



Managed Care and Contract Negotiations

HFMA MA-RI New to Healthcare
September 21, 2018

AGENDA



- Massachusetts Marketplace – What makes it unique and creates challenges for managed care contracting
- What is Lahey Health? Framework for Managed Care Contracting – I will fly through these
- Negotiation Process and Phases
- Tips – just a few



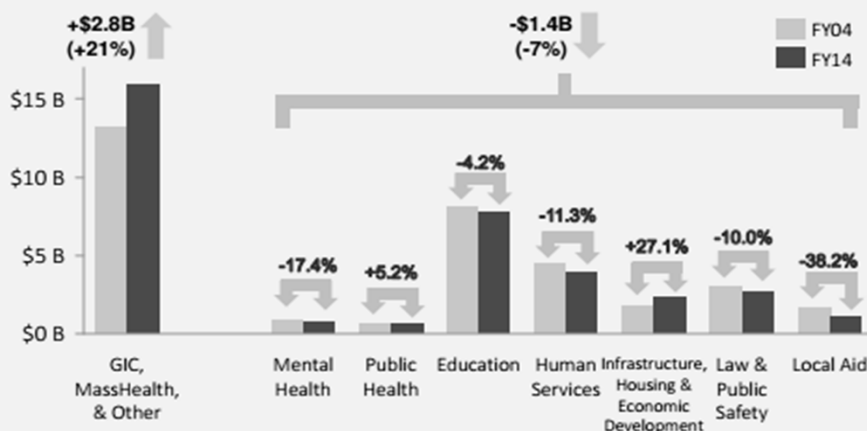
Massachusetts Challenges

- Affordability is a growing challenge for consumers, employers and government
- Annual family premium plus cost-sharing is \$20,400
- The state’s health care spending is 6.0% more per person than the national average
- An increasing number of high-value community hospitals are facing financial jeopardy
- Health care is crowding out essential state services



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Figure 1.1: State budgets for health care coverage and other priorities, FY2004- FY2014
 Total budget (dollars in billions) and total real growth percentage, FY2004 – FY2014



NOTE: Figures all adjusted for Gross Domestic Product (GDP) growth; GIC = Group Insurance Commission
 SOURCE: Massachusetts Budget and Policy Center

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Major Teaching Hospital Utilization

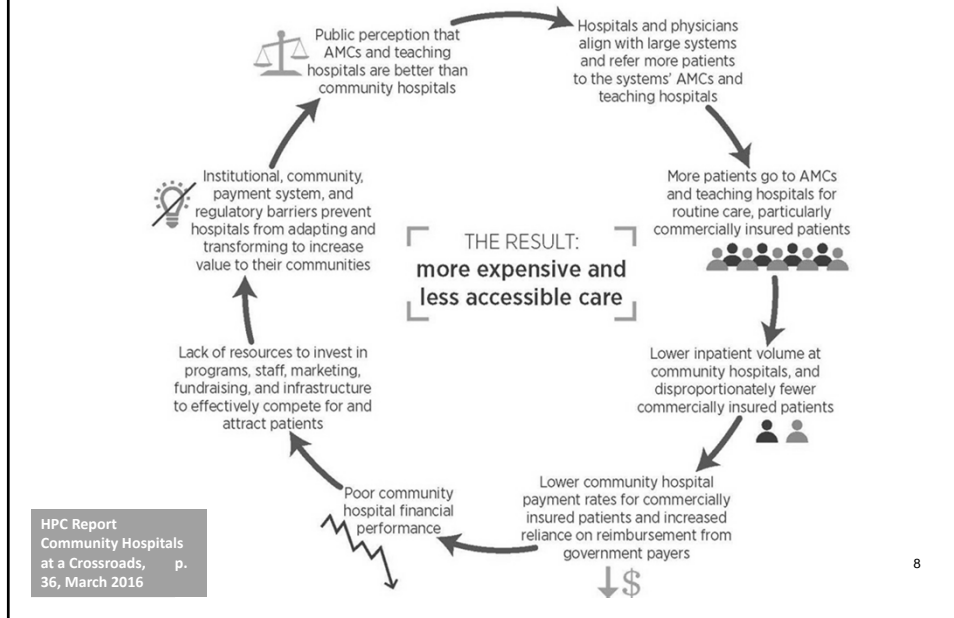
The Massachusetts delivery system uses major teaching hospitals for far more of its inpatient care than the rest of the nation.



