FEATURE

Seven Essential Ingredients for Direct Contracting Success

Written By Laura Carabello

As forward-thinking self-insured employers and Plan Sponsors face yet another year of growing pressures to further reduce healthcare expenditures, they now recognize that direct contracting relationships with the provider community offer an optimal solution.

These arrangements present a unique opportunity to gain control over both the quality and the escalating cost of health care benefits, enabling companies to design benefit offerings that are custom-tailored to meet the specific needs of its employee population.

This process may be a familiar practice for many benefits decision-makers that already negotiate contracts for products and services: direct arrangements with a provider organization – typically a large health system or provider network (accountable care organization or clinically integrated network)—include key negotiated terms on which the provider will provide and manage the provision of care to the employer's employees and dependents.

These contracts may apply to the entire spectrum of health care services for which health care benefits are provided, or they may be tailored to a specific subset of services, such as joint replacement surgeries, cardiac catheterization procedures, transplants or other high-volume, high-cost procedures.

Rather than pay premiums to a commercial payer/third party traditional health insurer and accept unknown carrier network pricing, employers designate these select providers to be their preferred points of service for employees' healthcare needs, with contracts ranging from fee-for-service, risk-based (using capitation or other global payment methods), service level agreements and in some cases, medical tourism programs to access care outside of local or regional delivery system.

Employers are discovering that by "Going Direct" they are able to lower overall costs, improve pricing transparency and eliminate "middle-men" entities. Additionally, they also discover opportunities to leverage the medical expertise and resources that may already exist in the provider community.

Many providers have significant experience in dealing with issues related to the pandemic and have extensive knowledge about solutions -- including what works and what doesn't work to ensure workplace safety. They are also learning that this approach differentiates the Company amid worker shortages and in an evolving and ever more competitive marketplace.


John Farnsley

John Farnsley, EVP, 90 Degree Benefits, observes, "Direct contracting has become a core component of many self-funded group health plans. As the cost of healthcare continues to skyrocket, direct provider agreements have proven to be one of the most effective mechanisms to lower medical claim expense. Over the past 10 years, TPA's, Consultants, and employers have all moved rapidly into the employer/provider contracting arena as a core cost containment tactic."

He says the proper strategies surrounding direct contracting, and the subsequent operational setup and management of the agreement, will ultimately drive success or failure for all parties.


Doug Healtherington

Doug Heatherington, CEO, founder and program architect, H2B asserts that in the current predominant PPO Insurance System, the carrier incentives drive shareholder value for Wall Street investors, rather than stakeholder value for the healthcare purchasers (employers and employees) and the providers of the services.

"Direct contracting removes the misaligned third-party insurer to create a direct relationship between employers and providers, which then realigns incentives to drive stakeholder value," he says. "The incentive alignment affirms the fact that healthcare is local. Direct contracts re-localize health by forming the building blocks of Community-Owned Health Plans, which return choice to the consumer. Of the four types of Direct Contracts (Closed, Open with Constraints, Open, and Open – Full Pay), Open and Open – Full Pay are the types of contracts we need to look to establish, as these provide true value and are the future."

The right solution

Self-funded health plan administration

The speed of change in the health care industry is expanding the definition of health care and redefining roles for traditional players. New and emerging technologies led by single point solution vendors, rising health care costs, regulation, and non-traditional market entrants have many payers and health systems evaluating their options.

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PROVIDERS WEIGH IN

From the health system perspective, Nick Stefanizzi Chief Executive Officer, Northwell Direct, asserts that direct contracting has the potential to fundamentally transform the ability of employers to care for their workforce.

Nicholas Stefanizz

"In order for it to be successful, it must be built on a foundation of buy-in and alignment from all key decision-makers and stakeholders, who need to clearly understand and believe in the value of direct contracting," says Stefanizzi. "To be illustrative, these stakeholders include the CEO, CFO, and physician leadership (for provider/health systems), the CEO, CFO, CHRO and Human Capital team (for employers), and brokers, consultants, and TPAs."

Once you receive buy-in and approval to proceed, Stefanizzi advises that providers and employers must establish a multidisciplinary team to ensure a seamless implementation and ongoing support. "The team must be aligned on key deliverables and outcomes," he continues. "A collaborative and transparent process must be developed to maintain alignment and address "resistors" to the model. Prioritizing these critical elements will help to ensure the success of direct contracting relationships."

Alongside the employers, provider organizations and health systems are paying attention.

