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Educational Webinar Series

Don’t Let Downside Risk Get You Down

Effectively right-sizing your risk exposure, Part 1

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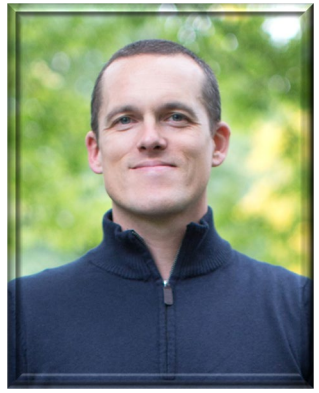
Today's Presenters

Scott Machut, CPA, FLMI

Vice President, Sales for Reinsurance and Provider Excess



Rick Lassow, FSA, MAAA

Vice President, Underwriting and Actuarial

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Understanding the Risk

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CMS Vision and Objectives

CMS expects all Medicare beneficiaries with Parts A and B to be in a care relationship with accountability for quality and total cost of care *by the end of the decade (2030)*.

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The Road to Risk-Bearing

2012: MSSP and Pioneer ACO models introduce providers to greater risks

2016: NextGen ACO moves select ACOs to greater risk bearing arrangements

2021: Direct Contracting model (transitioned to ACO REACH 1/1/23)

2023 MSSP performance year: 456 ACOs, 10.9M assigned beneficiaries

- One-sided
  - Basic track A&B – 151 ACOs (33%)
- Two-sided
  - Basic Track C&D, 19 ACOs (4%)
  - Track E, 125 ACOs (28%)
  - Enhanced, 161 ACOs (35%)

2023 REACH

- 132 participants
- Risk-sharing options
  - Professional (50% svgs/ losses)
  - Global (100% svgs/losses)

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Types of Risk-taking Provider Organizations

At-risk health care providers can include:

- Accountable care organizations (ACOs)
- Hospital systems
- Integrated delivery systems
- Independent physician organizations (IPOs)
- Physician groups
- Physician hospital organizations (PHOs)

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Scope of Provider Risk-Taking

- Full/global risk
- Partial risk
  - Professional only
  - Hospital only
  - In-network only
  - Specific bundles/episodes
- Shared risk – hospital(s) and physicians jointly enter a global risk arrangement, each with defined responsibility for certain services
- Any option may include carve-outs

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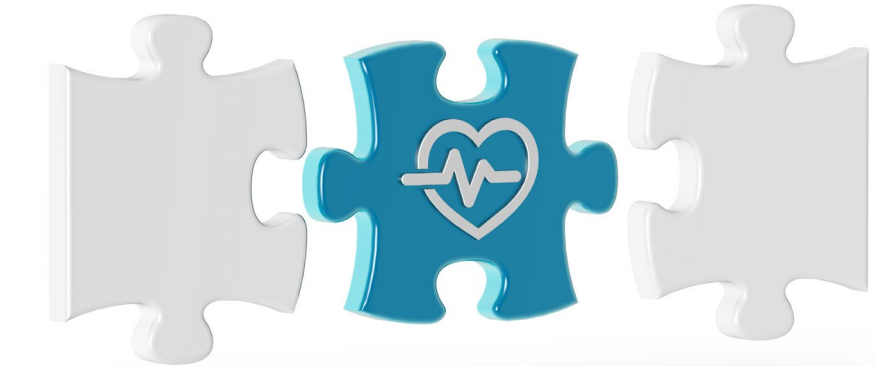
Carve-outs: by Choice or by Design

- Transplant
  - Still exists, but used to be more common when transplant risk was a major driver of large claims
- Gene Therapy
  - Stand-alone products not widely available to providers, but may be coming soon



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Carve-outs: by Choice or by Design

- Rx
  - Often used when hospital and physician risk are split apart in the DOFR and Rx is retained by the payer
  - Some Medicaid programs carve out Rx (or just gene therapy) from managed care, necessarily resulting in carve-out to provider
  - Medicare Part D has historically covered most high dollar Rx claims, yet some insurers do put providers at risk for Rx.
    - Beginning in 2025, insurers will be at risk for 60% of catastrophic Part D Rx, not15%

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Financial Risk-Sharing: Alternative Payment Models