Unwarranted Price Variation

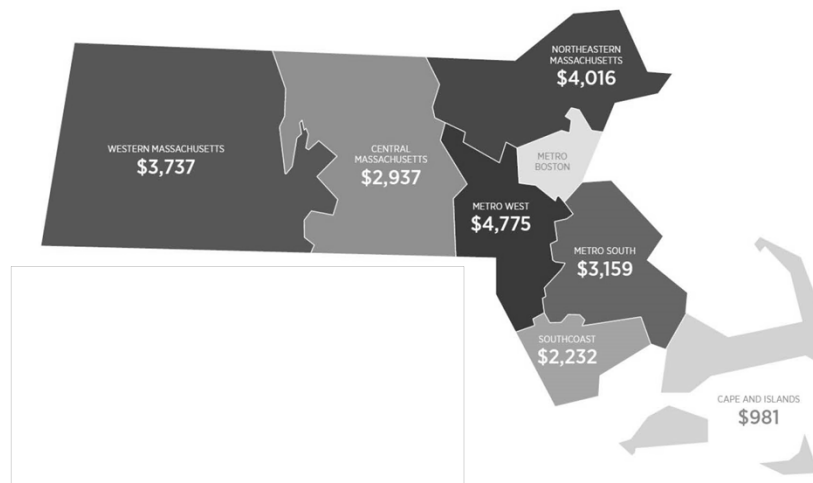
- Prices vary extensively for the same sets of services.
- Higher hospital prices are not associated with higher quality or other common measures of value; market leverage continues to be a significant driver of higher prices.
- The disparity has not diminished over time and is particularly damaging to lower cost, high quality community hospitals.
- Contributes to higher health care spending due both to the prices and to the large share of volume at higher-priced providers.

Self-Reinforcing Challenges Facing Community Hospitals



Patient migration to Boston increases health care spending

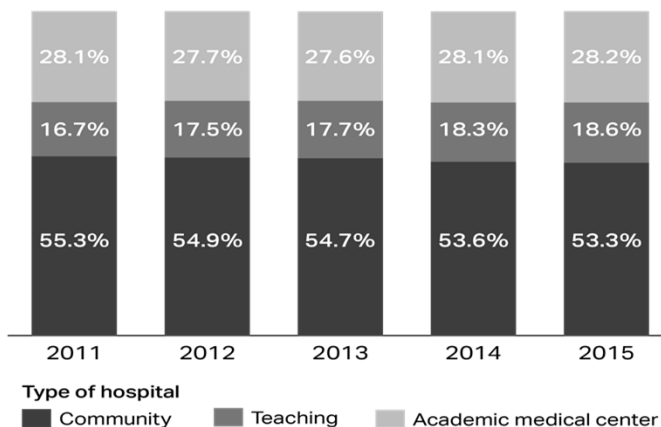
Average Additional Case-Mix Adjusted Cost for Each Commercial Discharge at a Boston Hospital Rather Than a Local Hospital, by Region of Patient Origin



Source: HPC analysis of MHDC 2013 discharge data and raw CHIA relative price data.
Note: Figures shown are differences in average commercial revenue per CMAD for hospitals in each region compared to those in Metro Boston, adjusted for payer mix.

