation?

• Aligns with Total Cost of Care
• Aligns with Population Health
• Challenges FFS Productivity
• Minimizes Higher Utilization Variances
• Promotes Innovation (non-billable)
• Promotes Predictable Cash Flow
What’s Needed?

- Systemness (UM/QI/Claims Shop)
- Physician Commitment (all layers)
- Physician Compensation Alignment
- Risk Tolerance (delegated risk)
- Health System (Hospital) Alignment
Anatomy of a Managed Care Contract

- Start with the End in Mind
  - Calendar Timeline
- Assess “Must Have” vs. “Nice to Have”
- Seek Understanding
  - Establish Early Agreement
  - Don’t Beat a Dead Horse
- Enter with a WIN-WIN Objective
- Define Contracting Roles
  - Reviewer/Negotiator/Physician/Closer/Ratifier
- Evaluate Payment Models
  - % of Premium vs PMPM
- Remember! Not All Issues are Equal ($$$)
Anatomy, continued

- Define
  - Terminology: PCP/Medically Necessary
  - Obligations/Commitments on each side

- Establish
  - the Right to Modify (i.e. Ops Manual)
  - Dispute Resolution (Arbitration/Mediation)
  - Term & Termination Language (Evergreen Provision; Continuity of Care)

- Outline Member Assignments
  - Merger, PCPs

- Review and identify items on the DOFR for
  - New Products or Services
  - High Cost
  - Coverage
What’s IN, What’s OUT?

Capitation Levels
1. Primary Care
2. Full Professional Risk
3. Shared Hospital Risk
4. Full Risk

Division of Financial Responsibility (DOFR) components
1. Outpatient Professional
2. Inpatient Professional
3. Ancillary
4. DME (Durable Medical Equipment)
5. Chemotherapy Regimen
6. Cosmetic Surgery
7. And many more…
<table>
<thead>
<tr>
<th><strong>GIVES</strong></th>
<th><strong>GETS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Existing Systemness (billing/collections for fiscal accountability)</td>
<td>• Patient Volume (retention MAPD)</td>
</tr>
<tr>
<td>• Revenue Optimization Approach vs Risk Management Approach</td>
<td>• Better Coordinated Care (Population Health)</td>
</tr>
<tr>
<td>• Culture of Absolute Productivity</td>
<td>• Predictable Revenue Flow (CAPITATION)</td>
</tr>
</tbody>
</table>
Advice #1: Begin with the End in Sight

- Need Board/Leadership Commitment
  - Know your providers

- Take a Rational and Realistic Approach
  - Actuarial Understanding of your members
  - Growth Expectation
  - Quality Performance

- May Require a System Redesign
  - Infrastructure
  - Technology
  - Culture

- Anticipate 3-5 years
Advice #2: Contract Strategically

- Scrutinize health plan contracts
  - Not all Plans are Partners…
- Take Risk but not Stupid Risk
  - Let the **DOFR be your COMPASS**
- Lead by Leadership, Not the Attorneys
  - Providers
  - Members
- Have ZANTAC & VALIUM Handy…
  - There will be obstacles and frustrations!
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Quality Payment Program Webinars with CMS

- Assist physicians and physician groups nationwide in implementing MACRA through QPP

- Combines CMS’s expertise on contents of the regulation with CAPG members’ knowledge of how physicians and physician groups are responding to MACRA

- Presentation slides and recordings available on CAPG website

Last One: December 1, 2017
How to Control Costs for the MIPS Resource Use Component

Register at www.capg.org/qpp

For further information, please contact Dr. Amy Nguyen Howell anguyen@capg.org
PreConference: Coordinated Care 101: A Primer