- Payment models with no risk sharing
  - Fee for service
  - Pay for quality reporting (steppingstone to financial risk sharing)
- Payment models with risk sharing
  - 1-sided cost of care / upside only
  - 2-sided cost of care / upside & downside
  - Any option may also include financial incentives for quality outcomes

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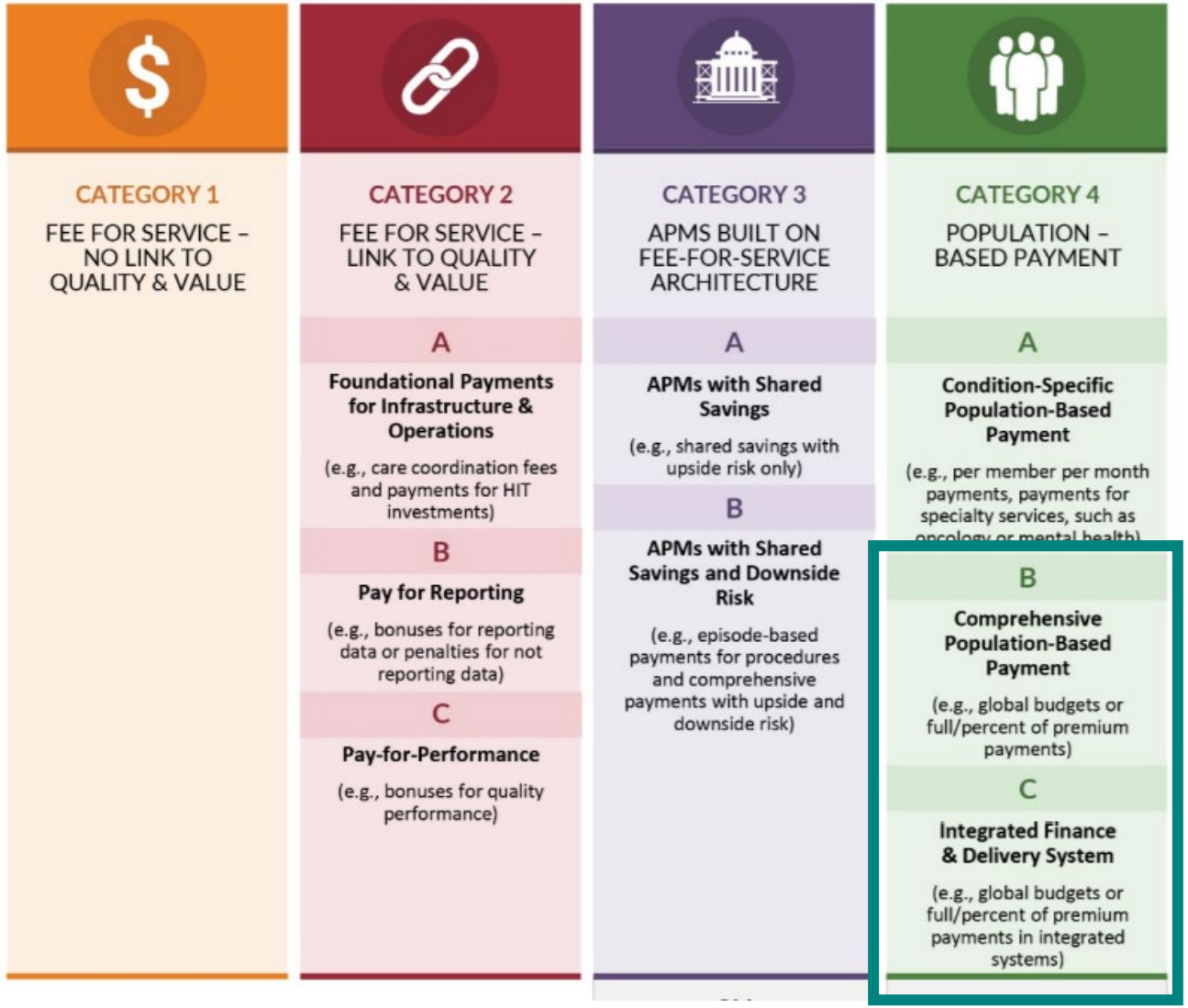
Alternative Payment Models (APMs)



