Reinsurance / Stop-Loss and How You Can't Live Without It In Risk

Facilitated by:
John P. Schmitt, Ph.D, FASHRM
Managing Director
Reliance Consulting Group

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= General Session =

Introductions

Panel

- Terry Chesser – Principal, U.S. Advisors
- John Woods – President, TP-ACO
- John Harkins – President, Broward Guardian ACO
- Travis Hoyt – EVP, Analytics & Insurance, MOBE

Moderator

- John Schmitt – President, Reliance Consulting Group, LLC

Agenda:

1. Speaker presentations
   - Who
   - What
   - When
   - Where
   - Why
   - How
2. Discussion Questions
3. Open Q &A

What's Ahead For ACOs?

"ACOs are not going away. They're here to stay, constantly changing to respond to payers and regulators, and consistently morphing to accommodate new risk-sharing arrangements and opportunities to expand...ACOs are the foundation for health reforms that reduce costs while improving quality simultaneously. They'll constantly change but they're not fading away."

Source: Paul H. Keckley, Ph.D., "Accountable Care Organizations: Here to Stay or Fade Away?" *H&HN* July 26, 2016

When

"Health plans have not adopted risk-bearing contracts to a significant degree, but CMS intends for them to make up 25 to 75 percent of all plans by 2023..."

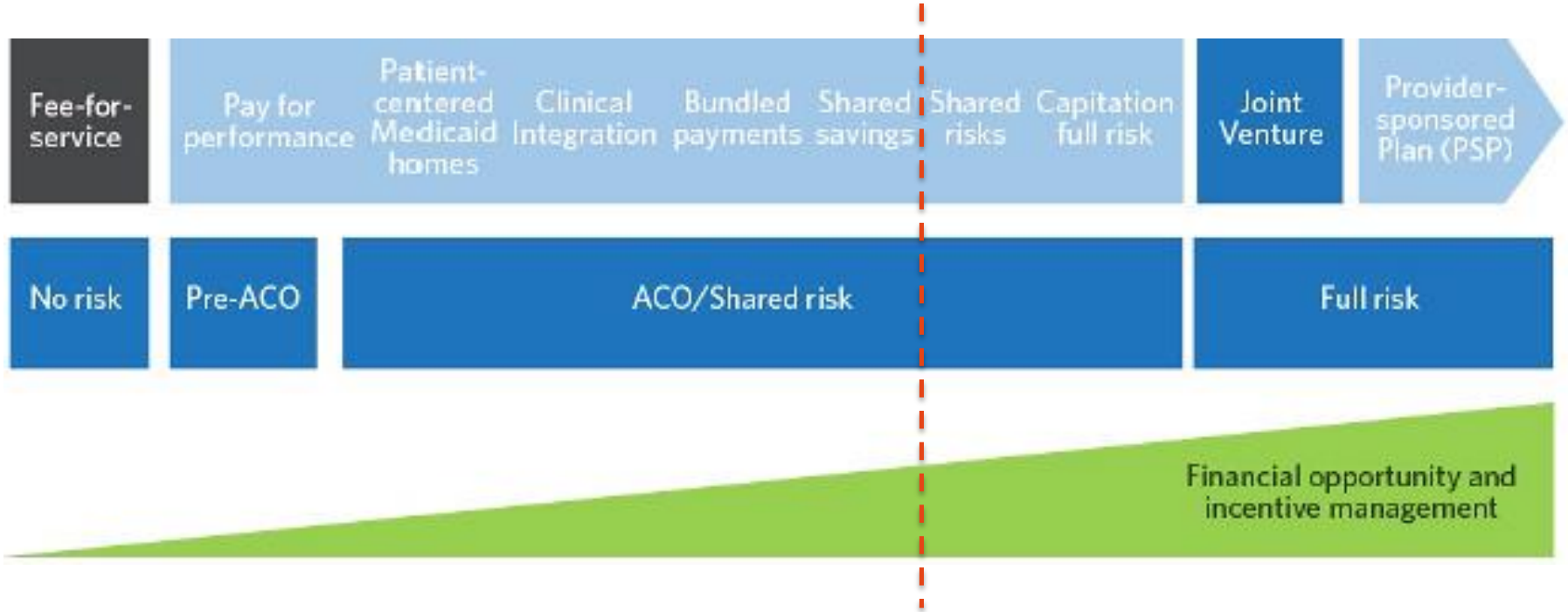
Source: "MACRA is a Trojan Horse", *HealthLeaders Media*, September, 7 2016.

