Direct Contracting: The Next Purchaser Strategy

Can a health care model in which employees choose—and pay for—their own health care revolutionize the industry? Let's look at the bellwether state of Minnesota to find out.

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The health care revolution has been proceeding nicely in Minnesota, where many aspects of health care reform have been incorporated into the new system for several years now. However, a funny thing happened along the way: Big business jumped ship and set up its own approach to solving emerging problems.

In the new model, key large Minnesota employers are empowering hundreds of thousands of their workers to do something unique: pick their own health plans and pay their own premiums. Coupled with a uniform benefit design, the model will enable patients to do what health care systems in the U.S. have rarely accomplished: To choose their own providers based on their own ideas about service, cost, and customer satisfaction.

What is the Minnesota Buyers Health Care Action Group (BHCAG) and what is it doing about problems with the state's integrated service networks (ISNs; see sidebar on next page)?

What do these changes mean for managed care groups and their employees? Let's take a look at recent developments in this key testing ground for the health care system of the twenty-first century.

BHCAG: LOOKING FOR INCENTIVES, ACCOUNTABILITY

Steve Wetzell, executive director of BHCAG, is quick to point out the problems that the group is trying to solve. He begins by showing the diagram in Figure 1. He follows with concerns about the current features of the health care delivery system—one he readily admits his members helped to design:

- ▲ The incentive is for health plans to build large, overlapping networks.
- ▲ Health plans maximize premiums and minimize provider payment.
- ▲ The health care provider market share is driven by payer relationships.
- ▲ The plan-wide "premium" undermines provider accountability in that inefficient or expensive providers are invisible to the payer.
- ▲ Providers do not "own" or advocate the plan.
- ▲ Conflicting rules are imposed on a provider by competing health plans.
- ▲ Provider networks are not stable as plans and plan designs constantly shift.
- ▲ Fragmented data are created.

BHCAG views integration of health systems, vertical or otherwise, as being devoid of two essential ingredients: market incentives and accountability. As payers, they want to change the incentives in the health marketplace. By developing a system of direct contracting with providers, they hope to enable providers to create care systems for service provision by providers and health plans functioning in new roles. Figure 2 shows the care systems BHCAG is trying to incent the providers to create.

NEW CARE SYSTEMS

The elements of the improved model BHCAG would create include the following:

- ▲ A single administrator and standard plan design.

LEADING A LARGE EXPERIMENT

The consolidation of Minnesota's managed care market was an inevitable consequence of the past four years of health reform legislation. The cornerstone of Minnesota's reform was new health organizations called Integrated Service Networks (ISNs). These large health conglomerates were fashioned after the concept of "managed competition," the brain child of the Jackson Hole group so influential in the Clinton Administration's failed effort at health care reform. ISNs were designed to be vertically integrated, self-contained health systems similar to HMOs—only larger. Jackson Hole's leader, Paul Elwood, envisioned that ISNs would compete against each other in a system intended to become the U.S.'s response to the international move to single payer or nationalized health care. Minnesota is leading the way to test this large experiment in health reform.

Enabled by MinnesotaCare, Minnesota's managed care systems rapidly consolidated into what became known as the "Big Three"—Allina, HealthPartners, and Blue Cross and Blue Shield of Minnesota. Their domination of the health delivery system should have been no surprise to those leading or following Minnesota health reform. The business community was an enthusiastic participant in the rush to these new systems, participating with hopes of stopping the double-digit health care annual inflation decreasing their bottom line.

The Minnesota Buyers Health Care Action Group (formerly Business Health Care Action Group or BHCAG) startled many in the vanguard of Min-

nesota health policy when they recently announced a major concern about this consolidation in the health marketplace. They made the front page of the *Wall Street Journal*, stating that their new strategy would be to contract directly with health care providers. The major Minnesota news outlets issued a number of stories about the abrupt about-face of this influential business health purchasing group, which may have the marketplace clout to make some of these changes occur.

Just who is involved in this group and what are they attempting to accomplish? BHCAG is a coalition of 24 large Minnesota-based employers providing health care for 250,000 employees, retirees, and their dependents. Minnesota state employees joined BHCAG, prompting the name change to Buyers Health Care Action Group. When Cargill, Dayton Hudson, General Mills, and 3M speak, everyone listens. These self-insured ERISA companies employ 10% of the Minnesota metropolitan market and 5% of those living the upper midwest region of the U.S.

The emergence of this new group and their criticism of the Minnesota health care reform effort has left executives of managed care organizations in a difficult dilemma. The ISNs were formed in response to encouragement by Minnesota health policy leaders, including members of the business community now criticizing them because of their size and business strategies. One thing is clear—the rules are changing dramatically since BHCAG made the announcement about *their* change in strategy.

- ▲ Consumer contributions based on the relative cost of competing care systems.

- ▲ Standard risk adjustment with the care systems at risk.
- ▲ Providers contract with plans for value-added services.
- ▲ Employer-designated centers of excellence.

- ▲ Standardized cost, quality, and service information.

BHCAG envisions that this fundamental role reversal will challenge health plans in these ways¹: "In today's managed care markets, health plans possess the power. All dollars flow

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Figure 1. Prevailing Managed Care Model

Figure 2. Consumer Choice Model

through the plan. The plan decides who is in the network. The plan generally sets practice standards. In the new model, dollars flow directly to care systems. Accountability for quality, cost, and service is at the care system level. Health plans will need to accept a loss of control over the market and determine how they can bring value-added services to purchasers and providers to support care systems."

Improved incentives envisioned in the BHCAG systems include these:

- ▲ Providers advocating their product (i.e., the care systems) through which they serve the BHCAG employees.
- ▲ A provider care system market share driven by efficiency, quality, and service, a truly competitive marketplace model.
- ▲ Network stability in the marketplace.
- ▲ The health plans providing value-

added services to provider care systems.
▲ Consumers driving the market.