Credit: APM Measurement Health Care. Progress of Alternative Payment Models 2020 – 2021 Methodology Report HCP LAN

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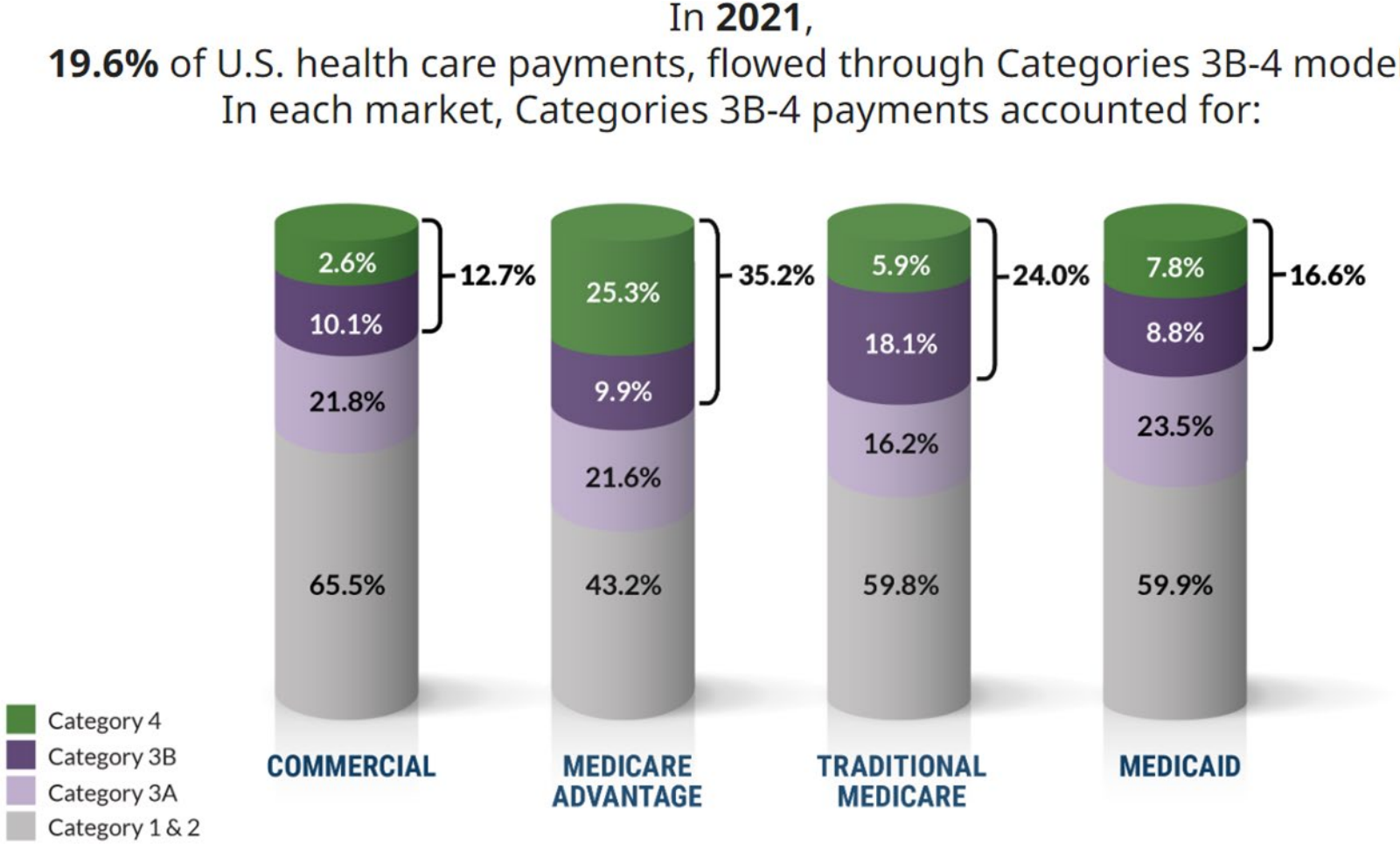
Trends in Provider Risk-sharing