Inpatient care that could safely and effectively be provided in community hospitals is increasingly being provided by teaching hospitals

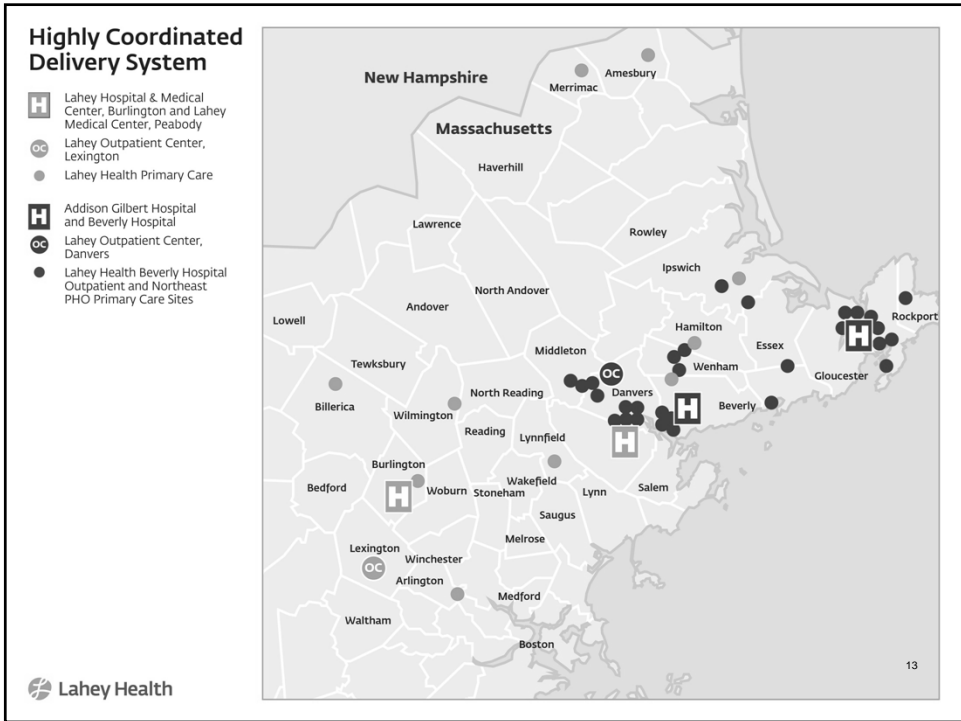
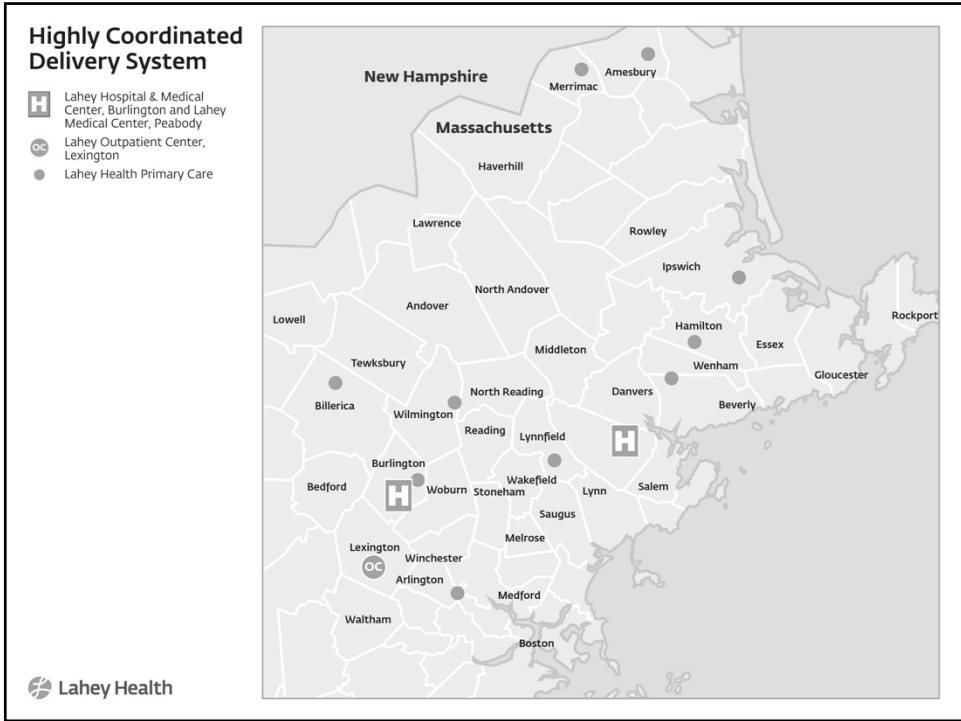
Share of community appropriate discharges, by hospital type, 2011-2015

