

A WHITE PAPER FROM SPECTRAMEDIX



Value-Based  
Payment Contract  
Modeling:  
A New Guide for  
Health Plans and  
Providers

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## Executive Summary

There is an increasing emphasis among health plans to implement more value-based payment (VBP) contracts, driven by the industry's overall shift from fee for service to VBP payment models. The COVID-19 outbreak and its impact on utilization and revenue has both thrown a curveball into the mix and heightened the urgency to move to VBP. Yet the majority of health plans struggle with the many variables that need to be taken into consideration to design and implement successful VBP contracts that improve quality and provide savings for both payers and providers. They also have to convince skeptical providers—including Accountable Care Organizations (ACOs), Independent Provider Organizations (IPAs), and other provider networks—that VBP contracts are designed to be mutually beneficial arrangements.

Successful VBP contract creation starts with contract modeling. A contract modeling solution needs to provide a collaborative environment that enables health plans to design and evaluate financial and quality performance scoring methodologies, risk assumption options, and other contract terms across their commercial, Medicare Advantage, and Medicaid lines of business—each of which have different drivers that impact contract variables and priorities. It should empower health plans to work with their provider networks to identify, evaluate, prioritize, and pull the “value levers” that impact utilization, cost, and quality, and identify opportunities for improvement. This includes the potential for health plans to create narrow networks or a high- performance network of providers.

This white paper presents key questions that both payers and providers should answer as they prepare for the disruptive process of adopting VBP contracts, and lays the foundation for creating mutually beneficial arrangements that lower costs, improve quality, and produce better outcomes. Over the course of the white paper, we utilize the capabilities of the SpectraMedix *VBP Contract Modeler* to illustrate how payers and providers can develop and implement contracts to achieve these objectives.

## The Challenges of Effective VBP Contracting

Health plans are moving towards value-based payments (VBP), and in particular payer-provider VBP contracts. A 2018 survey of 120 commercial insurers found that nearly two-thirds of their payments are tied to some kind of value-based arrangement, and that by 2021 they expect only 26% of their claims to be from fee-for-service<sup>i</sup>. It hasn't been a smooth process though. Both health plans and their providers across the industry wrestle with VBP contracts and how best to identify and address the many moving parts inherent in designing and implementing them. These challenges include, but are not limited to:

- Taking into consideration key variables such as market definition, costs, attribution, terms, and budget.

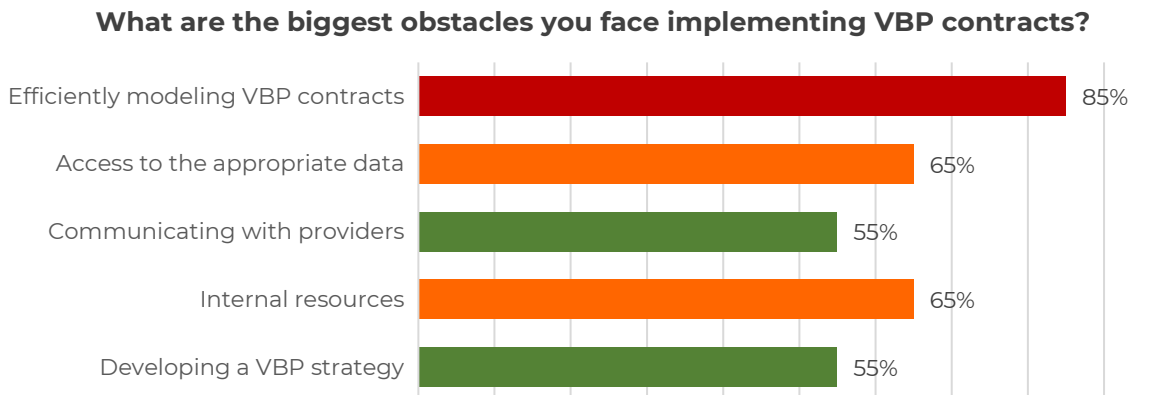
- Identifying, evaluating, and prioritizing the value levers that can be pulled to have the biggest positive impact on outcomes and financial performance for payer and provider.
- Convincing skeptical providers that VBP contracts are designed to be mutually beneficial financial arrangements and result in success for both organizations.
- Creating high-performance networks, including determining a common measure set, quality benchmarks, cost benchmarks, and anchoring them to VBP contracts.
- Incorporating social determinants of health (SDOH) and behavioral health factors into contracts, and incorporating non-medical entities like community-based organizations into contracts.
- Getting providers comfortable with taking on more downside risk.
- Engaging specialists into your VBP programs.

