3 Steps to Building a Transformational Roadmap for Success with Value-Based Care Contracting

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Value-based care (VBC) contracting requires health systems to adopt a new mindset that aligns more closely with that of payer organizations, especially regarding risk. This mindset shift begins a needed transformation for provider organizations as they make the fee-for-service (FFS) to value-based care transition.

Many aspects of how health systems operate came about over decades of success driven by increasing volume – the "FFS mindset." Changing these to succeed in VBC arrangements that reward true value – effective and efficient patient-centered care – is not a quick or easy process. At the same time, health systems still need to succeed at FFS arrangements – as recently as 2018, nearly 40 percent of payments to providers were in traditional FFS arrangements with no link to quality. The goals of VBC and FFS arrangements are inherently in conflict, making it very difficult for organizations to balance those competing needs.

For this mindset shift to take hold, health systems must develop a VBC strategy focused on this new end goal from the ground up, and then work over several years to hard-wire new clinical and operational processes that flow from that VBC strategy.

This transformational roadmap usually starts with the contracting department. The roadmap includes: a multi-year contracting plan with an actuarially sound risk-management strategy at its heart; a revamped process of evaluating the capabilities and adequacy of the health system's network of providers (both owned and partnered); a brand-new process for negotiating payer contracts; and a new strategy of clinical alignment around VBC.

With the elements of a transformational roadmap defined, let's explore three steps that enable a health system to develop its unique pathway to success with VBC contracting:

- Analyze the market
- Assess the organization's readiness
- Develop a VBC contracting strategy

Step 1: Analyze the market

The market analysis is a forecast that considers the region served by the health system and the payers with which the health system wants to contract. What is the trend and gap in the market that the health system can serve through a VBC contract? The health system must consider three aspects in this analysis:

- Line of business and membership: Identify the line(s) of business on which to focus (e.g., Medicare Advantage, managed Medicaid, commercial) by asking questions about the critical success factors and opportunities in the market, including a partnership with payers.

- Regulatory trends: For VBC contracting involving government programs, there are many different models and regulations change frequently. Insurance regulations at federal and state levels also can have an impact on commercial VBC contracts.

- Payer market landscape: Evaluate the insurer's position in the relevant line of business and in the regional market. Is it the dominant payer? Is it a rival to a dominant payer? Is the market very fragmented?

Step 2: Assess the organization's readiness

Evaluate the health system's readiness in terms of six capabilities:

- Leadership and governance: Building a successful governance structure, such as a population health service organization structure, requires a multi-year effort. What is the current leadership structure and departmental functionality? What are the culture and change management needs that will support the health system in transition?

- Contracting and financial models: Instead of regular rate negotiations, an organization needs to understand the concept of risk and develop its own risk profile. What is the current risk profile and what is the capability to model the financial impact of a transition from FFS to VBC? What is the risk mitigation strategy?

- Care Delivery: Clinical collaboration is essential for value-based contracting strategy. Clinical model redesign, including practice transformation, clinical standardization and quality initiatives, should be aligned with the contracting department's goals. Does the organization currently have a centralized process to track all quality metrics in value-based contracts by financial value and clinical results at the same time? Are any efforts being made in PCP practice remodeling? What is the capability for care management?

- Physician alignment: Does the organization have a clinically integrated network? Is there a value-based component in physician compensation to motivate clinicians? How does it manage out-of-network PCPs and specialists?

- Network: Does the organization have comprehensive network services to support the population and new line(s) of business? How is the post-acute network aligned with the system to provide a continuum of care?

- Data informatics: Is there a single source of truth on clinical, quality, operating and cost data? What is the organization's capability to provide comprehensive reports for risk management?

Step 3: Develop a VBC contracting strategy

The external market evaluation and internal organizational readiness assessment together provide a solid foundation for the contracting department to start forming its value-based care contracting strategy. Under a FFS structure, providers and insurers will seek to use whatever bargaining leverage they have to come out ahead at the negotiating table. Under a structure of risk sharing between the payer and provider, a collaboration model has been of more value in the current market. However, before entering into a risk-sharing collaboration, a health system should incorporate the following recommended elements in its contracting strategy:

- A risk portfolio of all VBC contracts applying an Alternative Payment Model (APM) framework
- Comprehensive, actuarially sound risk and financial analysis:
    - Risk analysis and mitigation strategy
    - Financial targets, including total cost of care
    - Scenario modeling to evaluate the impact of shifting from FFS to VBC
- Critical success factors and strategy specified by line of business, such as payer partnership options
- Clinical collaboration, including quality program management and population health collaboration
- A centralized tracking and monitoring system for measuring contracting performance
- Detailed payer negotiation strategic tactics

The shift to value is well underway in the market and the pace of change will only accelerate. Health systems must forge ahead with long-term efforts that will cement a mindset shift that puts understanding risk at the center of their strategy. Changing the organization's mindset is the first step in replacing practices that are tied to fee-for-service with ones that deliver efficient, patient-centered care focused on value.