

Managed Care Opportunities: FAQ

As the US health care system evolves to become more cost-effective and consumer oriented, the number of Managed Care Organizations (MCOs) is on the rise. But as they take on more risk in response to demand for insurance in this competitive era, organizations need to navigate the pitfalls and seize the opportunities within these changing market dynamics.

Which trends are impacting the Life Accident and Healthcare Industry?

Evolving government legislation and increasing costs

As a result of years of increasing costs and the introduction of the Affordable Care Act (ACA), the industry has seen substantial change and movement as employers and individuals look for alternative solutions. Notably, the ACA and payment reform have been the catalysts behind the shift from pay-for-service to pay-for-value which has shifted the risk to members and providers.

Data and consumerism

With rising consumerism, there has been increased focus on improving wellness, transparency and quality of care. In correlation, there are more alternative care delivery models now available such as telemedicine and on-site clinics. This is being achieved through an unprecedented use of technology and data/analytics by hospitals to better coordinate care and serve patients.

Corporate buying shifts

All employers are continuing to focus on controlling healthcare-related spending and interested in narrowing network provider partnerships to direct employees to those delivering the best outcomes.

- Large employers are managing overall claims spend by moving away from Administrative Service Organization (ASO) platforms to being self-funded (aka Medical Stop Loss programmes) or fully insured via private exchange mechanisms, provider partnerships – mirroring the move from Defined Benefit Pensions to Defined Contribution 401Ks
- Small employers are considering the move from fully insured to self-funded to reduce expenses and gain more control.
- Mid-market companies are exploring all of the above options.

Influx of insureds and higher claims

There has been an influx of insured patients but the number of individuals moving into Medicaid Expansion and Exchange products has delivered challenging financial results for the participating insurance carriers – many of which are now exiting to find more profitable opportunities elsewhere. At the same time, insurers are experiencing a meaningful increase in the frequency and severity of 'large claims' (\$2M+) which has seen an uptick in pricing of excess layers. To manage these trends, data and capital are becoming key components of an insurer's health strategy.

So, what role can an MCO play?

The ACA continues to reshape the health care market by engaging providers, managed care organizations, insurance companies and other health care service entities to reduce costs, improve quality and accept a financial stake in the outcomes. An MCO – be it a hospital or health care system – can form an insurance company to offer health plans for individuals and company schemes. The goal is to provide cost-effective medical treatment while driving competition and boosting profitability via an integrated delivery system model i.e. regional health organizations including Accountable Care organizations (ACOs) and health plans.

What are the key factors shaping strategies?

- **Broader coverage:** Many health plans are focusing on maintaining and growing membership by evaluating their current product offerings and developing new capabilities to offer the self-funded health market. As they look to shift/share risk with local provider organizations and employers, this is likely to result in opportunities to create broader risk programs for MCOs.
- **Value-based contracts:** Instead of health systems and providers being paid by the number of visits and tests they order (fee-for-service), their payments are based on the value of care they deliver.
- **Risk transfer options:** As the level of financial risk increases, health systems and providers will need to mitigate the risk, evaluate capital solutions and leverage existing assets such as captives.

As MCOs take on increased financial risk, what are the mitigation options?

Health care payers are showing increased interest in using reinsurance as a way to manage capital. In particular, alternative capital – traditionally used within the natural catastrophe sector – is now in the spotlight. We foresee Stop Loss and ancillary products being a core growth area.

There is a spectrum of **core re/insurance products** available – including the following which are primarily excess of loss coverage and are triggered largely by medical claim losses incurred by a risk bearing entity within a 12 month incurred period:

- HMO Reinsurance
- Provider Excess
- Medical Excess
- Employer Stop Loss programs (designed to support the health plan's offering)

Additional products are typically “first dollar” or aggregate coverages based on annual medical spend or related to specific clinical criteria:

- Carve-Out Solutions (i.e., Transplant, Neonatal care)
- Specialty Excess (i.e., ACO Coverage, Bundled Payments)

Quota Share Reinsurance is also being used as a means to free up capital to support other business initiatives (i.e., product expansion) while still meeting state Risk Based Capital (RBC) requirements.

How can Aon offer a differentiated service to support MCOs?

Aon's Managed Care Services team delivers program design and placement services supported by analytics coupled with strategic risk advisory.

Our experts have first-hand experience across Health Systems, Provider Organizations and Management Services Organizations, Managed Medicaid health plans, Medicare Advantage/Medicare SNP health plans, Commercial health plans and Accountable Care Organizations.

Additionally, we are able to leverage a wide range of experience and knowledge in:

- Healthcare reform
- Provider contracting including reimbursement methodologies and value based incentives
- Claims administration and auditing
- Health IT
- Risk Management
- Actuarial and analytics
- Complex and chronic disease management
- Network solutions

How can Aon help you?

Contact us to learn more:

Christina Mendez
+18187429352
christina.mendez@aonbenfield.com