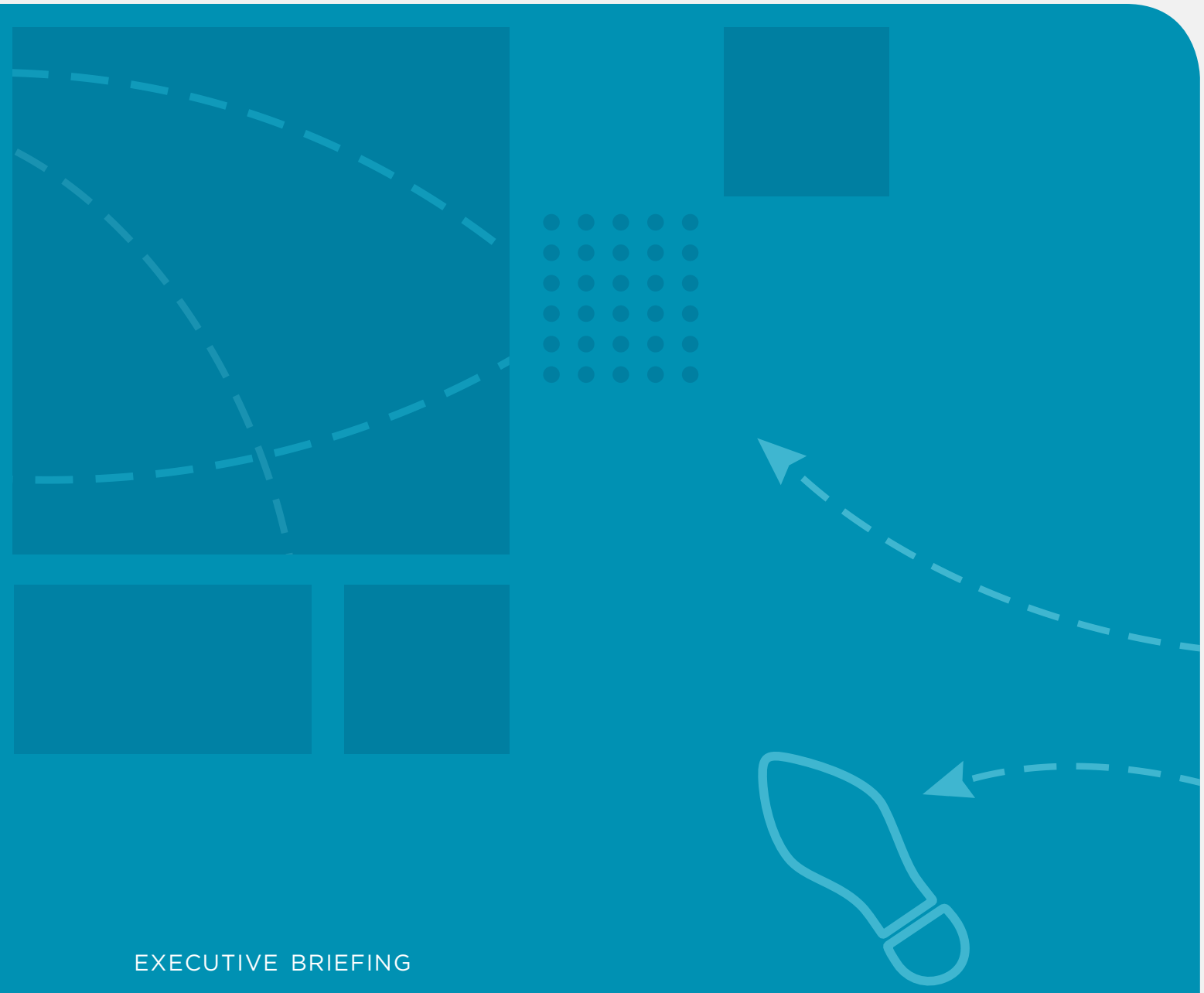
HealthScape Advisors



EXECUTIVE BRIEFING

Take the Lead

Unlocking the Potential of Carrier-Provider Partnerships

"If you get all tangled up, just tango on."