Credit: APM Measurement Health Care. Progress of Alternative Payment Models 2020 – 2021 Methodology Report
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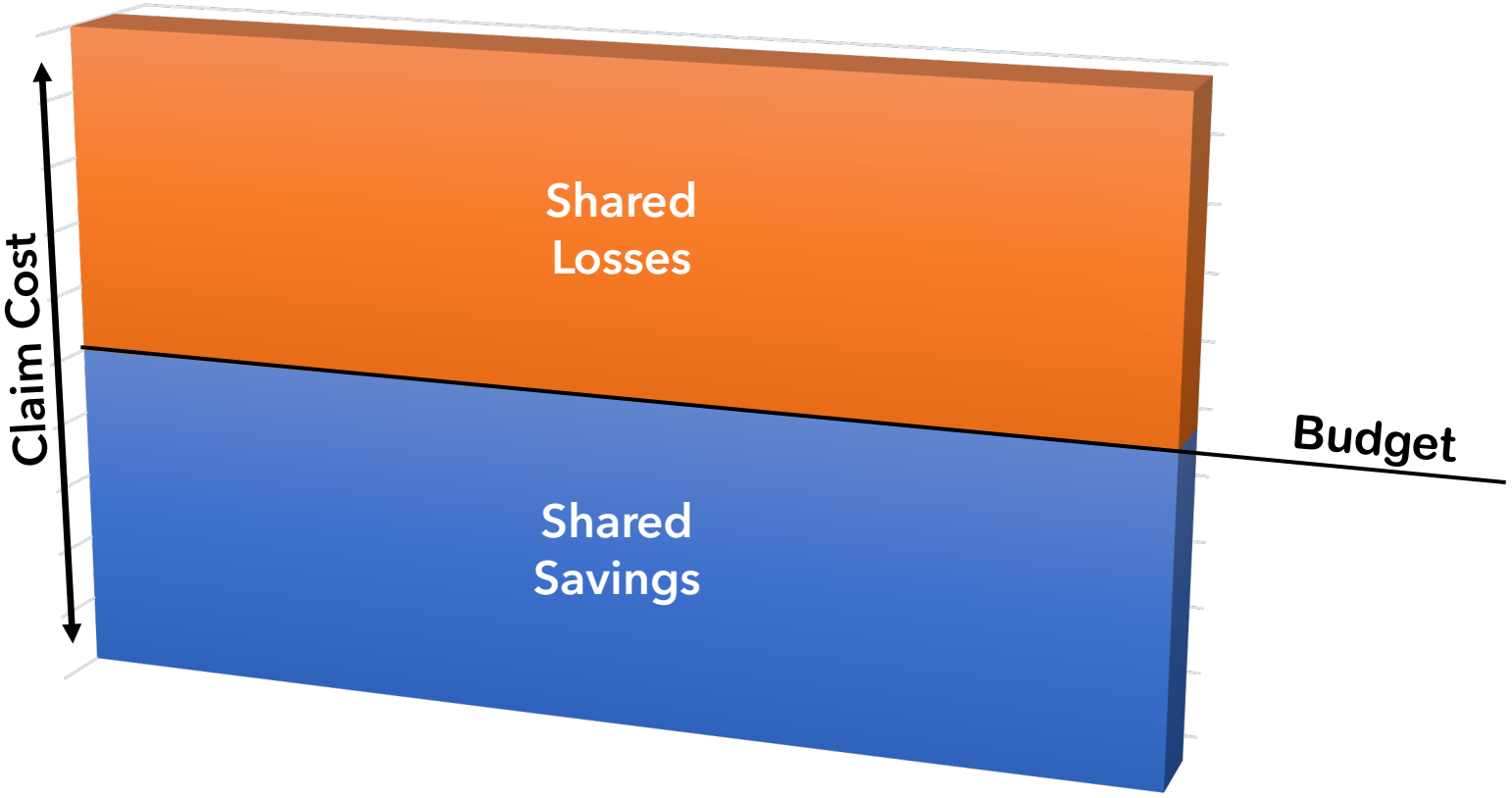
How Did Claim Cost Compare to My Budget?

