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Collaboration meets innovation: Executive perspectives on provider-sponsored health plans

Executive summary

Provider-sponsored health plans (PSPs) are growing in importance. PSPs give health systems an opportunity to use health care financing as an enabler to create innovative clinical care models. Health care organizations that successfully innovate to reduce costs and improve quality should prosper under new performance-based financial models; in particular, those called for by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).

Collaborations between health plans and health systems for PSPs also are growing in number. The relationships can give health systems access to health plans' expertise and deep pockets. Such collaborations have generated innovative approaches in population health, member engagement, predictive analytics, and member retention.

Examples of collaborations for PSPs include Anthem's partnership with Aurora Health Care in Wisconsin[1] and Aetna's partnership with Texas Health Resources.[2] These partnerships leverage the health plan's capabilities and resources, and the hospital's brand and care management skills, thereby helping to solve the challenges some health systems face in trying to build their own plans.

To better understand PSP opportunities, approaches, experiences, and potential concerns, Deloitte convened nine executives from health systems, health plans, PSPs, and other organizations to discuss what it might take to develop successful PSPs. Deloitte also interviewed four executives from health plans that have PSP partnerships to better understand the strategy behind their collaborations.

Executives agreed that more health systems are now more interested in developing PSPs than in the past, and also concurred that:

- Collaborative models are attractive to both parties.
- Scale is important to be successful.
- Required health plan capabilities and competencies are usually not found inside a typical health system.
- Focus and leadership are required to align the hospital and health plan businesses.

MACRA may prove transformational in spurring innovative health system approaches in the marketplace. Organizations that improve quality and reduce costs under a PSP model are more likely to succeed under this new Medicare payment system. As the scope of MACRA expands to include other payers, innovative organizations that are generating superior outcomes may do well under multiple payment systems and payers.

The impetus for PSPs

While PSPs are not new to the marketplace, health systems have many reasons to launch or grow one now. These include capturing market share from the growing individual, Medicare, and Medicaid segments; breaking the constraints of fee-for-service (FFS) payments by using risk to align incentives around outcomes; creating innovative models of care; and preparing to succeed under MACRA (See sidebar).

What is MACRA?

MACRA overhauls Medicare's payments to clinicians by creating strong incentives for them to participate in alternative payment models that require financial risk-sharing for a broad set of health services and that are designed to improve quality. Clinicians who are not counted as participating in these alternative payment models will instead need to report and have their performance measured in four categories—quality, resource use, health information technology (HIT) use, and clinical practice improvement. Over time, resource use performance—measuring the costs associated with clinicians' practice and referral patterns—will grow to 30 percent of the performance formula. Together, these policies will encourage much stronger focus on quality and total cost of care.[3]

MACRA puts significant revenue at stake for hospitals and other organizations that employ clinicians who are paid through the Medicare Physician Fee Schedule. In addition, the law's incentives for clinicians to enter risk-bearing, coordinated care models could create opportunities for health systems and health plans to enter into new arrangements with clinicians under Medicare. This may set the stage for similar initiatives in other government programs, as well as with employers and commercial health plans.[4]

A PSP enables a health system to fully capture the financial reward for successfully managing population health, rather than sharing in savings as they would under accountable care organization (ACO) models. Current PSPs are growing and new PSPs are being established, some as collaborations between health systems and health plans.

PSP initiatives by Presbyterian, SSM Health, Canopy Health (formerly Bay Area Accountable Care Network), and Kaiser Permanente illustrate how successful PSPs[5] can build marketplace momentum and share. (See sidebar on the following page.) Common attributes of these successful PSPs include:

- Leveraging health plan and health system collaboration;
- Aligning physicians through financial incentives and information-sharing;
- Taking advantage of local market opportunities to increase share;
- Participating in multiple lines of businesses, including Medicaid;
- Focusing on population health; and
- Prioritizing customer service.

The strengths, weaknesses, opportunities, and threats (SWOT) analysis for a PSP (see Figure 1) makes a compelling case for a health system to establish, acquire, or partner with a health plan. The strengths, if successfully leveraged, can create a competitive advantage that a health plan without a delivery system likely could not replicate. The competitive advantage that a PSP can provide has a differentiated experience that includes:

- Enhanced knowledge about and ability to meet patient/member needs;
- Ability to leverage the delivery system's assets and clinical resources; and
- Improved patient/member engagement and service.