Health plans need to decide what to support. Addressing these involves significant, sometimes overlapping, effort. Recognizing opportunities via analytics starts the journey; operationalizing the mechanics of reimbursement finishes the effort, with better patient outcomes as the overarching goal.

## Achieving Structure, Simplicity, Consistency, and Transparency Through Contract Modeling

Strong VBP contracts are created, implemented, and managed through comprehensive modeling capabilities. Effective contract modeling gives the entire contracting process—from negotiations to development to implementation to reconciliation—structure, simplicity, consistency, and transparency.

Contract modeling is also one of the most difficult components of developing VBP contracts. SpectraMedix recently conducted a poll of health plan executives and professionals asking what are the biggest obstacles they face implementing VBP contracts (they could select more than one response). Here are the results:



Health plans need a formal **structure** for the VBP contract modeling process that makes it **simpler**, provides **consistency**, is **replicable**, and enables them to be **transparent** to providers.

So often contracts are modeled as one-offs, using excel or some other tool. Health plans need a VBP contract modeling tool and process that enables team members who are not sophisticated with VBP contracting to model a contract without specialized knowledge. Plans need to be able to do this before negotiations even happen so that they can decide what types of contracts and terms to offer their provider community. If plans are in direct negotiations, they need to run a pro forma analysis that follows the terms of the proposed contracts and uses the plan's own data to understand how that contract would work and what the providers' baseline performance is as they move forward. The tool and process should support Medicare Advantage, commercial, and Medicaid business lines across the entire spectrum of VBP types including shared risk and full capitation.

The SpectraMedix **VBP Contract Modeler** makes contract modeling for payers and their providers:

1. **Efficient**—Enables users to model a VBP contract in under an hour.
2. **Simple**—Provides the ability to model a VBP contract with limited external support (actuarial, medical economics, etc.).
3. **Accurate**—Delivers a proven methodology to model a VBP contract.
4. **Consistent**—Avoids the variability of manual modeling efforts.
5. **Permanent**—Provides for the storage of contract terms, both considered and implemented.
6. **Transparent**—Serves as a vehicle to share methods and assumptions with provider groups.
7. **Interoperable**—Shares data with SpectraMedix analytics and cohort manager solutions.
8. **Supportive**—Identifies viable provider candidates for expansion and growth efforts.

## Common Contract Modeling Use Cases

At the highest level, a VBP contract modeling tool allows a health plan to model and manage contract terms based on their historic data experience to estimate pre-contract, concurrent, and post-contract performance. Ideally, the entire exercise of modeling a contract can be

performed in less than 30 minutes, thereby saving the plan significant resources in human capital.

Here are five common contract modeling use cases that most health plans face when developing and implementing VBP contracts. We utilize the capabilities of the SpectraMedix *VBP Contract Modeler*—an application designed to simplify the entire contracting process for payers and their providers—in each scenario to illustrate how the problem can be solved.

### Use Case 1: Creating Custom and Boilerplate Contracts

- **Problem:** A health plan has contracts with multiple ACOs to negotiate and implement within a short period of time. It needs to be able to evaluate and develop a set of alternative contract terms that it can use to come up with both unique agreements to offer specific groups or to create standard (boilerplate) contracts.
- **Solution:** Using the market definition, cost, attribution, term development, and budget capabilities of the *VBP Contract Modeler*, the health plan is able to quickly model contract terms and scenarios to create customized contracts and standard templates. These models can be shared with providers, at the health plan's discretion, for input and collaboration by the network before final creation and execution.

### Use Case 2: Advancing to New Payment Models

- **Problem:** A commercial health plan wants to advance an ACO from a PCMH to a shared savings arrangement. It ultimately plans to advance the ACO to a primary care capitation model. It also wants to add maternity episodes and carve out behavioral health and cancer.
- **Solution:** The *VBP Contract Modeler* offers health plans a comprehensive ability to model different payment models for its ACOs (or providers or IPAs). It can use the ACO's own data, and share the models as it deems appropriate thereby promoting collaboration and transparency.

### Use Case 3: Evaluating Value Levers

- **Problem:** During the project year, a health plan needs to identify and communicate with a provider group which value levers driving VBP success will provide the greatest impact on performance within contract parameters. This will enable the provider group to address problem areas before year end results.
- **Solution:** The *VBP Contract Modeler* enables a health plan to analyze and track contract results on a quarterly basis or more frequently as required.

### Use Case 4: Creating a High-Performance Network

- **Problem:** A commercial health plan that manages more than five hundred-thousand lives in its geographic region wants to create a high-performance network of providers who consistently deliver both high quality and lower costs.
- **Solution:** Using the data collection, market definition, and budget capabilities of the *VBP Contract Modeler*, the plan can determine which quality measures and cost benchmarks to use, as well as evaluate and standardize risk across different needs.

