

National Learning Community Network Development Track

Financial Acumen Part 2: Pricing

Wednesday June 28, 2023

Today's Agenda

1. Welcome & roll call
2. ACL updates & announcements
3. Guest presentation, Financial Acumen: Dr. Victor Tabbush
4. Q&A and discussion
5. Wrap up

Financial Acumen: Part Two | Pricing

Dr. Victor Tabbush, PhD

National Learning Community Network Development Track

June 28, 2023



CREATIVE

IDEAS TO ACTION

RESULTS



1

Learn how to recoup indirect/overhead costs

2

Use factors aside from costs in your pricing strategy

3

Identify sources of value to the partner

4

Articulate an attractive value proposition

5

Learn when multiple prices are superior to a single price

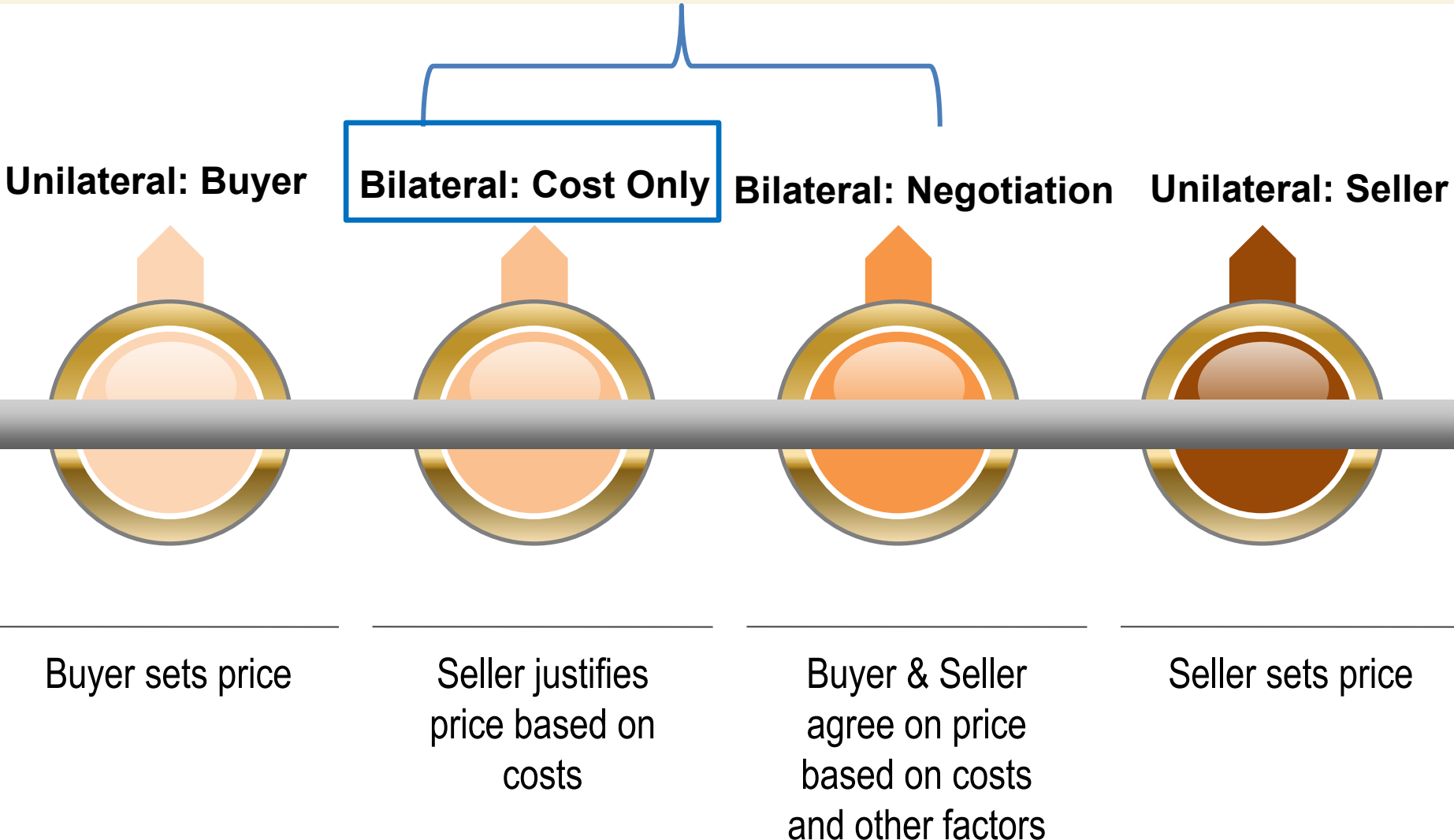
6

Motivation to explore the Commonwealth Fund ROI tool

How was pace of last presentation?

