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Advancing Delivery and Payment Reform in Managed Care Provider Networks

PART I: STRATEGIC CONSIDERATIONS FOR STATE PURCHASERS

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The discussion of strategic considerations presented here is part of a package to assist states interested in value-based purchasing for health care. The other parts of the package are an implementation guide and a planning template.

States purchase health care benefits for a large proportion of Americans—nearly one quarter of all Americans receive coverage through Medicaid and about 14 percent of working Americans are state or local government employees.[1] Even more individuals come under the state coverage umbrella through qualified health plans (QHPs) defined by the Affordable Care Act. Altogether, this gives states significant potential to advance the delivery and payment reforms that reward providers for value rather than volume. Yet, states for the most part have not used this leverage.

This brief, which draws from interviews with state value-based purchasing (VBP) experts across the country, outlines deliberate strategies states can follow to advance delivery and payment reform. A companion brief, *An Implementation Guide for State Purchasers*, describes tools available to states that work with health plans to embed and spread VBP.

VBP is a commonly used term in today's health care vernacular, although definitions vary. This brief focuses on using VBP to advance the delivery system away from fee-for-service or transaction-based reimbursement and toward payment for value or outcomes.

In today's health care marketplace, state purchasers have an unparalleled opportunity to advance delivery system reforms. The high penetration of risk-based managed care in Medicaid offers states an opportunity to achieve these reforms by leveraging plans more strategically. Further, if states align all of their purchasing efforts—Medicaid, public employee benefits, and, where applicable, state-run marketplaces contracting with QHPs—they significantly increase their ability to drive change and can have a much stronger effect on creating a health care system that pays for outcomes, not just transactions.

Opportunities for State Purchasers

Despite states' significant purchasing power, there was widespread recognition across the interviewees that states are just scratching the surface of their potential to purchase greater value through health plans. Experts interviewed recognized the challenges facing state purchasers. For example, states are concerned about stifling innovation and competition if they are too prescriptive when directing payment and delivery system reform. State purchasers, particularly Medicaid agencies, are also concerned that VBP may put too much pressure on an already fragile provider network. States lack information about existing VBP initiatives by their contracted health plans, so they are unsure of the extent to which reforms are occurring in the delivery system. There is limited evidence about effective payment reform strategies, particularly for Medicaid, which makes it challenging for purchasers to know what strategies to adopt.[2] Lastly,

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The Center for Health Care Strategies (CHCS) is a nonprofit health policy resource center dedicated to improving health care access and quality for low-income Americans. CHCS works with state and federal agencies, health plans, providers, and consumer groups to develop innovative programs that better serve people with complex and high-cost health care needs. For more information, please visit *www.CHCS.org*.

ABOUT STATE HEALTH AND VALUE STRATEGIES

State Health and Value Strategies, a program funded by the Robert Wood Johnson Foundation, provides technical assistance to support state efforts to enhance the value of health care by improving population health and reforming the delivery of health care services. The program is directed by Heather Howard at the Woodrow Wilson School of Public and International Affairs at Princeton University.

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limitations of data and data analytics capabilities are obstacles as access to both is imperative for a successful VBP initiative.

Despite these barriers, states have many opportunities to actively promote delivery and payment reform because of the unique role they play as purchasers.

- **States have significant purchasing power.** States purchase health care for Medicaid beneficiaries and public employees, and some also purchase health care for individuals enrolled in QHPs. One interviewee noted that when he considered his state's involvement in these three areas, he realized the state had a hand in buying insurance for nearly half of the state's residents. "Provider communities can't ignore us, especially if we align across all public programs," he noted.
- **State mandates can provide "cover" to plans.** Delivery and payment reform requires difficult cultural, administrative, and financial changes by providers, leaving some wary about change. Health plans may be uncomfortable imposing reforms as providers could leave one health plan network for another. Furthermore, if a plan is achieving its expected margin, there is little incentive to "rock the boat" by adopting new payment strategies. While some national plans recognize the value in promoting outcome-based payment reforms in their provider networks, they are not in the majority. A state-directed delivery and payment reform program may be necessary to set a systemwide agenda applicable to all plans and networks.
- **States can help create consistency across delivery system reform initiatives to reduce provider burden and create economies of scale.** One expert noted that plan-driven reforms are happening in a "very fragmented and organic way" with no centralized process. States can drive greater alignment in relevant areas, including quality improvement initiatives, performance measure sets, incentive structures, and reporting requirements. This will help reduce unnecessary fragmentation and administrative costs for providers.
- **States can serve as conveners, even if they are not a neutral third party.** The state purchaser can convene otherwise competing organizations and lead conversations regarding new roles, responsibilities, and cross-plan collaboration. However, because the state serves as both purchaser and regulator, it is not a completely neutral convener.
- **Government has a strong track record of driving positive delivery system change.** Experts interviewed pointed to Medicare's involvement in promoting electronic health records, instituting non-payment for medical errors, and purchasing greater value from hospitals as examples of government using its authority to create large-scale, systemwide change.