Many PSP financial, governance, leadership, and competitive challenges are unique to each entity's mission and operating model. Common challenges may significantly raise the risk of failure and may drive some to not establish a PSP. These challenges include having parts of the organization that operate in silos; competing interests—including capital and operating demands in both a FFS and prepaid health care system; and maximizing the returns for individual parts of the system over those for the entire enterprise. However, there are many more opportunities with a PSP that can help mitigate those challenges.

Transforming physician/hospital payment models through increasing risk-sharing is at the center of efforts to help improve US health system cost and quality. Providers must address this new challenge as they concurrently deal with growing consumerism and increasing competition.

To be successful in prepaid health care and under MACRA's Advanced Alternative Payment Models, the current clinical model for acute and chronic care will likely need to change.[13] Physician practices likely will have to provide greater access for their patients at a lower overall cost to ensure patient adherence and treatment plan effectiveness. Under new clinical models, team-based and virtual care will likely comprise a significant number of patient encounters as compared to today's FFS reimbursement model, which requires that the provider see the patient in person.

PSP expansion initiatives

Presbyterian Health Plan, part of Presbyterian Healthcare Services in New Mexico, has had a leading local presence in the Commercial, Medicaid, and Medicare Advantage markets since the 1980s.[6] Driven by its successful management of populations in New Mexico, Presbyterian is expanding into other states. In March 2016, Presbyterian agreed to partner with 11 health systems in North Carolina to launch a Medicaid Managed Care product.[7] Presbyterian will be a minority owner of the PSP in North Carolina and was selected because of its expertise with Medicaid populations. To successfully manage complex populations, Presbyterian credits 30 years of developing programs to serve populations in an integrated health care financing and delivery system as well as its culture of transparency, information sharing, and partnering with physicians and clinicians.[8]

SSM Health entered the PSP space in 2013 when it went from minority partner to owner of Dean Health System, a physician-led medical group, and it's PSP, Dean Health Plan. The acquisition created a more tightly integrated financing and delivery network in south-central Wisconsin, and broadened SSM's capabilities in its Illinois, Missouri, Oklahoma, and Wisconsin markets. The acquisition also included Navitus Health Solutions and Lumicera, pharmacy benefits management and specialty pharmacy companies serving customers in 32 states. While SSM is awaiting some outcomes from the acquisition, financial performance is strong. SSM's goal is to influence marketplace performance through close partnership between its health plan and clinicians, in order to achieve better health and service at a lower cost over time.[9]

Canopy Health (formerly the Bay Area Accountable Care Network) launched as a joint venture of UCSF Medical Center and John Muir Medical Health, with a goal to innovate in the marketplace.[10] The organization is focused on customer service by broadening geographic reach and improving quality through care coordination and HIT integration.[11]

Kaiser has the largest membership of any PSP. Kaiser pushes for innovation in many clinical and administrative areas, including consumer experience and pharmacy. Kaiser also seeks to expand and build tighter relationships with some community hospitals to improve care coordination and quality.[12]

Figure 1. PSP SWOT analysis

Source: Deloitte analysis of the PSP marketplace.

Executive perspectives on PSPs

In the spring of 2016, Deloitte convened executives from nine health systems, health plans, PSPs, and other organizations for a day-long discussion on PSPs. Deloitte also interviewed executives from national health plans who partner with PSPs. The purpose of the event and interviews was to gain executive perspectives on PSPs: opportunities, approaches, experiences, and potential concerns.

PSP collaborations are attractive

Running a PSP is complicated and generally requires that health systems add capabilities. As an executive at the convening event noted, "hiring a former health plan executive isn't enough." PSPs also require significant capital investment and health plan expertise. The interviews with health plan executives revealed that these organizations are interested in collaborating with health systems to develop PSPs when the partner and market conditions are right. Health plans can bring considerable benefits to a PSP, including a large number of members, financial resources, enabling technology, risk management, compliance, customer service, network contracting, and financial discipline.

