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Financing Integration

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Overview

1. Healthcare Financing: A Grand Experiment
2. Vision for Healthcare Financing
3. Behavioral Healthcare: A Major Player
4. The Behavioral Healthcare Business Model
5. Developing a Behavioral Health "Case Rate"
6. Parity's Role in Developing the Case Rate
7. Controlling for Risk
8. Discussion

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Healthcare System 2014

Vision for Financing Healthcare

The ideal model is focused on the four key elements of health care reform: access, care coordination, health information technology, and payment reform.

1. **Reduce the preferences for procedural services.**
2. **Use value (quality per unit of cost) rather than cost of delivery as a key metric in payment design.**
3. **Reduce the emphasis on volume.**
4. **Reimburse payment for teams and information technology.**

Source: March 2011 Meeting Report; Better to Best: Value-Driving Elements of the PCMH & ACO
http://www.pcpcc.net/sites/default/files/media/better_best_guide_full_2011.pdf

Vision for Financing Healthcare

5. **Reimburse practices' encounters beyond the face-to-face visit.**
6. **Pay for services provided by all team members.**
7. **Risk-adjust reward payments to support practices caring for complex or needy patients.**
8. **Balance incentives between over- and underutilization. This is done through use of a blended payment mechanism so practices are not rewarded solely for cost containment.**
9. **Ensure coordinated, patient-centered care.**

Source: March 2011 Meeting Report; Better to Best: Value-Driving Elements of the PCMH & ACO
http://www.pcpcc.net/sites/default/files/media/better_best_guide_full_2011.pdf

Movement to Invest in BH

BH is attractive to investors b/c:

- **Growing Market:** National expenditures on BH are expected to reach $239 billion in 2014, up from $121 billion in 2003 (7% compounding growth rate).
- **Favorable Legislation:** Includes ACA, Parity, Carve-in approaches, & states moving to Managed Medicaid.
- **Diverse Payer Mix:** Mcare, Third Party, Mcaid (most risky)
- **Attractive Financing Model:** Compared to general acute care hospitals margins=mid-teens, inpatient behavioral healthcare margins = 20-40% for acute hospitalization & 15-25% for residential treatment w/ maintenance at 2% of revenue.
- **Niche Markets:** BH with untapped "Downsize fitness" business models.

Private equity investors accounting for roughly 30% of overall activity during 2010 & 2011. *(Source: Jon Hill; Triple-Tree.com)*

Trends in Healthcare

- **Recent findings that Medicare Accountable Care Organization's (ACO) are showing cost savings/control.**
- **This means, ACO's and Bundled Care approaches are here to stay (e.g., Case Rate).**
- **Medicaid ACO-like arrangements are already underway (e.g., Oregon, Kansas, etc.).**
- **In anticipation of a Bundled Rate all providers must begin designing/costing-out "episodes of care" based on treat-to-target and stepped-care approaches.**

While this cartoon is true insofar as we're learning as we go in healthcare…the basic paradigm of "value based care" is not going to change because…

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Healthcare is too expensive…