Risks

- Utilization
- Large claims
  - Complex cancer
  - Neonatal
  - Burns
  - Hemophilia
  - Gene therapies



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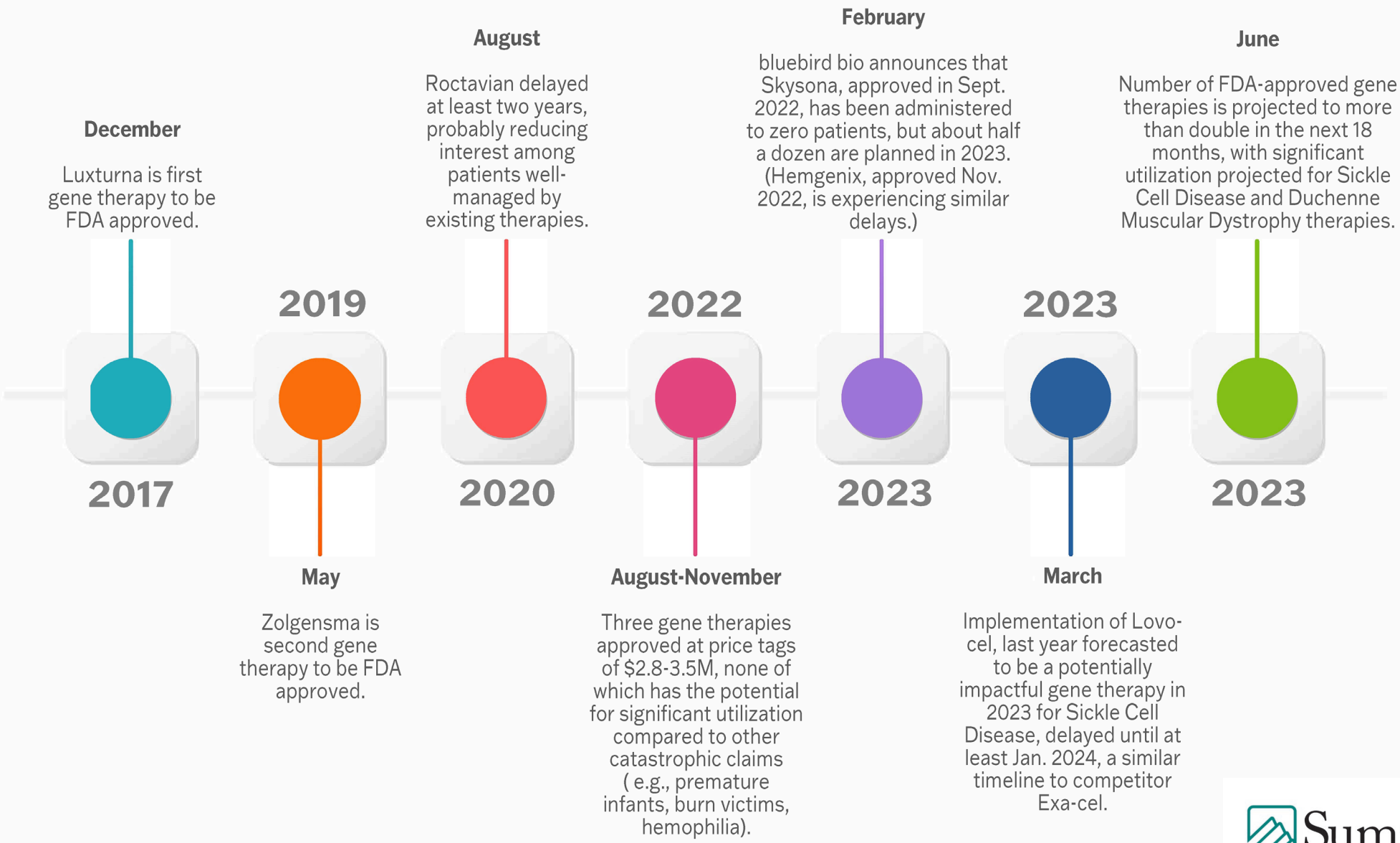
Is the Gene Therapy Tsunami Real?



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Poll: What Do You Think?