1. Too slow
2. A bit slow
3. About right
4. A bit fast
5. Too fast

The Continuum of Pricing Control





Direct

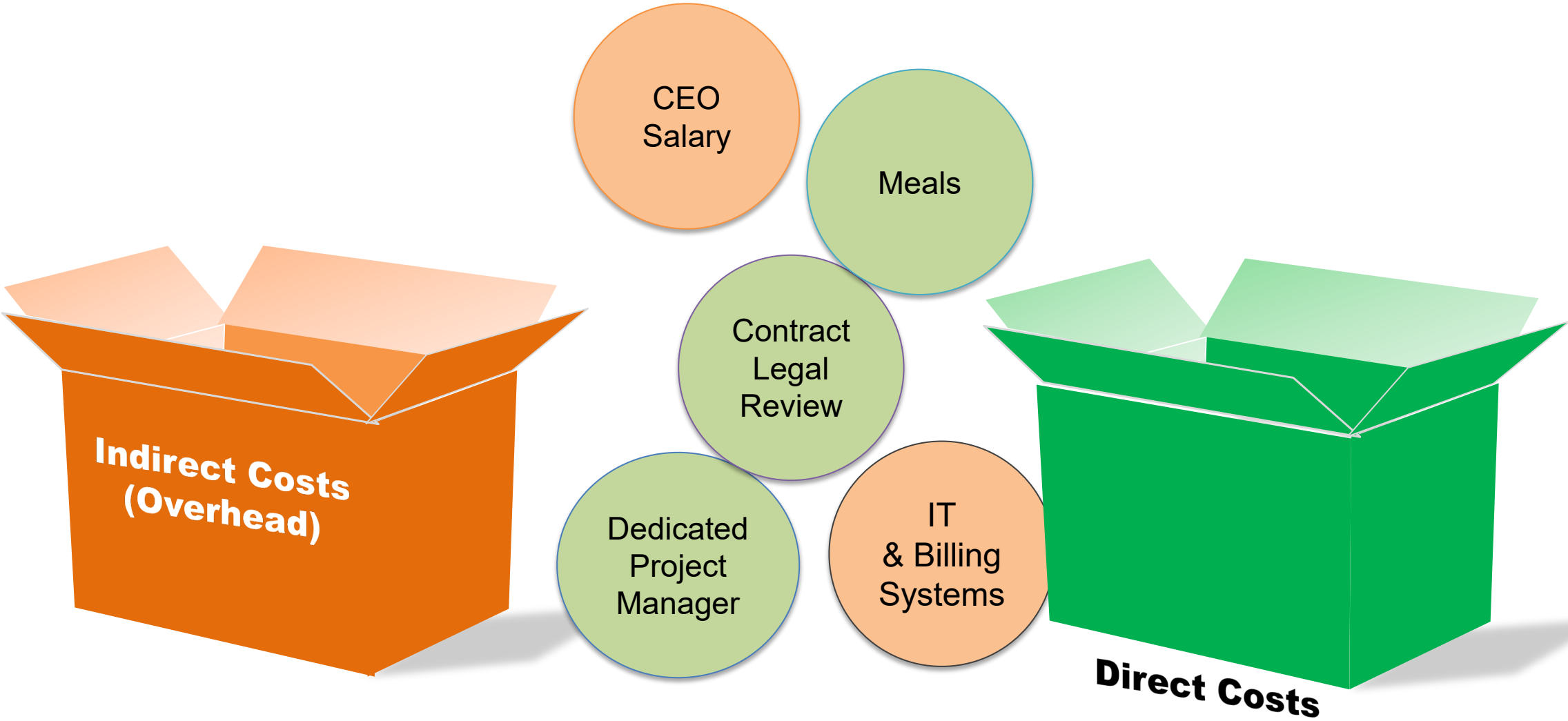
Direct costs are those that relate clearly and directly to a specific contract.



Indirect

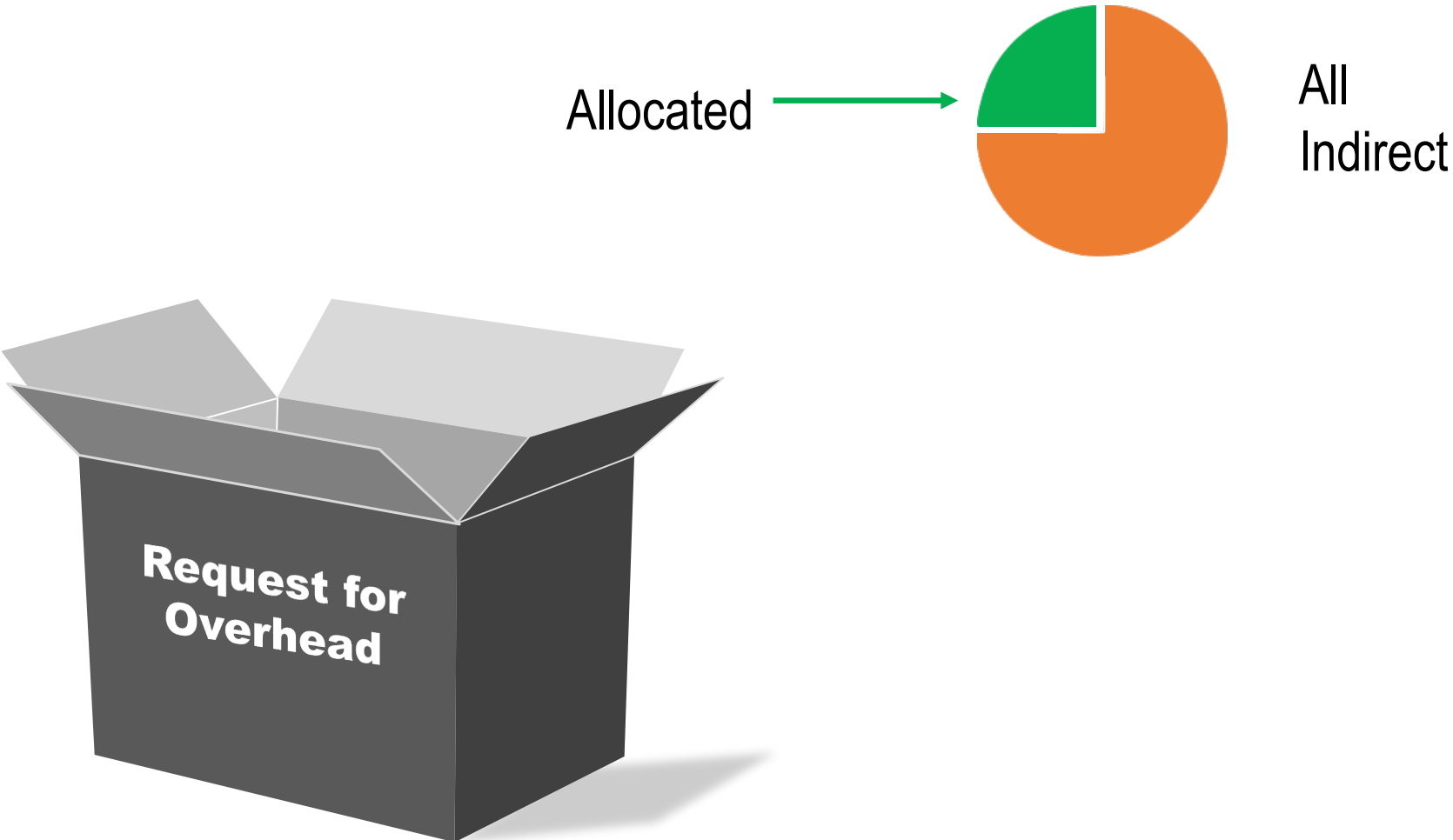
Indirect (overhead) costs that partly support the project, but also support other contracts and activities.

