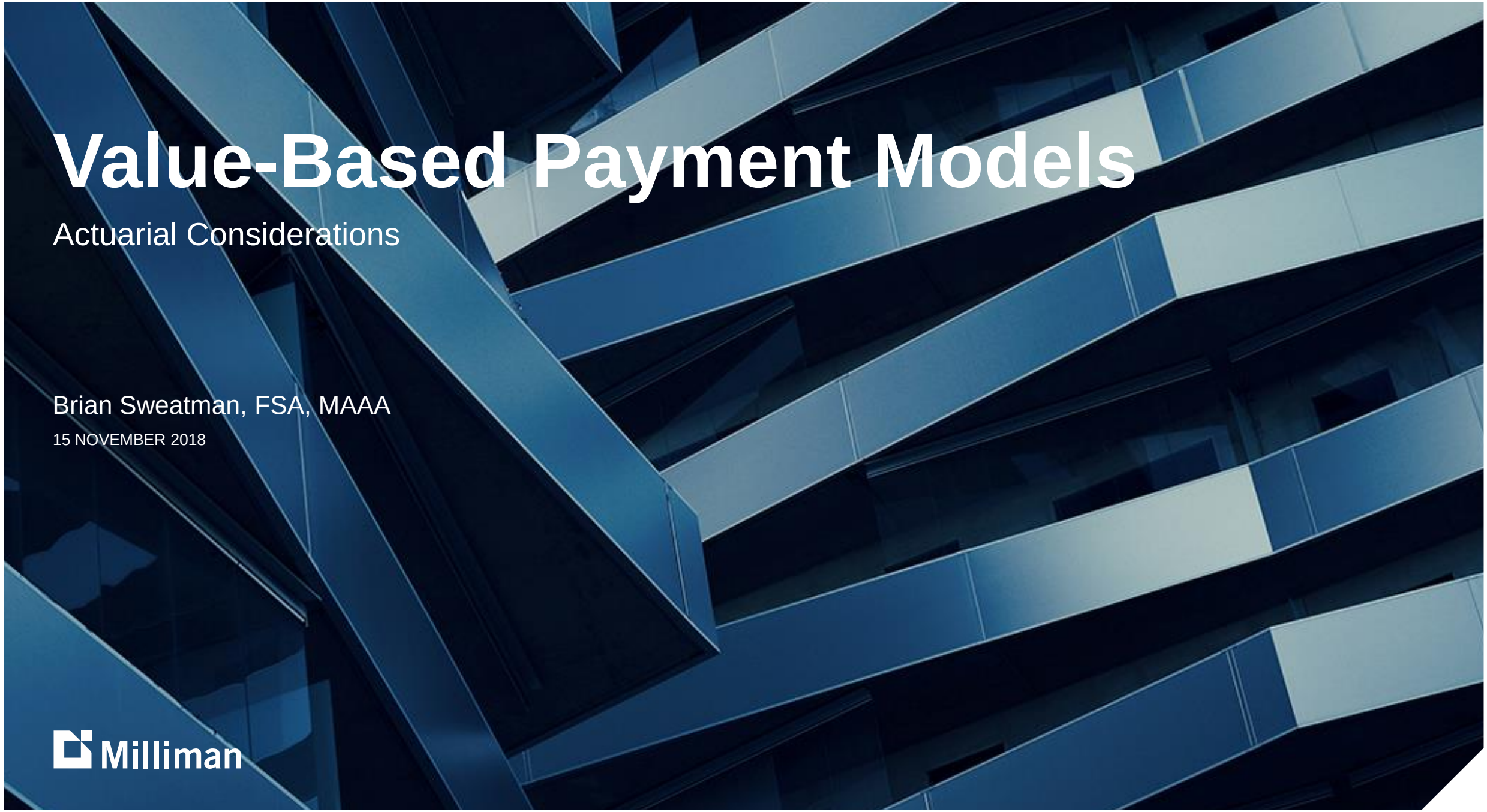


Value-Based Payment Models

Actuarial Considerations

Brian Sweatman, FSA, MAAA

15 NOVEMBER 2018

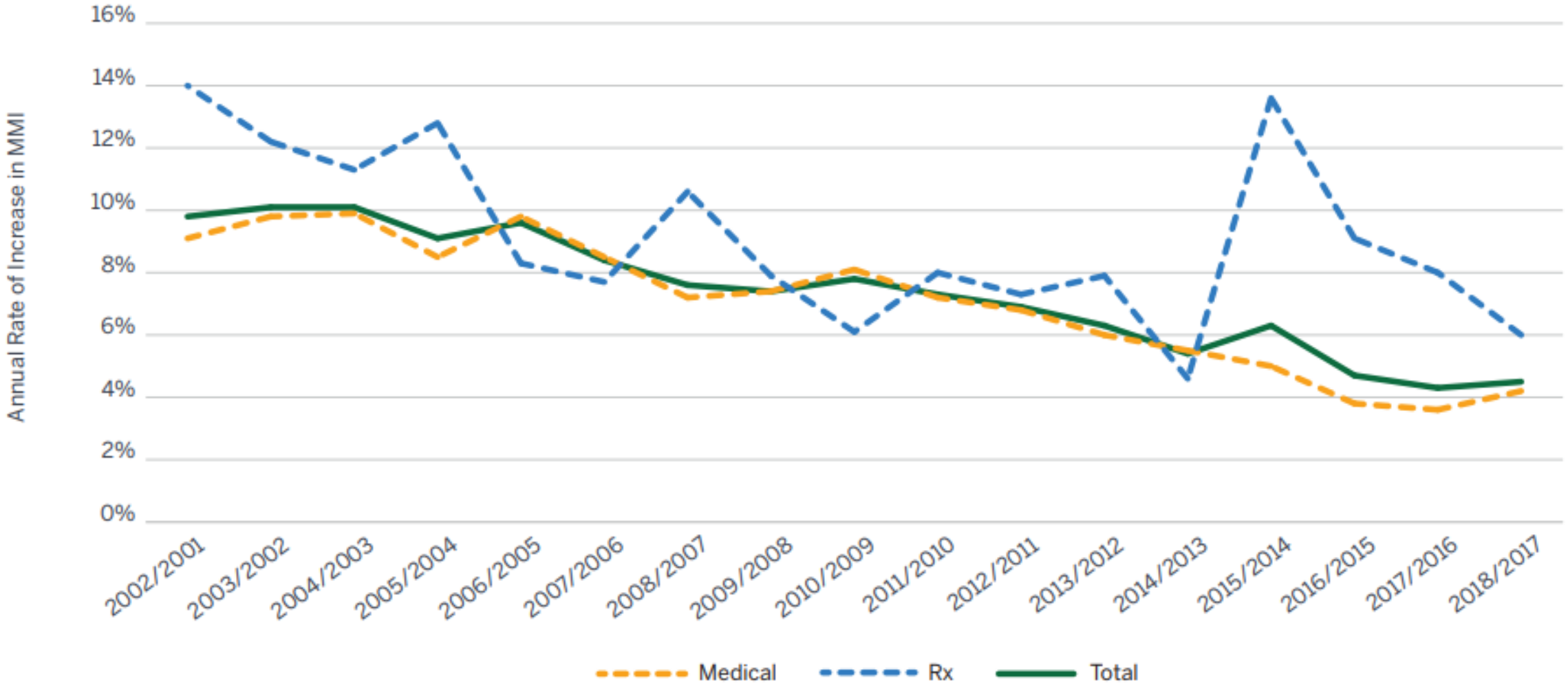
Milliman

Session Overview

1. Current environment
2. Sources of risk
3. Actuarial considerations

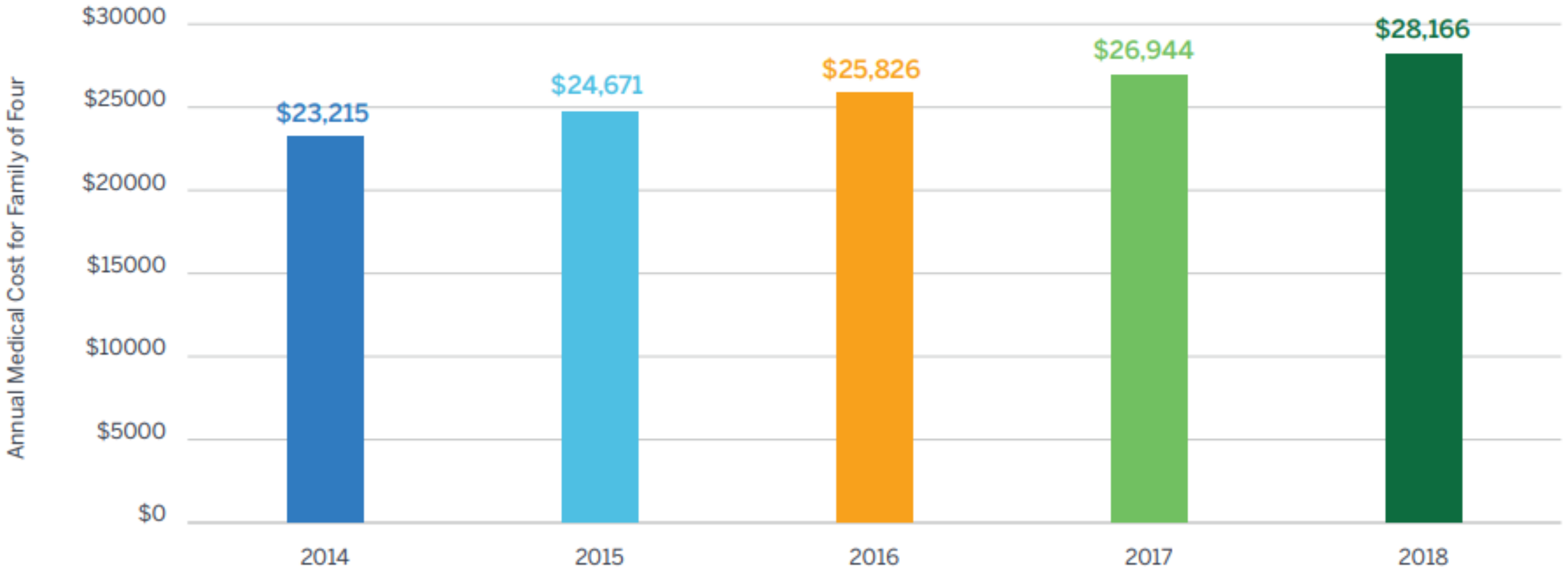
Current Environment

Healthcare cost growth has slowed…



Source: 2018 Milliman Medical Index

… but costs are still at record level



Source: 2018 Milliman Medical Index

Milliman

Primary factors contributing to decline in growth rates

Provider Engagement
Approaches to involving providers in controlling costs (VBC, ACOs, etc.)

Effective Provider Contracting
Increasing sophistication in provider contracting by employers, insurers, TPAs

Plan Designs Encouraging Efficient Purchasing
Increasing member cost sharing, high deductible health plans

Role of the Government and Public Programs
Spillover effects from VBC initiatives

Impact of Pharmacy Initiatives
Increased consumerism, continued move to generics, reduced use of some high-cost drugs

Source: 2018 Milliman Medical Index

Forces keeping cost growth from being even lower

Provider Engagement
Strong incentives are rare in many regions where fee for service (FFS) prevails

Effective Provider Contracting
Provider consolidation (i.e. hospital purchase of physician groups) and resulting increased leverage

Plan Designs Encouraging Efficient Purchasing
Still room for consumers to driver additional gains – doctors still often do no have the information needed to make cost-effective decisions

Role of the Government and Public Programs
Low provider payment rates in public health programs continue to result in cost-shifting to commercial markets

Impact of Pharmacy Initiatives
Specialty pipeline and emerging gene therapies will continue to drive drug costs

Source: 2018 Milliman Medical Index

“I also believe costs will not go lower until we change the system to incentivize providers to keep costs low. Despite penalties for readmission etc., you still receive more compensation the more you do. Until that paradigm is changed, nothing else will be effective.”

