Oregon Healthcare News

orhcnews.com | Articles, Interviews and Statistics for the Healthcare Executive

Capitation Isn't a Four-Letter Word

By Karl Rebay
Director
Moss Adams LLP

Yes, of course, it's a 10-letter word. But those of us who have been in the health care industry for a while can remember the days of managed care, when capitation was marred by many negative characteristics including an intense and distracting bottom-line focus, inadequate technology that didn't always facilitate data capture and care management, and a shortage of clinical oversight and involvement.

Nevertheless, many believe that capitation was simply an idea ahead of its time. And, given the trends we're now seeing, this may well be true. It's a vastly different health care world today, and the industry is in the midst of a sweeping transformation. Indeed, success going forward will depend on the focused involvement of health care providers as well as strong management of the health care dollar.

Financial Responsibility

So, capitation – which involves sending a fixed per-patient payment to a health care provider in return for medical services – could be part of the solution, because the payment for the most part is the same no matter how many services, or what type of services, each patient actually gets.

Capitation offers provider organizations an opportunity for greater sustainability, more control over their own destiny, and enhanced business possibilities in a way that complements the accountability that this model requires. In addition, capitation, in an environment where enhanced quality is rightfully a requirement, incentivizes provider organizations to center their efforts on proactive long-term health management – rather than quick short-term bottom-line "wins" – in order to realize profitable gains.

The net result is that capitation forces providers to be financially responsible. And this financial responsibility could serve a very positive purpose in today's truly troubled economy, which is severely impacted by inefficient health care spending.

Fixing the Value Equation

Increasingly, people are asking about the value we're actually getting when one out of every five dollars in our overall economy is going to health care. This explains why there is such an emphasis today on fixing the value equation by providing quality care. Instead of having gatekeepers who limit care, it's now about delivering the right care, in the right place, for the right price.

It all sounds so logical, and yet this has been an elusive goal in the health care industry. Maybe this is because the people responsible for providing and authorizing care were not properly incentivized to understand the financial ramifications of their requests; and maybe this is because additional patient visits resulted in separate payments every time, thus perversely incentivizing more visits. Whatever the reason, it's now clear to almost everyone in the health care industry that rewarding volume over value just isn't viable anymore.

This radically altered world view may help capitation succeed in the rapidly changing health care industry; but improved IT and administrative infrastructure will also play a role. To be sure, we now have robust tools and capabilities that can accurately capture clinical and financial data and then turn it into extremely useful information that reinforces quality outcomes. Another key factor that's playing a role is the significant change in health care reimbursement that's putting a whole new series of financial incentives in place to support improving patient health.

Core Drivers

An emphasis on quality, next-generation technology infrastructure, enhanced coordination techniques and revamped reimbursement could help improve the tarnished reputation that capitation acquired back in the previous managed care era.

Today, many people, especially those in our government, believe that shared savings are the answer to our health care problems, with Accountable Care Organizations (ACOs) representing a current, almost trendy, approach. Even though ACOs have their strong points, more effective models exist. Another option is the bundled payment, which allows shared savings, yet in a targeted and more manageable form.

Both ACOs and bundled payments are a step in the right direction for entities that currently employ a fee-for-service business model, or for entities that have product lines based on this payment model, because they put decisions in the hands of providers and drive these health care decision makers to do more with less. Also, pure managed care entities can also use ACOs and bundled payments to expand their businesses. For instance, an independent practice association could create an ACO to gain market share by pulling in non-managed seniors, as we are currently seeing in pilot programs.

Aligning Incentives

Overall, it's my view that capitation, when designed and deployed effectively, does a far better job of aligning incentives and providing financial sustainability than the ACO and bundled-payment models.

The key elements that help capitation flourish include a provider network with adequate breadth and depth, appropriate funding, a large enough membership complement, sophisticated care coordination systems, enough knowledgeable administrative support, the proper physical and IT infrastructures, a culture of high quality, and proper leadership. Of course, providers must also be vested in the success of the model and have good business disciplines that include strategic planning, detailed financial modeling based on actuarial projections, mentorship, and succession planning.

But there are still risks, which is why the industry is still hesitant about capitation. Because health care costs have been out of control for so long, many organizations are reluctant to work with finite financial resources in order to achieve goals. However, the organizations that can learn how to manage costs via the provision of high-quality, coordinated care, can mitigate capitation's risk and enjoy a more viable business model.

From my perspective, there are several essential elements that can help capitation pay off in a financial sense. First, you need to know where your patients are. Second, you must have programs that are designed to coordinate the provision of care and keep people healthy. Third, you need effective contractual relationships and communication mechanisms with outside providers. And lastly, you need to have collaborative relationships with payers. If we really want to accomplish something remarkable for our system, then the time for uncompromising, adversarial relationships has ended.

The Physician's Role

The capitation model asks providers to be more engaged in the financial side of health care. But it's unrealistic to expect that all health care practitioners will be versed in this complicated business. Still, many physicians have exceptional leadership capabilities, and organizations can implement educational programs to help them become more conversant in business. Physician leadership will ultimately provide one of the greatest contributions towards capitation's success because of their authority over allocation of health care resources.

We're entering a new era in health care, and a host of organizations are busy at work trying to solve the value equation. Capitation is complex, and it's hardly without flaws. But it offers a funding mechanism that drives incentive alignment where it's needed most—at the provider level. If market dynamics and provider organizations consent, this could be a tremendously valuable response to the big issues that continue to loom large over the industry.

Karl has been in the health care industry since 1993. He leverages his deep expertise in strategic business planning, financial operations, turnarounds, feasibility studies, development of capitation models, negotiation and analysis of managed care agreements and service line analysis and development for both hospitals and physician organizations. He also has experience with risk bearing organizations and management services organizations. Karl holds a BS in accounting from California State Polytechnic University, Pomona and an MBA from the University of California Irvine. Karl can be reached at Karl.Rebay@mossadams.com. Visit the Moss Adams LLP web site at www.MossAdams.com

Reprinted with permission from the Oregon Healthcare News. To learn more about the Oregon Healthcare News visit orhcnews.com.