Categorizing the CCH Costs Example: Direct vs Indirect



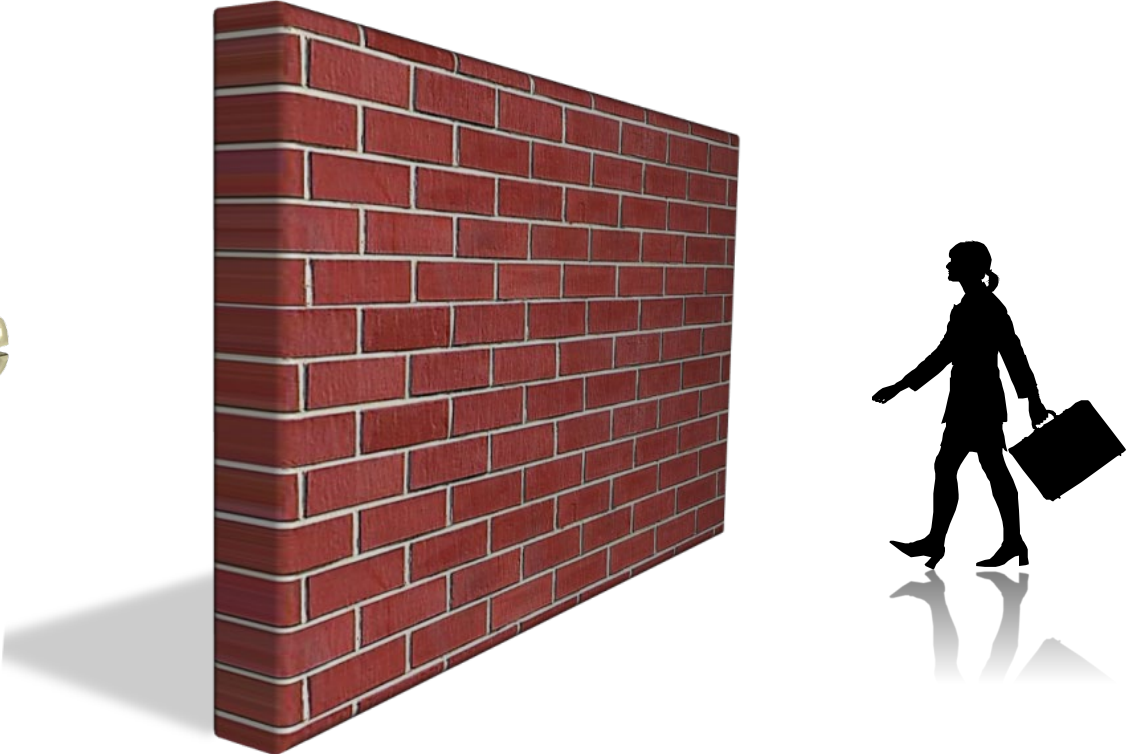
“Full cost recovery is the ability to recover the total cost of a service, project, activity or product, including some of the costs that are not directly related to delivering it. These indirect costs are, however, necessary to run the organization.”

If You Can - Allocate a Share of Overhead to the Contract



Your overhead can be deemed excessive

Budget
Acceptance



Remedy: Convert Indirect to Direct Costs

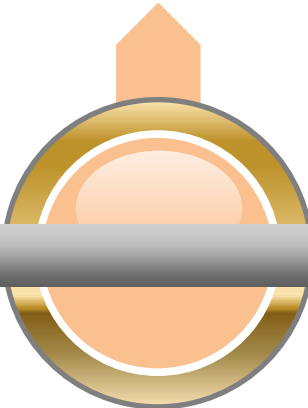
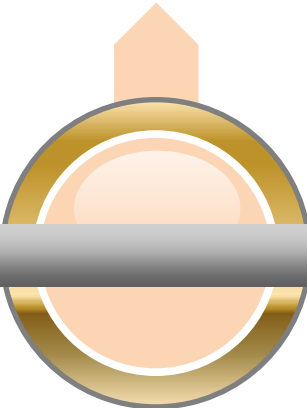
Indirect Cost Item	Basis for Converting to Direct Cost
Billing System	Utilize 3rd party billing agency
CEO Salary	Time expended
IT	Head count
Accounting	Revenue from contract

