Primer on Basics of Capitation

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Fee For Service

• Key feature of fee-for-service
  – Reimbursement increases as volume increases
  – The greater the intensity of service provided, the greater the reimbursement amount.
Current Primary Care Practice Realities

- Independent small groups have limited support infrastructure
- Running a business is increasingly complex and difficult
- Reimbursements in many markets including the Triangle will go down or remain static while costs with increase
- Increasing competition for Quality providers Quality staff
- Lack of Effective Leadership
- Regulatory Burden

  - HIPAA
  - CMS
  - OSHA
  - HIP
  - PQRS
  - CCHIT
  - HEDIS
  - COBRA
  - ICD10
  - CLIA
  - OIG
  - RBRV
  - CON
  - CHAM
  - PUS
  - MOP
  - EHR
  - PR
  - HR
  - PV
  - RFF
  - SD
  - MEST
  - AR
  - K
  - TA
  - EA
  - R
  - IS
  - EO
  - BHL
  - 7NCQAJCAHONPDBPPP
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  - BPC
  - I
Regulatory Burden

Preparing for now and the future of Medicine

• “The Future Isn’t what it used to be” Yogi Berra

• Just as the past was not what it has become, so the future is not what it will become.” Journal of Philosophy 1939
Fixed Expenses of Running a Clinic

• Clinical Leadership –
  Owning and running a practice requires physician leadership (time)

• Time must be allocated away from patient care (productive time) and
  time needs to be reimbursed

• Harder for small practices to absorb costs of decreased productivity and com-
  pensation
Capitation

- Providers receive a fixed fee for each member (patient) enrolled, regardless of the amount or intensity of services provided.

- Capitation represents a reimbursement methodology that requires a different approach to financial management and decision making.
Capitation Defined

• Capitation is a flat periodic payment per enrollee to a healthcare provider; it is the sole reimbursement for providing services to a defined population.

• Capitation payments are expressed as some dollar amount *per member per month* (PMPM)

• A primary care physician may receive a capitated payment of $40 PMPM for attending to the healthcare needs of 100 members of an MA HMO.

• PMPM payment is $40 \times 100 = $4000 and the physician receives $40 \times 100 \times 12 = $48000 in total capitation payments over the year

• This amount must cover all of the primary care services offered to the patient population specified in the contract.
Primary Care Capitation

- Encourages alternative care delivery models
- Enhanced non-face to face care where appropriate
- Get paid whether or not you are seeing patient
- Really a move from per click reimbursement
- Many practices thrive as it can be revenue generating
- Need to focus on quality metrics at same time to ensure appropriate delivery of care
Risk of Capitation

• In a fee-for-service (FFS) system, the financial risk of providing healthcare services is borne primarily by purchasers and insurers not the providers.

• Under capitation, fixed payments are made to providers regardless of the volume of services rendered, so risk sharing occurs among all three parties.

• Providers bear the short-term risk that the costs of providing service
  – Volume of services might exceed the capitation payment.

• Insurers/networks bear a longer-term risk as costs increase.
Positive Aspects of Capitation

• Providers receive a fixed payment regardless of whether services are actually rendered.
• Capitation revenues are predictable and timely, and thus are less risky than revenues from conventional payment methodologies that are tied to volume.
• Capitation payments are received before services are rendered, so, in effect, payers are extending credit to providers.
• Capitation supports national healthcare goals—primarily increased emphasis on cost control as well as wellness and prevention.
Success in Capitation

• Capitation completely reverses the actions that providers must take to ensure financial success.
• Many providers find it difficult to adjust to the new, perverse incentive system.
• Profitability with fee-for-service is proportional to increased volume, increased reimbursement rates, or both.
• Deficiencies in cost control in FFS often can be overcome by higher volume.
• Capitation, the primary path to profitability is through cost control.
• Lower volume and cost-effective treatment plans.
Ultimate Goal of Capitation

Motivate providers to utilize only needed services, and to provide those services in the lowest cost setting.
Capitation- Benefits

• Capitation may ease the reimbursement paperwork burden, and hence reduce expenditures on administrative costs.