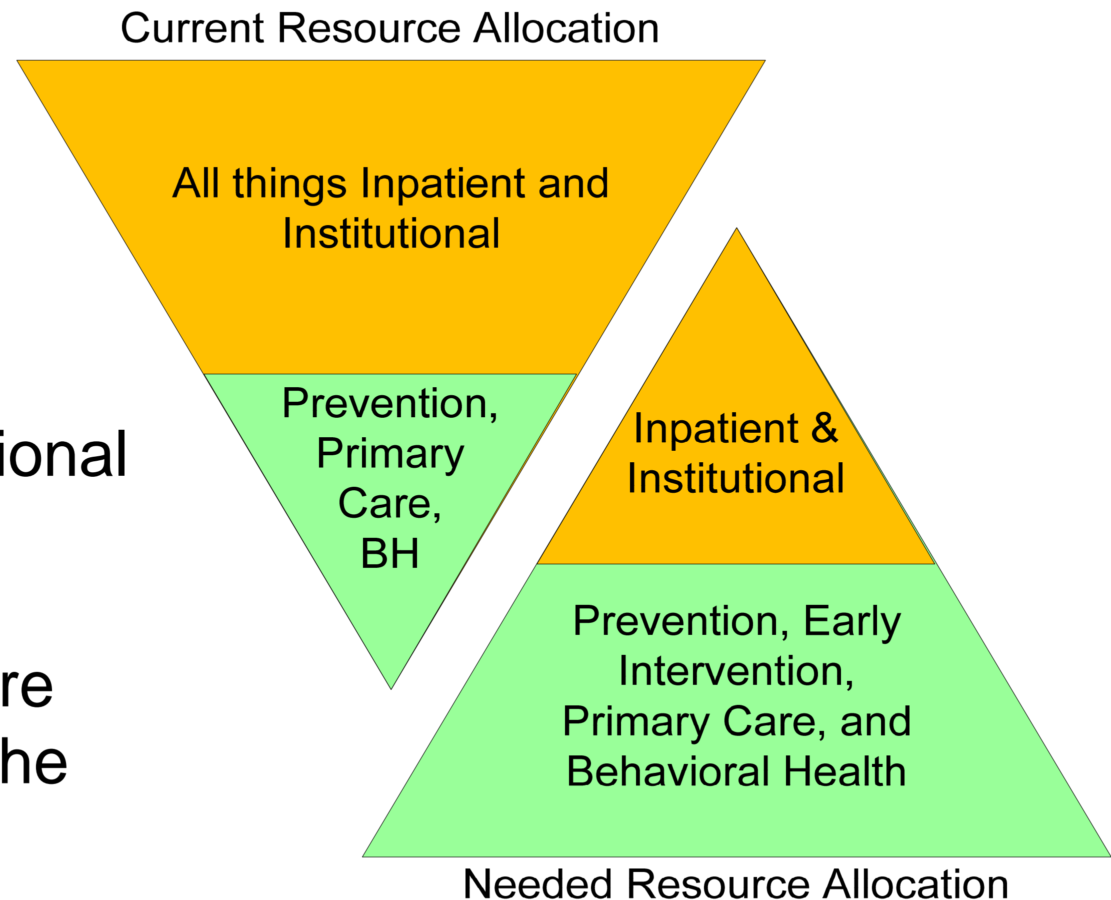
- Health care waste exceeds the 2009 budget for the Department of Defense by more than $100 billion.
- Amounts to more than 1.5 times the nation's total infrastructure investment in 2004, including roads, railroads, aviation, drinking water, telecommunications, and other structures.
- If redirected the funds could provide health insurance coverage (employer/employee cost) for more than 150 million workers.
- And the total projected waste could pay the salaries of all of the nation's first response personnel, including firefighters, police officers, and emergency medical technicians, for more than 12 years.
- The current design of healthcare can not be sustained…

Source: IOM (Institute of Medicine). 2012. *Best care at lower cost: The path to continuously learning health care in America. Washington, DC: The National Academies Press.*

Service Delivery and Payment Reform

It's about Inverting the Resource Allocation Triangle so that:

- Inpatient and Institutional Care are limited
- Chronic conditions are care coordinated in the community



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Population Based Care…

- Jeffrey Brenner - COMPSTAT >> HEALTHSTAT in Camden NJ - Care managed 1% of 100,000 people that used 30% of costs
- Behavioral health identifies people who represent top 5% to 10% of high cost consumers with a MH/SUD diagnosis in a state/community - and provides care management services to manage their MH/SU disorders AND chronic health conditions where ever served

