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Better Health Policy

Risk Contracting Reconsidered

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*Emerging Health Care Market Trends:
Insights from Communities*

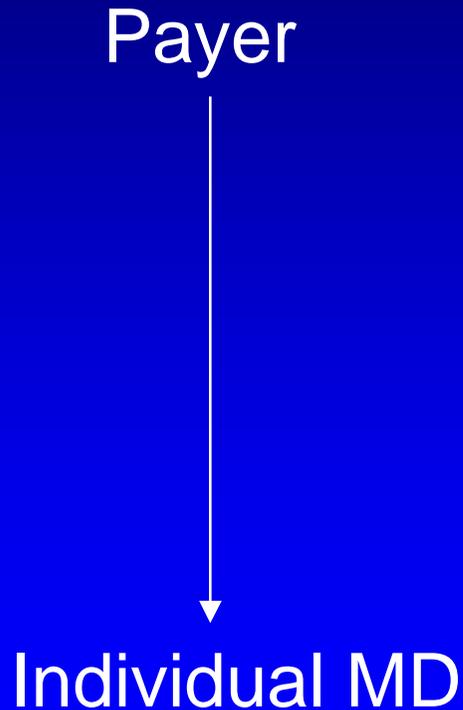
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Risk Contracting Reconsidered

- 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



Group Contracting



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

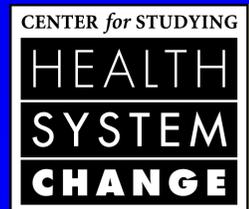
Risks of Full-Risk Contracting

- 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

<u>Degree</u>	<u># markets</u>	<u>% private patients in risk</u>
Extensive	1	56%
Moderate	7	13-26%
Limited	4	2-8%

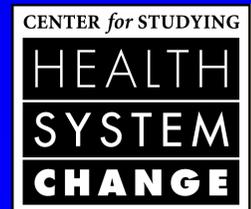
1996-1997 CTS Insurer Followback Survey.
PCP-only capitation not included.



Percent of Plans Using Risk Contracting (of 41 plans)

<u>Degree</u>	<u>1998</u>	<u>2000</u>
Extensive	100%	100%
Moderate	74	65
Limited	25	17
Total	63% (26 plans)	56% (23 plans)

CTS 2000-2001 site visits.
PCP-only capitation not included.



Percent of Plans Modifying Risk Contracting in 2000 (of 26 plans)

<u>Degree</u>	<u>Reduce Scope</u>	<u>Reduced Patients in Risk</u>
Extensive	83%	0%
Moderate	29	47
Limited	0	67
Total	38% (10 plans)	38% (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?