



# Shifting from Fee-for-Service to Value-Based Contracting Model

## Overview:

With increasing pressure from the U.S. government and employer groups to shift the focus of our health care system to improving outcomes, lowering costs, and increasing overall access to care, UnitedHealthcare is transitioning away from a fee-for-service model. The shift toward increased collaboration, outcome-based payment and new benefit design is driving innovation in how we pay for health care and how health care is delivered.

**In order to launch and sustain value-based contracting programs that drive change in the health delivery system, it is imperative that we have the support of our self-funded customers, who comprise 62 percent of our Employer & Individual membership. Without your support, our efforts will be diluted and, we believe, ineffective.**

We know that you challenge us to spend your money like it was our own. Before we implement a new program that requires your funding support, it is in the spirit of collaboration and with respect for our relationship that we express our wish for you to join your peers in support of value-based contracting programs. This is the first phase of changing the provider payment system to better align with our shared objective to improve the quality and cost of health care.

Value-based contracting models represent an evolution in clinical and payment methodologies that will create quality and cost outcomes, foster greater accountability, and take advantage of innovations in medical technology. These contract models align incentives across providers, members, employers, and payers to improve clinical outcomes and the patient experience along with improving cost-efficiency. Providers are very receptive to these models. They know that we will not pay incentives, with the exception of integration fees, unless savings are realized.

An aggressive transformation of our provider network will begin in 2012 with a significant ramp-up of alternative payment models during the next three years. A modest one to two percent of our commercial members will benefit from our value-based contracting in 2012, and that number is expected to reach 50 percent to 70 percent by 2015.

Many markets currently have physician and hospital performance-based contracts, or capitation arrangements. We currently participate in several Patient-Centered Medical Home pilots, have deployed a Primary Care incentive program in Rhode Island, and in 2012, plan to pilot an incentive program for Primary Care Physicians (PCPs) in three to five more markets and implement eight to 10 Accountable Care Organization (ACO) shared savings pilots.

Our value-based programs are expected to have an overall favorable impact on total costs with projected savings that far exceed bonuses paid – we expect that the bonuses will be offset by cost savings in their entirety. It's a win-win situation for plan sponsors, members, and quality and cost-effective providers.

We invite you to join us as leaders, innovators and stewards of good health to shift the paradigm and make a difference in helping your employees live healthier lives.

## Let's review the basics.

### What is value-based contracting?

Value-based contracting is a contract with a provider that contains any of the following alternative payment methodologies:

- ▶ A portion of the provider's total potential payment is tied to a provider's performance on cost-efficiency and quality performance measures. While providers may still be paid fee-for-service for a portion of their payments, they may also be paid a bonus or have payments withheld. For value-based contracts, this bonus is not paid unless the provider meets cost-efficiency and/or quality targets.
- ▶ Clinical integration fees paid to providers that are contingent on the provider engaging in practice transformation to adopt technology and processes that alter the manner in which they deliver care, such as a patient-centered medical home. A similar payment methodology may be utilized with other types of providers in addition to PCPs functioning as medical homes.

The types of process changes that have the best opportunity to drive value, based on our experience with other risk payment models, include:

- ▶ being accountable to the patient,
- ▶ creation of advanced care teams to include nurse care managers and pharmacists, and
- ▶ automated processes to address prevention and wellness.

### How is performance being measured?

Using our experience from the UnitedHealth Premium® designation program, Centers of Excellence, and Patient-Centered Medical Home and Accountable Care Organization pilots, UnitedHealthcare will establish quality standards with a focus on a limited set of quality metrics, making a direct connection between physicians' daily actions and resulting reimbursement. In order to earn incentive payments, physicians must achieve both quality and efficiency targets.

UnitedHealthcare has pioneered the use of evidence-based medicine standards to drive quality and efficiency on a national basis. The next aggressive step in our network strategy will accelerate those efforts. Faced with deteriorating public health and continued disparity in quality and cost performance, we believe it is a necessary step to control costs.

Cost-efficiency performance measures may include:

- ▶ risk-adjusted total cost of care,
- ▶ a percentage of inpatient readmissions,
- ▶ inpatient admissions/1000,
- ▶ inpatient days/1000,
- ▶ emergency room visits/1000,
- ▶ non-par lab utilization, and
- ▶ non-par ambulatory surgery utilization.

