



HEALTH ACTUARIES & CONSULTANTS

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Case Study in Problem Solving:

The Case of the Uncompetitive ACO

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I love a good challenge—particularly one that doesn't have a clear path forward and seems daunting from the outset. Recently, a large health plan client presented us with just such a challenge: they had an uncompetitive ACO product which wasn't gaining the market share desired by company leadership. We were brought in to help.

Knowing where to start with one of these big, amorphous issues is always the hardest part. In this article, I use my experience on this project as a case study to illustrate a general method for approaching and solving these sorts of problems. The general steps are:

1. Develop a Framework
2. Dig for Insights
3. Turn Data into Information
4. Turn Information into Action

These provide somewhere to start for tackling most problems, even if the approach sometimes needs tweaking. (Editing is always easier than starting with a blank sheet!)

Step 1: Develop a Framework

We started at the meta-problem: the ACO product was uncompetitive and not gaining market share. To solve this problem efficiently, we developed several branches of investigation which would organize our work. This framework not only provided a comprehensive list we felt should encompass all the issues we could possibly uncover, but also divided things up in a way which would allow different teams to dig into focused questions.

The list of possible/likely problem areas we developed was as follows:

- Cost of healthcare is competitive, but how the product is priced isn't
 - ◇ Actuarial – How are premiums being developed at a macro level? What is the underlying risk of the population and is it in line with pricing assumptions?
 - ◇ Underwriting – How are premiums for specific groups being set?
 - ◇ Sales & Marketing – How is the product being positioned and viewed in the market?
- Cost of healthcare isn't competitive compared to the dominant market player
 - ◇ Unit cost – Are the discounts for the narrow network product competitive? If paying capitation or otherwise pushing risk to providers, is it effective at reducing costs?
 - ◇ Utilization – Is the ACO built with efficient providers? Are they being pushed farther on the efficiency scale? How effective are the care management practices in place with the company and the ACOs? Are the approaches appropriate? Have they been operationalized?

Originally, the health plan wanted us to focus only on the first set of possible drivers—actuarial, underwriting and sales. However, we pushed back, articulating that while the product might be uncompetitive due to the translation from healthcare cost to charged premium, it might also be the case that the underlying good being sold—the healthcare—was uncompetitive to begin with. We were able to convince them that investigating the cost of healthcare, particularly in comparison to market competitors, was an important part of the landscape to review.

Step 2: Dig for Insights

With the list of problems in hand, we assigned teams to go out and investigate. Each team went and spoke with the leads in each area. The department leads are, after all, the experts at their company—they know the issues and the details. We were brought in to see if a fresh set of eyes might see things they missed, as well as to look at things across departments.

We had conversations with directors from various departments and asked questions in overlapping areas. For example, we talked to both underwriting and actuarial about how they populate and use the underwriting tool. Based on these conversations, we developed a list of items that seemed to be likely culprits of the issue at hand. We took a data-driven approach to analyze the issue list, comparing things to benchmarks, comparing the ACO product to other products and developing quantitative conclusions.

In addition to comparing the ACO product to industry benchmarks and other products offered by the company, we also compared current company practices to those of the dominant market competitor. The actuarial community being a “small world” means leaders at market competitors are often folks who worked elsewhere with individuals now on our team. Personal insights about how a company works and how individual department leaders think about issues can be invaluable in understanding what you're up against. In addition, we deployed our clinical team to review the care management practices and assess their appropriateness and effectiveness.

Step 3: Turn Data into Information

After all the digging, analyzing and dot-connecting, what did we find?

Given that we had five work streams, we knew the answer was unlikely to be a singular “ah ha!”. In order to best put all the pieces together, I found it most helpful to start with my work stream's set of findings (call them set A), and then have a conversation with the next work stream (call it B) to understand

their findings. We had a lively discussion, with lots of question asking and confirming, until we had amalgamated the two sets of findings into a singular view of the problem (call it AB). I then went on to have a conversation with work stream C, to come up with a new “ABC” view.

