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

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The Voice of Accountable Physician Groups

Introduction

Speakers

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Questions

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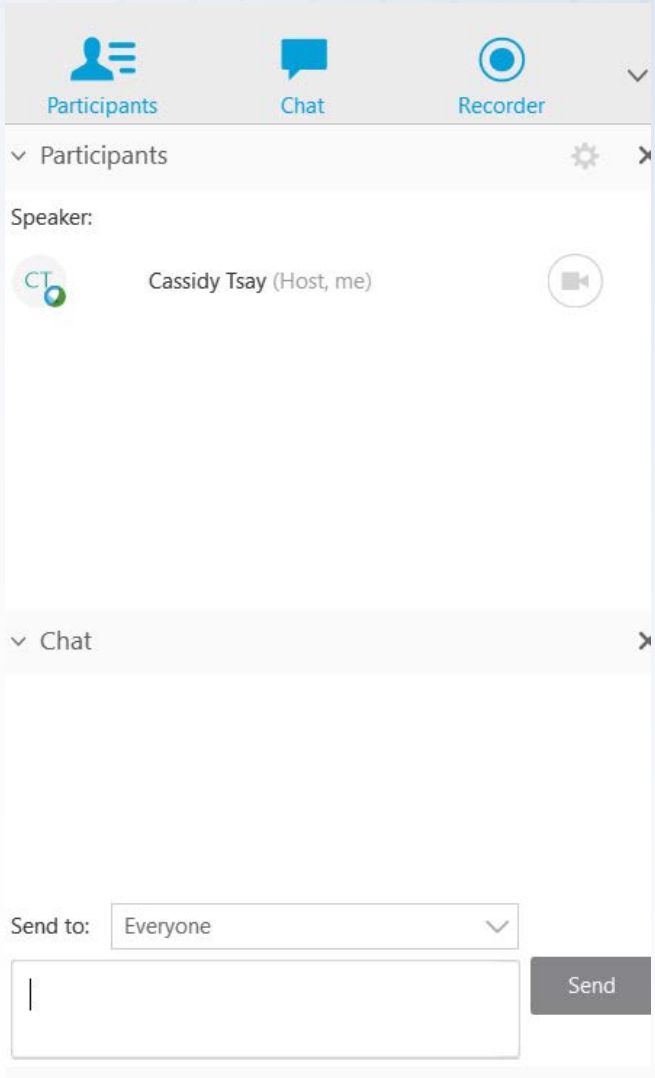

Calculating a Cap Rate

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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

	Medical Group Risk	Shared Risk	Health Plan Risk
Acupuncture	X		
Ambulance		X	
Blood		X	
Chemical Dependency			
Inpatient Facility			X
Outpatient Facility			X
Professional Services			X
Emergency Room			
Facility		X	
Professional	X		
Out-of-area Facility			X
Out-of-area Professional			X
Etcetera…			

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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

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

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

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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.

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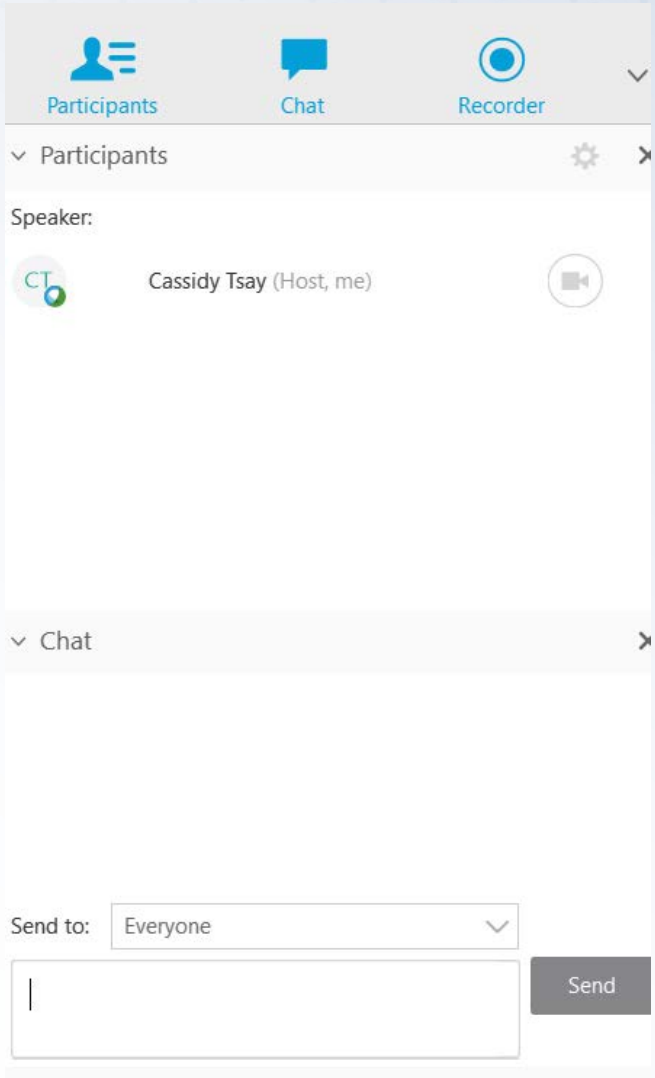