Of special note, on their 2021 Q2 earnings calls, the four largest carriers indicated their two areas of focus – Medicare/Medicaid and PBM growth. Employer sponsored plans were not even mentioned, despite employers covering significantly more lives for healthcare than government: 49.6% versus 35.4%. And healthcare is now over 19% of the GDP.

"What does this mean?" asks Ruth Coleman, strategic advisor, Contigo. "How do employers facing unsustainable costs and often unsatisfactory employee outcomes realize best value for their health plan?"

Ruth Coleman

She maintains that direct contracting offers an increasingly viable way to a) gain buyer/consumer/seller alignment on priorities, incentives, and engagement; b) understand and therefore better control healthcare spend; and c) create a dialogue educating providers on the needs of their largest market, long masked by their carrier relationships.

Coleman points to the March 2019 "Harvard Business Review Big Ideas" series, "How Employers are Transforming Healthcare" which outlines Walmart's success using Direct Contracting as a tool to gain value on behalf of their associates and healthcare spend.

But direct contracting no longer requires being the largest US employer," says Coleman. "It is now a tool deployed by self-funded employers of all sizes, increasingly allowing them to gain better alignment on outcomes and costs with the one entity that can bring control at the point of sale - providers."

The movement towards direct contracting has gone from an emerging concept to a significant trend in the self insurance industry. Peter Robinson, managing principal, Epic Reinsurance, reiterates this point, saying, "The trend captures middle market employers willing to participate in the trend as they try to impact their employee benefit costs."

SEVEN COMPONENTS OF SUCCESS

While there are many nuances to direct contracting, the following provide a good starting point for employers as well as providers.

1. **Understand the Basics and the Value Proposition**

To optimize success, the company is self-insured and its employer size, footprint and location(s) empower the leadership team with enough clout and influence in provider negotiations. There should be existing and sufficient provider competition within a given market and the arrangement has to work for both parties: employers and providers are willing to participate, understanding that providers may be reticent to direct contract if they don't perceive value of accessing an increased patient population.

Regardless of scope, at the heart of direct contract arrangements is a commitment by the provider to proactively and effectively coordinate and manage the provision of health care services to employees, with the goal of controlling the employer's costs while improving quality of care and increasing employee satisfaction. In a direct contracting arrangement, the employer and the provider usually seek to align their respective business interests by aligning their respective economic interests.

For example, the employer may pay the provider a bonus for achieving certain agreed-upon quality and/or patient satisfaction metrics, such as hospital readmission rates, immunization rates, and infection rates.

The parties may also agree upon a "shared savings" arrangement whereby the provider shares a portion of "savings" generated against a baseline for spending—savings the provider aims to achieve through its care coordination and care management efforts.

In more sophisticated direct contracting arrangements, the provider may also be responsible for sharing a portion of the downside financial risk created when its efforts to control costs or to improve quality or patient satisfaction fail.

Alignment of incentives can be fine-tuned by measuring and encouraging both performance relative to cost measures and performance relative to agreed-upon quality and/or employee/patient satisfaction metrics.


Christine Cooper

It's important to also gauge the impact of a changing regulatory environment, such as the introduction of the 'No Surprises Act' (NSA). Christine Cooper, CEO, Aequum Health, says, "NSA has altered the significance of direct contracts and amplifies the notion that these contracts can be a blessing or a curse. For plans and administrators that strategically contracted with providers for reasonable

reimbursement amounts based on a rate outside of provider control, such as Medicare rates, direct contracting will likely be a blessing."

But for plans and administrators that entered into direct contracts based on a reduction of the chargemaster rates, Cooper says direct contracting will be a curse: "The contracted rates are the primary factor for determining the appropriate out-of-network reimbursement rates under the NSA. The direct contract now affects the reimbursement rates to other providers that are not parties to the direct contract."

2. **Establishing a Pay-for-Value Model**

Direct Contracts should be designed to drive simplicity, accountability and collaboration, allowing the employer to directly impact benefits, quality and price of the services delivered. It is an efficient, cost effective approach that provides great outcomes based upon the value derived.

The direct provider relationships significantly reduce the complexity for members while navigating their health care system. Employers win because the health system will provide the best cost position because they have 100% of the employer's patient volume.

It is important to ensure that network adequacy and capacity is sufficient to provide employees with convenient, reasonably timely access to care.

For example, a provider might agree to specific services designed to enhance employee satisfaction, such as basic primary care services at a convenient, on-site health or nearby urgent care center, as well as "concierge" style member services specifically designed to assist employees and their dependents with questions regarding benefits and to help them find the right provider for a given medical condition.