Ultimately everyone’s findings were pulled together in a combined view of the problem and potential solutions. Types of findings were:

- What processes need changing? Are the changes driven by industry best practices or what the competitor is doing?
- What numeric assumptions need to be updated?
- Is further information needed to drive informed business decisions?
- Do tough messages need to be conveyed? Is the company focused on the wrong area? Is it realistic to expect the ACO to be competitive in all geographic areas?

What were the actual findings? In general, we identified a number of processes which could be improved slightly, many of which involved better inter-departmental communication. The major finding, however, was the cost of healthcare was not competitive. In its efforts to quickly roll out an ACO product across its full geography, the health plan had skipped some critical steps around contracting. Namely, the risk sharing arrangements with providers did not necessarily incent tight care management, and the capitation rates were not set at a competitive level for the average risk of the expected ACO population. The result was that a narrow network product designed to attract healthy members due to low prices was indeed narrow —unappealingly narrow in some geographies— but not price-competitive due to relatively high cost of care.

This answer wasn’t the one our client hoped to hear. In my experience, while changing business processes is hard, changing the cost of healthcare is much harder. Given that this message wasn’t an easy one to deliver, we needed a carefully crafted plan to help our health plan get to the market-competitive position it desired.

Step 4: Turn Information into Action

Knowing that execution would be challenging, we needed to put our best foot forward to allow for success. This last step is absolutely the most important, in my opinion, but is one so many people and consultants fail to do. It truly doesn’t matter what information you present in a final report if you don’t make it clear how to act and move forward. Without clarity on how to execute,

the company will fail at making the changes needed to overcome the problem. This is not where you want to end up.

So, what did enabling execution look like?

There were several important elements, not the least of which was reaching multiple audiences with our findings. Yes, we needed targeted messages for the senior leadership who hired us. However, it wasn’t the senior leadership who would need to make the actual changes. While they will oversee it, it will be the department heads and their teams who will need to make the actual changes, and we needed a version of our conclusions targeted at them.

For senior management, we needed big picture conclusions and suggested actions. For this audience, we summarized findings in a non-technical way, prioritized by magnitude of impact and practicality of implementation. This summary was also candid about just how fixable the issues were. We also laid out a rough timeline for execution. This allowed them to get their heads around the scope of what needed to be done and how long it would take.

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For the work product to be most useful, we also needed to provide talking points for the report recipients to use in messaging up, in the form of an executive summary. This was in non-technical, business-oriented language and extremely to the point about what action needed to be taken, why it solves the problem, and what the senior leaders need from the top to be able to execute.

Finally, it was critical to provide more detailed information for those reporting to the senior leaders. The department leads and their teams are, after all, the folks who will be making actual changes going forward. This information was provided in the form of appendices to the report, including:

- Details behind headline findings, aimed at helping the departmental teams who have to take action buy into our conclusions
- A list of “like-to-do’s”: more minor items various teams could do to improve around the edges
- A list of the things we weren’t recommending they do and why not, aimed at helping them head off naysayers with “here’s why not”

- A list of positive feedback on things we looked at and didn't find issue with, aimed at reinforcing the many things they shouldn't change as they're fixing problem areas
- A list of review areas for future consideration we weren't able to initially include in our assessment due to budget or scope of assignment perspective

By following the four steps—developing a framework, digging for insights, turning data into information, and turning information into action—we were able to work through a large, complex problem in a few short weeks. Our findings were well-received by the health plan and it is my hope they are successful in executing the needed changes we identified. In the meantime, I am off to tackle another client's big, amorphous issue!

Conclusions

As I'm writing this, we have just finished up delivering the final report to the health plan. As such the jury is still out on whether they will be able to turn around the competitiveness of their ACO product. Altering the cost of healthcare is no small task. However, our team was successful in providing a trove of actionable information that will allow a number of departments—actuarial, underwriting, network contracting, sales, and care management, among others—to move forward in a well-articulated direction.

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