Al Pacino's words of wisdom in *Scent of a Woman* serve as a great metaphor for life, and for the business of healthcare. As the industry continues its value-based transformation, it must grapple with this very question—***how to tango on?***

Based on widespread demand for and adoption of Alternative Payment Models, it is clear these collaborative arrangements are here to stay. The new challenge facing carriers and providers, however, is how to bridge the gap between the potential these models offer and the less-than-promising results the industry has experienced thus far. The strategy has been defined, and now it is time to improve execution. In this latest Executive Briefing on the future of collaboration models in the healthcare industry, HealthScape Advisors outlines the essential elements of the Integrated Operating Model required to drive execution and long-term value in carrier-provider partnerships.

Let's tango.

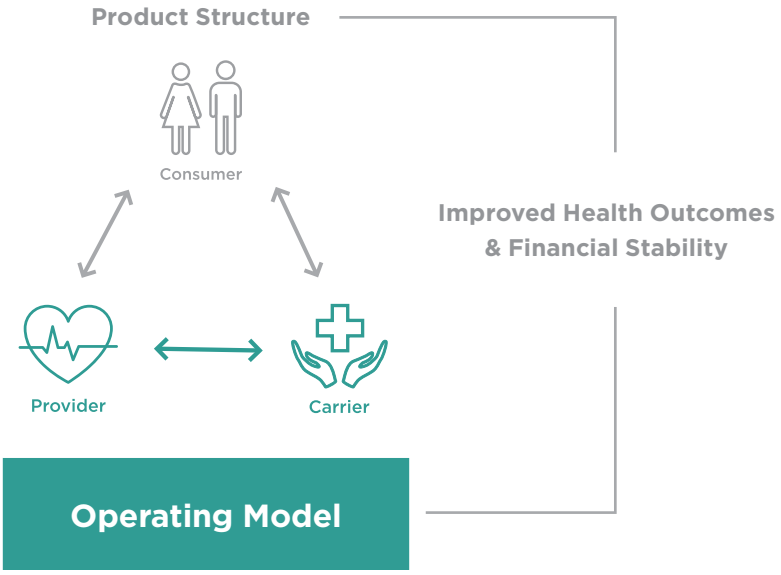
Consumer-Provider-Carrier "Collaboration Model"

Setting the Stage

In our last briefing, *It Takes Three to Tango,* we introduced a partnership framework involving carriers, providers, and consumers designed to drive improved health outcomes and sustainable financial stability for all parties.

As illustrated, the collaboration model is comprised of two highly integrated parts: a **Product Structure** that engages consumers and a supporting **Integrated Operating Model** that drives long-term transformation.

This Executive Briefing presents the essential elements of the Operating Model critical for supporting consumer-provider-carrier collaboration and driving long-term value-based transformation.



OUR POINT OF VIEW

Strategy Drives Structure

As commercial carriers and provider organizations attempt to execute value-based strategies on a broader scale, they are challenged by legacy structures and business models designed to support fee-for-service contracting.

Traditional engagement channels between carriers and providers are inadequate to support these Alternative Payment Models (APMs), which are fast becoming the most prevalent financial structures in the market. Accordingly, carriers and providers need to adopt a new operating model that expands communication and collaboration between both parties, enabling the formation of integrated partnerships that will drive long-term, value-based transformation strategies. The new Integrated Operating Model can assume many shapes, but ultimately providers and carriers must find ways to begin the building process sooner rather than later to ensure market success into the future.

CMS is the Bellwether

As has been the case since the advent of Medicare in the 1960s, Medicare drives the industry's business and financial models. Today is no different.