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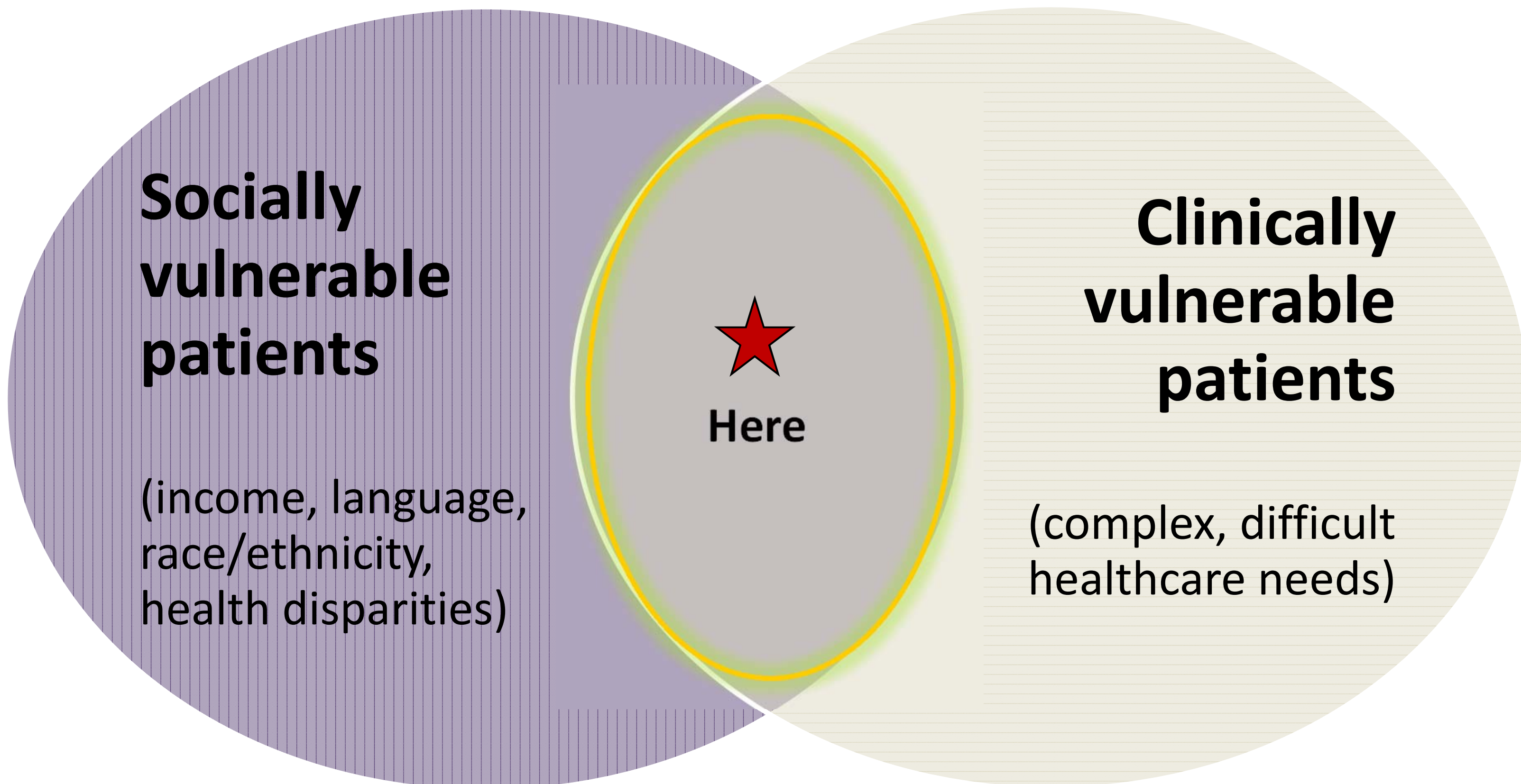
Good News…Behavioral Healthcare is A Major Player:



Source: Health Affairs: VA Lewis, et al. "The Promise and Peril of Accountable Care for Vulnerable Populations: A Framework for Overcoming Obstacles." 2012.

