



# How Bundled Payments Create Value in New Product Designs



# About Cognizant

Serving more than half of insured population in North America

GOVT



INTERMEDIARIES & OTHERS

Leading Intermediaries,  
University systems etc.



PROVIDERS

260,000 Providers across  
30,000+ practices and  
52+ Health Systems, incl.  
50+ large Providers



PBM and PHARMACY

3 of top 5 U.S. PBMs  
2 of the top 3 Pharmacies



PRODUCTS and PLATFORMS

Innovative Tools, Frameworks to enable  
customers embrace transformation



Cognizant Healthcare

Providing 360<sup>0</sup> perspective of the healthcare eco-system



PAYERS

430+ Payer Organizations,  
incl.  
Over 20 of top 25 Plans



Support systems that host and process over  
190M+ members/patients across North America



Serving 1/4 of provider population in  
North America



Strong team of 28,000+ professionals



URAC Certified –  
Health Utilization  
Management, Workers  
Compensation



Healthcare  
Informatics:  
Rank 3



NCQA DM Systems  
Certification for 7  
programs supported by  
CareAdvance Enterprise™

This Will Not Take Long....



# What is a Health Insurance Product?

A **product** is a discrete package of **health insurance coverage** benefits that are offered using a particular **product** network type (such as **health** maintenance organization, preferred provider organization, exclusive provider organization, point of service, or indemnity) within a service area. Dec 27, 2016

Federal Definitions for Health Insurance Products and Plans - CMS.gov  
<https://www.cms.gov/CCIIO/Resources/Training-Resources/.../product-vs-plan-ppt.pdf>

# Understanding Product Design

- Commercial Insurance
- One specific offer for groups or individuals to buy health insurance
- Key elements:
  - Benefit Design – what is covered, what is paid by insurance, what is not paid by insurance
  - Geography – location
  - Network – what providers are included
  - Price – premium
    - Drives who and how many people buy insurance
    - Drives top line revenue for insurance company

# Understanding Actuarial Rating

- The lower the premium, the more you sell
- The higher the premium, the more profit you make

## Rate Making: How Insurance Premiums Are Set

**Rate making** (aka **insurance pricing**, also spelled *ratemaking*), is the determination of what rates, or premiums, to charge for insurance. A **rate** is the price per unit of insurance for each **exposure unit**, which is a unit of liability or property with similar characteristics. For instance, in property and casualty insurance, the exposure unit is typically equal to \$100 of property value, and liability is measured in \$1,000 units. Life insurance also has \$1000 exposure units. The **insurance premium** is the rate multiplied by the number of units of protection purchased.

$$\text{Insurance Premium} = \text{Rate} \times \text{Number of Exposure Units Purchased}$$



# I Said This Would Not Take Very Long



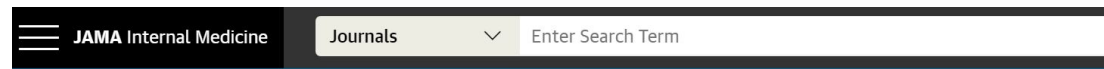
# How Can Product Design Help Episode-Based Payment?

Key Elements of Product Design	Impact on Episodes
Benefit Design – what is covered, what is paid by insurance, what is <u>not</u> paid by insurance	<ul style="list-style-type: none"><li>• Member responsibility drives patients to providers offering episodes (ACE)</li><li>• Member responsibility keeps patients in subgroup of coordinating physicians</li></ul>
Geography – location	<ul style="list-style-type: none"><li>• Address problems from patient travel away from episode providers</li></ul>
Network – what providers are included	<ul style="list-style-type: none"><li>• Network design keeps patients in subgroup of coordinating physicians (narrow network)</li></ul>



# Episode-Based Payment Creates Cost Savings

Who should benefit?



**This Issue** Views **2,814** | Citations **1** | Altmetric 439

**Original Investigation** | Health Care Reform

February 2017

**Cost of Joint Replacement Using Bundled Payment Models**

Amol S. Navathe, MD, PhD<sup>1,2,3</sup>; Andrea B. Troxel, ScD<sup>4</sup>; Joshua M. Liao, MD<sup>1,2</sup>; et al

» Author Affiliations

JAMA Intern Med. 2017;177(2):214-222. doi:10.1001/jamainternmed.2016.8263

## Key Points

**Question** What are the drivers of reductions in Medicare payments and hospital savings (ie, increased margin) in bundled payment for joint replacement surgeries?

**Findings** In this observational study of 3942 patients who received joint replacement surgery, there was a decrease of \$5577 (20.8%) in total spending per episode. Most of the hospital savings came from implants and supplies and most of the postacute care savings came from decreased use of institutional care.

decrease of \$5577 (20.8%) in total spending per episode.

- **Payer**
  - spend less on cost of care
  - more profit
- **Provider**
  - earn bonuses
  - see more patients
  - reduce cost structure
- **Consumer**
  - cost of healthcare decreases

# How Can Episode-Based Payment Help Product Design?



- Episode-based payment drives down cost of care
  - Reduces cost of exposure units (technical risk)
- Reduced premiums translate the cost savings from episodes to the consumer

# Momentum in Value-Based Reimbursement

## Humana, Aetna, Cigna Invest in Value-Based Care Payment Models

National health insurers are continuing to advance value-based care payment models such as accountable care organizations.