Over the past year, the Centers for Medicare and Medicaid Services (CMS) has launched innovative programs and proposed regulations (e.g. Next Generation ACO, MACRA, CPC+, etc.) influenced by both providers and carriers that are seeking meaningful payment reform. CMS is shifting the industry toward value-based reimbursement on a macro scale, and the adoption of APMs in the government sector will continue to drive expansion of these contractual models in the commercial sector, creating a virtuous cycle.

As providers develop new capabilities to support commercial APM contracts, carriers will benefit by expanding value-based arrangements to a broader complement of network providers. The question that remains unanswered, however, is:

> ***How can the industry improve its execution and finally realize the potential created by these market and regulatory changes?***

Challenges in First-Generation APMs

Initial versions of commercial APMs typically have resembled "arms-length" contracts between carriers and providers with limited integration between parties.

Under a contractual framework, carriers and provider partners seek to drive value by augmenting the underlying fee-for-service reimbursement model with additional payments and incentives (e.g., shared savings, care coordination fees, etc.) and packaged reporting regarding enrolled beneficiaries who are treated by providers. Under these arrangements, providers rarely manage meaningful downside risk. Subscribers are typically assigned to providers by the carrier based on a claims-driven algorithm that identifies contact between members and eligible physicians. Contact attribution is typically necessary to assign members enrolled in broad-access products (usually the vast majority of a carrier's total subscriber base) to individual providers under APM contracts. Clinically, providers under these arrangements tend to implement data-driven programs that focus on prevention and wellness for targeted attributed populations aimed at reducing unnecessary or avoidable utilization of costly services.

Standard Contractual Approach to Alternative Payment Models

Across the industry, carriers and providers have struggled to achieve meaningful, deep or sustainable improvements in cost and quality outcomes through contractual APMs. This has been disappointing despite significant investments in capabilities.

In our experience, APMs are challenged by a consistent set of structural "gaps" that limit the carrier-provider partnership's ability to generate value for both parties.

Structural Gaps in Contractual APMs: Implications and Solutions

Gaps	Challenges to Value Creation	What is Needed
Shared savings models don't work	**Shared savings models do not offer sufficient financial incentives** for providers to reduce high-margin utilization within their system, leading to muted reductions in total cost of care.	To create sustained value for all stakeholders, providers and carriers **must share in deeper financial risk for cost and quality outcomes.**
Beneficiaries are not engaged in accountable care partnership	Members in broad-access products **lack incentives to seek care within provider partner systems**, resulting in high rates of "leakage" that weaken attribution processes, limit care coordination, and reduce the economic value to all parties.	Members must be aware of their participation in an APM and become engaged **to align behavior with the objectives of the partnership.**
Management teams have a short-term focus	**Organizational commitment to the APM tends to erode** if strong financial returns are not generated in early years of operations (to both carriers and providers).	Executive leadership **must commit to the long-term evolution** of the partnership.
Information sharing isn't effective enough	**"One-way" information sharing is not sufficient** to identify value creation opportunities and support the design and execution of strategies to create value.	Carriers and providers need to leverage collective technological, analytic and clinical expertise to **deliver data in a more meaningful and frequent manner.**

Integrated Partnerships Grow in Popularity

To address the challenges experienced by these first-generation contractually administered APMs, industry leaders are rapidly shifting toward more integrated partnership models.

In contrast to contractual APMs, integrated partnerships are designed around economic models that support greater financial alignment between carriers and providers. A key element enabling partners to align financially is a tailored product, which includes benefit and network design developed to create harmony between member healthcare decision-making and partnership objectives. Aligned products can also strengthen the attribution of an enrolled beneficiary to the provider partner, reducing churn in attributed patient panels for providers.

Integrated Operating Model

In addition, integrated partnerships typically include structured governance to engage executive leadership and drive joint oversight of partnership operations. These mechanisms enable management to establish a consistent long-term vision for how the partnership will evolve in terms of capabilities and service offerings.