PSP collaborations, typically joint ventures, are growing in number. Examples include Anthem's partnership with Aurora Health Care to launch a PSP in Wisconsin.[14] Aetna also has a partnership with Inova Health System in Virginia for its PSP, Innovation Health,[15] and another partnership with Texas Health Resources to establish a PSP in the state.[16] Health plan participants seek to improve costs, quality, and the consumer experience by partnering closely with local health systems. While specific outcomes and performance are as yet unknown, the fact that the model is being expanded and replicated in multiple markets indicates that there is likely value for both health plans and health systems to collaborate.

"Hiring a former health plan executive isn't enough."

—PSP executive

Some health plans are leveraging PSPs as a new growth channel for their own business. For others, it is an opportunity to push their value-based care related collaborations with health systems further along the risk spectrum. These collaborative products typically are "private label" or cobranded—leveraging the health system's and health plan's brands. In a PSP collaboration, both organizations can grow their businesses and innovate in care delivery while helping the health system broaden its brand and reach in its local market.

Most health plan executives agreed that this type of collaboration only makes sense under the right market conditions and with certain health system partners. Attractive characteristics include markets with "enough population" (definitions vary) for scale; a generally healthy demographic that would benefit from prepaid, well-managed care models; a low penetration of Medicare Advantage or Medicaid beneficiaries in managed care; low unemployment; and a vibrant business community. According to the interviewed health plan executives, characteristics of desirable health systems for PSP collaboration include:

- **Innovative:** Willing to bear additional financial risk and focused on population health;
- **Market leader:** Market share leader, significant delivery system assets, strong leadership, high financial performance, positive reputation; and
- **Culture:** Compatible and forward looking.

No one model represents best practice but most health plans prefer joint ventures. This ensures that both organizations are financially aligned, according to the health plan executives. Governance models tend to be shared, and have a single board of directors that is accountable for making sure the management team is capable of executing the operating plan.

Some PSPs are collaborating with other health systems to offer PSPs in new markets. Their focus is on leveraging their PSP experience in mid-tier markets to improve costs and quality of care in similar markets. These PSPs approach collaboration with a goal of using innovation to drive the changes required to be successful. Examples include Presbyterian Health Plan (see sidebar on page 3) and the following:

- SIHO Insurance Services (owned by Schneck Medical Center, Columbus Regional Health, Multi-County Physicians, IU Health in Indiana) has a collaboration with Blessing Hospital in Illinois. In a joint venture relationship that has been replicated in other markets, SIHO helped Blessing build out its self-insured product, offered administrative and health plan operations support, and mitigated risk by sharing the capital investment.[17]
- Optima Health (owned by Sentara Health Care in Virginia) has relationships with OhioHealth[18] and Huntsville Hospital System in Alabama.[19] With OhioHealth, Optima initially serves as third-party administrator for the health system; the two also will develop a joint venture to launch a health plan. Optima will jointly launch a Medicaid product with Huntsville, an opportunity that arose when Alabama announced it would transition its Medicaid payments from traditional FFS to Medicaid Managed Care.[20]

Scale is important

Executives at the convening event agreed that PSPs can be innovative but need to gain scale to succeed over the longer term. PSPs comprise only nine percent of the total health insurance market, as measured in members, though they have a meaningful presence in 30 states.[21]

All executives concurred that a PSP is uniquely positioned to improve costs and quality because it gives health systems full risk, creating the opportunity for the greatest financial rewards emanating from innovative clinical models. Executives, however, admitted that scale is required for a PSP to truly impact a population's health and to be cost-effective.

> "Scale is an important requirement but can be different across populations and geographies."
>
> **—Health system executive**

Scale can depend upon line of business. For example, Medicare Advantage is a much bigger revenue-generator for a smaller population, but given the risk associated with adverse selection and spending variation, PSPs may need more Medicare Advantage members to manage that risk than they would for a commercial population. The executives agreed that the level of scale needed should be based on a health system's local situation—its specific population, competitive landscape, and financial position.

In addition to helping mitigate financial risks, gaining scale is important to sustain population health efforts (with high-cost and low-cost patients), reach a broader market, and invest in the capabilities and technologies a PSP needs to be successful, according to the executives. Today's larger health plans invest a significant amount of money in their technology infrastructure and core administrative capabilities.

