CAPITATION
Definitions

- Capitation
- Carve out capitation contracting
- Full risk contracting
- Risk shifting
- Risk sharing
Capitation Risks to Watch Out For

- Price risk
- Utilization risk
- Market risk
- Enrollment risk
- Partner risk
- Regulatory risk
The Capitation Contract

Nonfinancial Issues

Financial issues
Service Obligations

◆ What Services Must Be Rendered Under the Capitation Payment?

- Identify services you don’t want to be responsible for under a fixed fee arrangement
- Can you perform all of the services?
- Are there any services that you want paid on a FFS basis?
Service Area

- Defined by zip code or by covered hospitals
- “In Area” emergencies
  - Issue: multiple hospitals to cover
  - Issue: What if service cannot be performed by a capitated doctor who is responsible for the services?
- Who pays for “out of area” services?
Exclusivity

- When is it available
- When to take it
- Negotiating a minimum enrollment if initial population is not enough to cover risk
  - Consider FFS payment until enrollment reaches a certain level
Exclusivity

- Negotiating an initial FFS payment system
  - When enrollment is low
    - Primary care practices
    - Other providers
  - When prior utilization data is unreliable
    - The capitation rate may be unreliable if the data is was based on is unreliable
Termination

- **Time frame**
  - Issue: Extend time frame as enrollment grows
  - From 90 days to ???
  - Issue: Need time to plan if contract is ever cancelled
  - Issue: What if practice wants out of contract?
- **Have ability to cure a breach**
Other Non Financial

- Hold harmless
- Board certification requirement
- Adding recruited doctors to the contract
- Ability to close practice to new patients
- Treatment of pre-existing illnesses
Retroactive Adjustments

◆ Defined
  ● People entering employment and leaving employment during month
    ◆ Issue: Retroactive time period
    ◆ Identifying patients to bill on FFS basis

◆ Issue: Finding employees for whom practice has not received capitation monies
  ● How to identify
  ● Problem with employers who notify payer late when new employees are added to the health plan
Stop Loss Protection

- Full risk contracts
  - A form of reinsurance
  - Used to reduce financial risk
  - Will acquire a related insurance policy
    - Cost will depend on the deductible
    - Can acquire from HMO
    - Can acquire from an underwriter of these policies
Stop Loss Protection

- Single specialty capitation contracts
  - Objective: Build in "internal" stop loss protections
    - Based on back end FFS calculations
    - Based on predetermined budget calculations
    - Based on actuarial calculations
  - Will not acquire a stop loss policy for these type of agreements
HMO Contract-Financial

◆ How the money flows
  ● Percent premium retained by HMO
  ● Percent premium to delivery system
  ● Percent premium to institutional fund

◆ Issue: How much goes to doctor
Capitation Contract

The Financial Issues
Possible Capitation Rate Deductions

- Subtracted withholds
- Reductions for leakage
  - Improper referrals
  - Emergency care utilization
- Subtracted stop loss premium
  - Generally applies to full risk or single specialty carve out contracts
Capitation Rate Calculation

- Aggregate rate
- Based on age/sex cells
- Percent of premium rate amount
- How will rate increase each year
  - Make sure rate is looked at each year
Evaluating the Rate

- Using cost accounting & utilization data
  - Cost account individual services (or use target rates)
  - Determine utilization per 1,000 members
  - Determine costs/utilization
  - Convert to PMPM rate
  - See example

- What if utilization data not available?
Profitability Analysis

- Single specialty
  - Compare to FFS equivalent
  - Analyze percent discount
  - How to overcome high utilization issues - specialty physicians
    - Are gatekeepers doing their job
    - Track inappropriate referrals
    - Create protocols
Profitability Analysis

- **Full risk**
  - Did the network end up with a net income figure or a loss
  - Need for monthly financial reports
  - Need to monitor financial and utilization issues on an ongoing basis
Taking on Shared Risk

- Often called “sharing in risk pools”
  - Might have the opportunity to share in hospital risk or otherwise called the institutional fund
  - Often based on a budget
  - Will share in both the profits and deficits
    - Attempt to get any deficits carried forward to future years (i.e. don’t have to write a check for share of deficit at the end of the year)
  - Issue: How to share risk in single specialty capitation environment
Taking on Shared Risk

- Require an accounting of the fund at the end of each year and have access to related books and records
  - If significant, provider may want to audit this fund
  - Annual review or audit of fund at least will provide a system of checks and balances
Taking on Shared Risk

◆ Issue to accept shared risk: Can utilization be controlled
  ● Can doctors change their clinical behavior to be successful in the initial term of the contract?
  ● What types of patients are being covered and where are they located
  ● Before accepting this risk, review prior 12 month utilization of the covered population

◆ Also ask to review year’s accounting of the fund to see how it performed financially
Full Risk and Carve Out Contracts

- **Who is getting the contracts**
  - Primary care groups
  - IPA’s
  - PPMC’s
  - Other delivery systems (ex. PHOs)
How To Get The Contract

◆ Know Payer attitudes
  ● Visit them and stay in touch on regular basis

◆ Be primary care driven
  ● If this is what the payor wants

◆ Marketing
  ● To payors
  ● To other providers
    ◆ Payor meetings
    ◆ Develop marketing document
Capitation Financial Reporting Issues

- **IBNR reserve**
  - What is IBNR
  - How to calculate it

- **Tax issues**
  - Accounting method
  - IBNR deductibility

- **Financial Reporting**
  - PMPM reports
  - Profit and loss reports
Controlling Utilization

◆ Is key to capitation success
◆ How
  ● Monitor clinical utilization
  ● Develop clinical protocols to follow, usually by diagnosis or most common clinical episodes
  ● Patient education
True Keys to Capitation Success

- Evaluate the rate
- Carve services out of the capitation rate (ex. Well woman exams)
- Communication
  - With other providers
  - With capitated patient population
- Develop practice efficiency (ex. Use physician extenders)
Capitation QUESTIONS

ANSWERS