DIRECT CONTRACTING:
A NEW OPPORTUNITY
FOR AN OLD IDEA?

Tim Hewson
Matthew Roberts

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DIRECT CONTRACTING

- Health care providers contract directly with employers to arrange for the provision of specific types of health care to employees of employer for an agreed upon price.

- Providers and employers can negotiate performance based reimbursement to incentivize a healthier workforce.
DIRECT CONTRACTING
NOT A NEW IDEA

- Direct contracting relates back to original hospital/patient relationship
- Advent of employer based benefits (1940’s) and governmental health insurance programs (1960’s) have dramatically affected hospital’s relationship with patients
- With the advent of managed care in the 80’s-90’s, direct contracting resurfaced as a potential strategy for providers
FACTORS CAUSING AN INCREASED INTEREST IN CONCEPT OF DIRECT CONTRACTING

- Rising cost of health care for employers
- Increasing complexity and operational problems with navigating the health insurance market
- Decreasing reimbursement by payors
- New focus on quality of health care services
- Improved access to health care services
WHY DIRECT CONTRACT?

› Allows health systems direct access to additional patients

› Allows employers to control costs of care and reduce work days missed

› Reduces time away from work for employees participating in on-site programs

› Eliminates the cost and complication of dealing with third party payors
WHO ARE PLAYERS IN DIRECT CONTRACTING

WHY?

Employers
- Want to reduce health care costs
- Want healthy workforce

Providers
- Want to improve local/regional health care
- Want more influence and control over reimbursement

Patients
- Want higher quality care
- Want lower health care costs
- Want easier and more convenient access to health care
LEGAL ISSUES IMPLICATED BY DIRECT CONTRACTING

- State insurance law issues
- Business risk in risk-based contracts
- Potential fraud and abuse issues
- Evaluation of employee benefit plans
- Antitrust
- Impact of Accountable Care Organizations
HOW DOES DIRECT CONTRACTING WORK?

- Providers negotiate directly with human resources executives of employer regarding the types of services covered and the corresponding price.

- More sophisticated direct contract arrangements include risk based elements where the providers are paid more money if certain cost and quality outcomes are achieved and less money if the cost and quality outcomes are not achieved.

- Employees are incentivized or required to use a certain provider.

- Employee satisfaction can also be a component of the arrangement.

- There is periodic review and audit of cost and quality outcomes by employer and provider.
HOW DOES DIRECT CONTRACTING WORK?

‣ Providers need to be realistic about its ability to provide certain types of care

‣ Providers need to understand the marketplace and employers’ needs

‣ Providers should “tailor solutions that are built around the kinds of things that employers are interested in.”

Michael McMillan
Executive Director of
Market and Network Services
Cleveland Clinic
TYPES OF DIRECT CONTRACTING

1) Regional health systems with sufficient geographic presence and broad array of clinical services with ability to share risk in employer based direct contracts*

2) High profile providers who have excellent clinical outcomes offering bundled payment model for large employers on regional or national basis*

3) Basic arrangement between local providers and local employer on basic health services with little to no financial risk. This provides platform for expansion.

*FitchRatings, Seeking Value: Direct Contracting Strategies (May 20, 2014)
HOW DOES DIRECT CONTRACTING WORK WITH OTHER STRATEGIES?

- Clinical Integration Strategies
- Quality and Performance Strategies
- Value Based Contracting Strategies
- Population Health Strategies
DIRECT CONTRACTING

NARROW NETWORKS

- Many employers are moving to narrow networks
- More restrictive provider networks offer promise of lower cost options without sacrificing quality
- Some narrow networks include a patient centered medical home (PCMH) for employees with certain chronic conditions, such as:
  - Cancer
  - Diabetes
  - Kidney Disease
  - Cardiac Conditions
  - Osteoarthritis
Employees can be incentivized to follow best practices to manage their condition

- Lower copays
- Medications on a lower-cost tier

Primary care physicians can be paid more for care coordination and disease management services

Why incentivize employees and doctors? Following evidence based practices can lead to lower inpatient costs
March 7 (Bloomberg) -- In the changing world of health care, patients are finding that the best care may be several hundred miles away.

By bundling all costs for the surgery under one negotiated price…

Walmart, Lowe's enter bundled pay deal with four health systems

New network will offer no-cost implant care for more than 1.5 million workers

October 09, 2013

A first-of-its-kind coalition of large U.S. employers—including Walmart and Lowe’s—will offer no-cost coverage for hip and knee implant procedures at four U.S. health systems starting on Jan. 1, 2014.