Some health systems divested their PSPs during the past decade because of difficulties gaining scale. For example, Ochsner Health System in Louisiana sold its PSP, Ochsner Health Plan, to Humana[22] and OSF Health Care also sold its PSP, OSF Health Plans, to Humana.[23]

PSPs need many capabilities

Organizations need many competencies to run a PSP, including those related to insurance, investments, and supporting technologies. (See Figure 3 on the following pages.) To operate an insurance plan, health systems will likely need to have capabilities in sales, product pricing, network management, eligibility/enrollment, actuarial, and regulatory/compliance, among others.

Executives identified the following PSP capabilities as most important:

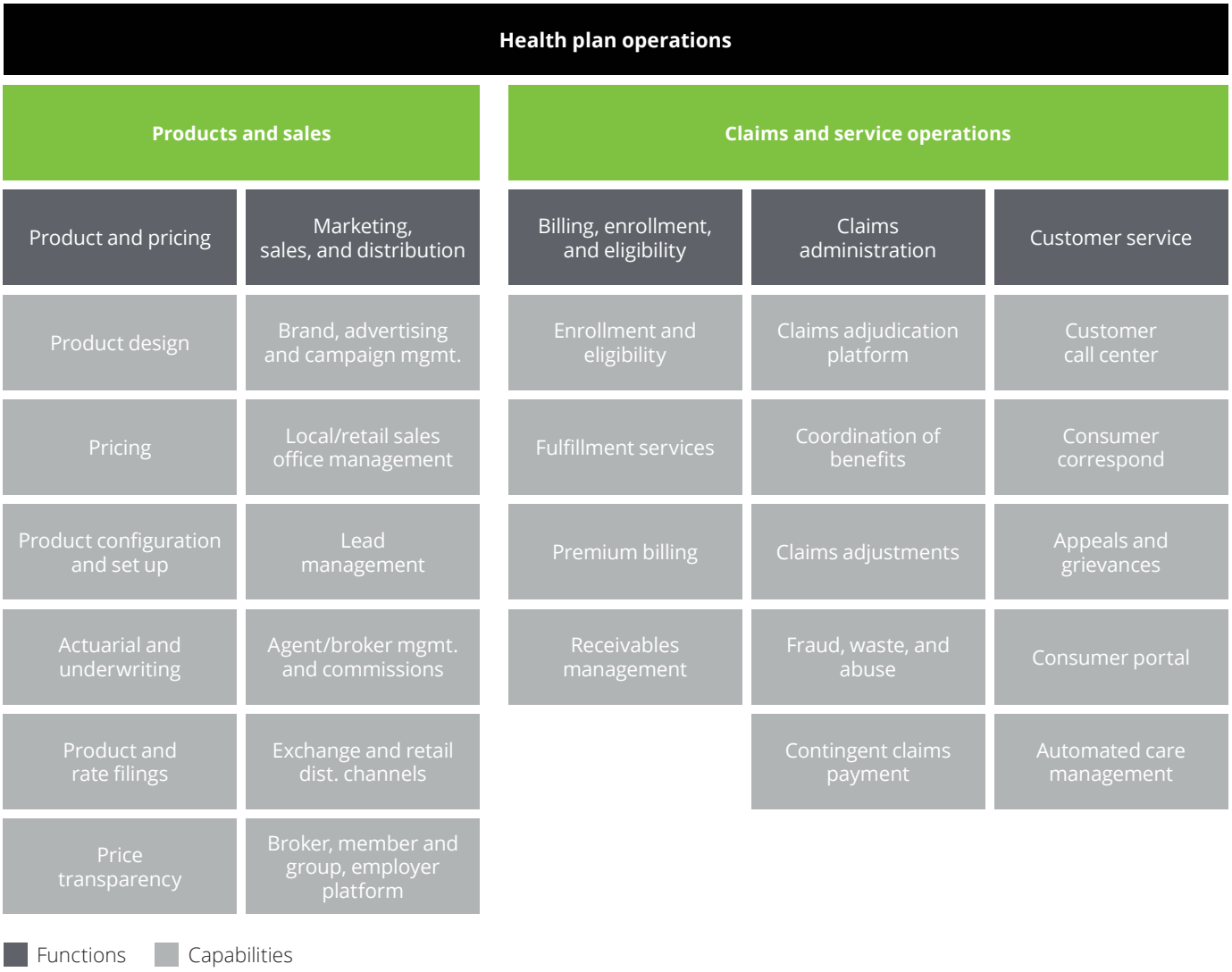
- Actuarial skills for assessing risk, developing contracts, and modeling performance;
- Claims, payments, and supporting technology for accurate and timely processes;
- Patient engagement/customer service tools such as monitoring and call centers/schedulers; and