— ACO healthcare executive, 2018 Milliman Medical Index

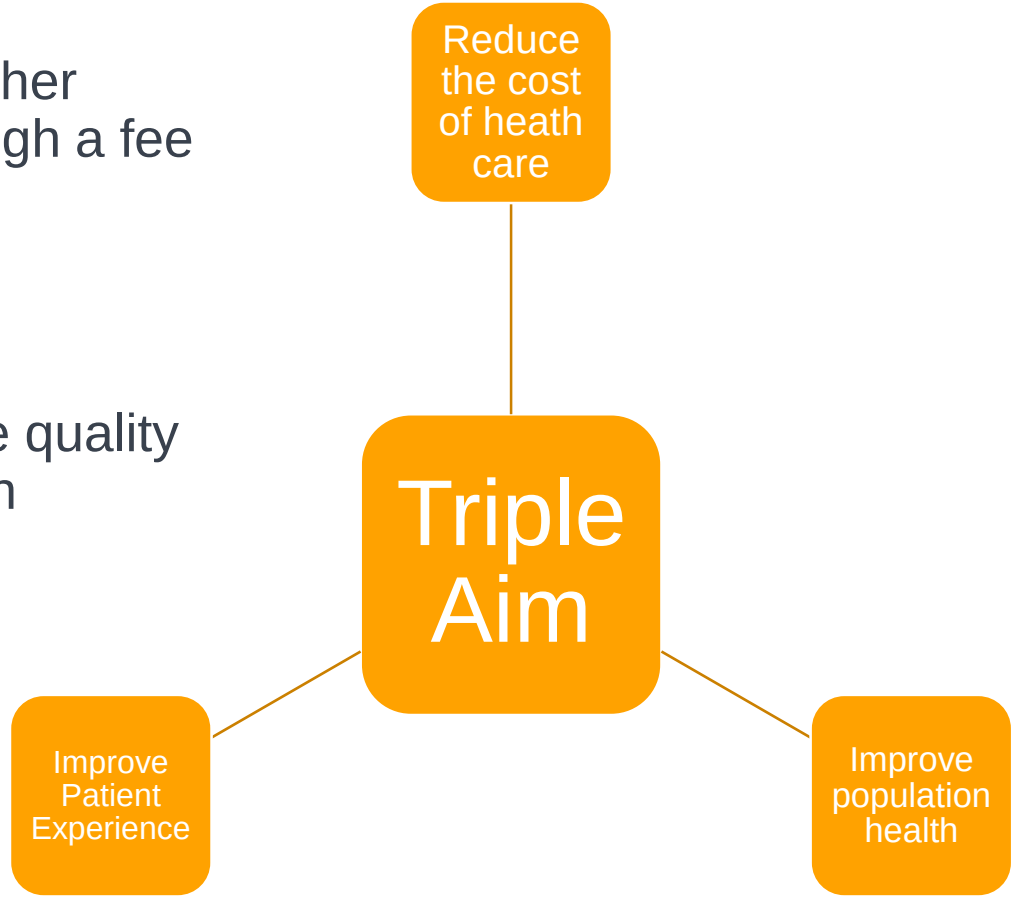
“Imagine a system where, through long-term payment models, providers actually see the financial results of helping their patients stay healthy -- instead of being financially rewarded when they get sick.”