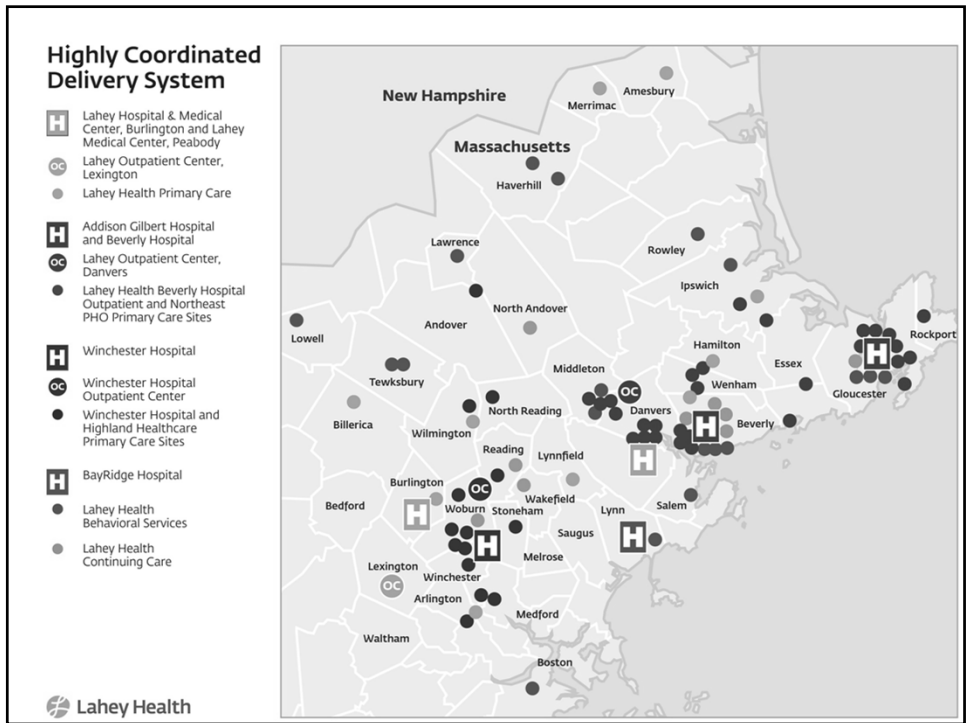
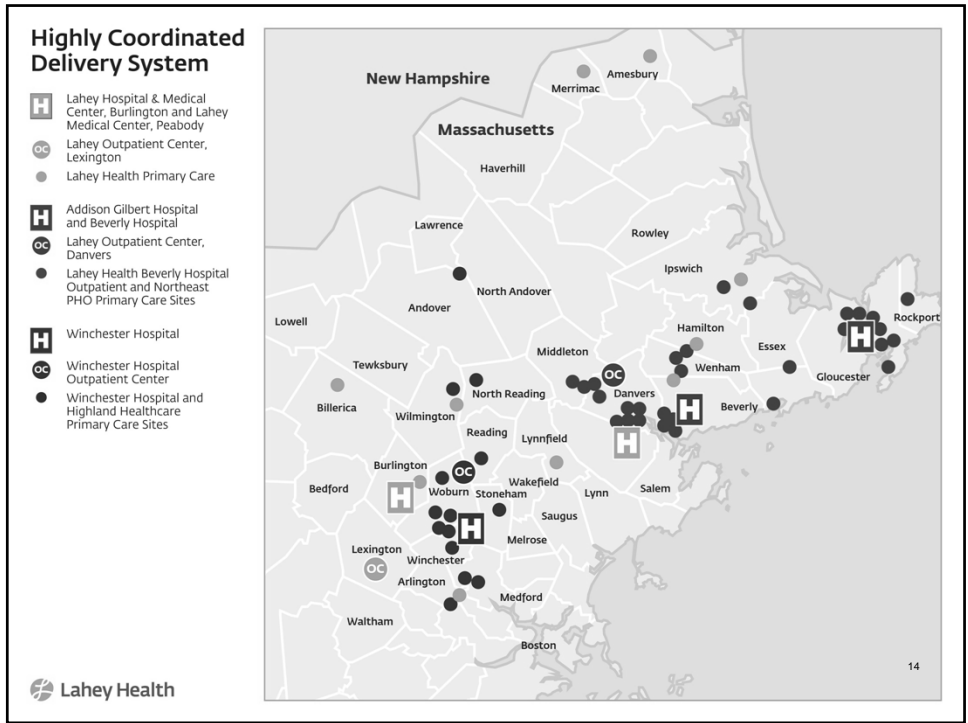


