

Mini Summit VI

Advanced Strategies in Negotiating Capitation Contracts

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AGENDA

- Introductions
- Historical Background
- Actuarial Overview
- Discussion Topics
- Questions & Answers
- Pearls of Wisdom



HISTORICAL BACKGROUND

BILL GIL, MBA

TACTICS

- Bullying
- Leveraging reputation
- Leveraging patient volume



ACTUARIAL OVERVIEW

CHRIS GIROD, FSA, MAAA

CAPITATION DEFINED

Capitation is 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)

CAPITATION RATES MAY VARY BY...

- Rate calculation method:
 - Fixed dollar amounts per member per month (PMPM)
 - Percent of “premium”
- 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:

- 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 EXCERPT

	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...			

EVALUATING CAP RATE OFFERS

Where can I get data to help project the health care expenditures?

- Your own historical data
- The capitating entity
- A consultant

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.

EVALUATING CAP RATE OFFERS

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.
 - Anything else? Review the DOFR carefully.
- 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?

EVALUATING CAP RATE OFFERS

What else should you consider? (continued)

- Inflation
- Changes in average member morbidity
- Changes in mix of members by benefit plan
- Changes in care management
- Administrative functions
- Capital investments
- Stop-loss
- Profit



DISCUSSION TOPICS





Q & A

PEARLS OF WISDOM

- **Data**
 - Don't throw the baby out with the bath water
 - Don't assume- do your own homework
- **Relationship**
 - It is beneficial to build relationship
- **Capitation/sub-capitation**
 - Look at volume and cost of the services
 - Consider offering sub-capitation for high volume, low cost services

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