### Use Case 5: The Health Plan Wants to Integrate SDOH into VBP Contracts

- **Problem:** A managed Medicaid health plan wants to integrate social determinants of health into its VBP arrangements.
- **Solution:** Using the *VBP Contract Modeler*, the health plan is able to contract with community-based organizations (CBOs) and its provider network to include SDOH into its contracting.

### Use Case 6: Expanding to Additional Geographies or Adding TINS

- **Problem:** An ACO wants to acquire additional TINS or expand to additional geographies.
- **Solution:** Since the health plan has the TIN's claims history, the ACO approaches the health plan to evaluate the impact of the TIN's past performance on their own financial performance.

## Three Key Phases of the Contracting Process in Which VBP Contract Modeling is Critical

### 1. Contract Negotiations

It's no secret negotiating a contract can be an arduous process. It's crucial for health plans to be able to explore various options based on historic performance and market benchmarks. This positions the plan to make strategic decisions around how to model different contract scenarios and what type of contract to offer (pay for performance, shared savings, or capitation).

A core component of this process is the ability to utilize a strategic approach to identify and analyze the value levers that have the greatest impact on quality and financial performance, model them, and then develop a collaborative plan with the

provider to address them in the contract and manage them within contract parameters. Below are examples of key value levers and the reasons they impact contract performance:

1. **Avoidable emergency department (ED) expenses**—ED visits are expensive. Focusing on ways for patients to get care from a PCP instead of using the ED and helping patients that leave the ED get the right follow-up treatment can reduce costs and improve performance significantly.
2. **Preventable inpatient visits (admissions/readmissions)**—As with avoidable ED expenses, preventable inpatient visits waste money, resources, and time.
3. **Network leakage**—Health plans and providers can lose hundreds of millions a year, much of which is avoidable, from patients going outside of network. Payers and their providers need to work together to make sure that patients have access to all levels of care services within network, and use their network.
4. **Increasing the use of generic drugs**—Providers can reduce costs significantly by prescribing less costly alternative generic medications. For example, using generic drugs instead of their brand-name equivalents could have saved the Medicare Part D program approximately \$3 billion in 2016, according to data from HHS.<sup>ii</sup>
5. **Medication non-adherence**—Medication non-adherence results in up to 125,000 deaths and \$290 billion in medical costs annually.<sup>iii</sup>
6. **Quality driven metrics**—Hundreds of quality measure variables, such as annual visit completion rate, are used for tracking quality performance in value-based care arrangements, from the individual physician level up to health plans.
7. **Risk adjustment improvement**—The HCC risk adjustment model is used to calculate risk scores to predict costs. More than 50 percent of a plan's revenue comes from captured HCC codes, and more than 30 percent of HCC codes do not pass the CMS validation process.<sup>iv</sup>
8. **Skilled nursing facility (SNF) expenses**—The yearly average cost of skilled nursing care is \$85,776 per year for a semi-private room and \$97,452 per year for a private room. In-home care averages \$59,040 annually.<sup>v</sup>
9. **Addressing SDOH in VBP Contracts**—Researchers estimate that SDOH issues influence 80 to 90 percent of patient outcomes.<sup>vi</sup>

## 2. Contract Tracking (Performance Monitoring During Life of the Contract)

A systematic and technology-driven approach to VBP contract modeling enables health plans and providers to track performance on a regular basis. The value levers can be tracked quarterly and both parties can explore opportunities for improvement.



At mid-contract, if health plans are not seeing expected results, there is time to course-correct. Quarterly reconciliation of the contract will also enable both parties to course correct as needed.

### 3. Contract Settlement

The health plan can use the model to do final reconciliation and settle the contract. For provider groups, the health plan might produce a reconciliation report. Provider groups can check their numbers against the health plan's reconciliation reports and distribute incentives to group members.

*Note: The VBP Contract Modeler, supplemented by our comprehensive analytics suite, enables payers to tie together financial and quality performance across value levers to support contract strategy and analysis. The ability to identify and target value levers also assists in the development of a corporate standard for terms being offered to the market.*

## Key Components Needed to Create Effective VBP Contract Models

To be successful in VBP contracting, health plans must be able to leverage modern technology designed to develop and support the complexities of contract modeling across all stakeholders. Our partnership with our clients enables us to continually refine and customize the SpectraMedix *VBP Contract Modeler* to address the needs of health plans and their providers. The following key components enable the *VBP Contract Modeler* to deliver value to health plans:

**Market Definition:** The *VBP Contract Modeler* lets health plans define their market and their business line. It enables them to model quality-based incentives, shared savings, and primary care capitation contracts in commercial, Medicare (including Medicare Advantage), and Medicaid lines of business. They can model total cost of care or medical loss ratio (MLR) contracts.