• Capitation encourages utilization of lower-cost treatments, such as outpatient surgery and home health care, as opposed to higher-cost inpatient alternatives.
Keys to Success

• Under fee-for-service, the keys to success are to work harder, increase volume, and hence increase profits.

• Under capitation, the keys to profitability are to work smarter and decrease volume.
Financial Risk for FFS Fee-for-Service

• The financial risk associated with uncertainty in profitability
• Both revenues and costs must be considered.
• Revenue risk- the amount of reimbursement depends on the number of patients seen
• Lower volume yields reduced revenues.
Financial Risks of Capitation

- Under capitation assuming a fixed number of enrollees, there is virtually no revenue risk. You are guaranteed a PMPM.
- The provider will receive the contractually fixed amount per member per month regardless of patient volume.
- Financial risks are identical under the FFS and Capitation
- Fixed costs – these cost must be met regardless of volume
- Variable costs are volume dependent and incurred for each patient seen.
- Total costs = the sum of fixed and variable components
- In Capitation patients seen less frequently reducing variable costs and reducing total overall costs.
- Capitated fixed payment with less frequent visits frees up appointment slots for other FFS patients increasing revenue.
Fixed Costs

• If the costs are mostly fixed – labor, building, utilities, employee benefits, insurance, etc
• Then financial risk is actually reduced when moving from prospective payment (FFS) to capitation
• Fixed revenue stream better matches the fixed cost structure
• Most healthcare providers have relatively high fixed-to-total-cost ratios (total cost=fixed plus variable)
• If your clinic has a high percentage of fixed costs, a fixed revenue stream like capitation stabilizes profits, and hence reduces financial risk.
Risks of Capitation

• Providers must have a sufficient number of capitated lives to make the law of large numbers work in their favor.
• With too few patients covered by capitation, just one or two adverse cases can easily push expected profitability into realized losses.
• Goal under capitation is to increase your covered lives to minimize risk of just having less healthy population.
• Alignment minimizes your risk with their care centers that will help manage your less healthy or higher utilizing patients thus allowing you to see more patients in your practice using same resources.
Challenges of Capitation

• In Capitation the goal for increased profit requires actions—decreasing volume of patients seen in office or lowering costs—with which providers have limited experience, and hence are more difficult to implement.
• When a high proportion of costs is fixed, cost-reduction efforts are extremely challenging because they can be achieved only moving to less costly space or shrinking the labor force.
• A healthy mix of capitation and Fee-for-service mitigates this risk as there is a fixed steady income at all times.
• Financial risk of capitation is much less than most people think.
Capitation is no place for inefficient providers

- Capitation contracts are usually set at rates that assume the efficient delivery of services to control unnecessary services and costs.
- Less-efficient providers will experience more challenges under capitation because they must choose to accept rates that do not incentivize them to see patients frequently or do large volumes of in-office testing.
- Our Alignment rate provides us with a reimbursement rate that lessens this risk.
- The difficulties that inefficient providers face do not result from financial risk differentials, but rather from prior management practices that did not sufficiently stress the efficient delivery of services.
- The Alignment HMO contract allow you to get your feet wet while learning how to effectively manage these patients under a capitated payment system.
- Capitation or a version there of will be in every primary care providers future.
What is Next?

• In the next Webinar we will discuss some of the tips to help you and your staff practice more effectively in Capitation.

• The basic rule of capitation is to identify these patients when they call and request an appointment. Triage them in a timely manner similar to what you would do while on after hours call.

• Decide whether you can treat over phone or the patient needs to be seen in the office.

• E-Triage – We will show you in next webinar how to use this to get a complete history of present illness from patient with minimal work.

• Unless an absolute emergency you want to evaluate the patient in your office when medically appropriate and only treat over the phone when medically appropriate.