Recent Market Case Studies

Single System Integrated Partnership Model

In 2016, **Legacy Health**, a non-profit health system, acquired 50% of **PacificSource Health Plans** to form an integrated partnership to better compete in a highly vertically integrated market containing Kaiser and Providence Health Plans. Through the new partnership, both entities will collaborate on business development opportunities and the design of networks and benefits, enabling the launch of new insurance products in the Portland market beginning in 2017.

Multi-System Integrated Partnership Model

In 2016, **Horizon Blue Cross Blue Shield of New Jersey** launched its **OMNIA** products in multiple lines of business. The tiered EPO product is designed to support population-based partnerships ("OMNIA Alliance") with several multi-hospital health systems included in Tier 1 of the OMNIA network. OMNIA Alliance partners are responsible for managing total cost of care for attributed populations, and have developed shared governance committees with Horizon charged with charting a path to shared risk for each partnership.

Scalable Joint Venture Model

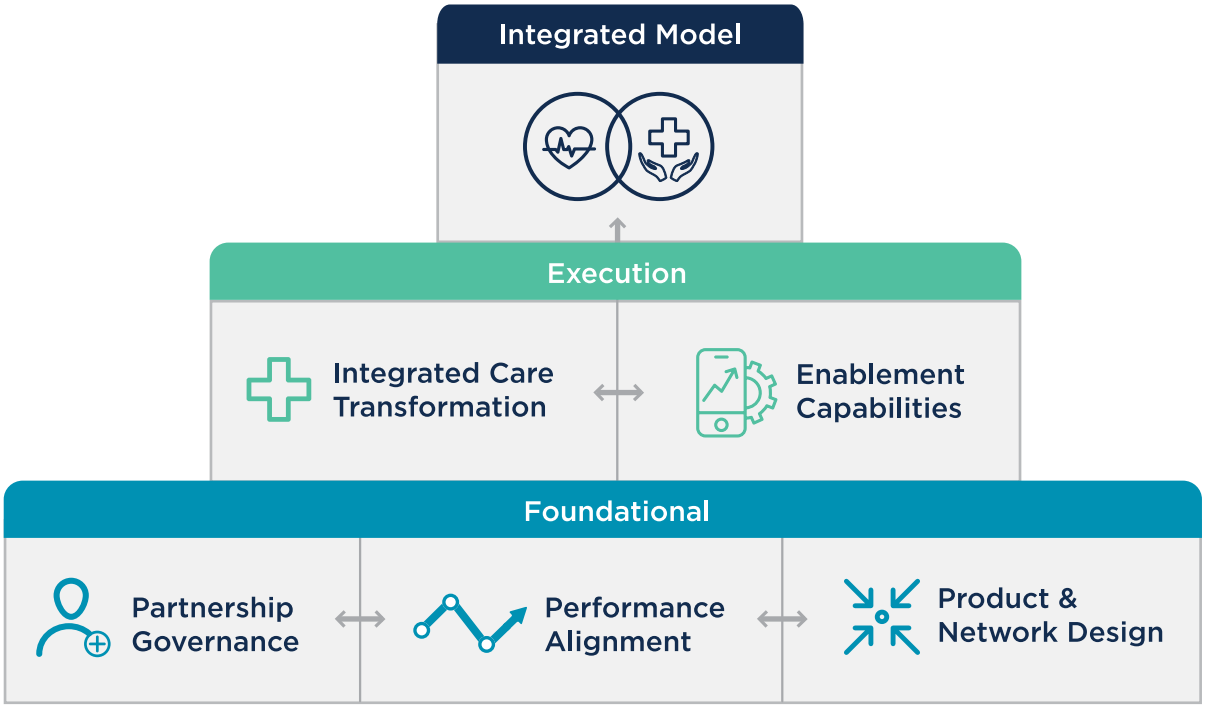
Anthem and Aurora Health Care, a 15-hospital system based in Milwaukee, recently formed **Wisconsin Collaborative Insurance Co.**, a joint venture that intends to offer narrow network BluePriority health plans in employer markets in 2017. This partnership will build on the **Vivity** model Anthem developed in 2014 with seven health systems in Southern California, which offers HMO products and supports clinical collaboration among model participants. Anthem and joint venture partners share in profitability of aligned products.