The companies joined the Pacific Business Group on Health (PBGH) Negotiating Alliance to create the Employers Centers for Excellence Network, which will offer no-cost knee- and hip-replacement surgeries for more than 1.5 million employees and their dependents at:

- Johns Hopkins Bayview Medical Center in Baltimore;
- Kaiser Permanente Orange County Irvine Medical Center in Irvine, Calif.;
- Mercy Hospital in Springfield, Mo.; and
- Virginia Mason Medical Center in Seattle.
Slimming options  Intel adopts narrow network to better manage care
By Melanie Evans | July 13, 2013

Dissatisfied with previous cost and quality efforts, computer chip giant Intel Corp. has entered an unusual direct contract with Presbyterian Healthcare Services for a narrow-network, accountable care-style arrangement for its employees in New Mexico.…

Helen Darling, president and CEO of the National Business Group on Health, said employers contracting directly with providers “is actually the next logical step. It should have been done earlier, but it's not as easy as it sounds.” …

Intel joins Wal-Mart in this latest move to use more muscle and talk directly with health systems.
GE will steer workers to Northwestern Memorial for hips and knees

By Bob Herman  |  November 24, 2014

An agreement between the prominent Chicago hospital and one of the largest employers in the country is yet another example that self-insured companies want to work more directly with high-quality health systems for certain procedures.

General Electric has contracted with Northwestern Memorial Hospital to be one of GE’s four centers of excellence for total hip and knee replacement surgeries. GE’s other designated orthopedic centers are Hospital for Special Surgery in New York City, the Christ Hospital in Cincinnati and Carolinas Medical Center in Charlotte, N.C.

Over the past few years, large employers that pay their own medical claims have created these types of arrangements with provider systems in the hopes of saving on healthcare costs in the long term.
Boeing, Roper partner for employee health care plan

David Dunlap, Roper St. Francis president and CEO, explains the new health care partnership that will be available to Boeing employees in 2016. (Photo/Ciapha Dennis)

By Liz Segrist
Isegrist@scbiznews.com
Published July 29, 2015

A new partnership aims to provide better health care at lower prices for Boeing South Carolina employees — a new model officials said will likely be replicated at other large businesses around the Lowcountry.
...When Greenville, South Carolina-based Michelin North America Inc. examined its health care spending, musculoskeletal-related expenses ranked No. 1, said Chris Mattern, the tire maker’s former manager of worksite health and wellness programs and now the company’s facility manager. To manage that expense, the company signed with Tallahassee, Florida-based Integrated Mechanical Care, whose clinicians follow strict musculoskeletal care guidelines.

Michelin declined to discuss its results, but Integrated Medical Care President Chad Gray said employers can reduce total musculoskeletal spending by 40% to 60%, depending on plan design, employee communications and other variables.
SCALE OF DIRECT CONTRACTING ARRANGEMENTS

- **Industrial Medicine, Wellness visits**
- **Bundled payments for specific surgical procedures**
- **Risk based reimbursement that is linked to workforce health statistics and overall cost**

**BASIC**

**COMPLEX**
DIRECT CONTRACTING FOR SMALLER PROVIDERS (HOSPITALS OR PHYSICIANS)

- Health education programs
- Wellness/Health screenings/Lifestyle coaching
- Blood pressure, cholesterol and blood sugar monitoring
- Counseling employees on management of
  - Diabetes
  - Hypertension
  - Hyperlipidemia
DIRECT CONTRACTING FOR SMALLER PROVIDERS (HOSPITALS OR PHYSICIANS)

- Workers Compensation
- Workplace injury consultation and management
  - Evaluate
  - Treat
  - Manage
PROS AND CONS OF DIRECT CONTRACTING

**PROS**

- Eliminates insurance company/payor component which should reduce cost
- Creates direct link between clinical outcomes and reimbursement
- Improves communication between provider, employer and employees about health care issues
- Offers employees more control over managing health care costs

**CONS**

- Could minimize or eliminate providers’ ability to treat certain populations
- Risk based reimbursement methodology could result in losses to providers
- How to address employee non-compliance with health care programs
- Sophisticated direct contracting plans can be very difficult and expensive to design and implement
DIRECT CONTRACTING: RISK VS. REWARDS

- Providers with superior clinical outcomes and ability to create cost savings will benefit from direct contracting arrangements.
- It may take time for provider to develop best practices and pricing methodologies to manage the risk associated with risk-based direct contracting.
- When providers take responsibility for reducing costs of care and improving outcomes for specific employee population, they can expose themselves to actuarial risk if they don’t achieve the expected savings (FitchRatings 5/20/14).
DIRECT CONTRACTING: RISK VS. REWARDS

- The relationship with a local employer and its work force is strategically important.
- If a direct contracting relationship goes well, it can enhance a provider/employer relationship.
- If a direct contracting relationship does not go well, it can have very negative and long term impact on provider/employer relationship.
NEXT CHALLENGE. NEXT LEVEL.

Matthew B. Roberts
803.253.8286
mroberts@nexsenpruet.com

Tim L. Hewson
803.253.8204
thewson@nexsenpruet.com