Carving out Chronic ECRs from Global Budget Payment Formulas

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Introduction

- Many health plans are implementing global budget and other PMPM formulas for ACO and Medical Home payments
- PMPM does not distinguish between costs that are typical and potentially avoidable, and may encourage underutilization of services
- ECRs are patient level, severity-adjusted budgets for a condition that separate the cost of typical or expected services from those that are potentially avoidable
  - **Focuses provider accountability on reduction of costs due to complications**

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Chronic ECR Carve-out

- Carving out the risk-adjusted chronic ECR budgets from total costs of care and basing provider upside on PAC reductions can be consistent with global budget payment programs
- Health plans can measure providers on clinical quality measures using the HCI^3 Scorecard to determine whether they are eligible for shared savings

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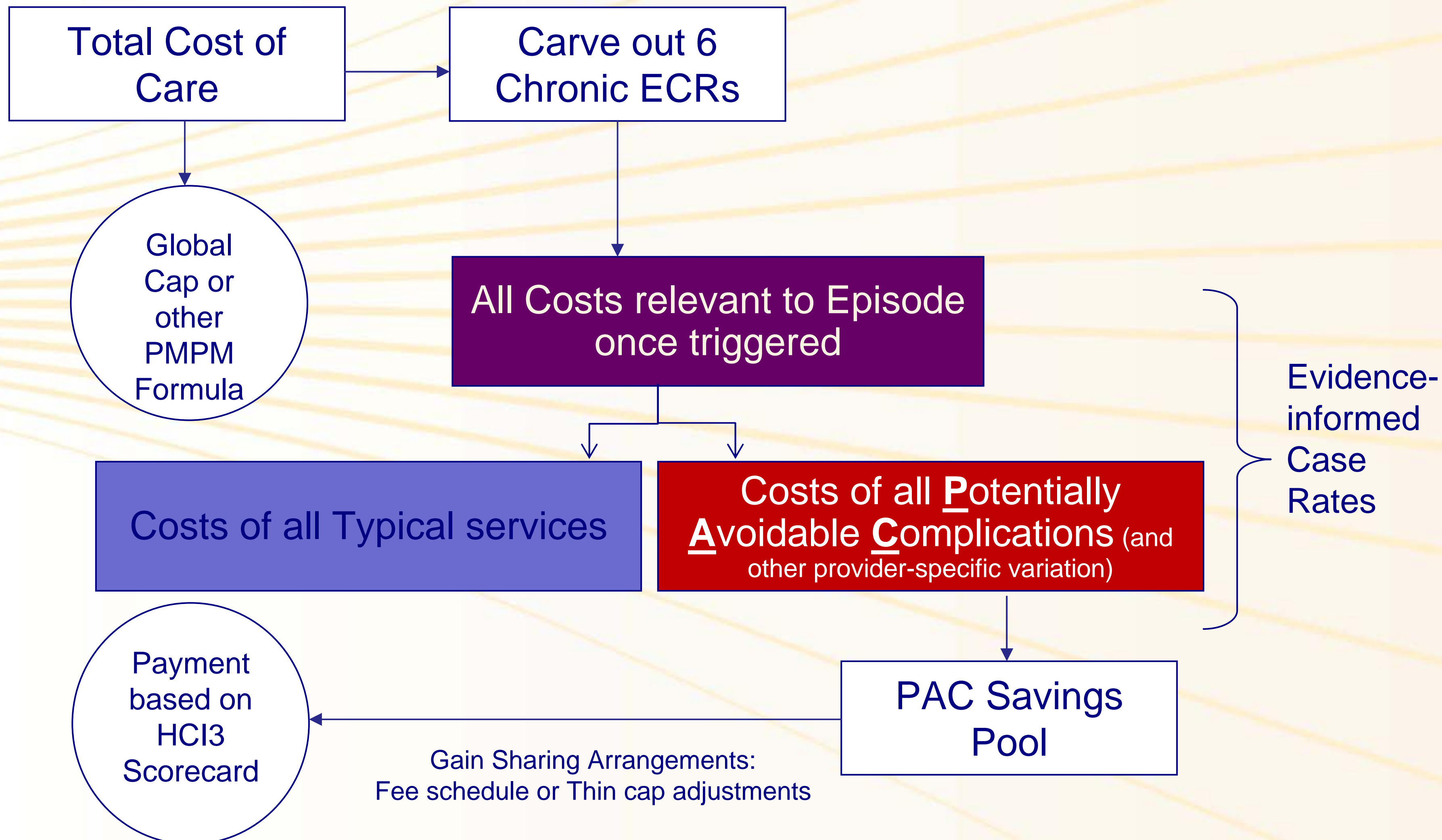
Chronic ECR Carve-out