1. **The gene therapy tsunami is real:** By 2028, gene therapies will lead to at least one major change in US health care financing.
2. **The tsunami is real (but…):** Gene therapies will continue to be approved and administered at an increasing rate, but our current health care financing system will absorb it without major changes.
3. **The tsunami isn't real:** In 2028 only about 1x-3x as many gene therapies will be administered to patients as in 2023.
4. **Not sure**

SELECT ONE

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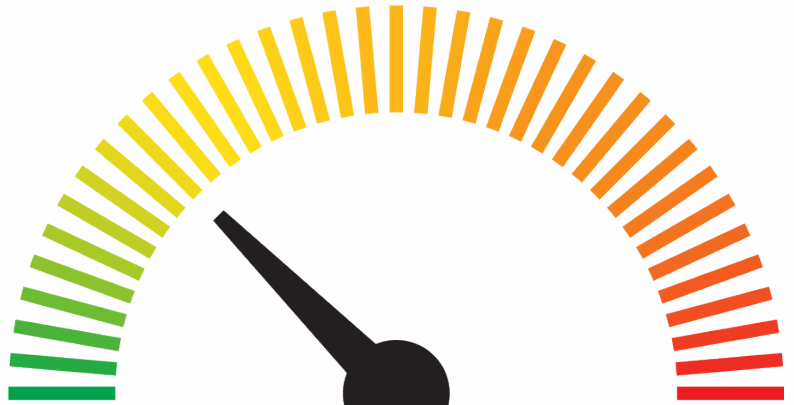
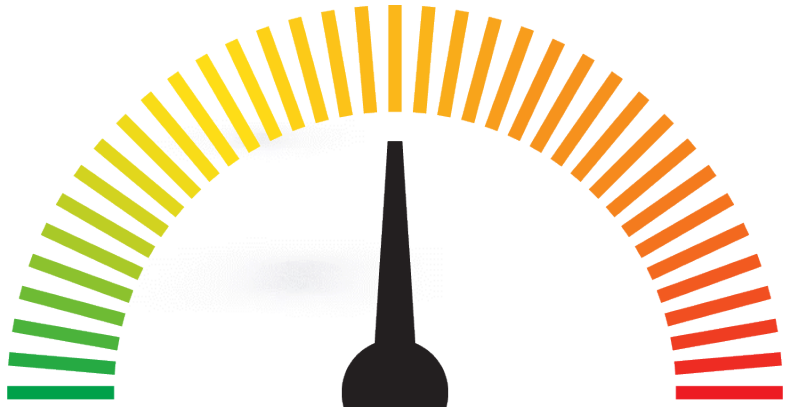
Cell & Gene Therapy Trends: $2-4M Claims

- Commercial – potentially significant but relatively low impact
  - There are currently many causes for million-dollar hospital stays
  - Gene therapies will continue to add to this mix



Cell & Gene Therapy Trends: $2-4M Claims

- Medicare – moderate impact
  - Hospital payment rates are much lower than commercial, so million-dollar claims are relatively rare, but few gene therapies apply to seniors
  - Catastrophic claims are driven by specialty drug, particularly for cancer
  - CAR-T is contributing to this trend

