

ARTICLE

How to reposition managed care contracting to advance strategic and economic priorities

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A health system's new chief executive officer (CEO) faced a critical moment: 40% of its net patient service revenue (NPSR) was riding on pending managed care negotiations. Meanwhile, market pressures meant the health system needed to reorient its enterprise and service line strategies. And while the individual contract negotiation plans focused on historical global enterprise and payer budget requirements, they did not align with the new enterprise and service line strategies. The CEO called together the leadership team to determine a better path forward.

As health systems face mounting financial and other pressures, aligning managed care contracting to an organization's overall strategy is critical to realizing the full value of its strategic priorities.

Organizations that embrace the managed care contracting function as part of the strategic orientation of the enterprise are differentiating across the mission-vision value chain. They are intentionally and tightly aligning strategy with managed care to orient reimbursement, revenues, and margins to reinforce the future path(s) of the organization.

Why it matters:

How health systems are paid has become more complicated as payers seek to manage medical loss ratio (MLR) and incentivize quality and patient experience. Changes to reimbursement and contract terms over the last decade have eroded the financial value of the contract and lowered the incline of year-over-year negotiated reimbursement increases the health system captures.

At the same time, health system delivery models have become more complex—including growing ambulatory footprints, diverse partnership models with traditional and non-traditional healthcare organizations, and digital modes of care delivery and communication. However, payment models that capture the full value of these networks and innovations have not kept pace. Health systems and payers must come together with a long view of creating the right transition economics and administrative cost reductions to evolve to a more affordable and accessible care delivery model.

Today, managed care contracting too often focuses on a narrow set of year-over-year performance indicators, largely limited to utilization and rate growth. The tone set by payers and health systems alike in these negotiations can make contracting feel like a zero-sum game. For example, when health systems successfully negotiate higher rates, health plans place more scrutiny on utilization through prior authorization requirements, utilization review, and (at times) denials.

A recent study of more than 1,800 hospitals found that between 2021 and 2023, the percentage of commercial payer claim denials on the basis of medical necessity increased from 2.4% to 3.2%. Additionally, commercial payers' request for information ("RFI") claim denial rate was 12 times greater than Medicare's.¹

What's next:

Realign the managed care contracting function with the Office of Strategy

The first step of repositioning managed care contracting is to assess the current alignment of the managed care contracting function and the Office of the Chief Strategy Officer (CSO) to ascertain incongruencies across pursuits and execution.

The managed care contracting function traditionally has narrowly focused on closing near-term financial gaps, without regard to the peripheral and longer-term implications to enterprise strategies. Even when such longer-term implications are part of negotiation strategies, organizations often deprioritize them in lieu of short-term, aggregate revenue increases. Such short-term compromises can ultimately compound existing challenges to the organization's strategic priorities.

Emerging organizational models create formal alignment by establishing direct reporting relationships or dyadic reporting relationships from the managed care contracting function to the chief financial officer (CFO) and CSO. Such models reorient the managed care contracting function to become "both-and" to achieve near-term financial objectives and support strategic positioning.

Assessing alignment of the managed care contracting function with the Office of the CSO includes:

- Understanding to what extent the current payer portfolio strategy aligns with and supports the enterprise and adjacent strategies.

- Identifying to what extent individual negotiation strategies and historical execution align with current enterprise and service line strategies.
- Discovering the depth and frequency of collaboration points between the managed care contracting function and the Office of the CSO.
- Determining the optimal go-forward operating and reporting model for the managed care contracting function.
- Incorporating robust market, demographic, competitive, payer, and financial disciplines into the managed care contracting strategy and planning function.

Identify drivers of revenue growth in the context of strategic priorities and market intelligence

The intelligence brought to bear in any payer negotiation must transcend the negotiation itself. Health system leaders should view each payer negotiation in the context of the larger competitive market, evolving patient demographics, and their enterprise and adjacent strategies.

For these negotiations to support the enterprise's mission, vision, and strategic objectives, leaders must align and design a forward-looking managed care payer portfolio and revenue strategy that serves as the compass for each payer negotiation. Leaders should build this strategy on a comprehensive internal and external fact base that achieves near-term financial objectives while orienting payer contracts and reimbursements toward future strategic endeavors.

Health system leaders should take a fact-based portfolio approach to assess key revenue drivers by market, hospital, payer, service lines, and services. The assessment should identify the crucial factors to achieving the organization's financial and strategic objectives. Critically, leaders must also understand where sources of revenue may be at risk (e.g., services affected by site-of-service shifts, or adverse payer contract language or demographic changes that impact service and revenue mix). They should incorporate mitigation tactics that align with broader strategies to minimize future revenue and volume impact.

A leading academic healthcare reorganized its managed care contracting function to formally align with the Office of the CSO while maintaining a "dotted line" reporting relationship to the CFO. Next, the managed care and strategy leadership teams held a series of summits to assess current reimbursements relative to the enterprise and supporting strategies.

Two key strategic objectives were price competitiveness and payer alignment as the organization pursued deeper levels of value-based revenues over the next 3 years. They set out to analyze the organization's reimbursement position relative to the market; assess current and future market dynamics; and identify a potential payer partner and product type to pursue. As a result, they improved the longitudinal financials and the health of the community.

Reorient the managed care contracting function for greater strategic success

The healthcare landscape is changing at increasing levels of complexity, pace, and diversity. Historically, managed care contracting has been successful with just-in-time negotiation execution and budget adherence. However, the intricacy and volume of challenges facing healthcare leaders today require a differentiated approach—a strategic approach.

Leaders who optimally align their strategic and managed care functions can develop a payer portfolio and revenue strategy that poises the organization to address this complexity, while improving its financial position and creating a bedrock for differentiated success.

Sources:

¹ Association of Clinical Documentation Integrity Specialists (ACDIS), "Commercial payers at the core of denial rate increases and payment delays, report suggests," CDI Strategies, June 1, 2023, <https://acdis.org/articles/news-commercial-payers-core-denial-rate-increases-and-payment-delays-report-suggests>.

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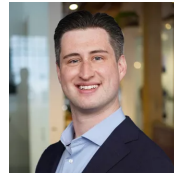
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