**Provider Group Definition:** Plans can define providers by entering TINs into the contract modeler and defining those physicians as a group, thus providing the ability to isolate their performance.

**Attribution Engine:** The *VBP Contract Modeler* has a built-in attribution engine that attributes members to specific providers. It can also use attribution provided by the health plan.

**Quality Measures Library:** The *VBP Contract Modeler* has a built-in library of clinical quality measures with national benchmarks (HEDIS, MIPS, eCQMs) that enable health

plans to select appropriate measures for their network. These can also be leveraged to build high-performance networks.

**SDOH Integration Engine:** The SDOH Engine enables health plans to integrate SDOH contracts with CBOs and providers into their VBP arrangements.

**Evaluating Value Drivers on a Quarterly Basis:** By leveraging the *VBP Contract Modeler*, complemented by our analytics suite, health plans can evaluate value drivers on a quarterly basis based on budget and other predetermined benchmarks.

**Building High-Performance Networks:** By leveraging the integrated capabilities of the *VBP Contract Modeler* and VBP analytics, health plans are able to build high-performance networks.

**Modeling VBP Contract Execution and Payout:** The *VBP Contract Modeler* is highly configurable and enables the health plan to reconcile against the budget, and facilitate payments within the provider network.

**Adaptability and Flexibility:** VBP arrangements are continuously evolving. The *VBP Contract Modeler* is regularly updated and configured to serve existing and changing requirements.

## Return on Investment

SpectraMedix has developed a return on investment (ROI) model for its *VBP Contract Modeler*. ROI can be provided based on specific use cases requested by the health plan. The ROI model developed by SpectraMedix addresses the following components:

- **Human Capital:** Allowing actuaries to be more efficient and avoiding the cost of actuarial consultants.
- **Bad Contract Prevention:** The ability to compare multiple complex contracts at a per member per month (PMPM) or MLR cost and determine the optimal contract.
- **Provider Contract Reconciliation:** Cost savings analysis sensitized for value levers including quality performance evaluation.
- **Provider Merger Model:** The ability to determine if a newly added or disposed TIN would be accretive to a provider network. This also includes geographic expansion by the health plan or the ACO.

Although a payer's ROI will be different depending on the size of each plan, SpectraMedix has priced its product to receive a baseline ROI of 2.0x - 3.0x from just a human capital component. The other components create significant ROI upside. We are happy to work with plans to walk them through our ROI calculations.

## Conclusion

Health plan financial and provider network executives have a difficult task in convincing their ACOs, IPAs, and other provider networks to go at risk and take PMPMs that are value-driven. Ultimately, it is to everyone's benefit though—payer, provider, and patient—as the long-term objective is to improve quality and lower costs. A payer's ability to identify and prioritize the value levers that have the biggest impact on these areas—cost, quality, and also unnecessary utilization—and then pull those value levers to improve performance, will come out ahead. Designing mutually beneficial value-based contracts, in collaboration with their providers, is the foundation of this.

SpectraMedix has designed the *VBP Contract Modeler* to simplify VBP contracting and adapt as the industry evolves. It provides a transparent and collaborative solution to easily design, evaluate, negotiate, and reconcile VBP contracts with your ACOs, IPAs, and providers. It measures provider performance under different risk models on a pre-contract, concurrent, and/or post-contract basis. It models alternative financial and quality performance scoring methodologies, risk assumption options, and other contract terms across a plans' commercial, Medicare, Medicare Advantage, and Medicaid business lines. And finally, it helps eliminate fear, uncertainty, and doubt by offering health plans and providers the ability to model mutually beneficial VBP contracts in a transparent, quantitative manner.

To learn more, contact us at [info@spectramedix.com](mailto:info@spectramedix.com) or request a demo by visiting [www.spectramedix.com/seecontractmodeler](http://www.spectramedix.com/seecontractmodeler).

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<sup>i</sup> <https://www.modernhealthcare.com/payment/value-based-health-insurer-contracts-growing-number-not-risk-adoption>

<sup>ii</sup> <https://healthpayerintelligence.com/news/generic-drugs-could-have-saved-3b-for-medicare-part-d-program>

<sup>iii</sup> <https://www.nacds.org/news/the-cost-of-medication-non-adherence/>

<sup>iv</sup> <https://www.aapc.com/blog/24215-factor-hcc-with-a-two-pronged-approach-to-risk-adjustment/>

<sup>v</sup> <https://www.seniorliving.org/compare/nursing-home-vs-home-care/>

<sup>vi</sup> <https://healthpayerintelligence.com/news/addressing-the-real-implications-of-social-determinants-of-health>