Unilateral: Buyer

Bilateral: Cost Only

Bilateral: Negotiation

Unilateral: Seller

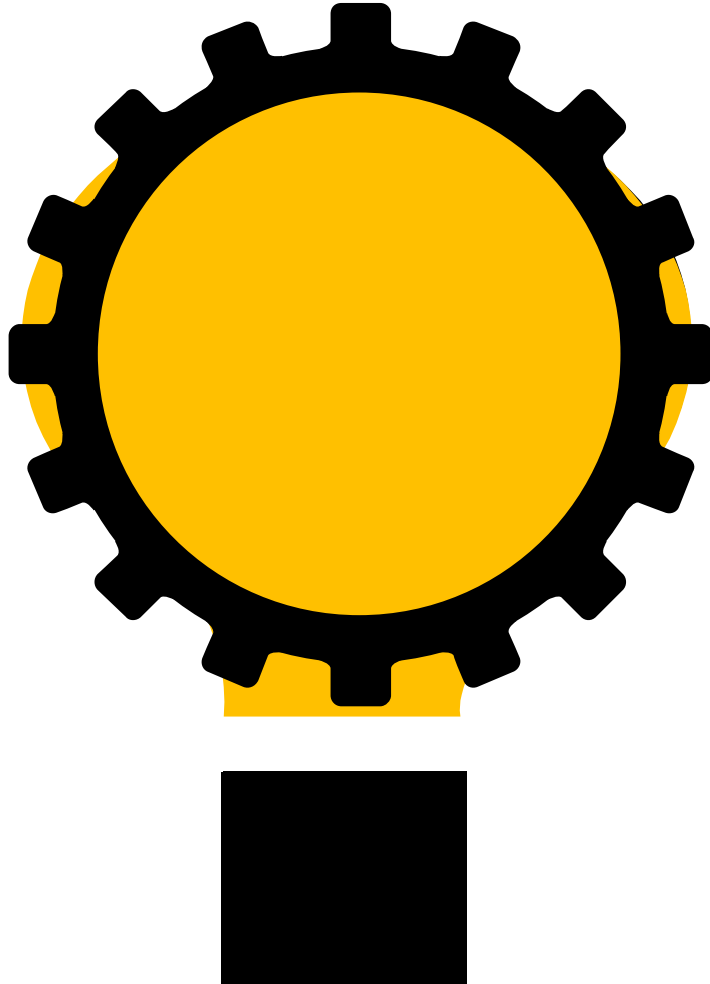


Buyer sets price

Seller justifies price based on costs

Buyer & Seller agree on price based on costs and other factors

Seller sets price



First: What are you attempting to achieve?

Second: What is the unit to be priced?

Then establish the price(s)

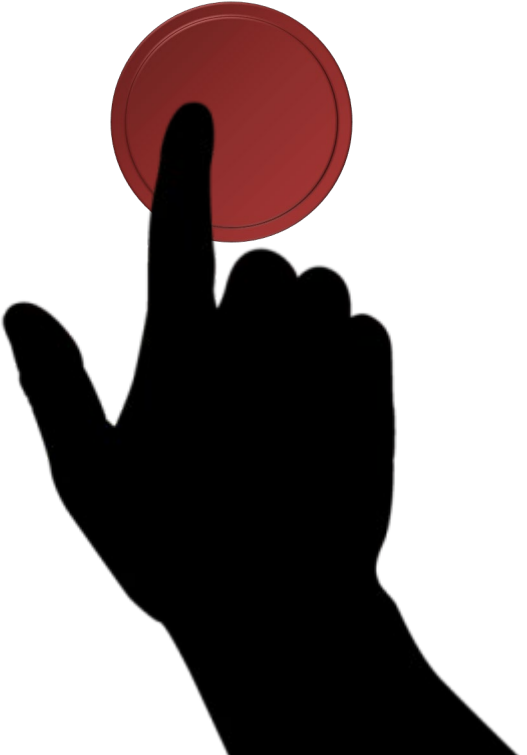
Current net income

Immediate financial returns



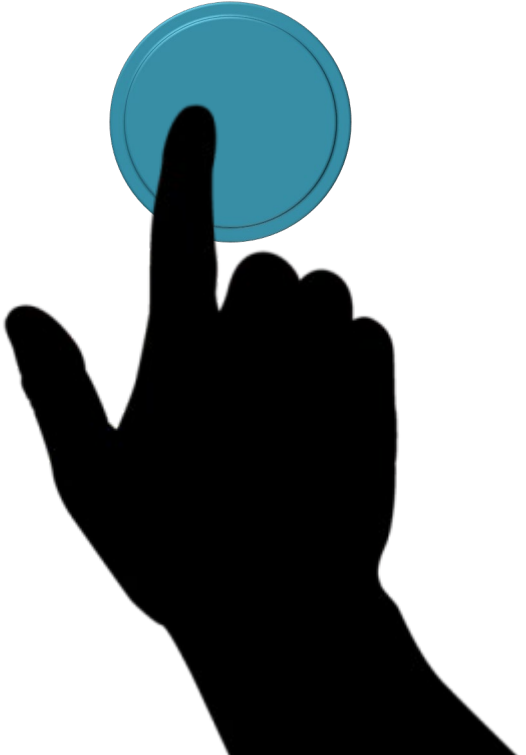
Long term profitability

Deferred profits at expense of current net income



Accessibility

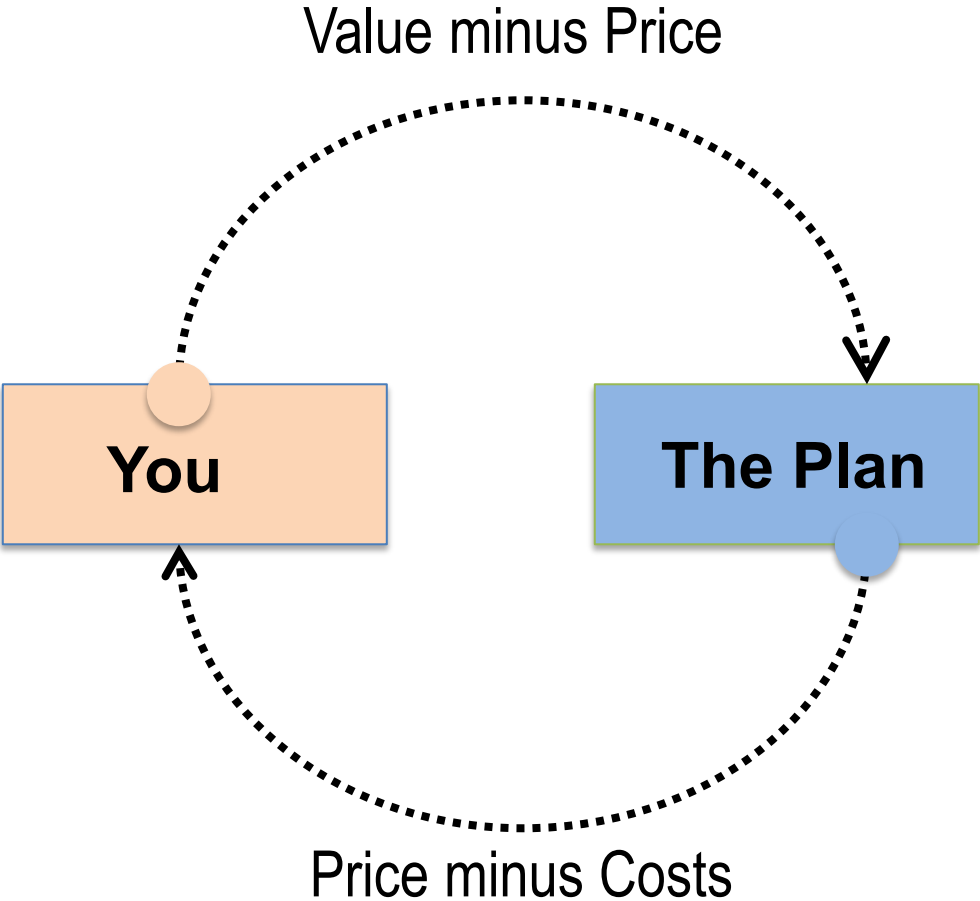
Mission-driven purpose



What is your principal goal in negotiating a price?