IDENTIFYING THE PRACTICAL ANSWERS

BHCAG recently released a request for proposal that provides some interesting glimpses into the future of the new role of managed care systems and health care providers.² BHCAG wants to change their buying model to create a market more directly driven by consumers and provider responses to the needs of consumers. Consumers will be able to choose among Care Systems (integrated teams of providers) according to their cost, who their providers are, and their performance in areas of quality and customer service.

This coalition of business pur-

chasers sees their new approach as an improvement and the next logical step in the evolution of its program, which they are calling Choice Plus.

Beginning in 1997, BHCAG will contract directly with multiple "Care Systems," and enrolled employees will each choose one of them.

A Care System is a primary-care-centered health system (family practice physicians, pediatricians, internists) with its affiliated specialty, hospital, and allied professional arrangements. It is organized to provide (or contract for) the full continuum of medically necessary services for an enrolled population.

One of the more revolutionary concepts is that each primary care provider can participate in only one Care System. Primary care providers will have to select their strategy and partners carefully.

Pricing and performance information for consumers will be organized around Care Systems. Consumers may continue to identify their provider choice with a particular clinic, but they should quickly become familiar with the term Care System.

GETTING INFORMATION WITH WHICH TO MAKE DECISIONS

So how will employees make these informed choices? BHCAG will provide its employees and dependents with a wide range of comparative information about their Care Systems and the providers within them. This information will be of three types:

▲ *Descriptive information* on the Care System and on the particular clinics within each Care System, including location, hours, and on-site services available plus information on individual physicians (training, certification, statements of philosophy, languages spoken). Also included will be information on specialist referral and hospital relationships.

▲ *Comparisons of quality* at the Care System level, including both clinical measures of technical quality and patient-reported measures of care quality.

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▲ *Comparisons of customer service and satisfaction at the Care System level.* The group does not believe that information on specific providers for the review of the employee is fair or appropriate. These service reports will be the results of patient surveys addressing such things as accessibility, ease of seeing the physician of one's choice, waiting times for appointments and in the waiting rooms, and courtesy.

BHCAG wants to present consumers with information using touch-screen kiosks. These are currently being tested by Health Partners at a few locations in the Minneapolis area. Some of the BHCAG companies may also make the information available through their local area networks, the Internet, and diskettes. An abbreviated paper version of this information will be available.

Employees choosing to enroll in Choice Plus will pay different premium amounts according to which Care System they select. Benefit levels will be identical across all Care Systems; the premium differentials will be based on the actual claim targets bid by the various Care Systems. Employees who select a less costly system will pay less. (Family members may choose different Care Systems, but the family as a whole will pay according to the cost of the highest cost system chosen by any one member of the family.)

This will be the first time that the relative costs of providers and their affiliated Care Systems will be visible to employees and will have an effect on employees, own individual out-of-pocket premium costs for their health benefits. This visibility to consumers of cost differences among Care Systems is a key strategic reason why BHCAG is changing its buying model. Under the new model, BHCAG expects the market will be driven by consumer values, including the level of quality or service for which consumers are willing to pay.

In BHCAG's model, Care Systems

AN OPPORTUNITY FOR PHARMACY

The direct contracting model creates a wonderful opportunity for pharmacists in managed care, hospital, and community pharmacy to redesign their relationships to focus on the comprehensive pharmaceutical care of their patients. The elimination of barriers to caring for the drug-related problems in each patient can open whole new vistas of cooperation and partnerships between pharmacists in each of these practice settings. The new systems seem well designed for focusing on the elimination of these expensive and potentially dangerous drug-related problems currently undetected by pharmacists in any system or practice setting. Make no mistake about this fact—these business folks mean business. Those providers not paying attention will wonder where the patients went!

will compete for the individual consumer market share based on quality, consumer satisfaction, and risk-adjusted cost for a standard set of covered services. Here are some of the goals BHCAG is trying to accomplish³:

- ▲ Make the consumer the most important customer in the health care market;
- ▲ Empower employees, retirees, and their families to choose Care Systems based on what is important to them;
- ▲ Create more choices and long-term stability for consumers;
- ▲ Create a self-insured health plan that will support continuous quality improvement by rewarding high-quality, high-service, cost-effective Care Systems financially and with increased market share;
- ▲ Create provider accountability for quality, service, and cost;
- ▲ Strengthen providers' sense of ownership and advocacy for their Care System;
- ▲ Stimulate innovation and creativity in the development and management of Care Systems;
- ▲ Create a health care market in which Care Systems collaborate when appropriate to optimize quality, service, and efficiency;
- ▲ Limit the intermediary roles of employers and health plans to specific, value-added services;
- ▲ Create competition among potential vendors of value-added services to support Care Systems.

The price competition is envisioned to work as follows. BHCAG employers will remain self-insured. Care Systems will submit target per member, per month rates for a standard population and set of covered services. Differences in Care System target rates will be reflected directly in premiums paid by Choice Plus enrollees, who will generally select a plan once a year. Each BHCAG employer will be responsible for whatever shortfalls or surpluses arise when the actual fee-for-service cost of care for their enrollees is different from the BHCAG employer's premium contribution plus the members' premiums.

WHERE WILL THIS ROAD LEAD?

Keep close tabs on what happens with this system in Minnesota. A *Business and Health* October 1995⁴ cover story pointed to the Minnesota BHCAG direct-contracting initiative as the possible next step in health care management in response to HMO consolidation, speculating that further market consolidation will likely result. Direct contracting has gained national attention, and employer groups in other states will be watching from outside while those pharmacists, physicians, and nurses employed in Minnesota managed care organizations watch the revolution from the inside. ■

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