Recommendations for Developing a Long-Term Value-Based Purchasing Strategy for Health Plans

Experts interviewed emphasized that states should use their purchasing power to drive delivery and payment reforms through their health plan contracts. The following were recommended approaches:

1. **Conduct an environmental scan to understand what VBP initiatives already exist.** A scan would catalog existing efforts to advance integrated care models and payment modernization. It would also determine the extent of the efforts, how long they have been in effect, the impact to date on quality and cost, and plans for future efforts. The environmental scan should include:

    - *Medicare:* Experts underscored the opportunity for state purchasers to follow the example set by Medicare around VBP. "If Medicare has already created the precedent, plans and providers will more readily adopt the same change for other purchasers," one expert noted.
    - *Health Plans:* The state can request VBP information from health plans when requesting proposals, during contract negotiation or renewal discussions, or in the regular course of business. States can use tools that are already available, such as tools developed by the *Center for Improving Value in Health Care*[3] or *Catalyst for Payment Reform*[4], or develop their own tool.
    - *Employers and Commercial Insurers:* Employers and commercial insurers have adopted many VBP innovations including non-payment for hospital-acquired conditions, medical homes, and bundled payments. Many employers offer tiered provider networks that create incentives for employees to choose to receive care from high-value providers as well as strategies for incenting healthy behaviors and choices. Although not payment and delivery system reform strategies, employee-facing initiatives are important complements, which might be transferrable to Medicaid populations or public employees.
    - *Integrated Delivery Systems and Providers:* Many integrated delivery systems and large provider groups are creating accountable care organizations and accepting greater accountability for the quality and cost of a defined patient population.
    - *Other State Agencies:* State purchasers can survey other state agencies, such as the governor's office, the department of public health, and the department of insurance, to identify health care reform priorities.

    States concerned with limited staff resources can look to external partners to help conduct this environmental

scan, including regional health improvement coalitions, local business coalitions, universities, or external quality review organizations.

2. **Address gaps identified in the VBP environmental scan.** States can discuss existing gaps in the environmental scan with other stakeholders (e.g., purchasers, payers, providers) and determine whether the potential return on investment warrants further exploration. On one hand, it can be easier for a state to advance a VBP strategy when plans do not have existing initiatives that need to be aligned or coordinated with the state's new initiative. On the other hand, there may be good reason for an existing gap, for instance, the region or market will not support changes to the existing delivery or reimbursement methodology. The state can also identify barriers to accelerating VBP at the plan or provider level. These might include limited staff expertise, concern about potential revenue reductions, lack of data and tools needed to make changes, and other reasons.

3. **Align VBP strategy with national efforts and/or the state's larger vision.** State purchasers and their health plans can align with Medicare VBP initiatives. For health plans that already have a Medicare product, alignment will be easier to achieve. To the extent that the state has developed an overall vision for health care transformation, Medicaid or other state purchasers should adopt similar goals for the managed care delivery system. States that received a State Innovation Model grant will have a broad vision for health system transformation that can serve as a useful starting place for designing a managed care reform strategy.