The Integrated Operating Model: A New Approach

Integrated partnerships require carriers and providers to work collaboratively to share insights, evolve capabilities, and bring new solutions to market. The shift in strategy toward integrated partnerships, therefore, will require carriers and providers to collaborate, communicate, and integrate much more extensively to drive long-term sustainable cost and quality improvements.

HealthScape believes that the structure required to execute this strategy must be composed of highly integrated building blocks designed to promote a high-functioning partnership. The structure should include **foundational building blocks** intended to establish financial alignment, promote strong governance, and drive consumer engagement, and **execution building blocks** that drive capability development, resource support, and care transformation.

Integrated Building Blocks



Deconstructing the Integrated Operating Model

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Partnership Governance

Carrier-provider partnerships require collaboration among executive leadership to establish a clear vision and ensure organizational commitment to evolve partnership capabilities and infrastructure.

Joint management committees can serve as internal advocates to expand the existing channels of communication between parties and reduce conflicts between organizational activities and partnership objectives.

Keys to Success

Committing to long-run success

Joint management teams must commit to a clear future vision for the partnership that provides a path to evolve the economic model, clinical strategies, and enablement capabilities to achieve this vision. A CEO-driven reporting model from both partners brings reality to the effort.

Supporting an "R&D" business model

Collaborative partnerships must be incubators for innovation, demonstrating an ability to rapidly implement, evaluate, and refine programs that drive value—akin to a traditional R&D business. Strong governance supported by executive leadership from both stakeholders is needed to implement and oversee this type of new thinking and experimentation between partner organizations.

Keys to Success *(continued)*

Aligning with the Medicare transition to value-based models

Partners should align their efforts with the various value-based CMS programs to ensure maximum operational and workflow efficiency while improving the speed of physician acceptance and clinical transformation.

Expanding communication channels

Executive leadership must work to improve communication *between* partner organizations by expanding points of connectivity that are limited by existing fee-for-service engagement channels, and *within* partner management teams to ensure organizational commitment to the objectives and success of the partnership. Traditional "contracting" meetings and interactions between carriers and providers are not the forums for gaining trust, creating alignment, and driving execution.

HealthScape Market Insights

Enhancing communication *within* partner organizations can be as challenging (and important) as creating operational integration *between* carriers and providers.

Within multi-hospital systems, alignment of multiple stakeholders across the enterprise is frequently a challenge. Strong executive leadership is needed to obtain commitment to partnership objectives from management teams of hospitals and affiliated/employed physician groups.

Within carriers, limited integration between Network and Medical Management divisions can challenge the collaboration on clinical strategies and the delegation of care management functions to providers. Leadership is needed to break down internal silos and enable integrated partnerships to evolve the clinical management platform.

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Performance Alignment

Shared savings economic models struggle to create the alignment of financial incentives required for sustainable value creation.

To create more mutually beneficial arrangements going forward, partnership economic models need to be designed with a long-term "roadmap to risk." Partners need to agree on the pace of evolution to ensure alignment with existing financial drivers, quality metrics, organizational readiness, and the ability to replace utilization with incremental patient volume. Partners must distribute funds equitably to the entities that drive value and commit adequate funding for the care transformation resources required to succeed.

Keys to Success

Constructing a mutually beneficial economic model

Partners need to jointly establish the conditions under which financial risk-sharing makes economic sense to both parties and the appropriate contractual levers and protections that will create an attractive alignment of financial incentives. Most importantly, the economic model needs to be broader than just shared savings, factoring in other key levers that will create financial alignment (e.g., leakage prevention, provider market share improvement, etc.). To create a successful long-term partnership, the parties must demonstrate great forethought and consideration of all financial variables impacting their respective businesses.