Notes: Discharges that could be appropriately treated in community hospitals were determined based on expert clinician assessment of the acuity of care provided, as reflected by the cases' diagnosis-related groups (DRGs). The Center for Health Information and Analysis (CHA) defines community hospitals as general acute care hospitals that do not support large teaching and research programs. Teaching hospitals are defined as hospitals that report at least 25 full-time equivalent medical school residents per one hundred inpatient beds in accordance with Medicare Payment Advisory Commission (MedPAC) guidelines. Academic medical centers are a subset of teaching hospitals characterized by (1) extensive research and teaching programs, (2) extensive resources for tertiary and quaternary care, (3) principal teaching hospitals for their respective medical schools, and (4) full service hospitals with case mix intensity greater than 5 percent above the statewide average. Source: HPC analysis of Center for Health Information and Analysis Hospital Inpatient Discharge Database, 2011-2015

What is Lahey Health?







A Typical Contracting Department



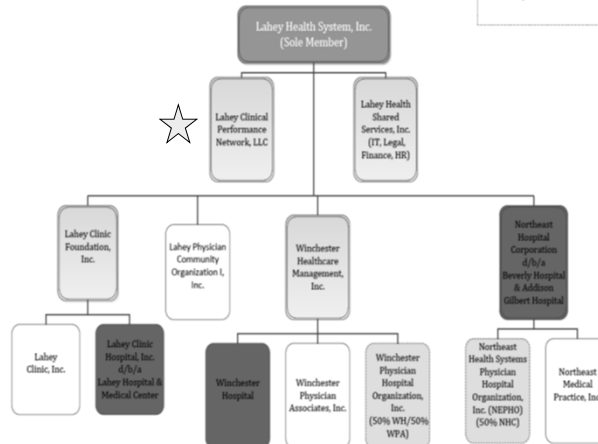
Contracting Department is responsible for:

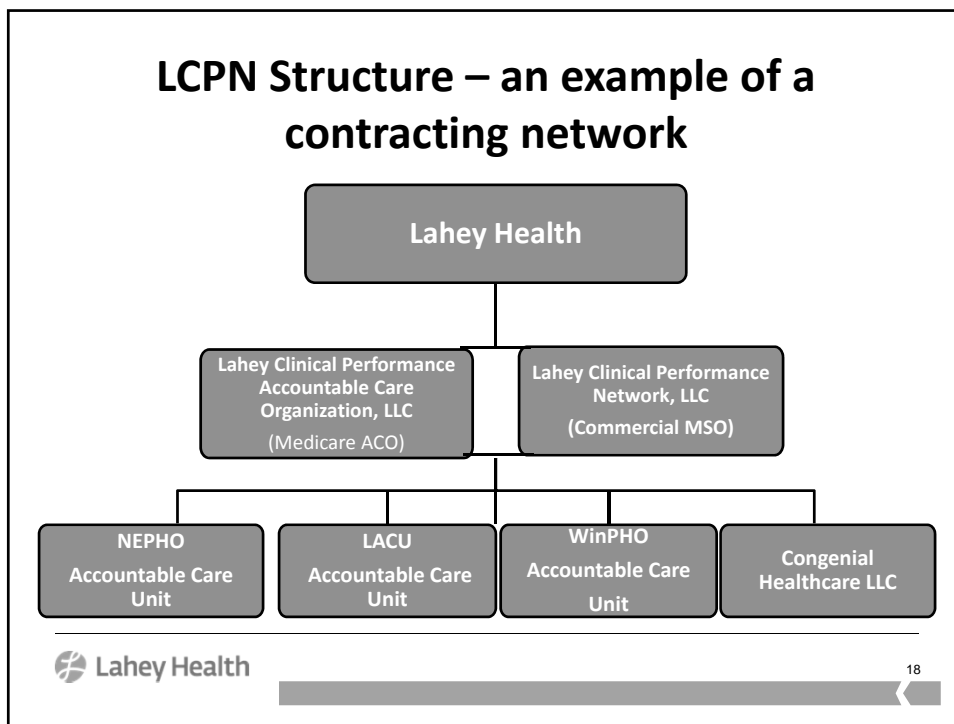
- LCPN Network contracts
- Hospital contracts – LHMC, Northeast & Winchester
- Medical Group contracts – Lahey Clinic, Northeast Medical Practice, (NMP), Winchester Physician Associates (WPA) & Lahey Community Physician Organization 1 (LPCO)
- MassHealth ACO
- Behavioral Health
- Urgent Care
- Home Care
- Transplant and other types of bundles payments
- International and Executive Health
- Misc – Atrius, CVS, Individual contracts, Children’s Hospital and some vendor contracts related to contract performance or government regulations