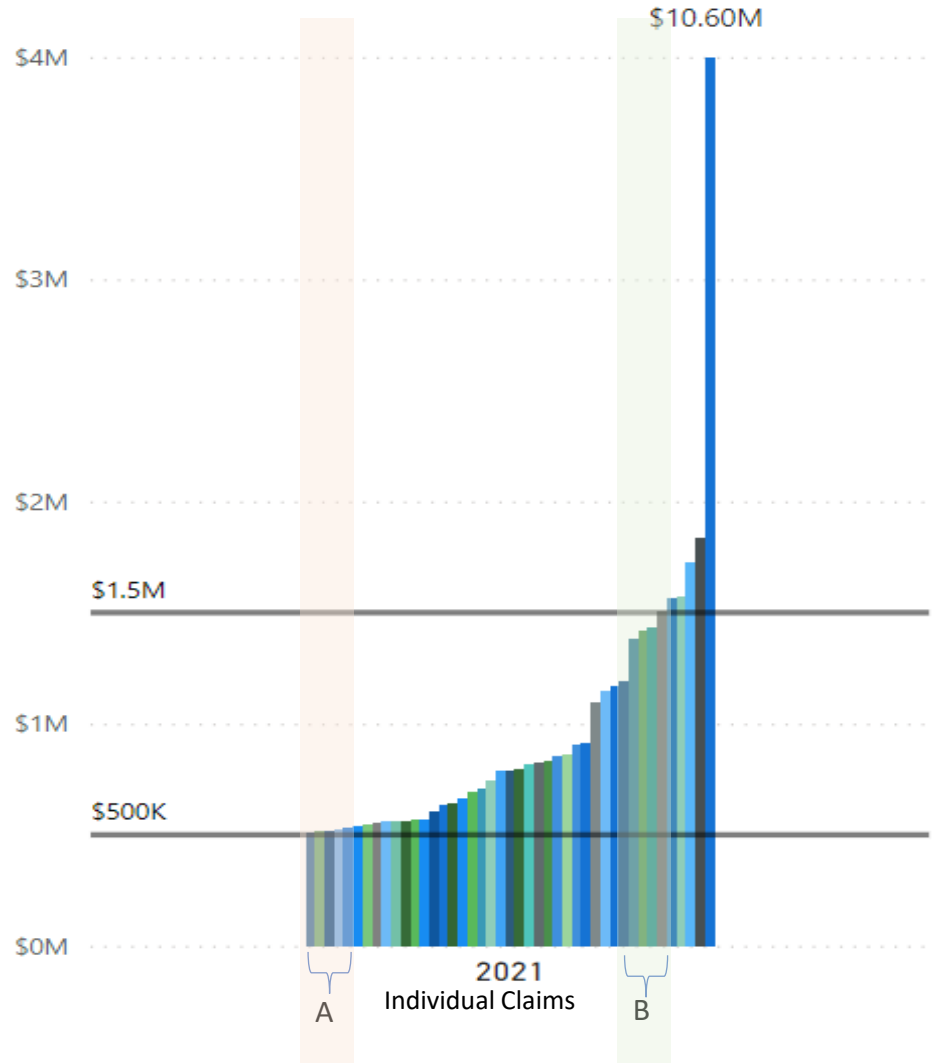


Cell & Gene Therapy Trends: $2-4M Claims

- Medicaid – high impact
  - While payment rates are even lower than Medicare, million-dollar claims are much more common, primarily due to premature infants
  - Reinsurance deductibles tend to be high, so gene therapy is dramatically increasing rates, particularly for Medicaid child populations

The Risk is Real: Large Claims

- A large claim for an insurance company is so rare, the risk may appear to be zero to a provider over many years of taking risk
- Meanwhile, a large claim for provider taking risk might not even register as unusual for an insurance company



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Risk Appetite

- How much risk do I have today?
  - Requirements (e.g. payer truncation, carve-outs)
- What is my risk tolerance?
- What are my options for the risk I need to mitigate?
  - Elect coverage from payer (CMS or insurer)
  - Explore third-party PXS coverage

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PXS Coverage for Risk Protection

- Aggregate coverage
  - Insurance policy pays out when claims for all covered members, in aggregate, exceed say 105% of expected claims
  - Example:
    - Expected claims are $1,000 per member per month
    - 100,000 member months are covered
    - Expected annual claims are $100 million
    - The policy might reimburse any claims above $105 million
- Availability
  - A few insurers offer aggregate coverage to MSSP and REACH ACOs
  - PXS aggregate coverage is rarely available for other coverages

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PXS Coverage for Risk Protection

- Specific coverage (our focus today)
  - Insurance policy pays out when any member's total annual claims exceed the deductible
  - Example
    - Deductible is $500k
    - 10,000 members are covered
    - 9,997 members have annual claims below $500k
    - 3 members have claims of $550k, $750k, and $1M
    - Insurance policy reimburses $50k + $250k + $500k = $800k
- Availability
  - Select insurers offer specific coverage in most jurisdictions
  - Some providers use captive insurance companies ("captives") to access the much larger reinsurance market for specific coverage