- Analytics tools and skills to identify high-risk, high-cost and other important populations, as well as cost and quality performance trends.

The executives agreed that partnering (i.e., collaborating with a health plan) to obtain these capabilities is more efficient for a health system than building them internally.

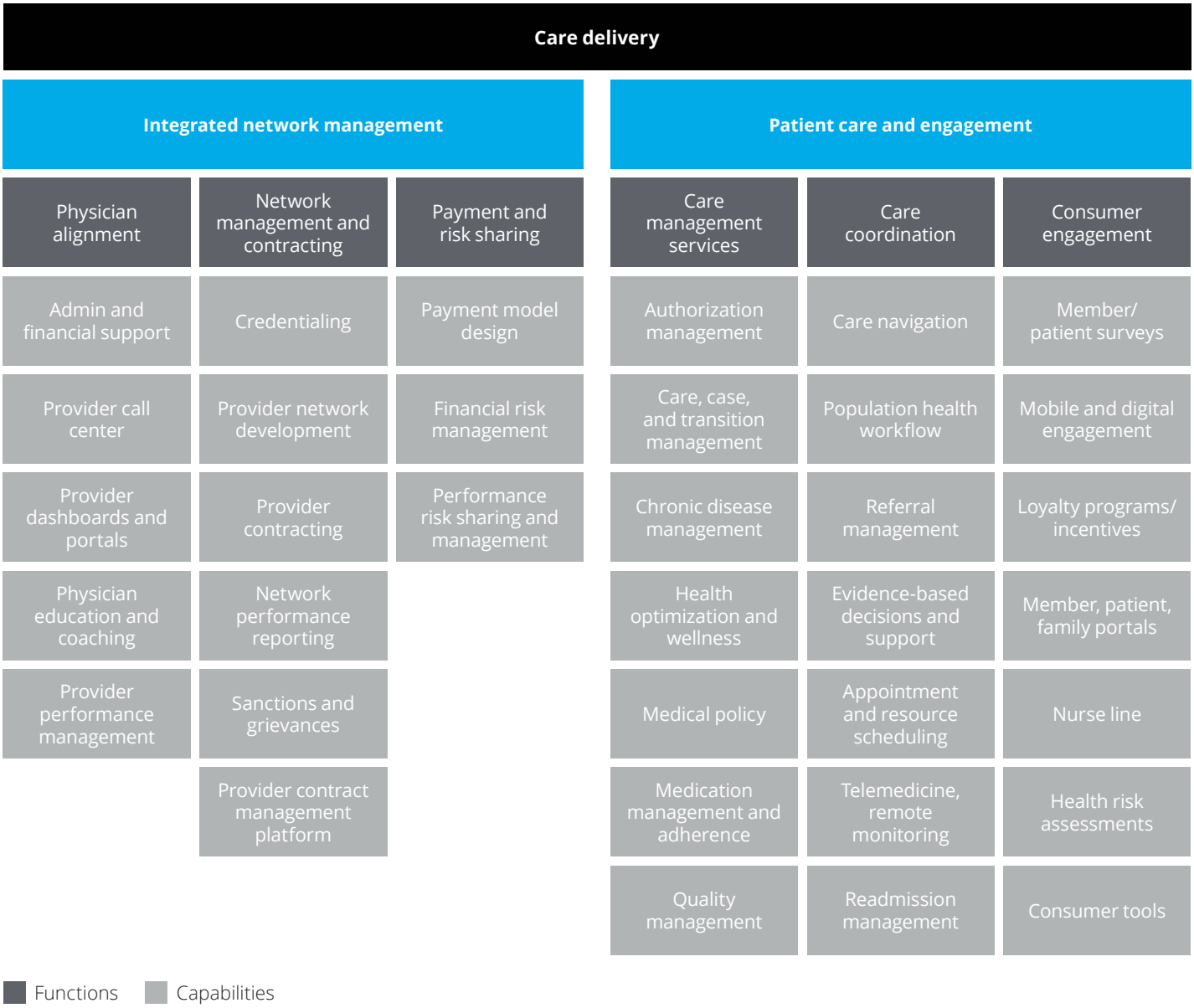
> "Building capabilities internally (as a health system) is tough."
>
> **—Health system executive**