— Alex Azar, Secretary of HHS

Defining value-based payment

Fee For Service (FFS)
Providers are paid for each service they give – either through a percent of charge arrangement or through a fee schedule

Value-Based Payment
A form of reimbursement that ties payments to the quality of care provided – providers are rewarded for both efficiency and effectiveness



Common value-based payment models

Episodes of Care / Bundled Payments
A single payment for services related to a trigger event (e.g. hip replacement) – can include claims incurred 30, 60, or 90 days following index procedure

Shared Savings
Typically uses a FFS structure – savings/losses determined from performance measured against a benchmark – savings distribution subject to meeting certain quality targets

Pay for Performance
Uses a FFS structure, but could qualify for bonuses or penalties based on quality and/or cost performance

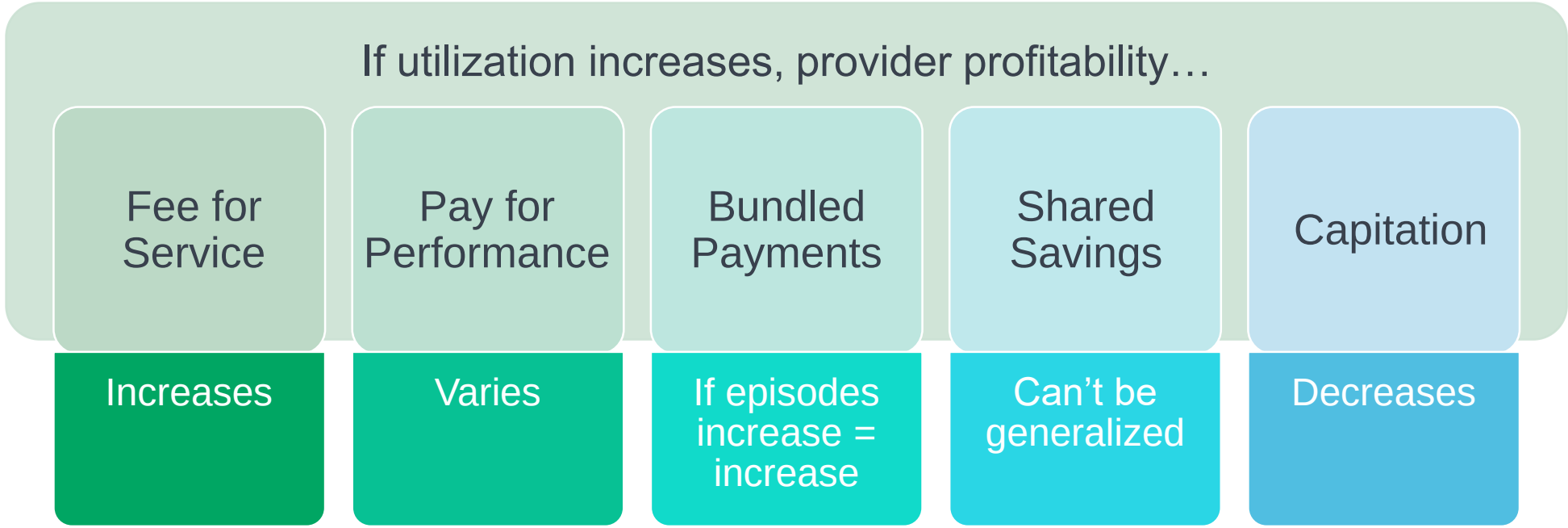
Sources of Risk

Types of risk present in value-based payment models

Source: Provider Payment Arrangements, Provider Risk, and Their Relationship with the Cost of Health Care (SOA)