Agreeing on a long-term business case and financial plan

Like any new venture and business model, success does not occur overnight. Obtaining a clear vision of the long-term business case for both partners, including up-front investments, resource commitments through each APM phase, and long-term revenue, cost and margin goals, is essential to obtaining the support of all stakeholders, including their respective boards. Early-stage ventures that involve this level of structural change require a long-term view of return to achieve the required ROI and strategic fulfillment for the partners.

Keys to Success *(continued)*

Collaboratively determining quality measures

Aligning on the best quality measurement approach requires carriers and providers to conduct a candid readiness assessment of their technological and reporting capabilities. The most common performance measurement models today involve static and infrequent data collection and reporting against defined quality metrics. Performance evaluation occurs in retrospect. This is not ideal, but it is a pragmatic starting point if there are current-state data exchange and reporting limitations. For those that can collect clinical data from the EMR in real time and understand patient-level gaps at the point of care, the potential to drive ongoing change management and quality improvement is clearly much greater. To create alignment, carriers and providers should collaboratively create a staged roadmap that drives the partnership toward this aspirational state.

Developing a path to down-side risk sharing

Partners should develop and socialize a plan for the partnership to transition over time from a shared savings to a shared risk model. The plan should outline critical dependencies that must be met before financial risk is shared between the partners (e.g., introduction of an aligned product, delegation of care management, data sharing requirements, etc.).

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Product & Network Design

Aligned products are essential to the evolution of partnerships beyond upside-only models, and must be developed in concert with both provider and carrier stakeholders.

Aligned networks support the concentration of clinical volume within high-value provider systems, enabling improved coordination of care and replacement of revenue lost due to utilization reductions. Aligned benefits also empower consumers to participate in "accountable care models" and incentivize informed decision-making.

Keys to Success

Aligning on markets served

The healthcare market is rapidly shifting to consumer-centered product selection. Medicare Advantage, ACA markets, and many Medicaid markets are rapidly making this transition. It is likely that defined contribution models will create a similar shift in the large employer group market over time. Given these trends, partners need to comprehensively evaluate the market when designing and launching joint products. Thoughtful market selection will better position the partnership to capture the provider's patient base, maximizing the potential to offset the provider revenue lost from utilization and unit cost reductions with replacement revenue from new members.

Aligning product features with provider contracting

Carriers and providers need to collaborate on benefit and network design to ensure rate contracting with partner facilities and physicians supports a competitive premium position for the product. Partners should also be transparent about the impact on reductions in member cost sharing on either premium pricing or contracted rates with network physicians and/or hospitals. This takes careful review of the partner economics with funding thresholds defined in advance.

Keys to Success *(continued)*

Collaborating on network design to drive steerage and reduce churn

Partners should collaborate on the composition of provider networks at the core of aligned products to ensure benefit designs steer members to high-value providers. This step needs to be performed early to avoid major changes after operational launch, which could undermine and weaken the initial partnership design. Carriers and providers should also evaluate how enrollment in aligned products can stabilize populations under management compared to the traditional contact-based attribution methodologies that support contractual APMs.

Learning from past mistakes

In the first wave of carrier-provider collaborations, partners learned a painful lesson related to adverse selection in broad-access products vs. managed products with tighter networks designed to better coordinate care. Experience has proven that PPOs simply do not facilitate the advanced-stage care coordination required for complex chronic members to manage cost within premium levels. Using early ACA consumer selection as a benchmark, it is evident that healthy consumers will generally select narrower-managed products, and unmanaged chronic patients will select PPOs. Accordingly, this demonstrates that carriers must carefully weigh offering both broad PPO products and "coordinated care" partnership products within the same market.

EXECUTION

Integrated Care Transformation

Integrated care transformation needs to be a joint partnership initiative to create alignment.

Clinical strategies that drive cost savings should be developed and agreed to by both stakeholders, and should reflect the underlying financial incentives of the partnership. In addition, clinical teams within partner organizations need to establish a delegation model that efficiently shares responsibility for the delivery of care management programs and services to populations under management.