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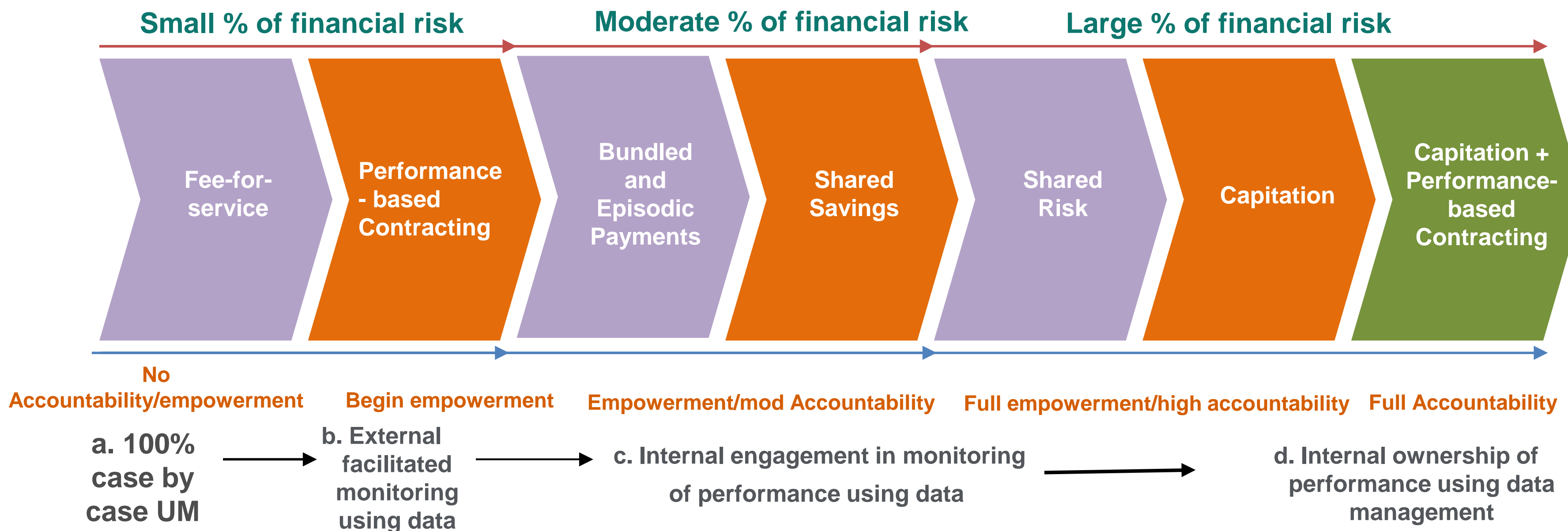
Transitioning to Supporting Financial Risk, Accountability, & Utilization Management Practices

Provider Compensation Continuum
(Level of Financial Risk)



Source: Rhonda J Robinson Beale, M.D.
Optum Chief Medical Officer, External Affairs

ACA Requires Bundling

- **HHS is required to establish a 5 year, voluntary pilot bundling program beginning in 2013.**
- **The program is to include 10 conditions representing a mix of chronic, acute, surgical and medical conditions.**
- **The bundles would include care provided 3 days prior to admission thru 30 days post d/c and whatever range of acute and post-acute services the secretary deems appropriate.**

Defining Our Terms

Fee For Service: Provide a service receive a payment.

Bundled Rate/Payment: General term to describe a variety of payment methods (e.g., case rate, episode of care, etc.).

Case Rate: A single payment per pt. served.

Episode of Care: Payment for the care of pt. defined by specific healthcare need and associated set of services provided over an interval of time.

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Integration FFS Business Plan Must Have a Clear Articulation of:

1. The Value Proposition: What will bring to Consumers, Families, Community Members, Health Network Partners, and Payers?
2. Start-up Costs
3. How Quality Services Data is Linked to Cost?
4. How operating costs will be met by a sustainable service model which requires detailing the sources of and requirements for FFS billing?
5. How FFS billing procedures are mapped to the service array and embedded in the team work flows?

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Integration Bundling Business Plan Must Have a Clear Articulation of:

1. The Value Proposition: What will bring to Consumers, Families, Community Members, Health Network Partners, and Payers?
2. Start-up Costs
3. How Quality Services Data is Linked to Cost?
4. How operating costs will be met by a sustainable service model which requires detailing episodes of care that can be collapsed into a case rate?
5. How episodes of care are mapped to the service array and embedded in the team work flows?

Building the Case Rate

1. **Must define an episode of care including dx, services, and episode duration.**
2. **Calculate your cost to provide this episode.**
3. **Determine how a bundled payment would be divided across staff and overhead costs.**
4. **Design policy, procedures, & training so staff can deliver services efficiently and effectively.**

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Building the Case Rate Cont.