Similarly, the parties might choose to address areas of specific concern to the employer and its workforce by requiring adherence to measurable quality and patient satisfaction metrics. To address the paramount issue of cost, the employer and provider might negotiate reimbursement rates to be paid to the provider that account for the historical or (in the case of primary/preventative care) desired utilization of services by the employer's covered population.

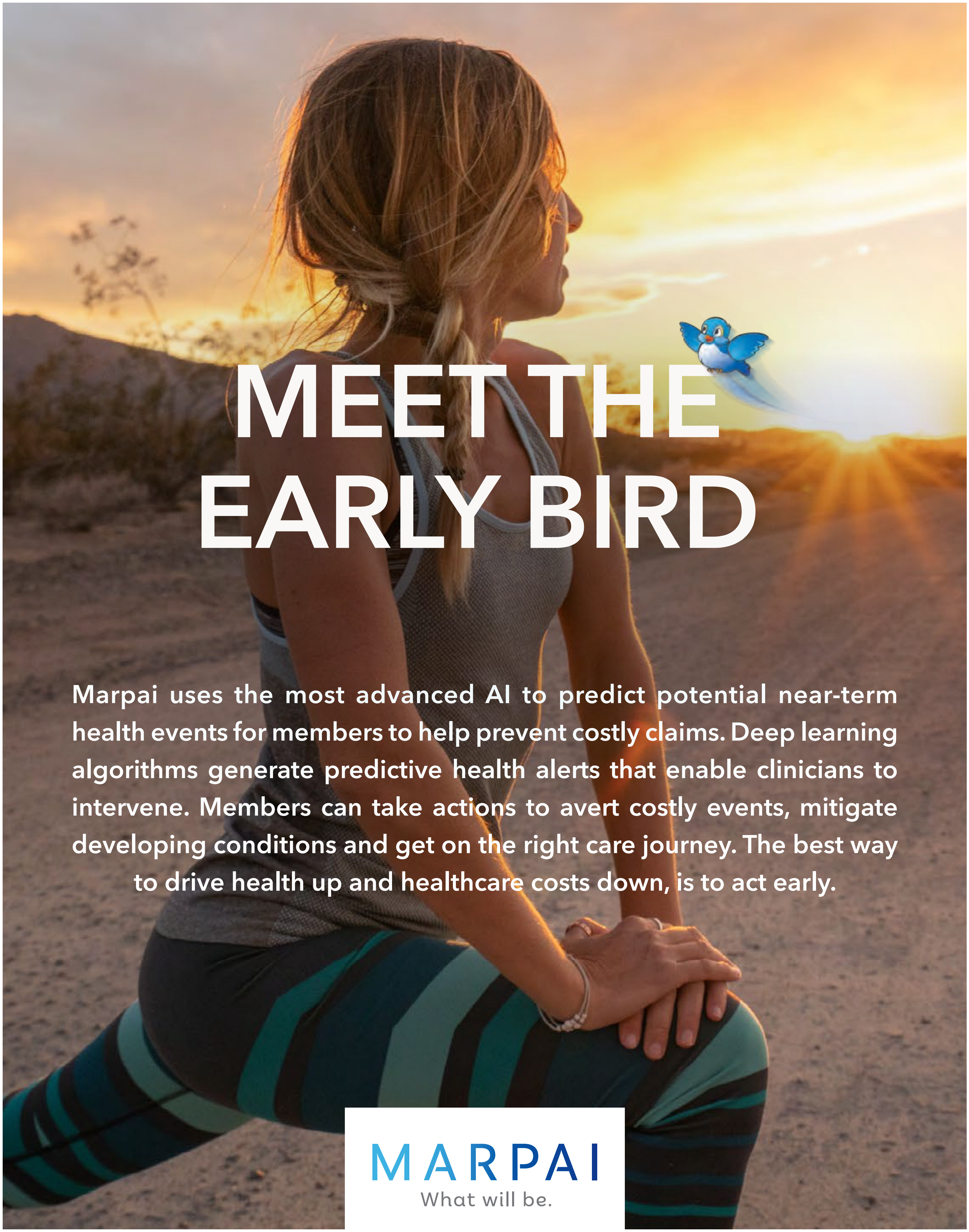
Through direct involvement with the provider and regular monitoring and reporting on its performance, employers gain a level of transparency into costs and quality that is uncommon in typical arrangements. With this additional information, employers can use their resources to secure the best combination of value and service for their specific workforce.