Risk Spectrum

Source: "The Great Risk Shift: Growth of Provider-Sponsored Plans", *Accountable Care News*, August 2016; Valence Health and Array Health.

When

Risk Spectrum



Source: "The Great Risk Shift: Growth of Provider-Sponsored Plans", *Accountable Care News*, August 2016; Valence Health and Array Health.

Five Key Principles of ACO Risk Management

1. **Risk Identification-** identifying contractual risks e.g. not meeting cost & quality benchmarks;
2. **Risk Avoidance-** avoiding any downside risks e.g. physician members are risk adverse;
3. **Risk Prevention-** reducing the likelihood of losses e.g. limiting the frequency of unnecessary hospital admissions or emergency visits;
4. **Risk Reduction-** lowering the severity of particular loses e.g. using case managers to track disease registries and care continuum transitions;
5. **Risk Transfer-** having appropriate insurance e.g. specific and aggregate stop loss coverage.

Terry Chesser, ARM
U.S. Advisors, Inc.
Principal
Brentwood, TN

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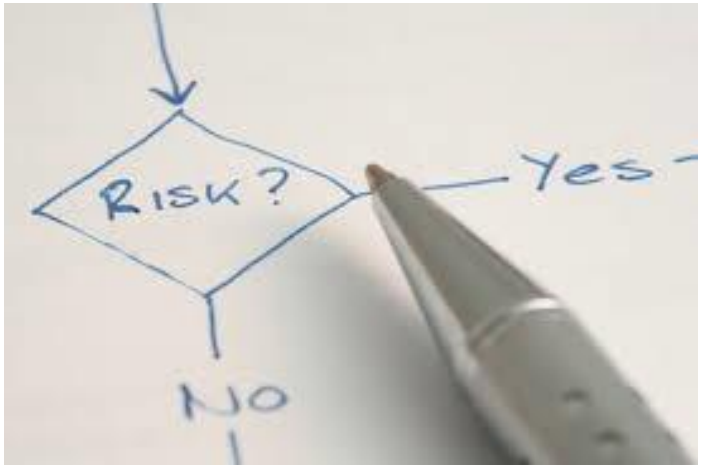
What is Reinsurance?

Defined:

Reinsurance is insurance purchased by an insurance company normally through a broker as a means of risk management.



ACO Reinsurance:

- Mitigates downside risk only: Next Gen or Track 3 MSSP
- Protection from large medical losses
- Excess of Loss Insurance – For ACOs & MSOs

Types: Claim Specific & Aggregate

- Claim Specific - per member, per contract year (PMPCY)
  - Policy Limit – normally $2,000,000 PMPCY
  - Deductible PMPCY e.g. $50,000, $100,000, etc. per claim
- Aggregate – in excess of 105% of Total Cost Benchmark (next slide)

Aggregate ACO Reinsurance Example

At-Risk ACOs under models Track 3 and Next Gen beginning 1/1/17:

Reinsurance Policy Max Limit:	$10,000,000
Benchmark Target:	$200,000,000
Attributed Members:	15,000
CMS Calculated Benchmark:	$13,333 ($200,000,000 / 15,000 members)
ACO Actual Expenditures:	14,666 (10% greater than Benchmark)
Difference:	1,333
	x 15,000 members
CMS Calculated Losses:	= $19,999,500
CMS Loss Share:	x 80%
ACO's Share of CMS Losses:	= $15,999,600

Aggregate ACO Reinsurance Example contd.

ACO's Share of CMS Losses:		$15,999,600
ACO Deductible @ 105% (this may vary):	-	$10,000,000 (CMS Benchmark: $13,333 x 105% = $14,000; $14,000 - $13,333 = $667 x 15,000 mem)
Reinsured (Covered) Losses:	=	$5,999,600
Coinsurance Applied:	x	90% Coinsurance Paid by Reinsurance
Reinsured Losses Paid after Coinsurance:	=	$5,399,640
Reinsurance Premium @ 10%:	-	$1,000,000 (this % may vary)
Net Reinsurance Claims:	=	$4,399,640
Total ACO Net Losses:		$11,599,960 ($15,999,600 - $4,399,640 net reinsurance claims)

Note: Many ACOs are also choosing to purchase specific reinsurance for the large claims to lower their ACO share of CMS losses.