1. Maximizing current net income
2. Maximizing long-term profitability
3. Accessibility - mission-driven rather than financially driven
4. None of the above

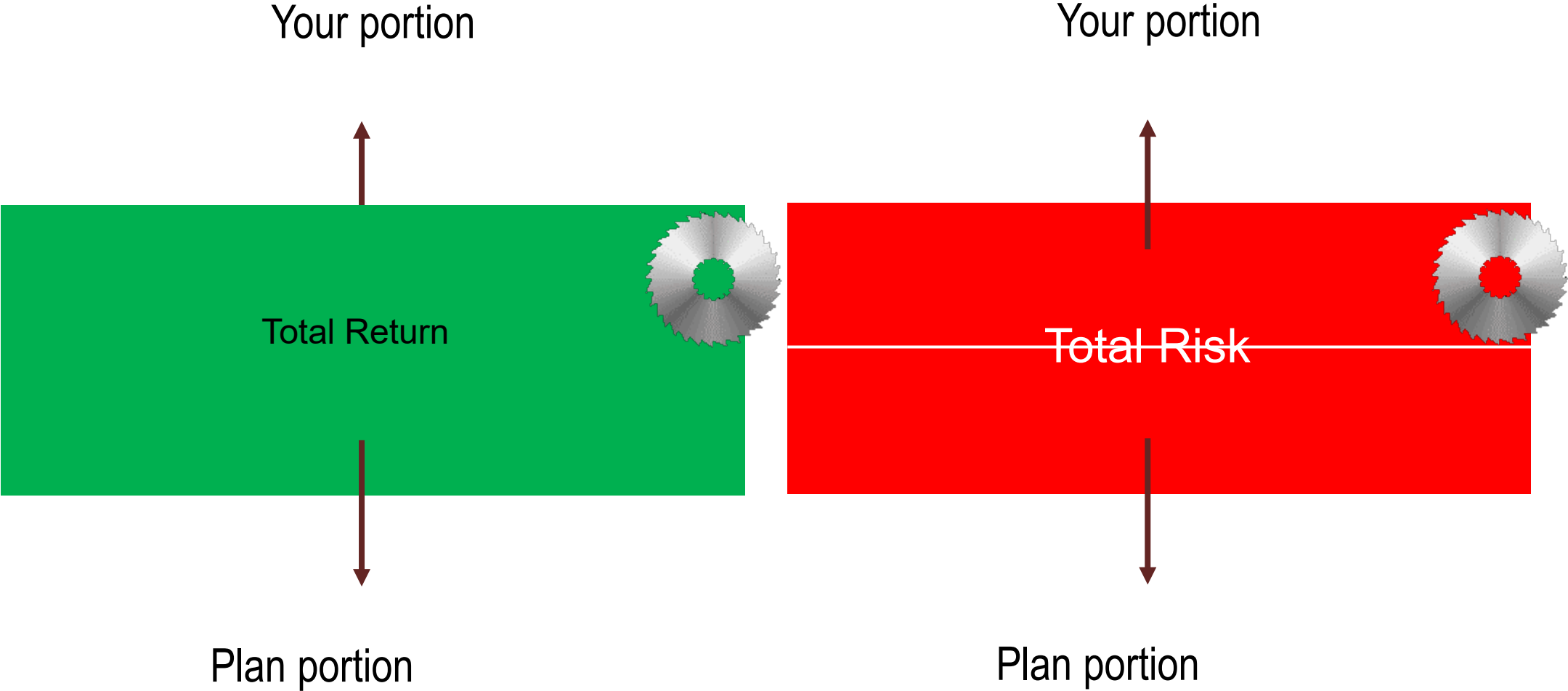
Assumption: Price Must be Mutually Beneficial