4. **Drive VBP alignment across health plans when it does not detract from innovation.** A state could drive its plans toward greater consistency with other purchasers and payers, in an effort to communicate a consistent message to providers about priorities and strategies. Providers must be confident that they will have the critical mass of patients to invest in a new delivery approach, and a multipayer VBP initiative can offer that volume of covered lives. States can also help establish a forum to drive VBP alignment where feasible. Potential areas of alignment include:

    - VBP principles;
    - Performance/outcomes measures[5] and reporting methodologies;
    - Data analytics and data-sharing requirements;
    - Consistent payment and/or incentive approaches;
    - Procurement and contracting approaches; and
    - Infrastructure and resources to support providers in transformation.

5. **Prioritize strategies that will produce savings and a positive return on investment.** State purchasers for public employees and retirees are typically self-insured, so savings generated through VBP strategies are accrued by the state. Because of this, one expert observed that states should "let plans go where the money is," such as super-utilizer and complex care management programs. This would be regarded as a win-win strategy because these programs will generate a positive return on investment for plans as well as cost savings for the state. Of course, the focus on short-term return on investment has to be balanced with other compelling, longer-term investments in policies like promoting prevention.

6. **Consider how VBP will affect health plan margins.** The willingness of health plans to invest in a VBP initiative may be related to the adequacy of capitation rates. For example, if the Medicaid agency is requiring plans to work with their provider networks to adopt new delivery and payment methodologies, each plan must invest in network staff and data analytics. Plans want to be sure that they will recoup these investments. Health plans also will be concerned about potentially shrinking margins as the cost trend bends and impacts capitation rates. As an interim step, some states are considering gain-sharing arrangements with plans because plans may be more willing to invest in reducing the rate of cost growth if they are able to share in the savings.

7. **Consider the local marketplace.** States should consider delivery and payment reform strategies that reflect the unique aspects of each marketplace. States' strategies for engaging health plans should recognize the status of primary care in the region, the type of health plan (e.g., small, large, Medicaid-only, single market, national), plan resources and capacity for implementing reforms within networks (e.g., staff, data analytics, medical management), and the impact that initiatives might have on plans. For example, small Medicaid-only plans may have fewer resources for provider engagement and data analytics than larger national plans.

8. **Design or require strategies that will set up providers for success.** VBP shifts accountability, risk, and reward closer to the point of care. However, as one expert stated, "Providers really don't know the risk business, so states and plans must focus first on investments that build capacity and infrastructure." Examples of infrastructure investment include care management support, data analytics and information sharing, and relationship building with non-traditional providers. It is also important to share financial rewards for delivery improvements with individual providers. One expert noted that if the incentive payment "makes its way to the practicing provider, as opposed to stopping at the level of the practice, the provider can see the fruits of his labor." This expert recommended that the state develop a process—attestation from the health plan, a survey of providers, or a report of provider incentive payments—for following the incentive payment.

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Endnotes

1. "State Government Employment." *The Council of State Governments.* Last modified January 28, 2014. *http://knowledgecenter.csg.org/kc/content/government-employment*.

2. Among the existing evidence, a 2009 RAND study examining cost containment options for the commonwealth of Massachusetts found that some strategies, such as bundling payments, eliminating payment for adverse hospital events, and reference pricing for academic medical centers, resulted in cost savings—though projected savings for each strategy varies significantly. Eibner, Christine, Peter S. Hussey, Susan M. Ridgely, et al. 2009. "Controlling Health Care Spending in Massachusetts: An Analysis of Options." RAND Corporation. Accessed January 30, 2014. *http://www.rand.org/content/dam/rand/pubs/technical_reports/2009/RAND_TR733.pdf*.

3. "Payment Reform and Delivery System Redesign Strategies in Colorado." *Center for Improving Value in Health Care*. *http://civhc.org/getmedia/9a88900f-3781-4c9d-8e11-3db277c0b05f/CO-Payment-Ref-and-Delivery-Sys-Inventory-4-9-14.aspx/*. Updated April 2014. Accessed November 5, 2014.

4. "2013 Model Health Plan Contract Language on Payment Reform." *Catalyst for Payment Reform*. Accessed January 30, 2014. *http://catalyzepaymentreform.org/images/documents/2013%20CPR_Model_Health_Plan_Contract_Language_Final.docx*.

5. One expert noted that although a state should drive alignment around common measures, it should leave the specifics of measure methodology flexible and up to the plan.