Potential risks of new managed care contracts

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The new healthcare economy is giving rise to a new set of risks for providers. Health plans are increasing providers' risk by raising patient deductibles and copayment amounts as well as negotiating incentive and withhold pools. PwC's employer benefit survey, released in June 2014 (Touchstone Survey), showed that 67% of employers are offering high-deductible health plans (HDHPs). And these plans are growing in popularity among employees — 26% of employees at the companies surveyed are enrolled in a high-deductible plan, up from 17% in 2012. Forty-four percent of employers are now considering complete HDHP replacement products in the future. Almost half (49%) of employers are choosing plans with deductibles of $1,000 or more and out-of-pocket maximums of $3,000 for in-network care. The bottom line for providers — provider reimbursement is continuing to decline and self-pay balances are increasing.

New contracting considerations

Self-pay

Although providers may not initially connect the two, the increase in self-pay is an important consideration when negotiating managed care contracts. No longer will increases in negotiated rates result in direct bottom-line improvement. Even if rates increase, the shift to patient liability is directly affecting provider reimbursement. When negotiating managed care contracts, providers should:

- Request that the plan provide copies of employer benefit plans that are being offered to the employers in your region. Changes in these benefit structures will directly impact provider reimbursement and force the hospital to chase after the patient to collect these self-pay amounts.
- Ask if the plan will provide financial supplements to the self-pay balances that remain uncollected, or if they will support the provider in discussions with patients who are refusing to pay.
- Analyze the self-pay bad-debt amounts for the plan subscribers. Although health plan copayments and deductibles have a considerably higher collection rate than those from uninsured patients, they continue to have high bad-debt placement rates.

Withholds and bonus pools

Providers are also at increased risk because of inadequate contract language regarding bonus pools and withholds. Withhold pools are dollars withheld by the health plan from the provider's negotiated rate, and bonus pools are paid as rewards "in addition" to the negotiated rate. For both, the amount must be earned to be paid.

Providers should closely review the contract language for withholds and bonus pools to make sure it clearly defines what the provider needs to achieve and how the achievement must be documented to obtain the payment. These payments may be reached by performing a specific service, reducing length of stay, reducing re-admissions, or achieving a specific metric calculation. If the provider's reward is to reduce the length of stay and the contract is paid at a per diem rate, it may be important to develop a financial model before negotiating the agreement so the incentive negates any decrease in per diem reimbursement.

To achieve these rewards, it will be important that every step is documented, including what's being measured, by whom, and for what period. Another key question the provider should ask is, "What other providers are in the bonus pool?" If other providers are sharing the same bonus pool, it will be important to know if poor performance by the other providers will cause your hospital to not receive its payment. Often, providers share the same incentive pool and poor results of one provider may negatively affect the payment results of the others. Read the contract and create a financial model that will replicate how the incentive pool metrics will be measured and when the payment will be triggered and paid.

As the market continues to push more risk toward the provider and responsibility to the patient, it's important that you take the time to thoroughly understand the potential impacts of these contract changes on the provider's reimbursement. It's a critical step in protecting your company's financial viability.

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