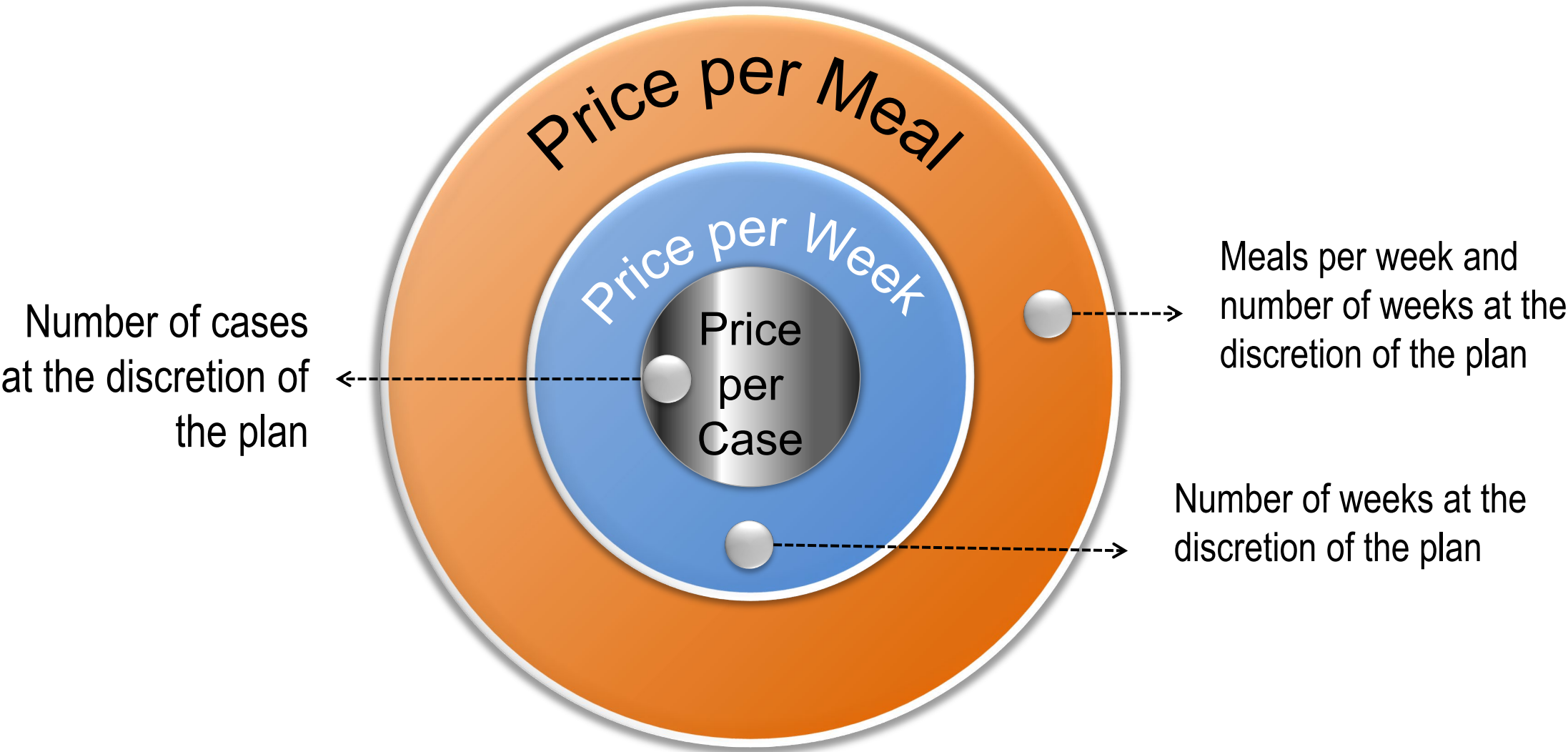


Plan net gain

Your net income

Mutually Acceptable Division of Financial Returns & Risks





Cost-based pricing

Price based solely on costs
(markup)



Cost-informed pricing

Cost is just one factor



Cost-based pricing

Price based solely on costs
(markup)