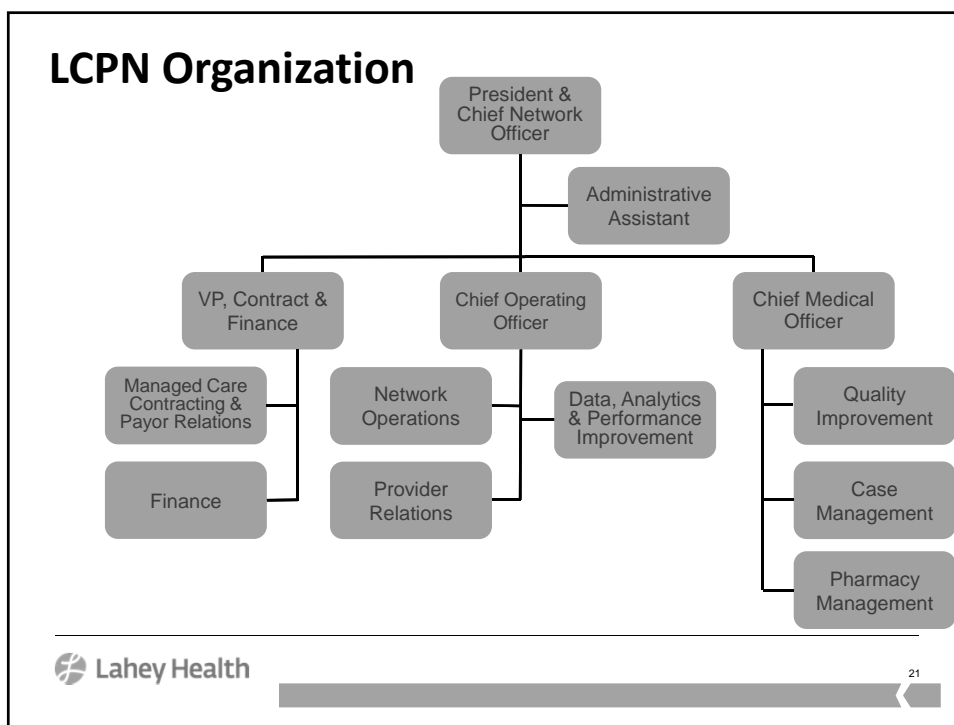
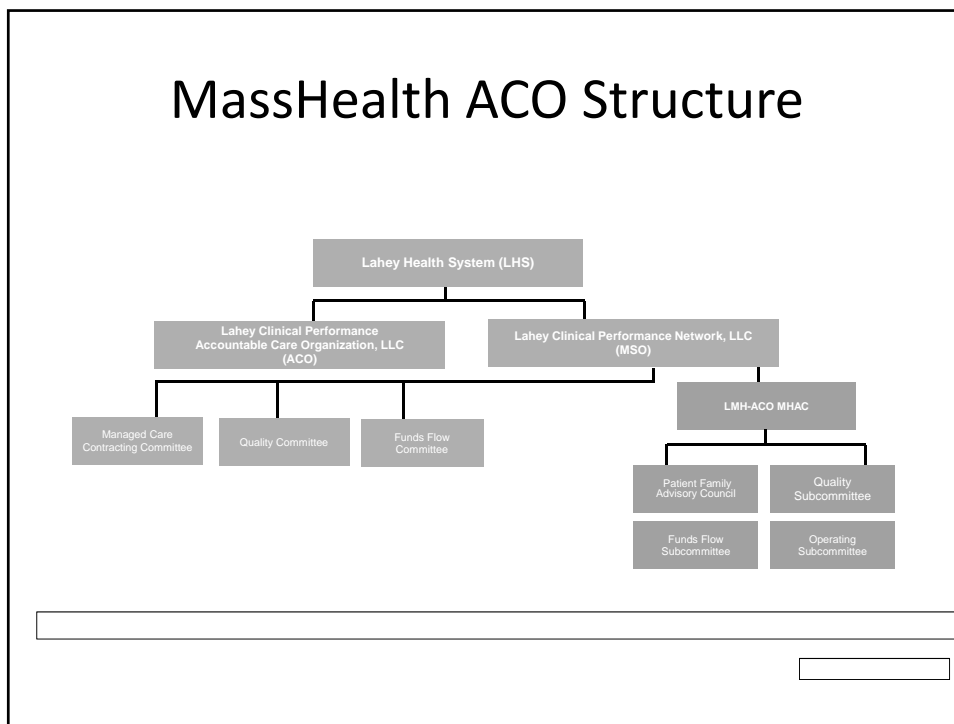
LHS Chart of Corporations (Mini-Org.)

