ACCOUNTABLE CARE LEARNING COLLABORATIVE AT WESTERN GOVERNORS UNIVERSITY

COMPETENCY ORIENTATION GUIDE

Competency: Assessing financial requirements for success under value-based payments
Competency: The Committee on Financial Readiness

JULY 2020

BACKGROUND

The Accountable Care Learning Collaborative (ACLC) is a non-profit organization dedicated to accelerating the transition to value-based care by identifying the care delivery competencies needed for providers to succeed in risk-based payment models. The Competency Orientation Guides (COG) serve as an overview of a particular competency and are intended to help break down the competency into more digestible aspects that could be implemented in a variety of ways. Each COG represents the distilled insights from the deliberations of a dedicated committee comprised primarily of leaders from provider organizations, but also industry partners, and ACLC research staff. In this case, this COG was developed by the Committee on Financial Readiness (the "Committee") which convened between March and May of 2019.

Competency Framework

Competency: Assessing financial requirements for success under value-based payments

1. Develop a vision for financial success under risk-based contracts
2. Assess gaps in capabilities, such as workforce skills and technological capabilities
3. Prioritize investments to improve financial performance
4. Plans for absorbing potential losses
5. Distribute financial risk among clinics and practitioners
6. Increase financial risk over time**

COMPETENCY IMPORTANCE & CONTEXT

Value-based payments, which change the way provider organizations are paid, have the potential to change an organization's financial structure and stability. The Committee, through a combination of pre-session interviews and group discussions, identified and discussed six components important for financial readiness enumerated below. The insights reflected in the COG are intended to be informative (not directive) as organizations prepare for value-based contracts. Some of these topics may be explored at greater depth in future ACLC committees. Additionally, the Committee repeatedly stressed that there is always more an organization can be doing to prepare to enter into or succeed in value-based contracts. However, an organization that continuously prepares or waits to be fully "ready" may end up behind the market. At some point, many organizations may need to kick-off their participation while they continue to learn and iterate on their approach as their value-based experience matures.

IMPORTANT TERMS

To support the discussion, the Committee identified and defined the following term:

> Risk-based contract – a contract between a payer and provider organization in which the provider organization has a level of financial responsibility that may require it to pay funds to the payer or forego upside savings in the event of poor performance. Our definition therefore would line up approximately with the Health Care Payment Learning & Action Network (LAN) APM categories 3A and 3B.

COMMON ELEMENTS

1. Develop a vision for financial success

Committee Insights:

- Having a clear vision is key to an organization's financial success under a risk-based contract. To help determine an organization's value-based vision and definition of financial success, it is important to understand how an organization compares to peers within its market and its potential for improvement within its payment model.
- A strong vision requires alignment on what "success" means for an organization. Generally, "success" means an organization achieving its identified goals. However, given the variance in organizations, this definition will likely be unique. For example, success in a value-based context could be defined as being able to receive shared savings, not incurring financial losses, or improving clinical quality and patient experience. Regardless of how success is defined, it is important for an organization to define success for themselves in the context of the level of risk it can tolerate.
- When determining the organization's vision and strategy for whether or when to increase risk, key questions to ask are, "Can we absorb the level of risk we are exposed to," and, "Does the increase in risk justify the potential reward?"

Challenges:

- Balancing the business case with patient focus. **Response:** Demonstrate how clinical transformation can improve the patient experience and outcomes as well as decrease costs, potentially resulting in higher profitability.
- Getting buy-in from physicians when only a subset of their patients is attributed to the contract(s). **Response:** Demonstrate to physicians how the VBP model assists them in their overall practice, such as by enabling them to hire additional staff for care coordination.

- When planning the organization's move to value and negotiating the number and size of new contracts, each additional contract adds to the complexity of management. **Response:** ACOs can strive to achieve commonality in key terms, such as quality measures, among different contracts to minimize the complexity of managing multiple contracts. Where commonality in terms isn't achievable, the ACO should aim to build commonality in operational processes to achieve the results.

Potential Qualitative Competency Indicators:

- "Financial success" has been defined internally and can be articulated by leadership at all levels.