Keys to Success

Aligning clinical programs to the economic model

Clinical strategies should be staged with the underlying economics of the partnership. For example, under shared savings arrangements, clinical strategies should include opportunities to address market inefficiencies outside provider health systems, creating "win–win" cost outcomes. As the economic model shifts toward down-side risk sharing, partners should increasingly emphasize opportunities to create efficiencies inside provider health systems while driving volume through product steerage. Ultimately, carriers and providers must make this their highest design and collaboration priority, as it will greatly impair the partnership if not executed well.

Coordinating the delegation of care management activities

As partnerships evolve to down-side risk sharing, carriers and providers must develop and implement a clear delegation model that coordinates risk stratification methodologies, scopes care management programs, and governs services that will be delivered by carrier assets vs. provider assets.

HealthScape Market Insights

Carriers should take a more active role in the design and implementation of partnership strategies that drive medical cost savings.

This is especially true when the partnership is under a shared savings economic model. In early stages of operations, partnerships should adopt a balanced approach to driving savings both inside and outside of partner systems. Carriers can leverage familiarity with claims data and network utilization patterns to support the development of a diversified portfolio of clinical strategies, which should enhance financial returns to both parties.

OUT OF SYSTEM SPEND

Strategies drive savings without significant reduction to health system revenue or margin.

Savings Levers

- OON recapture
- Referral optimization
- Rx management
- Lab & imaging
- SNF & home health
- ASCs

A balanced approach is needed to drive cost savings in upside-only economic models

IN SYSTEM SPEND

Standard clinical strategies drive cost savings, but can drive health system losses in net revenue and contribution margin.

Savings Levers

- High-risk care coordination
- IP/OP utilization
- Readmissions avoidance
- ED avoidance

EXECUTION

Enablement Capabilities

Both carriers and providers are actively engaged in developing enablement capabilities that can be scaled across multiple relationships.

Providers are seeking payer-agnostic solutions, while carriers are seeking platforms that can be scaled across provider networks. Given the size and scale of long-term clinical technology investments and the related adoption risk, providers and carriers will continue to struggle with coordinating ownership and delegation of various capabilities in the information value chain. Partners must agree on a unified approach, even if this means using less-sophisticated solutions in the short term to drive enablement.

Keys to Success

Aligning enablement capabilities and resources with clinical and consumer engagement strategies

Misalignment between capabilities and strategy can greatly undermine the performance outcomes of the partnership. Accordingly, carriers and providers must jointly define the business requirements behind clinical programs and consumer engagement activities, ensure that analytics and decision support tools can drive action, and devote ample resources and/or funding up front to adequately staff care transformation activities.

Balancing short- and long-term solutions

In the early stages, partners should not allow long-term builds to preempt the development of short-term solutions to provide physicians and care teams with the actionable information required to make decisions in line with partnership clinical strategies. Key components for long-term strategies, such as universal interoperability of clinical data and seamless delivery of patient-level clinical and quality improvement data (at the point of care), is not currently available in the market. These market limitations should not impede progress during the earlier stages of the partnership's long term roadmap. Significant collaboration is required to develop short-term processes and informal "tools" (e.g., spreadsheets and less-integrated communication to embedded care coordinators) to ensure information flows to clinicians in the field.

Keys to Success *(continued)*

Determining roles and responsibilities in the enablement value chain

From a long-term perspective, carriers and providers must align on a common solution for delivering each of the capabilities in the enablement value chain. Stakeholders must agree on whether to use existing carrier or provider platforms, jointly build new capabilities under the partnership, or to purchase solutions from third-party vendors.