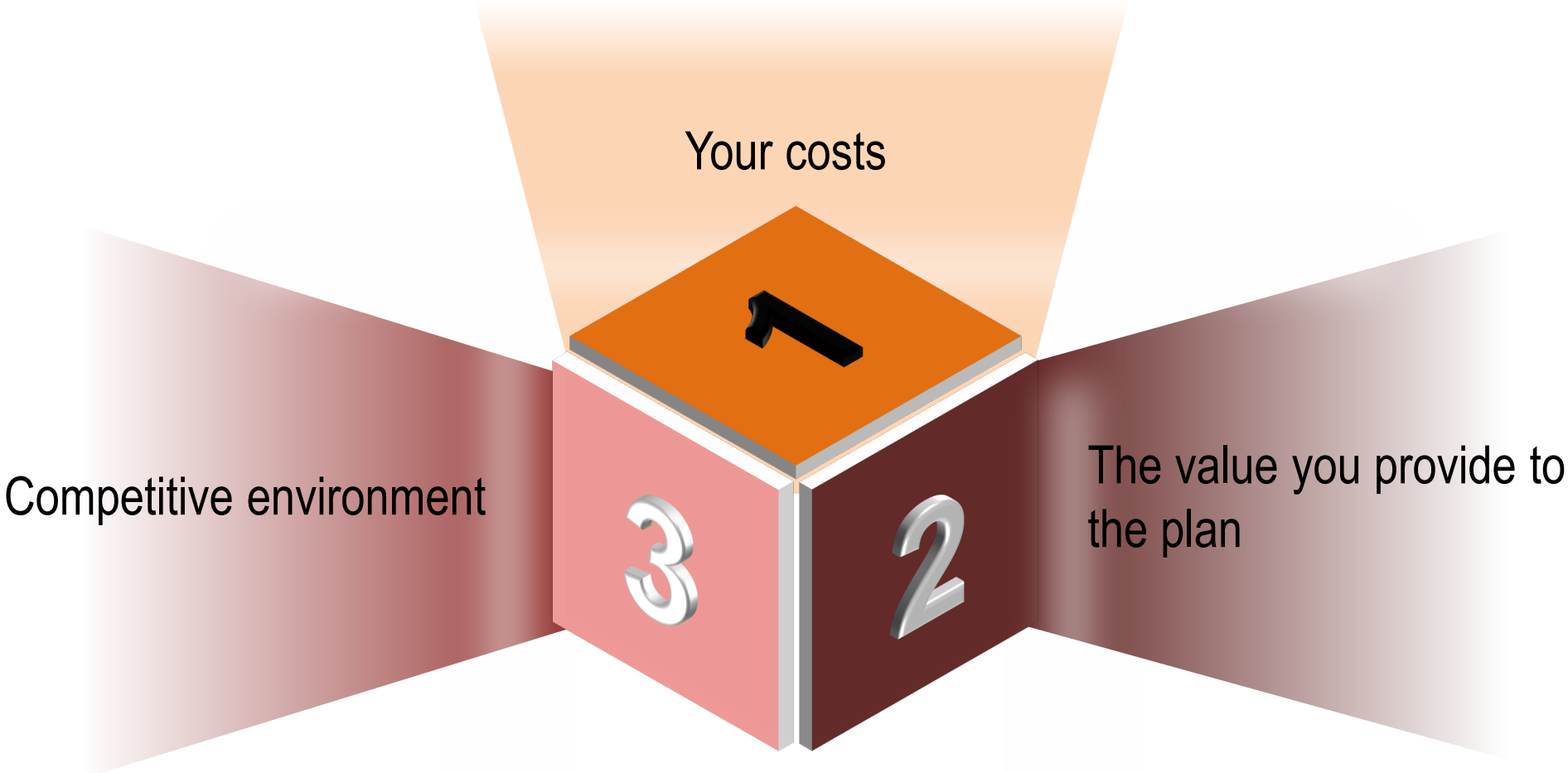


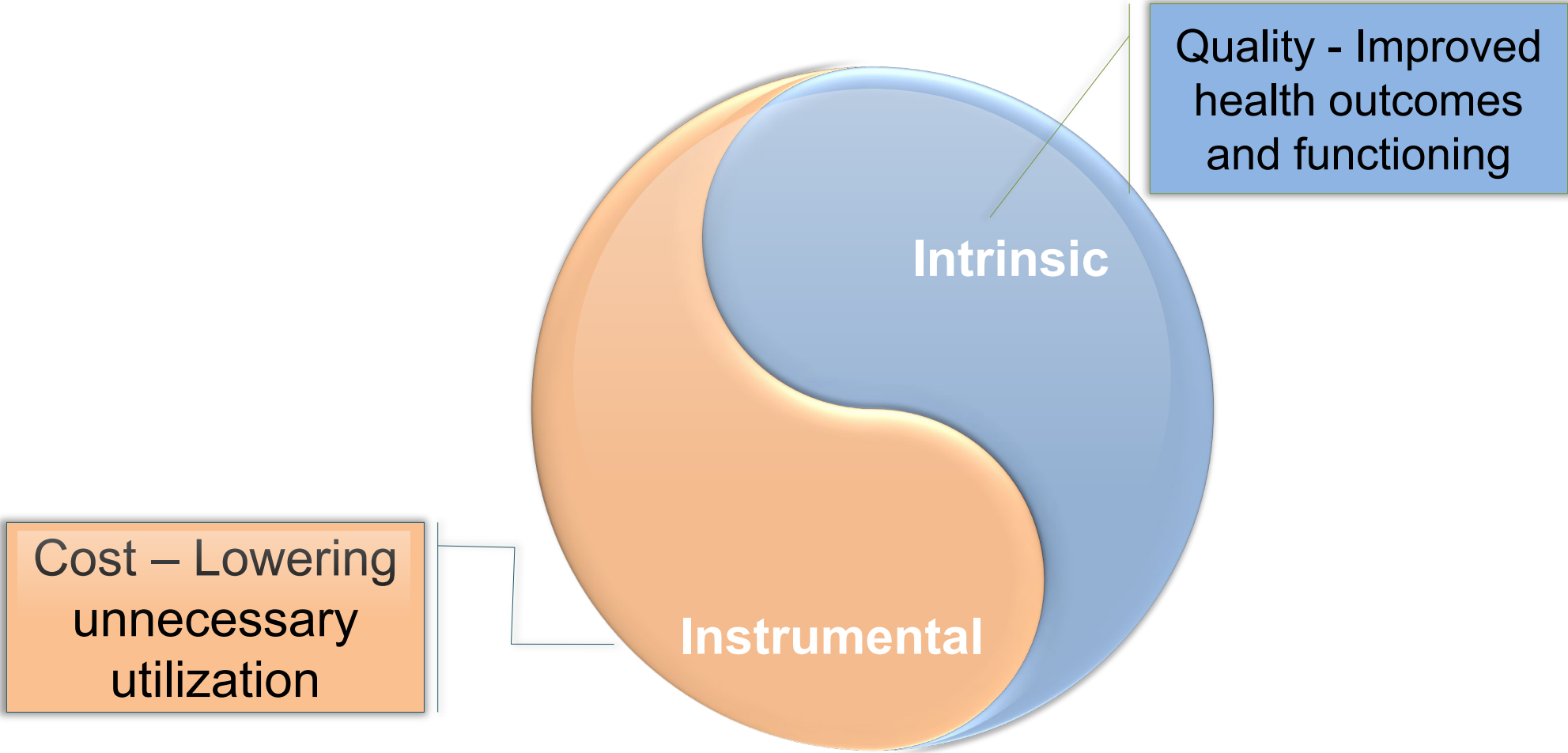
Cost-informed pricing

Cost is just one factor



Pricing Level Requires Consideration of Two Other Factors

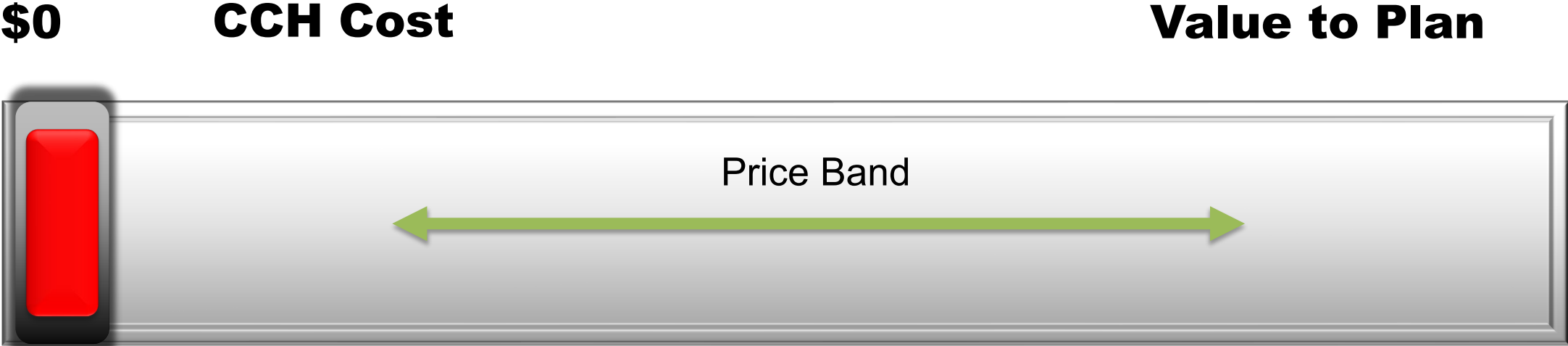




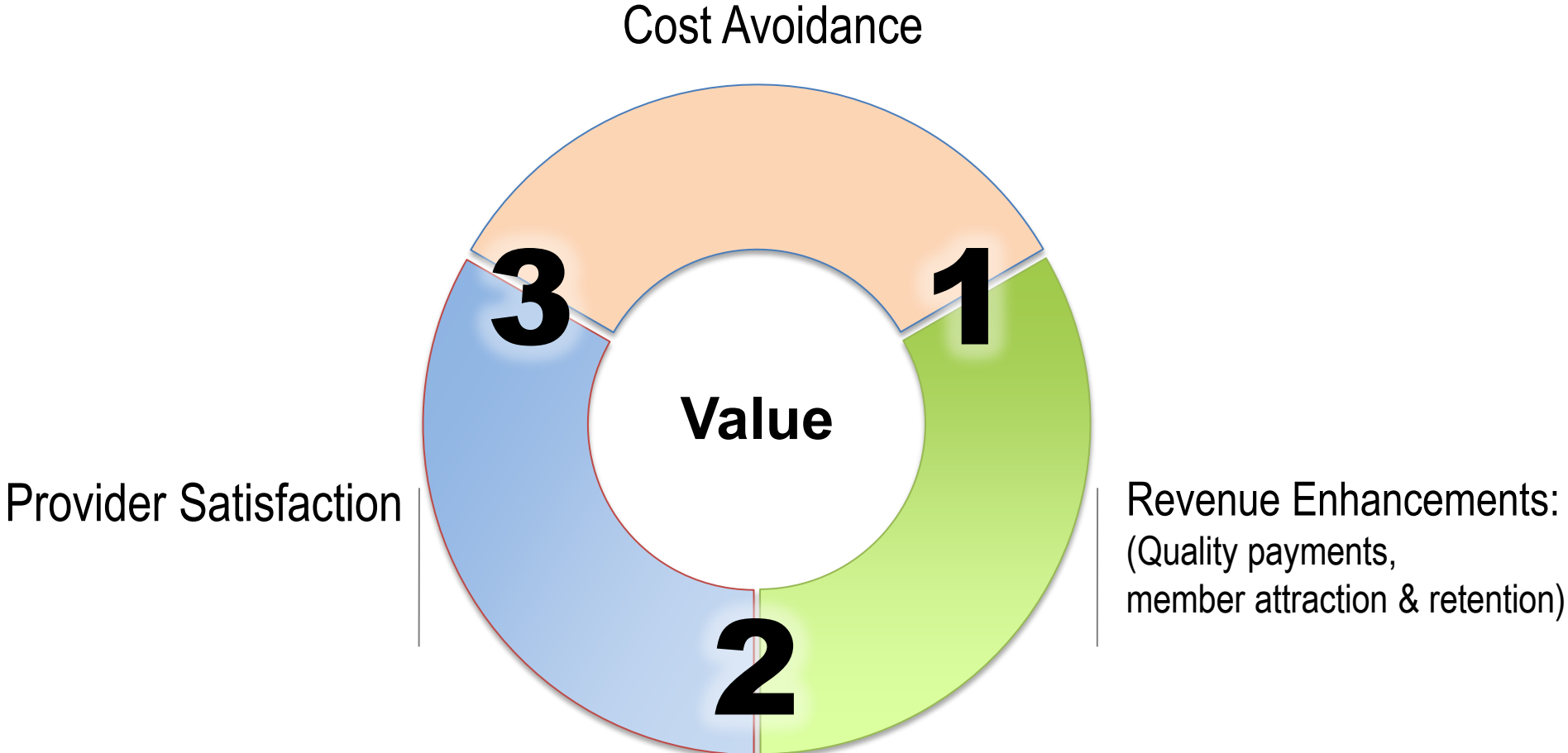