- Requires an analysis of claims history to identify episodes of care which logically fit together into bundles.
- Could include current service procedures/EBP's with reliable outcomes or the least amount of cost variability (e.g., ACT).
- Evaluate a 12- to 24-month period of claims to insure the episodes valid.

Case Rate Example

Collect Available Service & Claims Data: Analyze for Clusters

Choose Condition: Acute Psychosis

Define Population: Dx, Screening/Assessment Scores

Define Services: EBP/Medication Management, EBP/Family Psycho-education Services, Crisis Services

Episode Length of Time: 10 months from start of episode to recovery/stabilization

Calculate Cost: How much on average would it cost to treat this episode of care?

Case Rate Example

[Total Cost divided by (Number of Patient Days in an Episode x Number of Patients)] times 365

Total Cost for Acute Psychosis: $100,000

- **Number of Patient Days in an Episode: 300**
- **Number of Patients: 100/year**
- **Case Rate Per Member Per Day: $3 PMP Month: $101 PMP Year: $1216**

Source: R. Manderscheid; Talk Titled: Intro. to Case Rates & Capitation Rates

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Case Rate Example

Collect Available Service & Claims Data: Analyze for Clusters

Choose Condition: High Blood Pressure (BP)

Define Population: Dx, Screening/Assessment Scores

Define Services: BP Screening at intake/quarterly; Referral & Coordination w/ Primary Care

Episode Length of Time: 6 months

Calculate Cost: How much on average would it cost to treat this episode of care?

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Case Rate Example

[Total Cost divided by (Number of Patient Days in an Episode x Number of Patients)] times 365

Total Cost for High BP Care Coor: $50,000

- **Number of Patient Days in an Episode: 180**
- **Number of Patients: 100/year**
- **Case Rate Per Member Per Day: $3 PMP Month: $84 PMP Year: $1014**

Source: R. Manderscheid; Talk Titled: Intro. to Case Rates & Capitation Rates

Tools for Building a Budget

- The Budget Section of the Ohio Health Home Application is a good tool for beginning to establishing a Case Rate.
- CIHS IH Budget Spreadsheet
- See Resources on Last Slide in this Presentation

Parity's Role in Rate Setting

- **Per MH Parity & Addiction Equity Act of 2008 a health plan/insurer cannot impose financial requirements or tx limitations on BH benefits that are more restrictive than the predominant treatment limitations/financial requirements applied to all covered medical & surgical benefits.**

- **Furthermore, a health plan/insurer is not allowed to impose separate tx limitations [or cost sharing requirements] that are applicable only with respect to the BH benefits.**

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Capitation Bundles

Total amount paid in a defined period of time:

- **PMPD: Per Member Per Day**
- **PMPM: Per Member Per Month**
- **PMPY: Per Member Per Year**

PMPY x Number Served/Year = Global Budget

Case Rates & Annual Budget

Given the risks involved in making "Global Budgets" the ACA providers insurers loss controls:

- **Risk Corridors** protection from administrative overhead losses (2014-2016)
- **Reinsurance Mechanisms** protection against losses from individual sick pts (2014-2016)
- **Risk Adjustment** protection against losses from populations of sick pts (Indefinitely)

Loss Controls

- **Providers must also incorporate loss controls and associated percentages into their rates in order structure/negotiate contracts with funders.**

- **This requires that the full cost of providing services has been calculated/is understood.**

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Loss Control/Risk Management Plan

- **Identifies the factors that may interfere with project success in time, cost and scope**
  - Details the actual nature of the risk
  - Specific strategy for how to address that risk
    - Mitigate
    - Manage
    - Avoid
  - Central to communicating around issues that may impede or are actually impeding progress

Thank You!

Questions?