3. **Building the Right Team & Choosing the Right Partners**

Building the right team for ongoing management and performance of the program is directly aligned with ensuring that the key leaders are engaged in the success.

Blake Allison, CEO, Employers Health Network, advises, "Issues are guaranteed, so building the right team to be able to work collaboratively to overcome them can be achieved through a focus on three elements.

First, develop a shared governance model structured to engage the right decision makers across the complete stakeholder environment. Then, empower the leaders to make decisions quickly to resolve issues that will certainly arise.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What will be.

Limiting the need to engage external leaders will increase the speed to resolution and create less risk for the program."

He says by agreeing to a 'no fault' environment where each leader understands there will be challenges vs. engaging in determining fault will result in spending productive time working towards solutions. "Each party will have their share of success and failures, so highlighting them at best slows resolution and at the worse, erodes trust."

Peter Robinson

The right team is an inter-disciplinary team, advises Peter Robinson: "The team includes actuarial, network, administrative, claims, clinical and IT. The sheer selection process is a big undertaking and the team needs to work together and be held accountable as inevitable issues and problems arise."

Engaging the right outsourced partners when needed remains a strategic imperative for negotiating contracts. All aspects of the arrangement must make financial sense for the parties and employers must be flexible and prepared to coordinate all of the moving pieces.

Look for a partner(s) with:

- Demonstrated expertise in direct contracting, negotiation and implementation experience
- Data analytics that determine and prioritize which treatments, surgeries or procedures should be negotiated
- Ability to compare direct contracting opportunities to current market options
- Capabilities to integrate direct contract claims into medical plan reporting
- Reliable stop-loss vendor for potential reimbursement
- Transparent payment and fee structures: ongoing percentage of claims, PEPM fees or a one-time fee

Parties may also need to engage a qualified actuary, not only to assist with the development of the financial arrangement but also to provide support when claims and other data must be collected and analyzed to assess the provider's performance.

4. **Optimizing Set Up**

Implementing a direct contract requires well-orchestrated population management capabilities, physician integration partnerships and value-based financial models.

These arrangements call for navigating and coordinating relationships between and among the employer, the provider, and the TPA. The provider may assume responsibilities and provide services typically provided by insurers and TPAs. The provider in a direct contracting arrangement will often assume responsibility for various TPA functions, such as complex case management or even member services. However, rarely does a provider take on all TPA functions.

Therefore, while a direct contracting relationship may reduce the employer's need for the full spectrum of services offered by a TPA, the employer will normally continue to engage a TPA to handle certain functions, such as claims administration, that require specific infrastructure and skill sets.

An employer will want to be satisfied that the provider has the administrative capacity and expertise necessary to provide such services.

In addition, the provider's responsibilities and functions may need to be carefully coordinated with those of an employer's TPA, in order to eliminate the chance of unintended "gaps" in responsibilities.

Establishing meaningful yet realistic cost and budget targets often requires a level of actuarial acumen that neither the employer nor the provider has available.

Many who see the value of connecting providers and employers via direct contracts work tirelessly to put a contract in place yet fail to realize that once the ink is dry, the contract is now in force, and the real work of administering the contract begins.

Doug Heatherington shares this expertise, "Too frequently, direct contracts have been bundled with another vendor - TPA, RBP vendor, Stop Loss Carrier or other - that require the employer to use their services to gain access to the direct contracts. The first step in direct contract administration is unbundling access to direct contracts from any other vendor so that employers of all sizes, independent of vendor stack can access the Direct Contracts."

He says direct contract administration includes claims processing, compliance and maintenance, adding, "Provider directories, upholding the integrity of the contract and scaling contracts are not core competencies of Benefit Advisors or TPAs, RBP vendors, or Stop Loss carriers. This glaring gap in the direct contracting marketplace became apparent to me upon launching my Company.in 2019."


Blake Allison

Blake Allison says, "The ongoing management and performance of the program is directly aligned with ensuring that the key leaders are engaged in the success. Issues are guaranteed, so building the right team to be able to work collaboratively to overcome them can be achieved through a focus on these three elements: 1) Developing a shared governance model structured to engage the right decision makers across the complete stakeholder environment. 2) Empowering the leaders to make decisions quickly to resolve issues that will certainly arise. 3) Limiting the need to engage external leaders will increase the speed to resolution and create less risk for the program."

