IBM Watson Health™

WHITE PAPER

Taking financial risk: A primer on IT infrastructure

Part 1: Why this matters

Part 1 contents

About this white paper

This IBM Watson Health™ white paper is designed to be a four-part exploration of the financial risk healthcare providers face when engaging in payer value-based care contracts — and the role technology can play in the successful management of those risks.

Read the entire white paper, or click through to individual sections below.

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The Centers for Medicare & Medicaid Services (CMS), in its Medicare Shared Savings Program, has tried to incentivize accountable care organizations (ACOs) to take more risk by increasing their gain-sharing percentage if they accept downside risk[1]. And the advanced alternative payment models (APMs) of the CMS Quality Payment Program must also take risk to qualify for annual provider bonuses[2]. Similarly, Medicare's Comprehensive Primary Care Plus (CPC+) program for patient-centered medical homes has a second track that entails some downside risk in return for greater upside potential[3].

Meanwhile, some private payers are working with ACOs and large healthcare organizations to help prepare them for risk or to support risk contracts. For example, Anthem Blue Cross and Blue Shield announced that nearly 60 percent of its health spending involved value-based reimbursement, and 75 percent of that amount encompassed shared savings and other kinds of risk contracts[4].

To varying extents, all pay-for-performance, shared savings, bundled payment, CPC+ and capitation contracts contain elements of risk. As a consequence, the organizations that participate in these arrangements need a level of health IT support that is different from and considerably more advanced than the clinical and financial applications used in the fee-for-service world.

Among other things, these kinds of agreements or programs require:

- Comprehensive, timely data — including clinical and claims
- Analytics that help providers manage risk
- Mechanisms to engage patients
- Performance evaluation and feedback
- Financial risk management tools

Risk can be tricky

In 2015, according to *Modern Healthcare*, only 16 percent of surveyed healthcare systems derived 10 percent or more of their revenue from risk contracts; however, with the growth of ACOs and bundled payments in recent years, that percentage has likely risen[5,6]. Partly because of a mandatory CMS program, hundreds of hospitals are now participating in bundled payment arrangements[7].

In promoting value-based reimbursement, the ultimate goal of payers is to hold providers accountable for high-quality outcomes by having them assume financial risk, as well.

At the other end of the spectrum, physicians who participate in Medicare, unless they belong to an advanced APM or are exempted for low volume or hardship, are now subject to the Merit-Based Incentive Payment System, a pay-for-performance program that will eventually entail downside risk for poor performance[8].

Many hospitals and healthcare systems are concerned that all of this will be too difficult and expensive for them to do. For various reasons, those providers may not have confidence that they can succeed with risk[5]. And while some healthcare organizations have told payers they're ready to take on risk, they've pulled back when it came time to sign on the dotted line[9].

Hesitancy can stem from two challenges

What are the main challenges making healthcare organizations reluctant to take on risk? The first hurdle is gaining access to disparate patient data, and the second is leveraging that data across the enterprise.

New payment models require the ability to make sense of big data, track and report on measures, and see a full picture of the patient. Despite investing in health IT, many organizations still lack the tools and solutions needed to gain this level of insight from their data, leaving information gaps. And trying to wrangle all that data without the right IT resources and infrastructure can be labor-intensive and expensive.

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As they undergo this transition, healthcare organizations need IT solutions designed specifically for population health management and bundled payments, and they need integrated data from more sources.

Health IT solutions designed to make sense of big data can help with these challenges by harnessing data from various sources, providing analytic insights to improve decision making and providing an enhanced view of a patient's whole health.

Clash of incentives

Most healthcare organizations are still in the early stages of building the infrastructure they need for this major shift in how payers reimburse them for care delivery. A key barrier to overcome is the discontinuity between the incentives created by fee-for-service and risk. Multipayer CMS programs, such as CPC+ and the All-Payer Combination Option for APMs, stand to help to fill this gap, so that providers will be motivated to improve quality across the board.

As they undergo this transition, healthcare organizations need IT solutions designed specifically for population health management and bundled payments, and they need integrated data from more sources. This information must be available to providers within their workflow, so it can be used at the point of patient care.

Primed for success

The future of risk-sharing in healthcare is promising, as IT can enable organizations to integrate data sources, derive meaningful insight from the data, measure performance and improve decision making.

If health systems, organizations and practices have the right tools, and they build the right infrastructure and redesign their organization to support population health management, they will have the opportunity to succeed under financial risk contracts.

Why you should read the rest of this series

This white paper series explains how healthcare organizations can use the right kind of IT infrastructure to harness and interpret all the information necessary for successful risk contracts.

- Part 2 discusses the many varieties of risk inherent in government and commercial payer programs.
- Part 3 addresses bundled payments, one of the most widespread forms of risk.
- Part 4 provides a wide-angled view of population health management, a foundation of provider strategies for all types of risk except bundling.

For more on this topic, read the rest of this series, *Risk: A primer on IT infrastructure.*

Part 1: Why it matters ➜

Part 2: Which risk is right for you? ➜

Part 3: Embrace the bundle ➜

Part 4: Managing populations to manage risk ➜

Notes

[1] Centers for Medicare & Medicaid Services, Medicare Shared Savings Program, https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/sharedsavingsprogram/about.html.

[2] CMS, Quality Payment Program, Advanced APMs Overview, https://qpp.cms.gov/apms/overview.

[3] CMS, Comprehensive Primary Care Plus, https://innovation.cms.gov/initiatives/comprehensive-primary-care-plus.

[4] Bruce Japsen, "Anthem Blue Cross Nears 60% Value-Based Care Spend," *Forbes*, April 27, 2017, https://www.forbes.com/sites/brucejapsen/2017/04/27/anthem-blue-cross-nears-60-value-based-care-spend/#1d2100e66fe7.

[5] David Barkholz, "Under construction: Risk-based Reimbursement," *Modern Healthcare*, June 18, 2016, http://www.modernhealthcare.com/article/20160618/MAGAZINE/306189982.

[6] David Muhlestein, Robert Saunders and Mark McClellan, "Growth of ACOs and Alternative Payment Models, in 2017," *Health Affairs* blog, June 28, 2017, http://www.healthaffairs.org/do/10.1377/hblog20170628.060719/full/.

[7] CMS, Comprehensive Care for Joint Replacement Model, https://innovation.cms.gov/initiatives/cjr.

[8] CMS, Quality Payment Program, https://qpp.cms.gov.

[9] David Jackson and Larry Howe, IBM Watson Health, personal communication.

About IBM Watson Health

Each day, professionals throughout the health ecosystem make powerful progress toward a healthier future. At IBM Watson Health, we help them remove obstacles, optimize efforts and reveal new insights to support the people they serve. Working across the landscape, from payers and providers to governments and life sciences, we bring together deep health expertise; proven innovation; and the power of artificial intelligence to enable our customers to uncover, connect and act — as they work to solve health challenges for people everywhere.

For more information on IBM Watson Health, visit ibm.com/watsonhealth.

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