Preventive care is the most important step your employees can take to manage their health, because many of the top risk factors leading to illness and premature death are preventable. As such, preventive care will be taken into consideration, as well.

### What's the advantage for my company?

First and foremost, value-based contracting programs help lower health care costs, increase overall access to care and improve outcomes for your employees. Better outcomes translate to healthier people, who tend to be more productive workers with a greater degree of job satisfaction.

Plus, we expect the aggregated return-on-investment of our value-based contracting programs to exceed 2:1 in terms of savings vs. incentives paid because only a portion of the savings will be shared with providers.

This is the next step we are taking to drive quality and cost throughout our provider network. Based on seven years' experience developing the UnitedHealth Premium designation program and 20 years' experience developing Centers of Excellence, we are confident that this step is both necessary and achievable. Faced with ever-increasing disparities in quality and cost, the time for this change is now.

### How and when will value-based contracting programs impact my company?

This is a multi-year strategy with a gradual ramp-up over several years, and not every provider will be on a value-based payment platform. It includes both fully insured and self-funded clients, who will be treated equally. Generally speaking, any additional payments made under value-based contracting, and allocated to you, will be proportional to your spend with a provider or your attributed/assigned membership to providers.

During 2012, self-funded customers will not be required to fund provider incentive payments for value-based contracts that become effective during 2012, except for PCMH pilots where self-funded customers have already opted in. PCMH payments will continue as is for existing PCMH initiatives. From 2013-2015, the programs and their collective impact will increase considerably. By 2015, gross savings of \$1.35 to \$7.80 PMPM are expected, with provider incentive payments and fees growing to a range of \$0.45 to \$3.30 PMPM. Client-specific ranges will vary.

The savings for each employer is expected to be a function of the number of providers participating in value-based contracts, the performance of the providers whom your employees utilize, and the extent to which your employees utilize providers that are participating in value-based contracting programs. We will provide ASO customers with periodic updates on the overall program-level performance of our value-based contracting programs.

### **What type of reporting will be available?**

For additional payments not included in traditional claims payments, employer groups will receive regular reports on payments made to providers, and the frequency of these reports will be consistent with provider payout frequency. Note that the incentive payments are not claims, but separate medical expense payments.

The Banking Detail Report will include a "line item" indicating the value-based contract category, the dollar amount, and time period, e.g., PCP Incentive Fee for 2Q13 = \$xx.

Customer Specific Expense reports will provide additional detail by attributed member and list incentive payments to providers who are part of a value-based contract.

### **What does this mean for my employees?**

UnitedHealthcare expects that the value-based contracts will increase both the collaboration across providers and providers' accountability, resulting in a better patient experience and higher quality health care.

These contract models align incentives for members and providers to improve clinical outcomes and cost-efficiency. Most value-based contracts will ensure that providers meet quality metric scores before they share in cost savings, and this will help increase employees' use of preventive screenings and detection of diseases earlier.

Bottom line, value-based contracting programs ultimately help your employees live healthier lives.

### **What happens next?**

In this challenging economic climate, we recognize that even the smallest impact to cost may come under scrutiny and be met with resistance. Transformation isn't easy. It starts with leadership and a pledge to innovate and adapt to rapid change. UnitedHealthcare has made this commitment, and we appreciate your collaboration and support in making available value-based contracting programs designed to positively change health care for our members.

Your UnitedHealthcare representative will be contacting you to review and amend your Administrative Services Agreement to cover value-based contracting programs. While the amendment will not detail each incentive program we plan to implement, know that each will be designed with the goals of improving outcomes, lowering costs, and increasing overall access to care for your employees.

UnitedHealthcare's mission is to help people live healthier lives. Innovation is part of what drives that.

Whether we're responding to new Health Care Reform mandates or proactively developing leading-edge solutions to stay ahead of the curve, we want to be able to act quickly on your behalf to implement programs that support our shared goals.

We understand that you trust us to spend your money like it is our own. Know that we are investing our own capital into these programs because we are confident in the overall value they can build.

As we launch pilots and implement new programs, regular updates will be provided to our self-funded customers. You have our assurance that we will exercise complete transparency on components of models, providers impacted, locations, etc.

We look forward to your support of value-based contracting and in making a difference in helping your employees live healthier lives.

