Risk Contracting Reconsidered

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Emerging Health Care Market Trends:
Insights from Communities
December 10, 2001
Risk Contracting Reconsidered

• Declining in most markets
  ‣ Fewer plans using risk contracting
  ‣ Fewer patients in risk contracts

• Being modified in other markets
Two Types of Physician-Payer Contracting

Individual Contracting
- Payer
- Individual MD

Group Contracting
- Payer
- MD Group
- Individual MD
Three Types of Risk Contracting

- Professional risk only
- Shared risk
- Full risk ("global risk")
Potential Benefits of Full Risk Capitation

• Involves providers in efforts to contain costs

• Encourages creation of
  ‣ Organized process to prospectively manage care for populations of patients

• Encourages creation of organizations that can create these processes
  ‣ Medical groups
  ‣ Physician-hospital organizations
Risks of Full-Risk Contracting

- Incentives to deny care and avoid sick patients
- Lack of incentives to improve quality
- Lack of provider organizations with ability to manage care
- Larger, better capitalized health plan passing risk to smaller, less capitalized provider organization
## Markets by Degree of Risk

<table>
<thead>
<tr>
<th>Degree</th>
<th># markets</th>
<th>% private patients in risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extensive</td>
<td>1</td>
<td>56%</td>
</tr>
<tr>
<td>Moderate</td>
<td>7</td>
<td>13-26%</td>
</tr>
<tr>
<td>Limited</td>
<td>4</td>
<td>2-8%</td>
</tr>
</tbody>
</table>

1996-1997 CTS Insurer Followback Survey. PCP-only capitation not included.
### Percent of Plans Using Risk Contracting (of 41 plans)

<table>
<thead>
<tr>
<th>Degree</th>
<th>1998 (26 plans)</th>
<th>2000 (23 plans)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extensive</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Moderate</td>
<td>74</td>
<td>65</td>
</tr>
<tr>
<td>Limited</td>
<td>25</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63%</strong></td>
<td><strong>56%</strong></td>
</tr>
</tbody>
</table>

CTS 2000-2001 site visits.
PCP-only capitation not included.
Percent of Plans Modifying Risk Contracting in 2000 (of 26 plans)

<table>
<thead>
<tr>
<th>Degree</th>
<th>Reduce Scope</th>
<th>Reduced Patients in Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extensive</td>
<td>83%</td>
<td>0%</td>
</tr>
<tr>
<td>Moderate</td>
<td>29</td>
<td>47</td>
</tr>
<tr>
<td>Limited</td>
<td>0</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>38%</td>
<td>38%</td>
</tr>
</tbody>
</table>

(10 plans) (10 plans)
Why the Decline in Risk Contracting?

- The Empire Strikes Back
  - Hospitals and specialists resist
  - Consolidate to increase leverage with HMOs

- Consumer backlash
  - Against incentives to withhold care
  - Against “tight” provider networks
  - Against tight utilization management
Why the Decline in risk Contracting? cont’d

- Lack of capable provider organizations
- Well-publicized failures
- Decline in Medicare+Choice
- Flawed model?
  - Actuarial vs. care management risk
Alternatives to Risk Contracting

- Replace provider risk with patient financial incentives
  - Broad networks
  - No gatekeeper, minimal utilization management
  - Fee-for-service payment to providers
  - Tiered co-pays and deductibles
Alternatives to Risk Contracting, cont’d

• Pay-for-performance (modified risk contracting):
  ‣ Fee-for-service
  ‣ Provider organizations rewarded for meeting cost and quality targets
  ‣ Reduces actuarial risk
  ‣ Reduces risk of provider bankruptcy
Policy Implications

• Increased consumer financial incentives (e.g. tiered co-pays and deductibles)
  ‣ Not applicable to Medicaid or traditional Medicare
  ‣ Impact on chronically ill and low-income?

• Pay-for-performance/modified risk contracting would be promoted by policies that strengthen:
  ‣ Medicare+Choice
  ‣ Medical group infrastructure
  ‣ A “Hill-Burton” bill for physician and hospital information systems?