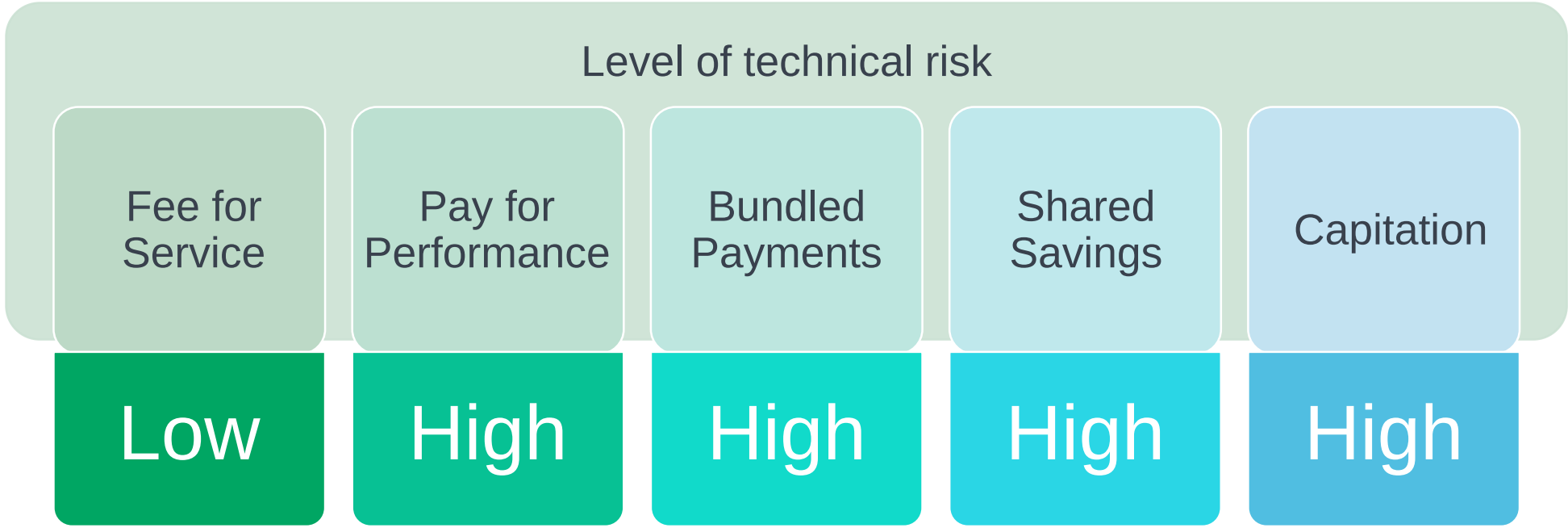
Utilization Risk

The impact of changes in utilization on provider profitability.



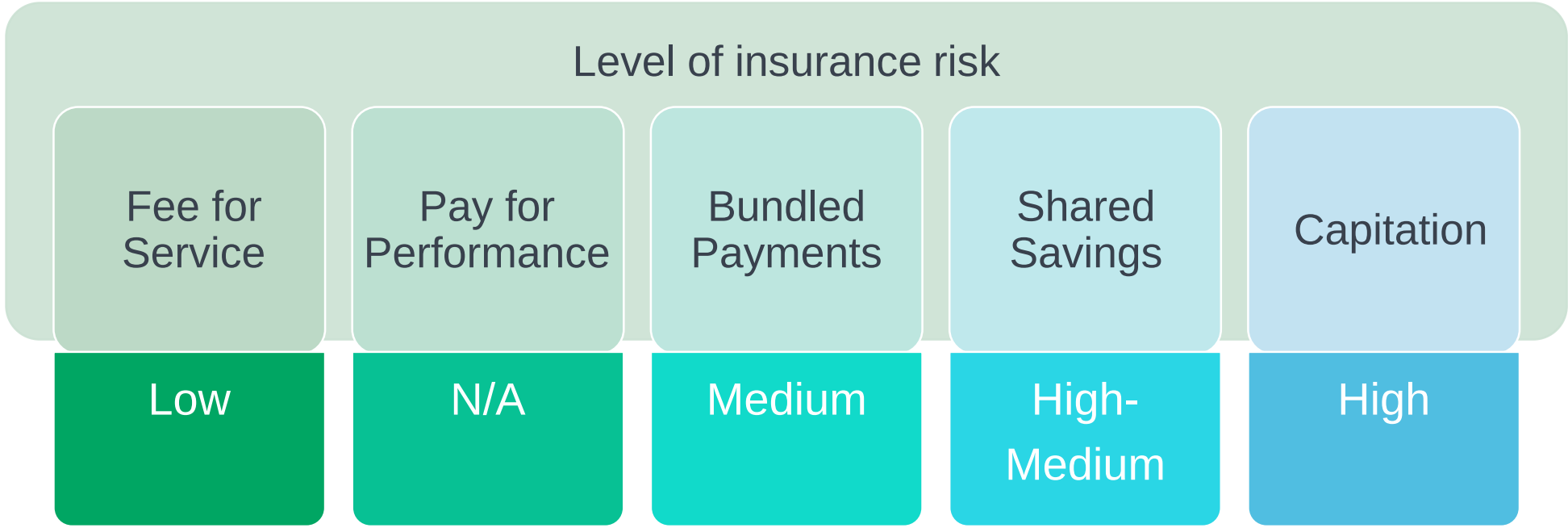
Technical Risk

The risk of appropriately structuring technical elements of a contract to match population and circumstances.