Anthem's top executive says the health insurer is paying 58% of its reimbursements via value-based care models†

- Comprehensive ESRD Care (CEC) - Two-Sided Risk [🔗](#)
- Comprehensive Primary Care Plus (CPC+) [🔗](#)
- Next Generation ACO Model [🔗](#)
- Shared Savings Program - Track 2 [🔗](#)
- Shared Savings Program - Track 3 [🔗](#)
- Oncology Care Model (OCM) - Two-Sided Risk [🔗](#)
- Comprehensive Care for Joint Replacement (CJR) Payment Model (Track 1- CEHRT) [🔗](#)

**Forbes**

bundled payments will grow 6% over the next five years, making them the fastest-growing of all payment models within health plans. Both payers and hospitals expect that bundled payments will account for 17% of medical payments in five years.

# Presentation Content Sources

The Remaining Presentation is based on interviews with:

- Blues plan with many years of substantial episode-based payments
- Provider-owned plan operating episodes-based payment with parent organization and other providers
- National plan with significant targeted experience in episode-based payment

# Impact of Episode-Based Payment on Commercial Products

N O N E

# Why Episode-Based Payment Does Not Impact Commercial Insurance Product Design

Reason 1:

Even in aggregate,

in the largest cases,

episode-based payment does not have  
an actuarially-significant impact on the  
product rating



# Actuaries Have Looked....

## Evaluating bundled payment contracting



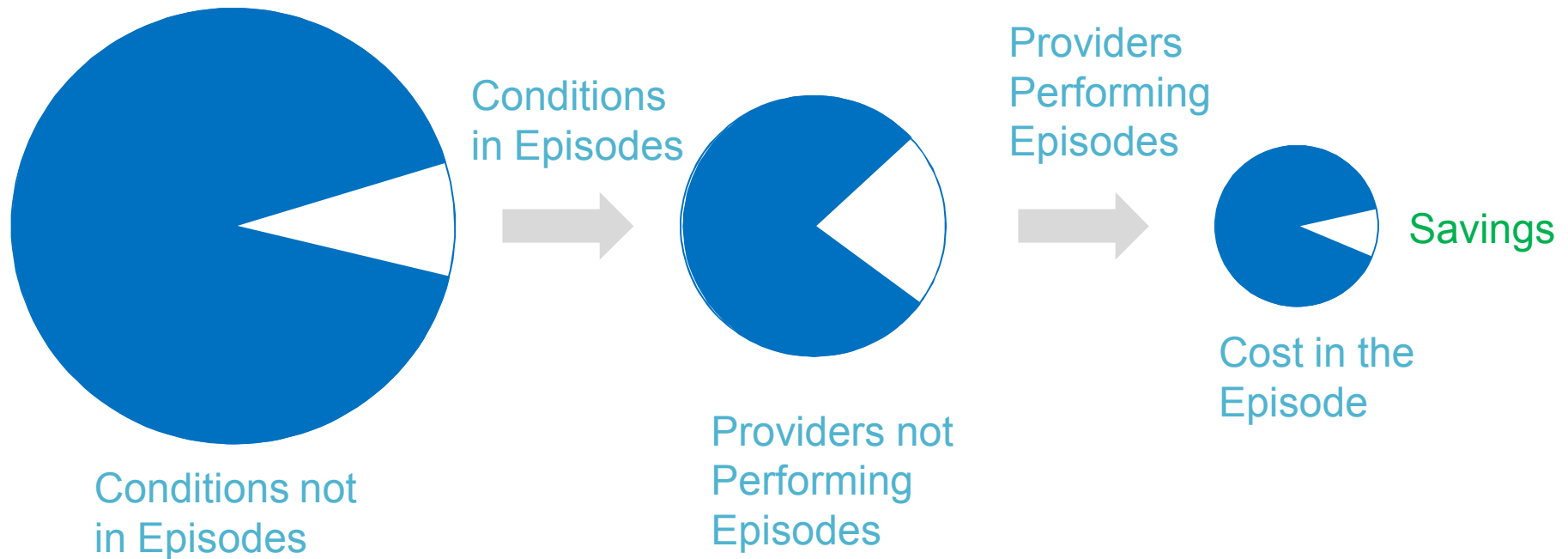
Lynn Dong, FSA, MAAA  
Kate Fitch, RN, MEd  
Bruce Pyenson, FSA, MAAA  
Kathryn Rains-McNally, FSA, MAAA

Alternatives to traditional fee-for-service (FFS) reimbursement have gained attention as financial pressures mount and as FFS is recognized as contributing to medical inflation. The recent Centers for Medicare and Medicaid Innovations (CMMI) Bundled Payments for Care Improvement Initiative is a prominent example, as are private payor contracts.

Bundled payments can be viewed as a stop along the road to full provider risk, along with pay for performance (P4P) and accountable care organization (ACO) shared savings arrangements. For payors,

cases, it may be easy to clinically associate a medical condition as belonging to the bundle (e.g., a surgery-related infection after a hip-joint-replacement surgery belongs to the surgery episode). Other

# Still Too Small



# Can the “Too Small Impact” Be Fixed?

Maybe.

Combine a very narrow network with a very large set of episodes.

- Hard to make a very narrow network
- Hard to provide very large set of episodes
- Who might be able to do this?

Note this does not apply to Traditional Medicare and State Medicaid

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# Why Episode-Based Payment Does Not Impact Commercial Insurance Product Design

Reason 2:

Patients Demand Choice of Providers

.... Unless they don't

# Are Patients Willing to Choose Value Over Provider Choice?

Lesson of HMO vs PPO

Lesson of Narrow Network PPOs vs Broad PPOs

Lesson of Provider System Branding of Insurance

But, do patients want choice.....

# So, If Episode-Based Payment Does not Create Value in Product Design.....





# Final Thoughts

ACO's first?



Pressure of  
differentiation



# Questions



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