LEGEND
 Gray – Administrative Services or Holding Company
 Red – Licensed Hospital
 Blue – PHO
 White – Group Practice





- ### LCPN Committees
- Quality Care & Value*
 - Funds Flow*
 - Finance
 - Strategy
 - Managed Care Contracting*
 - Physician Review
- * Representational standing committees
- Lahey Health 19



Contract Approval Process

- A strategy is proposed by the LCPN contracting/management team and vetted by the Managed Care Contracting (MCC)
 - We present “book ends” to MCC
- The recommended strategy is brought to the LCPN Board for approval
- Negotiation updates are given to the MCC
- “Completed” negotiations are presented and the MCC makes a recommendation to accept or deny the proposed contract terms to the LCPN Board
- LCPN Board votes to accept or deny the recommendation of the MCC
- Reimbursement rates are negotiated at an equal level for all physicians

Types of Managed Care Contracts

- Fee for Service - FFS
- Pay for Performance – P4P
- Shared Savings – one sided
- Shared Risk – two sided
 - Budgeted Capitation – per member per month (pmpm) budget set
 - Quality components
- Full Risk or Capitation – pmpm cash payment
- Bundled payments
 - Transplants
 - Bariatric surgery
 - Joint & Spine



Aligned Incentives within a contract – one of the toughest challenges during a negotiation

- Many stakeholders with different incentives need to be balanced in a successful contract
 - Hospitals
 - Tertiary and community
 - Physicians
 - salaried or independent
 - primary care and specialists
- Within a fee schedule, all specialties are represented, some are paid better than others
- Ancillary contracts are usually non-negotiable with many payors

The Stages of a Contract Negotiation

Major Phases in a Negotiation... and after

- Preparation – single most important part of a negotiation
- Kick Off
- Proposal/Counterproposal(s)
- Financial Terms & Analysis
- Written Contract Language
- Thorough Legal Review
- Formal Acceptance and Approval
- Implementation
 - In-Service
- Ongoing Troubleshooting
 - Patient Financial Services
 - Case Management and Utilization Management



But before we talk about those phases...