Figure 3. Required health plan capabilities for a PSP



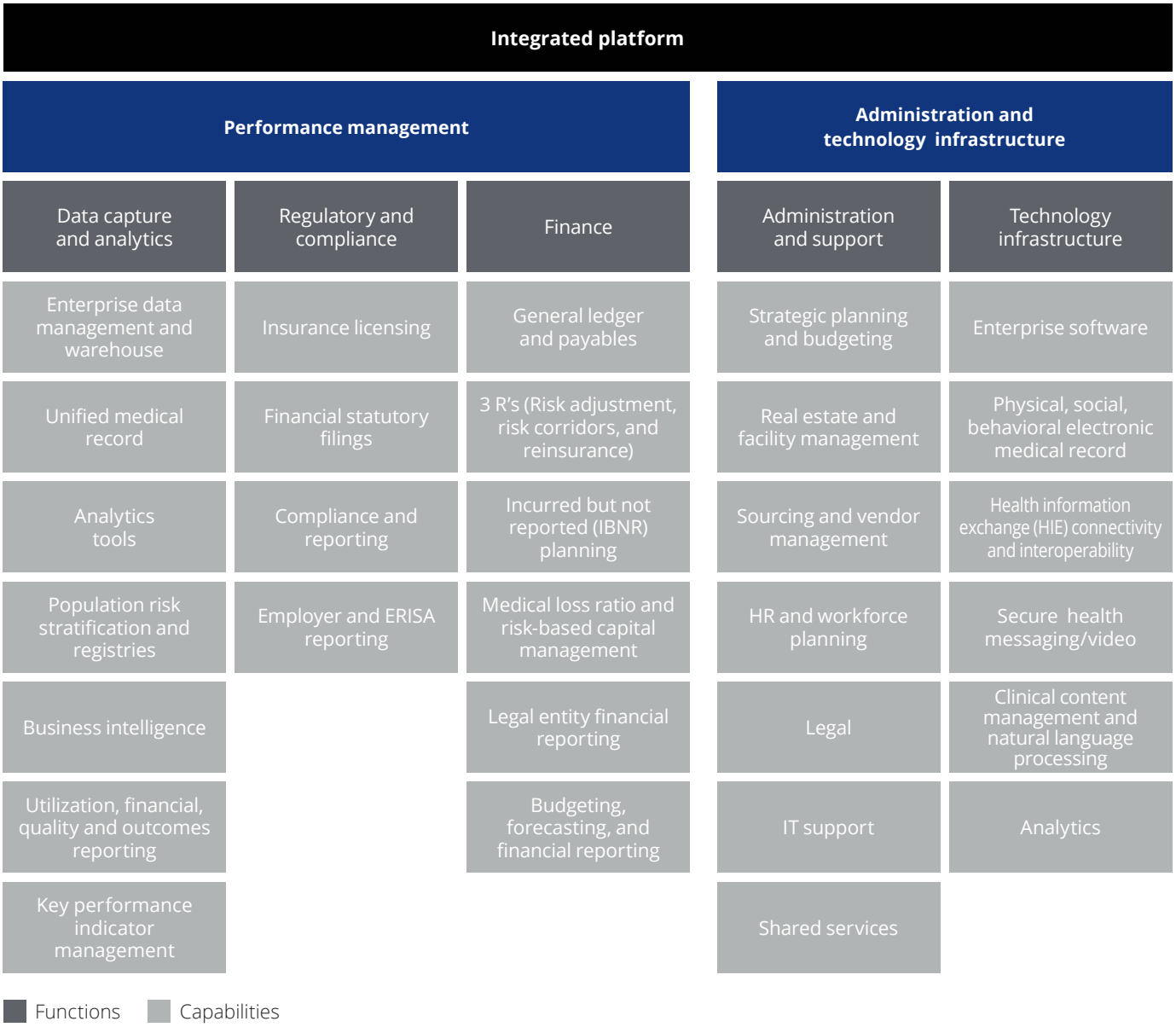
Source: Deloitte analysis of PSP business and technology requirements.