Discussion

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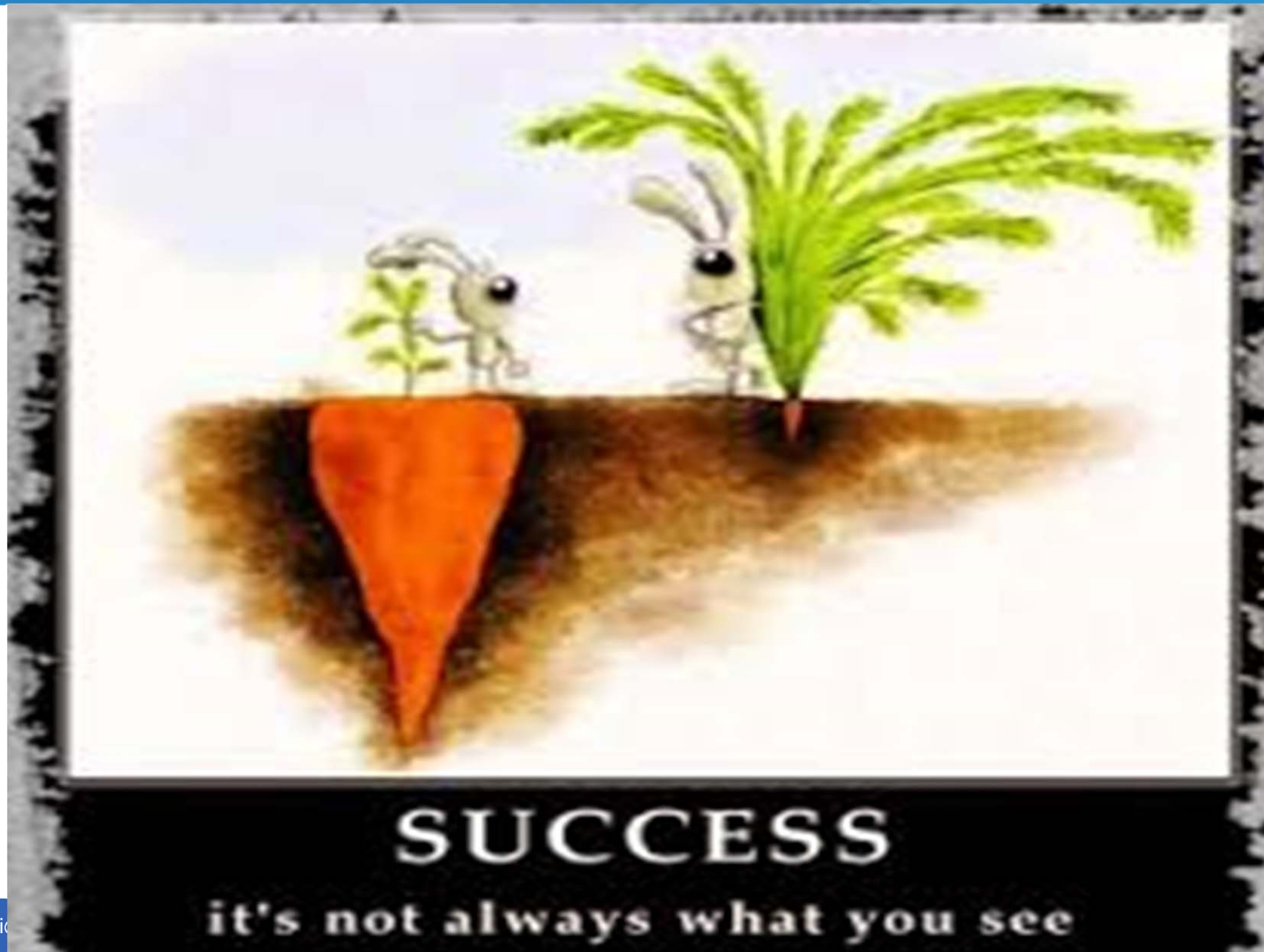
Remember Progress is Hard to See Sometimes!



Resources

American Hospital Association: Issue Brief Moving Towards Bundled Payment

http://www.aha.org/content/13/13jan-bundlingissbrief.pdf

CMS Bundled Payments for Care Improvement: Learning & Resources Area

http://innovation.cms.gov/initiatives/Bundled-Payments/learning-area.html

Transitioning to Episode Based Care

http://www.chqpr.org/downloads/TransitioningtoEpisodes.pdf