

EXECUTIVE BRIEFING

Succeed in value-based care: A P&L strategy drives sustainable results

| JUL 23, 2025

<https://www.healthscape.com/insights/succeed-value-based-care-pl-strategy-drives-sustainable-results>

For decades, the mantras for sustained healthcare affordability have been “aligning incentives” and “paying for value.” Yet savings have been elusive, and the path to achieving them has had a sizeable price tag.

Value-based care (VBC) has historically underperformed, and health plans frequently underestimate the complexity and cost involved in administering VBC. This leads many health plans to view VBC models as a one-time investment that does not appropriately incorporate all the ongoing administration costs. However, the promise of VBC still resonates, and health plans are increasingly looking to VBC across lines of business to solve mounting industry challenges and remain competitive.

Over the years, health plans have made a marked effort to move more reimbursement along the Learning and Action Network (LAN) Alternative Payment Method (APM) framework, aiming for most reimbursements to fall under Category 3 (based on fee-for-service [FFS]) and Category 4 (population based). As a result, health plans today make 45.2% of their payments¹ under VBC arrangements. But most health plans do not have accompanying expectations for reducing medical expenses and improving quality and appropriateness of care.

In today’s competitive environment, health plans must meaningfully evaluate the true savings realized from VBC programs. They must transform how they administer these programs—managing them as distinct businesses expected to drive value profitably, each with its own profit and loss (P&L) statement.

VBC is a strategic imperative, but health plans face tremendous challenges

VBC programs are inherently complex to establish and sustain. First, they require significant initial and ongoing investments—including investment in technology to drive performance measures, analytics, reporting, and reimbursement, as well as additional staff to support provider engagement, care coordination, and the intricate administrative infrastructure.

Second, these programs interact with all functional domains (e.g., provider enablement, claims, and analytics), and each domain has a unique set of challenges. VBC management fragmentation across various functions frequently results in uncoordinated and duplicative efforts and creates challenges for understanding the total administration overhead.

Health plans should allocate this overhead across VBC programs to understand the true incremental costs of running the program. Health plans that appropriately apply overhead to each VBC program improve their decision-making relating to these programs, ultimately improving their bottom line.

Three principles for sustainable VBC

The following principles help health plans overcome common barriers to VBC success:

1. Set a breakeven expectation

For each VBC model, the health plan should clearly define revenue and expenses and complete a net positive business case to clarify the actual value VBC delivers. When a program is profitable, all parties—health plans, providers, and members—win.

Within a VBC P&L framework, revenue includes future medical cost savings from targeted interventions or improved quality rather than traditional revenue streams. To measure savings, the health plan needs a methodical approach to identify potential outcomes in the absence of these interventions. Additionally, health plans must establish an appropriate time horizon to realize these savings (e.g., three-years but is variable), taking into account factors such as the expected timeline for changes in provider behaviors or practice patterns. To achieve profitability, health plans must optimize recognized medical cost savings while minimizing administrative costs.

Health plans can optimize VBC medical cost savings through three avenues: Driving provider behavior change through tools and support, increasing provider accountability, and expanding the number and types of providers engaged to achieve scale.

On the expense side, cost pressures extend beyond provider incentives to include a comprehensive view of all administrative, infrastructure, and staffing expenses required to manage the entire VBC portfolio effectively.

A key challenge is that these expenses are often dispersed across VBC and traditional fee-for-service plans, making it difficult to quantify and evaluate specific VBC model profitability. Identifying and properly accounting for these expenses is essential to optimizing and sustaining profitable VBC models.

Typical expense drivers for initial analysis include:

- **Analytics:** Effective analytics are essential for evaluating VBC program performance and require investments in skilled labor, infrastructure, and often vendors that provide advanced analytics. Additionally, artificial intelligence (AI) tools are increasingly able to extract insights from complex datasets, offering valuable insights to providers about their attributed population.
- **Performance reporting:** Comprehensive reporting systems demonstrate value to stakeholders (e.g., providers, government entities, employer groups, and internal leaders). Reporting must be compatible across diverse systems and ensure data integrity and consistency.
- **Provider enablement:** Health plans can help providers reduce medical costs by identifying opportunities that they cannot see independently. For example, a health plan can use joint operating committees to highlight that a provider consistently refers to high-cost specialists instead of low-cost, high-quality alternatives. Developing insights into these opportunities for providers can require significant cross-functional effort and investment.
- **Reimbursement technology:** Health plans must invest in advanced reimbursement technologies to manage the complexity of VBC models. These systems must accurately track performance, distribute reimbursements and savings to providers, and support contract modeling. Ideally, VBC reimbursements are woven together with traditional fee-for-service payments to consider the provider's total reimbursement.
- **Clinical program coordination:** Successful VBC programs require effective cross-functional coordination to ensure alignment between medical policies, care management strategies, and VBC contracts.

Despite these administrative expenses, VBC programs can yield high rewards. But health plans must identify which investments produce the needed profitability within the expected time horizon.

2. Implement rigorous governance

Once a health plan establishes VBC models, a clear performance evaluation process and regular reporting (e.g., via a dashboard with established key performance indicators [KPIs]) ensures the models meet business case expectations. Without defined processes and transparency, accountability becomes difficult, and outcomes unclear.

The health plan must have clear guidelines for deciding whether to continue with a VBC model. If a model repeatedly fails to perform against established objectives or gain expected adoption despite multiple modifications, the administrative burden can outweigh the medical savings and quality gains. In such a case, the health plan should discontinue it rather than continue in the hopes of improvement.

For example, a health plan may pilot a specialty payment program model for oncology. First, it identifies the initial setup costs (e.g., analytics processes, quality measure tracking, and incentive payment mechanisms) and incremental expenses (e.g., analytic tool licenses, clinical analytics FTEs, and ongoing payment process).

Next, it selects KPIs for revenue (e.g., fee-for-service trend reduction, generic rate and chemo regimen improvements, and reduced rate of acute care utilization). Further, the oncology program may benefit key stakeholders, such as high-performing oncology groups and key provider partnerships.

The health plan compares revenue capture to investments and ongoing expenses with adequate time for behavior to change (e.g., within 3 years). When the checkpoint arrives, performance that does not meet the KPIs means that the health plan, providers, and members are spending more time or money for the same or poorer outcomes. That triggers termination of the pilot.

3. Reimagine provider partnerships

Successful VBC programs rely on strong health plan-provider collaboration, in which both sides benefit. But most health plans struggle to create mutually beneficial partnerships. VBC program implementation adds complexity for providers, who are managing disparate programs across their plan portfolios. Sustainability requires improved efficiencies for both the health plan and providers. Health plans need to adequately support providers in dealing with various metrics and reimbursement models to decrease the administrative burden, ensuring the benefits of the VBC model outweigh the costs.

A new approach to partnerships:

- Collaboratively develop documents that clearly define medical and financial responsibilities, outline expectations for both partners, and establish a cadence to regularly analyze and confirm that experience matches the desired results.
- Right-size capabilities to promote the strengths of both partners.
- Continuously align metrics and measurement processes and refine programs so each organization is confident in the priorities and outcomes.

- Seek opportunities to standardize programs by considering government plan requirements and competitors' programs.
- Terminate low-performing VBC programs so providers can meaningfully engage in high-performing programs.

Set your VBC program up for success

Implementing VBC programs with clarity, executing them effectively, and operating them with a P&L mindset ensures health plans drive sustainable profitability—extracting value for themselves, their provider partners, and the patients they serve.

A structured P&L strategy and assessment uncovers areas of fragmentation and determines whether existing programs drive meaningful savings. To stay ahead, health plans need to challenge long-held assumptions and ask the right questions to reveal high-impact opportunities.

The authors would like to thank Matt Huizinga and Maria Kaye for their contributions to this paper.

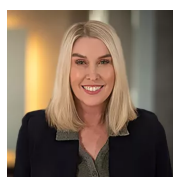
Sources

¹ Health Care Payment Learning and Action Network, "2024 Alternative Payment Measurement," HCPLAN Methodology and Report, November 14, 2024, <https://hcp-lan.org/apm-measurement-effort/2024-apm/2024-infographic/>

AUTHORS



Lynn Garbee



Jeannie Hubbell

Partner



Semyon Shtulberg

Partner, Chartis