Allison recommends agreeing to a 'no fault' environment where each leader understands there will be challenges vs. engaging in determining fault, "Spending productive time working towards solutions," he continues. "Each party will have their share of success and failures, so highlighting them at best slows resolution and at the worse, erodes trust."

5. **Consider Plan Design Issues**

Typically, employers have relied on their TPA for a self-insured plan design (often based on one of the TPA's own insured products). This allows the employer to draft plan documents and participant communications based upon policies, evidence of coverage, summaries of benefits and coverage and other documents furnished by the TPA.

With direct contracting relationships, it will be up to the employer to decide whether the benefit plan design for any narrow network it negotiates will have a standard or custom design and will need to draft plan documents and participant communications that are in alignment. While custom documentation can be more costly, the benefits achieved through a custom designed plan may well outweigh the added administrative expense.

Both employers and providers need to gain a detailed understanding of the payer, administrator and provider functions. Employers will benefit from a thorough understanding of how care is actually delivered and a detailed picture of the health needs of the employee population.

Providers must comprehend the employer's benefit structure and the incentives it creates for employees in need of care – from primary and acute to post-acute. They need to be realistic in assessing their own capabilities to serve a defined population.

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If the parties are not familiar with population health analytics, they need to learn the basics along with the metrics that are available for assessing the quality of health care delivered and any savings achieved.

6. **Executing a Successful Launch**

This is where all the planning finally pays off. Here are some core elements of a fail-safe launch:

- Clearly defined clinical integration strategy.

- A tightly aligned network and clinical integration with a capitated or per member per month trend guarantee with shared risk. The employer must be large enough to assume risk.

- Stop Loss Carrier in Place: many stop loss carriers offer some TPA services, but employers should know what is needed from each resource and communicate appropriately.

- Fully defined program parameters must be articulated, including roles and responsibilities of all parties – as well as their agreement to all program components, timelines, expectations and metrics. This includes program assessment and management where each partner understands and agrees to the tasks associated for promotion execution, communications and implementation.

- Success hinges upon the cooperation of all team members to collaborate, with ongoing scheduling of team meetings to review and monitor performance in near or real-time.

One final word about legal considerations of direct contracting: make certain all issues have been addressed, including compliance with regulations. Some legal issues may be new to the parties, including sharing in the financial gains/losses generated by the arrangement or the implications of state insurance laws, which vary from state to state.

7. **Measuring Success**

Now to the bottom line: the core elements of success should be measured for the overall PMPM o the population, specifically a reduction in the total cost of care that is being managed in the fully integrated direct to employer strategy.

Employers should expect to have some reduction of trend over an extended period of time based upon a combination of the following:

Strategic pricing from the integrated delivery system

Effective provider-based ambulatory care coordination and management

Benefit design to ensure alignment of the members to the high performing network.

Blake Allison advises, "When a relationship between the provider and the employer is initiated, the overall measure of success is the delivery of high value healthcare. This is defined as high quality and efficient care which can be measured through two separate angles:

1) Quality Measurement – a focus on the HEDIS and other nationally recognized metrics can help validate quality has remained within the program. Additionally, through a partnership with providers, clinical outcome measures can be folded into the measurement process.

2) Financial Measurement – tracking the core cost and utilization elements of admissions, emergency room visits and high-cost imaging are effective in ensuring the program is performing. The 'true north' metric is quite simply the per member per month (PMPM) cost over time. For the program to demonstrate its success, it must bend the overall cost curve of the beneficiaries within the program."

Peter Robinson echoes these sentiments, adding, "The direct contract needs to be formally measured on its impact and overall performance in the market. This measurement is critical during the launch but no less critical over time. If the success isn't developing, what can be done? The interdisciplinary team described earlier can address and solve problems as they arise."

Doug Heatherington wraps up this concept, explaining, "The key measure of success in direct contracting is the number of employers a given direct contract can serve. If the direct contract does not allow additional employers to join into it or different vendor stacks to be used, even if the financial and clinical outcomes are great, the overall impact at a community level will be small."

He emphasizes that it is important to move the direct contracting space to open and independently administered direct contracts that allow as many employers as would like to join in.

"The goal is to impact not just 3 or 9 employer groups, but entire communities," he concludes. ■

Laura Carabello holds a degree in Journalism from the Newhouse School of Communications at Syracuse University, is a recognized expert in medical travel, and is a widely published writer on healthcare issues. She is a Principal at CPR Strategic Marketing Communications. www.cpronline.com

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