The Value Chain of Enablement Capabilities

Data Acquisition & Connectivity	Data Aggregation & Management	Analytics & Measurement	User Interface	Clinical Workflow
Ability to manage the complexity of exchanging structured data with clinical software	Aggregation of clinical claims and third-party data into a "single source of truth" platform for data mining and user interface outputs	Sophisticated analytics that generate meaningful action-oriented insights and identify areas of clinical improvement	Easy-to-use navigation and visuals enabling the end user to efficiently navigate through the technology	Systems and processes that support clinical care actions and accountability driven by a technology infrastructure

A Staged Roadmap to an Enhanced and Integrated Partnership

To implement the structure for an integrated model in a systematic way, carrier and provider partners should follow a staged roadmap by first building the operating model foundation and then executing highly feasible and focused care transformation initiatives that create early momentum and incentive alignment.

Stage 1 | *Foundational Design & Build*

As an initial step in driving greater integration in collaborative partnerships, carriers and providers should establish foundational structures that will support future growth, focusing specifically to:

Establish Partnership & Governance Structure

Implement shared governance structures and identify key executive advocates within each organization who will engage and commit resources.

Create Financial Alignment

Create financial alignment through an initial economic model (inclusive of quality and performance scorecards) and key milestones that shift the financial model to downside risk in the long term.

Align Product & Network Strategy

Develop a highly local network and product strategy that engages members through aligned benefit design and drives "win-win" financial outcomes to both carrier and provider partners.

Stage 2 | *Early-Stage Execution*

Once foundational elements are established, partners should align short- and long-term strategies and execute:

Align Clinical Strategies

Engage business, clinical and analytic leads to design and execute care transformation strategies that align with short term and longer term economic incentives.

Develop & Launch Initial Enablement Capabilities

Build scalable processes and decision support tools that drive action and align with clinical strategies, and invest heavily in analytics, care transformation personnel, and reporting capabilities to continually identify new opportunities, drive execution, and monitor ongoing performance.

CEO'S PERSPECTIVE

A Note from Senior Advisor, David Gentile

In the end, "Consumer-Carrier-Provider Collaboration" and the commensurate "Integrated Operating Model" requirements have an intriguing level of mystique, so much so that the actual pursuit or serious consideration of such an endeavor might be put on the executive team's back burner for the time being. Understandably so. For many, the likely path for now is the one of least resistance, with a slower migration toward shared accountabilities.

The reality: the efforts to implement first-generation value-based initiatives were not easy endeavors for carriers and providers to achieve. It is indeed even harder to consider accelerating those efforts toward an integrated operating model, especially when the practical difficulties we discuss in this briefing have been driven by the operational realities of being successful today. That translates into trying to transform ourselves (even slowly), while simultaneously operating a significant portion of our business model under the old operating model. Not an easy task, particularly when many carriers and providers are faced with ongoing financial, service and market difficulties.

Yet it's equally intriguing that most carrier and provider executive teams alike see this integration as a step that must be considered going forward. But how long does the market have to react, plan, design, and execute the many steps of an integrated framework and win the race for creating a sustainable business model? As we discussed, it takes strong, bold, and skilled leadership from both partners to create a change in management philosophy and strategic approach to rebuild the plane while in flight. This is a critically important consideration of carriers and providers in today's timeline, otherwise, they run the risk of having employers (who drive the largest paying segment of markets today), the government, and individuals (the fastest growing market segments) throw in their towels for a less optimal solution that could undermine the collaboration needed to ensure sustainable value for all.

ABOUT HEALTHSCAPE ADVISORS

Where insight meets execution

We bring healthcare executives market-leading insights and actionable strategies that create sustainable value.

Why HealthScape

We are experts in healthcare.

We are committed to one industry, demonstrated by our award-winning data analytics platform and network of industry relationships.

We are innovating for tomorrow.

While we help our clients navigate today's dynamic climate, it's our focus on the future that sets us apart.

We are invested in people.

We are smart, resourceful, data-driven professionals, not just a brand. We create an environment of excellence and relationships based on follow-through and trust.

We execute solutions.

While we provide market-driven strategies and superior problem solving, it's our ability to help our clients execute solutions that moves business forward.

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