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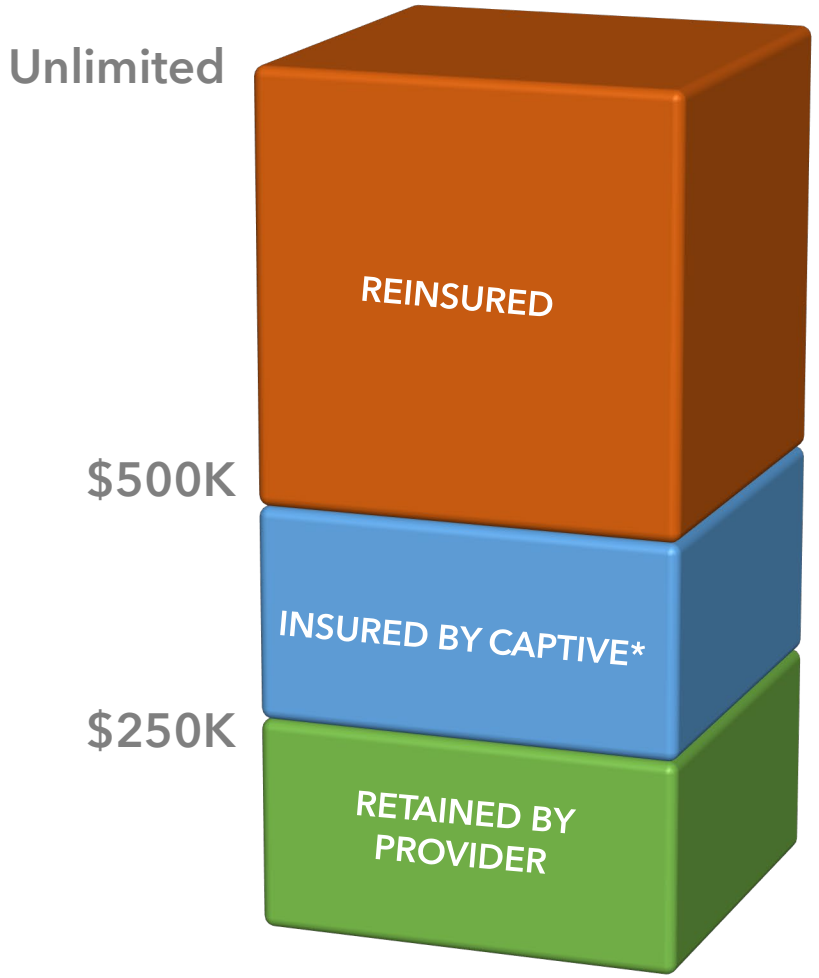
PXS Coverage Using a Captive

- Example of specific excess coverage using a captive
- ACOs owned by health systems often have captives already place for hospital and professional liability (HPL) and/or medical malpractice



*Owned by provider's parent company

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Payer truncation vs. Commercial/3rd Party PXS

Program	Payer Truncation: Advantages	3rd Party PXS: Advantages
All Programs	• Low cost when payer includes no expense margin • When payer uses a pooled rate: favorable terms for higher-cost providers • Simplicity: Integrated with risk-sharing arrangement	• When payer uses a pooled rate: favorable terms for lower-cost providers • Availability of higher deductibles to retain more risk/savings opportunity • Customization such as domestic facility carve-outs • Simplicity: Ability to combine multiple risk contracts • Ability to use a captive to pool risk with other lines • Experience refund
Medicare REACH ACOs	• Low cost: No expense margin • Cash flow: Year-end settlement instead of monthly premium payments	• Much simpler than CMS's risk-adjusted deductibles • Availability of higher deductibles to retain more risk/savings opportunity
Medicare Shared Savings Program	• Required by CMS	• N/A

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Summary

- CMS continues to be the catalyst behind value-based care risk sharing.
  - Extends to all product lines
  - Has led to many types of risk-taking provider organizations
- Downside risk is real.
  - Cell and gene therapy costs introduce a new level of potential volatility
- Downside risk for provider organizations is insurable!
  - Specific: protection from single member's catastrophic loss
  - Aggregate: protection across entire membership
  - Both

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What Do I Do Now?

Don’t Let Downside Risk Get You Down, Part 2

Thursday, October 5, 1pm EDT

- Understanding third-party provider excess (PXS) product
- How to determine an appropriate deductible
- Coinsurance, annual max, incurred, and paid: what they mean and why they matter
- Customization options and lasers
- Unique considerations for ACO REACH

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Thank you!

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