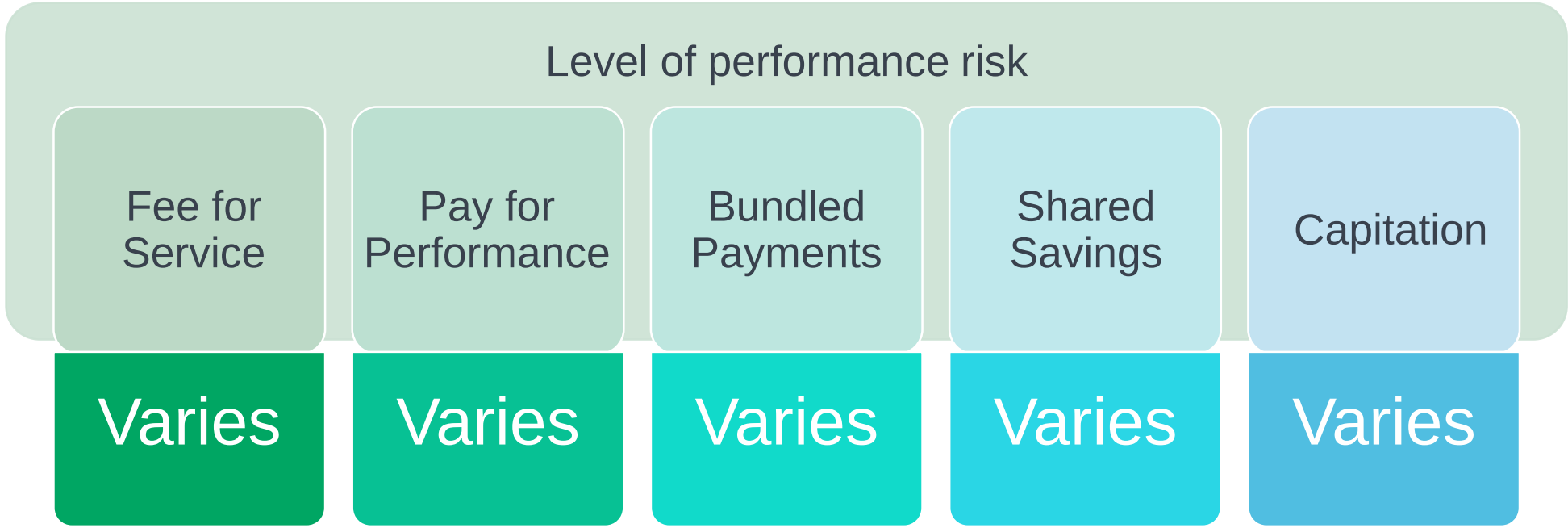
Insurance Risk

The risk related to the normal variation in demand for medical services over time and differences in utilization within segments of insured populations.