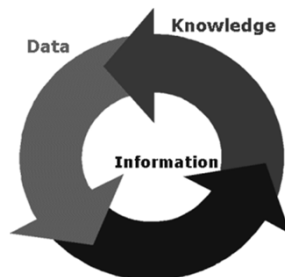


- Equally as important as the skill of the negotiation itself is the **relationship** created with the payor
 - Managed care contracting staff also have the responsibility to establish and maintain a relationship with the payors and their staff long before one gets to the "table"
 - Contracting staff needs establish respect with their counterparts at the payors
- Integrity** is critical to a successful negotiation and mutually beneficial relationship
 - Point out errors even if they don't benefit your organization
 - Don't ever lie – you will get caught and lose your credibility
 - Don't say something is a "deal breaker" or a "final offer" unless it really is
- Listen** very carefully to the needs of the other party
 - There are often opportunities to provide something of value to the other party that will "cost" you nothing, listen for them

Preparation – the most important piece

Gather and carefully review all the data you can:

- External data –
 - Publically available data: relative price (hospital and physicians), enrollment,
 - Comparisons across payors, comparisons across providers
- Internal data –
 - Margin by payor
 - Physician fee schedules as a percent of Medicare
 - Denials by payor
 - Mid contract policy changes and their financial impact
 - Value the proposals
 - Exchange baseline data with payor
- Competitive Intelligence
 - Network and talk to others in the marketplace



After Preparation is complete...



- Kick Off meeting
 - All parties at the table to explain what their goals are.
 - A chance to talk about the challenges the parties are facing and what each thinks the future holds.
- Initial proposal: it doesn't matter which party starts
 - If the parties listen carefully the counterproposals reflect the issues that have been discussed and the gaps between proposals start to close
 - There can be many counterproposals
 - Try to set deadlines though sometimes its hard to get the other side to stick to them
 - Set weekly meetings so that the negotiations progress well

Financial Terms and Analysis - Reimbursement

- Inpatient : PAF, Per Diems, DRGs
- Outpatient: PAF, Fee Schedules, Case Rates, Per Visit, APCs, etc.
 - Lesser of
 - Observation
- Physician Reimbursement – Fee Schedules, Capitation
- Risk Sharing:
 - Budget build – historical expenses, percent of premium
 - Percent Shared
- Quality component – lump sum, compounding rate increases, pmpm amounts
- Pharmacy risk – particularly troubling in recent times
- Infrastructure payments – to pay for performance improvement operations and programs
- Reinsurance – to mitigate high risk



Contract Terms



- Thorough review of written contract term is a critical part of negotiations
 - Don't fall into the trap that once the financial terms are agreed to the negotiations are complete
 - A well negotiated financial deal can be seriously undermined by unfavorable contract language
 - Examples: policy manual changes, limited networks, tiered networks, all product contracts
 - Evergreen Vs. hard term
 - Regulatory matters
 - Beware of terms that cannot be operationalized
 - Without cause termination rights
 - Silent PPOs
- Legal review by an attorney that understands managed care financing and risk contracting
 - Business risk Vs. legal risk

And lastly...



Formal Acceptance and Approval

- Document management - version control and organize finalized contracts

Implementation of the contract

- Communicate contract terms to your organization
- Consider doing an In-Service education program

Ongoing Troubleshooting

- Patient Financial Services - claims issues
- Case Management and Utilization Management – payment denials after record review

Tips (No Tricks)



- Silence is powerful, don't fill the "space"
 - People are uncomfortable with silence and they tend to fill the space and say something revealing
- Pay attention to room dynamics – don't sit "across from the other side"
 - Its so adversarial, remember mutual respect is more important
- Don't be afraid to say – "I need to think about that" (instead of "I don't know") or "I will bring that back" (instead of "I can't make that decision")
 - Signal you are in charge
- Criticize the process not the person, don't make it personal
 - Statements like "you don't understand" or "why are you suggesting that?" puts the other side on the defensive, instead try "Tufts might reconsider that contract term because it doesn't reflect our understanding " or "BC is suggesting something that doesn't fit our needs"
- Go into a negotiation with a "gain/gain" mind set. What can you gain for your organization? What will the other party gain for their organization?

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