ACO Reinsurance Advantages

- Protects organizational profits
- Converts exposure from high risk to low risk
- Enables ownership & control of policy and coverage
- Increases profits through competitive reinsurance premiums
- Provides tax advantages through ACO-owned captive

FLAACOs

John Woods

The Physician's Accountable Care Organization (TP-ACO)

President

Baton Rouge, LA

Moving from Track 1 to Next Generation ACO

- **CMS is seeking providers to assume greater risk for greater upside reward**
  - Next Generation ACO (NG ACO)
- **Key Differences moving from Track 1 to NG ACO:**
  - Allows 80% (moving to 100%) upside against a total cost benchmark
  - CMS caps at 15% upside and downside of the total cost benchmark
    - **Example** – ACO w/ 5,000 members
      - Annual Total cost: $10,800 Per Member Per Year (PMPY) = 54M (10,800 x 5,000)
      - Cap on Downside = 8.1M (54M x 15%), Cap on Upside = (6.48M)

Moving from Track 1 to Next Generation ACO

- **Key Differences moving from Track 1 to NG ACO (continued):**
  - Provides a waiver opportunity:
    - 3 day admission for admission to a skilled nursing facility
    - Allows telemedicine patient visits
  - Must post reserves with both CMS and DOI with States:
    - Funds placed in escrow
    - Letter of credit
    - Surety bond

Under NG ACO, additional opportunities to improve financial performance though:

- **Expansion of provider services to ALFs and SNFs**
  - Current care in ALFs and SNFs lead to unnecessary ER visits and readmissions
- **Addition of telemedicine**
  - Deliver care more efficiently in the ALF and SNF settings through telemedicine
- **Direction admission to SNFs**
  - Direct low acuity services to SNFs and home health to reduce costs, potentially averting 25% of all admissions
  - Generates potential additional savings of up to $100 per patient per month

Financial Comparison: Track 1 vs NG ACO

	FFS Medicare	Track 1 ACO	NG ACO
Patients $10,000 PPPY	5,000	5,000	5,000
Annual Budget	$50,000,000	$50,000,000	$50,000,000
Physician Services			
Primary Care			
Sick Care	$1,875,000	$2,250,000	$2,250,000
PCMH Care			
Quality Reporting	600,000	750,000	750,000
TeleMed	0	0	600,000
Urgent Care	120,000	156,000	156,000
Specialty Care			
Primary Chronic Care	7,200,000	3,600,000	3,600,000
High Acuity	10,800,000	8,100,000	6,075,000
TeleMed			1,500,000

Financial Comparison: Track 1 vs NG ACO (Continued)

	FFS Medicare	Track 1 ACO	NG ACO
Hospital Care			
Inpatient Care	24,000,000	18,000,000	13,500,000
Skilled Care	1,200,000	1,200,000	2,400,000
Emergency Room	1,200,000	1,080,000	810,000
Ancillary Care			
Outpatient Surgery	1,080,000	1,296,000	1,296,000
DME	600,000	600,000	600,000
Home Care	900,000	1,080,000	864,000
Other	425,000	425,000	425,000
Total	$50,000,000	$38,537,000	$34,826,000
Possible Shared Savings	$0	$11,463,000	$15,174,000
Retained by HMO/CMS	0	5,731,500	3,034,800
Quality Reduction	0	1,146,300	1,517,400
Maximum Percentage	0	0	3,121,800
Shared Savings	0	4,585,200	7,500,000
PMPM	**0.00**	**76.42**	**125.00**

Reach Us

TP-ACO

John Woods

President

The Physician's Accountable Care Organization

615-390-9757

jwoods@tpacsecure.com

www.tpacsecure.com

Reach Us

Broward Guardian ACO

John Harkins

President

Broward Guardian ACO

954-544-4065

jharkins@bguardian.org

www.bguardian.org

Reach Us

U.S. Advisors

Terry Chesser

Principal

U.S. Advisors

615-263-5900

tchesser@advisorsus.com

www.advisorsus.com

Reach Us

Reliance Consulting Group

Travis Hoyt

EVP, Analytics & Insurance

MOBE

865.809.4165

travis.hoyt@mobeforlife.com

www.MobeForLife.com

Reach Us

Reliance Consulting Group

John P. Schmitt, Ph.D., FASHRN

President

Reliance Consulting Group, LLC

423-304-4343

jschmitt@RelianceCG.com

www.RelianceCG.com

Q & A