Figure 3. Required care delivery capabilities for a PSP



Source: Deloitte analysis of PSP business and technology requirements.

Figure 3. Required integrated platform capabilities for a PSP



Source: Deloitte analysis of PSP business and technology requirements.

Focused leadership can help overcome challenges

Executives noted that a successful PSP will be able to break down cultural barriers and master the complexities of running both a hospital and health plan. Mature PSPs have effectively integrated health plan and delivery system management and governance. Also, PSP leaders make decisions that benefit the enterprise as a whole.

Adding a health plan to a health system can generate internal competition and turf battles. Addressing these challenges may require major investments of time and attention by corporate leadership. Among the top challenges participants identified are:

- Balancing opposing health plan/health system businesses and missions;
- Understanding all the risks (business, insurance, and regulatory) of a health plan;
- Competing against health plans that are also major players in the market;
- Underestimating the complexities of running a health plan—from capital to talent to drug prices; and
- Incentivizing, aligning, and managing clinicians to participate in care transformation, value-based payment models, and population health efforts.

To overcome some of these challenges, the executives said that leaders should focus both businesses on the same goal. From top to middle managers across the health care delivery system and the health plan, the organization should focus its goals on population health.

Transparency between the health care delivery system and the health plan can be important for effective decision making. Information is a powerful tool to align incentives and care delivery but some PSPs do not have the information they need due to fragmented HIT systems, lack of interoperability, a confusing vendor landscape, and lack of analytics skills. Executives indicated that PSP health plan leaders should work closely with their physicians to share performance data; doing so may influence physician decision making to align with PSP goals.

MACRA may stimulate health system innovation

As health systems develop strategies for new risk-bearing arrangements and value-based care models, MACRA is expected to play an important role in the planning process. Because the law changes physicians' incentives, MACRA may prove to be a key driver for developing a PSP, especially as health systems determine how to qualify for incentives and avoid payment penalties.

> "MACRA will accelerate health systems' adoption of financial risk-bearing arrangements, and increase their appetite for launching a PSP."
>
> **—Health plan executive**

So you want to build a PSP?

Health systems will likely pursue multiple strategies, including PSPs, as they navigate MACRA and other market pressures for providers to assume increased financial risk. Most executives agreed that PSPs will become more influential and the number of health system-health plan collaborations will grow. The required skills the required skills, knowledge, and capabilities to run a health plan are typically outside a health system's typical core focus. "You cannot do it alone," was a consistent message from the executives.

While health systems have opportunities to innovate, the challenges they face can be considerable. Fortunately, today's successful PSPs show that challenges can be overcome. Executives who built their small PSPs into market innovators and success stories shared their suggestions:

- Start small but focus on gaining scale.
- Experiment in the market with various lines of business, including your own employees and their families.
- Determine whether to focus on Medicare and/or Medicaid.
- Create specific strategies for your own market—it is not "one size fits all" because of regional competition and population variations.
- Align incentives for both the health plan and hospital sides of the business and work collaboratively with the health plan leaders and clinicians.
- Prepare for major capital investments.
- Develop analytics-based operational capabilities.
- Seek partners with a similar culture, vision, and market position.
- Buy, rent, or collaborate for capabilities while gaining scale.
- Share performance information frequently and be transparent in decision making.

All executives agreed that developing a PSP can enable a health system to experiment and innovate in population health. Collaborating with a health plan can provide needed capabilities and capital, enabling a health system to enter the health insurance market more quickly and more prepared.

"Most executives agreed that PSPs will become more influential and the number of health system-health plan collaborations will grow."

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