Servicing a Risk Contract

Bill Gil, CAPG Consulting

Former VP and CEO, Providence Southern California Market Foundation

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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…

What are the Gives & Gets?

GIVES

- Existing Systemness (billing/collections for fiscal accountability)
- Revenue Optimization Approach vs Risk Management Approach
- Culture of Absolute Productivity

GETS

- Patient Volume (retention MAPD)
- Better Coordinated Care (Population Health)
- Predictable Revenue Flow (CAPITATION)

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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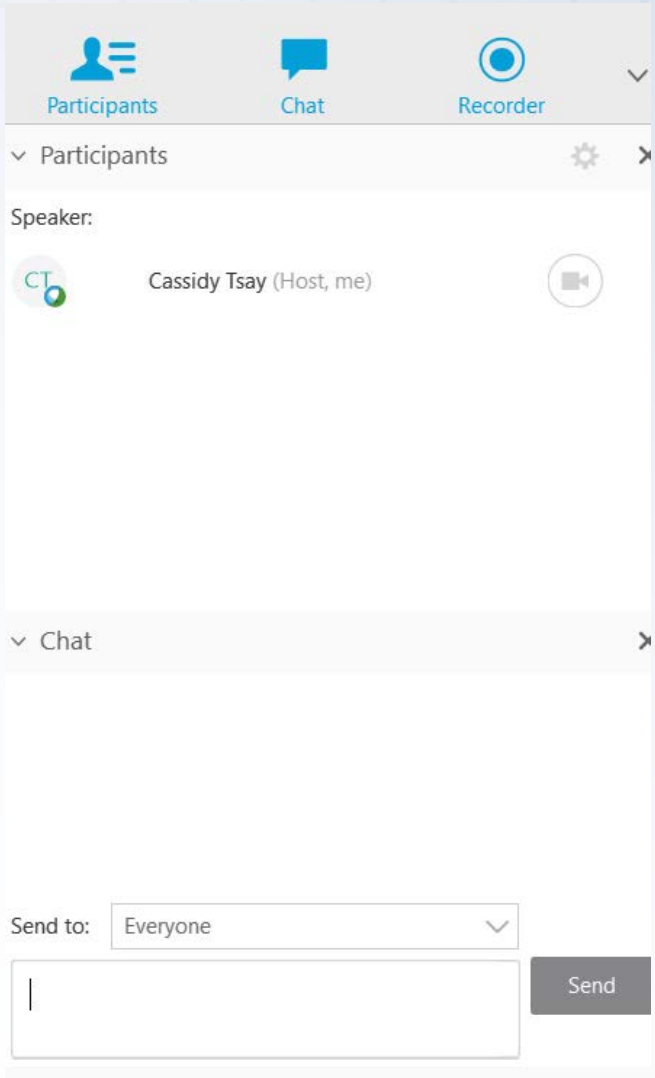

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For further information, please contact Dr. Amy Nguyen Howell **anguyen@capg.org**

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