Performance Risk

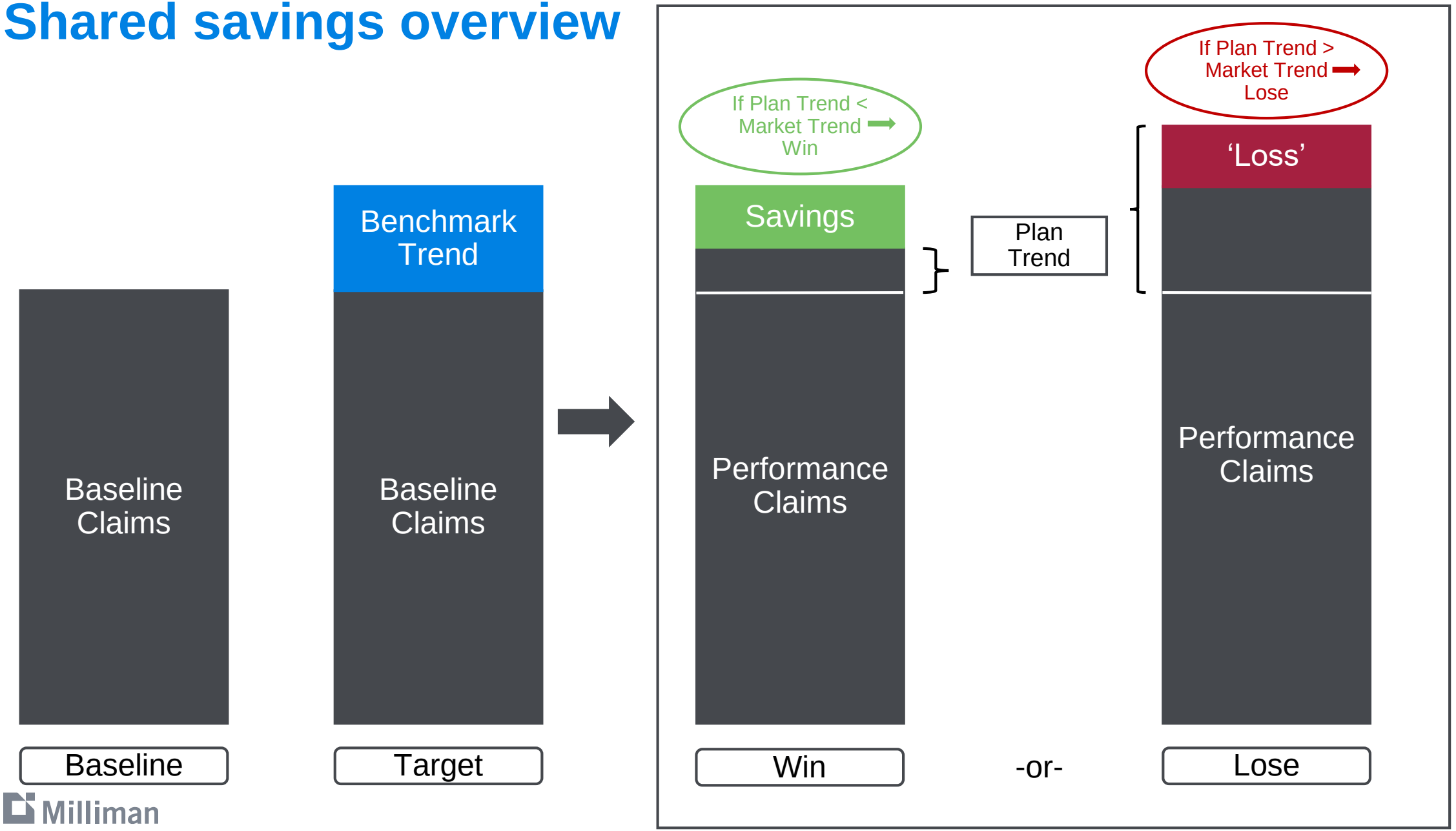
The risk related to inefficiency, suboptimal quality, and high cost care.



Actuarial Considerations

Shared Savings Arrangements

Shared savings overview



Key elements of shared savings payment models

Attribution Methodology
Claims-based (prospective, retrospective), product-based

Target Calculation
Trend (prospective, retrospective), loss ratio

Outliers and Specific Exclusions
Large claimants, transplants, etc.

Risk Adjustment
Prospective vs. retrospective, include vs. exclude Rx

Distribution of Savings/Losses
50/50, higher reward with higher assumed risk, thresholds and corridors

Quality Metrics
Binary vs. scalar application

Milliman

Thank you

Brian Sweatman, FSA, MAAA
Brian.Sweatman@milliman.com