Example: Health Plan X Original Formula

- Health Plan X negotiated a potential shared savings model in which Provider Group A is eligible for upside should they come under their target cost (an actuarial trend based PMPM) and meet a certain quality level on their clinical quality scorecard

Patient Subset	Target PMPM	Pop Size	Total PMPM	Total Typical Costs	Total PAC Costs	20% Upside Cap PMPM	10% Downside Cap PMPM
All Patients	$325	100,000	$32,500,000	?	?	$65.00	$32.50

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Example: Health Plan X Chronic Carve-Out

- Health Plan X and Provider Group A decided to carve out patients with chronic illnesses out of their original formula
- For the chronic conditions, Health Plan X will run the ECR Analytics to determine the total allowed amount for patients with chronic conditions for one month

No Upside Cap for Chronic ECRs

Patient Subset	Target PMPM	Pop Size	Total PMPM	Total Typical Costs	Total PAC Costs	20% Upside Cap PMPM	10% Downside Cap PMPM
All but Chronic	$294	80,000	$23,500,000	?	?	$59	$29
Chronic Only	$450	20,000	$9,000,000	$6,000,000	$3,000,000	$150	$45

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Example: Provider Savings

- For the chronic conditions, the providers were able to **come under** their target costs directly due to a reduction in costs associated with PACs.

Patient Subset	Actual PMPM	Target PMPM	Savings	Total Savings	Scorecard Score	Distributable Savings
All but Chronic	$285	$294	$9	$8,400,000	50%	$4,200,000
Chronic Only	$430	$450	$20	$4,800,000	50%	$2,400,000

- The providers will receive the upside in an increase to their fee schedules for the following year

Total yearly cost	$390,000,000
Total Savings	$6,600,000
Fee increase	1.69%

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Example: Provider Loss

- For the chronic conditions, it was determined that providers **exceeded** their target costs for the year due

Patient Subset	Actual PMPM	Target PMPM	Loss	Total Loss	Scorecard Score	Shared Loss
All but Chronic	$300	$294	-$6	-$6,000,000	30%	-$3,000,000
Chronic Only	$462	$450	-$12	-$2,880,000	30%	-$1,440,000

- Fee schedules will decrease the following year

Total yearly cost	$390,000,000
Provider total loss	-$4,440,000
Fee decrease	-1%

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How to incorporate a “Thin Cap” as an Advance against future PAC Reductions

- Health Plan X decides to give Provider Group B an upfront payment of 1% of their target cost for the chronic conditions
  - A small PMPM “care coordination fee” can work with ECR budgets to help offset the upfront care reengineering costs for providers and incentivize them to improve care
  - At the end of the year, the fee will be subtracted from any net savings the practice realizes

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Thin Cap Example: Savings

- For the chronic conditions, it was determined that the providers were able to **come under** their target costs for the year

Patient Subset	Upfront PMPM	Actual PMPM	Target PMPM	Savings	Total Savings	Scorecard Score	Distributable Savings
All but Chronic	n/a	$285	$294	$9	$8,400,000	50%	$4,200,000
Chronic Only	$4.50	$435	$450	$11	$2,520,000	50%	$1,260,000

- Fee schedules will increase the following year

Total yearly cost	$390,000,000
Total Savings	$5,460,000
Fee increase	1.40%

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Thin Cap Example: Loss

- For the chronic conditions, it was determined that providers **exceeded** their target costs for the year due to an inability to reduce costs associated with PACs

Patient Subset	Upfront PMPM	Actual PMPM	Target PMPM	Loss	Total Loss	Scorecard Score	Shared Loss
All but Chronic	n/a	$300	$294	-$6	-$6,000,000	30%	-$3,000,000
Chronic Only	$4.50	$458	$450	-$13	-$3,000,000	30%	-$1,500,000

- Fee schedules will decrease the following year

Total yearly cost	$390,000,000
Provider total loss	-$4,500,000
Fee decrease	-1.15%

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Summary

- Carving out the chronic ECRs from current Global Budget/PMPM formulas can help providers focus on the reduction of PACs as a way to lower costs
- Fixed fees in combination with ECRs can help providers manage the upfront cost of care reengineering
- The amount of savings achieved by the plan can be increased by decreasing the amount of PAC $ built back into the budget in future years

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