2. Assess gaps in competencies

Committee Insights:

- Capability assessments may be performed, and can be done by an internal team, a payer, or a third-party vendor. Potential methods and resources include online capability and gap assessment tools, payer assessment tools, and benchmark reports by which comparisons against organizational peers can be made.
- Gap assessments may need to be performed continually due to changing organizational or market needs.
- Strategies to address gaps include creating partnerships with entities with complementary competencies, contracting with vendors, and building or transitioning previously outsourced capabilities in-house.
- Competency gaps can be utilized in negotiations with payers to establish rates and models appropriate for both organizations, allowing the payer and provider to work together from an appropriate space on the transition spectrum.

Challenges:

- Resources (time and money) may be limited when seeking to address gaps. **Response:** Organizations will need to prioritize investments and determine the most effective way to allocate limited resources while minimizing disruption to the normal workflow. Population health infrastructure investments can be made incrementally over time.

3. Prioritize investments

Committee Insights:

- There is not universal agreement on which investments are the most important. There are many different types of investments an organization can make (e.g., new staff, technology, or provider networks and partnerships), and the impact of each of these investments will differ depending on an organization's internal and external forces.
- While investment priorities vary by organization, contracting acumen and care management capabilities should likely be priority investments.
- Analytical capability, which includes obtaining necessary data and technology to perform analyses, is also an essential tool to have when participating in VBP contracts. The capability may be attained through hiring skilled staff, contracting with a third-party vendor, or receiving assistance from payers.

Challenges:

- Technology, though important, can often seem like the most logical first purchase but is just one of many other potential investments. **Response:** Organizations may use the results of a gap analysis, in combination with the organization's goals and strategic plan, to prioritize investments and determine which investments should be built now versus which can be built over time, given limited resources.

4. Plans for absorbing potential losses

Committee Insights:

- There are various approaches that can be used to limit financial risk to the organization. Examples include stop loss reinsurance (aggregate and individual), captive insurance, cash reserves/self-insurance, network utilization controls, and dollar caps on pharmaceuticals.
- Benchmarking risk scores and expenditures relative to peers can be used retrospectively to determine if the value-based contract is favorably or unfavorably risk adjusted and if the benchmark is sufficient. Comparing each physician's risk adjusted expenditures to their peers can be used to identify low- or high-performing physicians for targeted interventions and development of best practices.

Challenges:

- Lack of appropriate expertise or capital relative to loss mitigation. **Response:** An organization's approach to absorb losses will need to reflect its resources—such as available capital, ability to save, or internal or external expertise—to determine which risk adjustment model fits best.
- Not all risk adjustment models are appropriate for every population. If the risk adjustment model selected is a misfit for the covered population, it can have a negative effect on the financial outcome. **Response:** A retrospective analysis can be performed on the risk adjustment model to determine appropriateness of risk adjustment. If needed, it can be adjusted during contract negotiations.

Potential Qualitative Competency Indicators:

- The organization's level of capital reserves is sufficient through various financial instruments including cash, surety bonds, and letters of credit to meet the minimum regulatory (CMS) or payer requirements. High-performing ACOs can calibrate capital composition and amount to fit the ACO's expected volatility to ensure protection against plausible losses.

5. Distribute savings and/or losses with practitioners

Committee Insights:

- Savings/losses can be shared at the group practice or individual practitioner level to encourage more accountability.
- Sharing savings at the individual practitioner level can be more complex; payers may wish to work with providers to develop a model.
- Organizations that share savings/losses with individual practitioners must retain analytical skills to both develop and implement the model.

Challenges:

- Getting physician buy-in on practitioner-level risk-sharing can be difficult. **Response:** Some potential methods to gain practitioner buy-in include communicating past and recent positive model performance, starting with a physician performance pool in which each physician receives an equal share, and starting with shared savings before moving to downside risk. It also helps to involve practitioners in the development of the model and ensure there is constant communication throughout the process.

Potential Qualitative Competency Indicators:

- Financial regulatory requirements have been met (will vary by region).
- Level of data analysis capabilities allow the organization to address the following questions:
  - Where to optimize the provider network?
  - What is the estimated impact of any changes to CMS's risk adjustment methodology?
  - Is the benchmark appropriately set for the members attributed to the plan?
  - Can accurate reports be consistently delivered in a timely manner?

GENERAL RESOURCES FOR FURTHER EXPLORATION:

- The ACLC's Value-based Readiness Assessment
- The Society of Actuaries, Provider Payment Arrangements, Provider Risk, and Their Relationship with the Cost of Health Care

**Elements to be considered in future committees

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