Do you include the intrinsic value of your services in your business case?

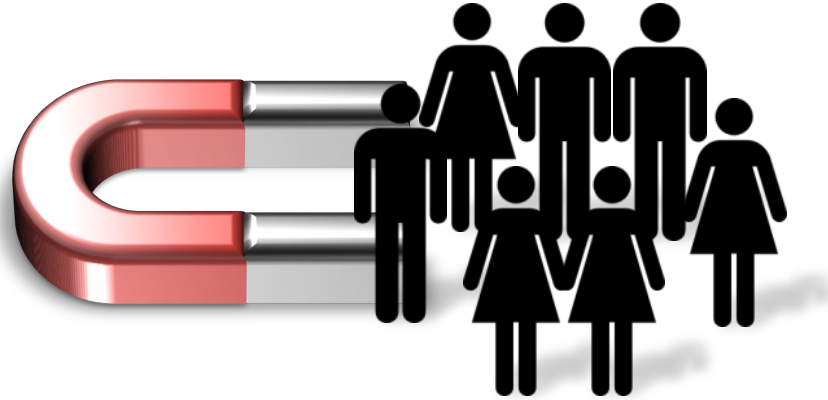
1. Yes
2. No
3. Depends

The Negotiated Price Should Lie Within this Band

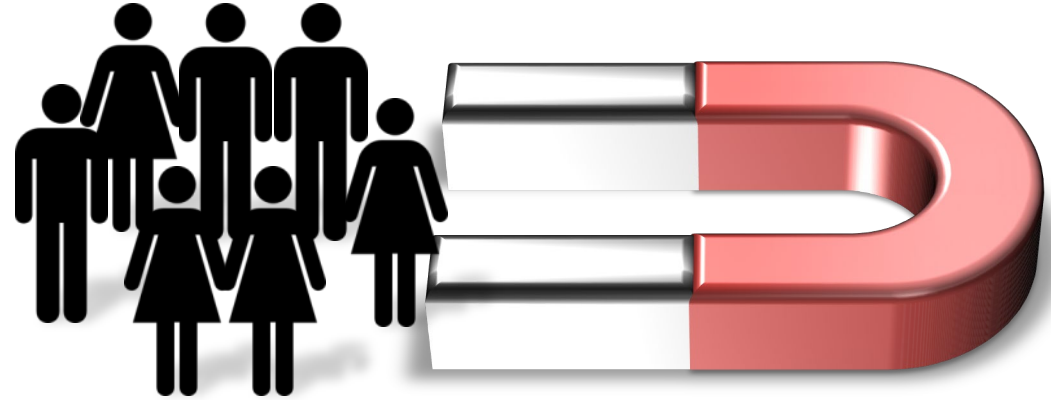


Three Sources of (Instrumental) Value to the Plan



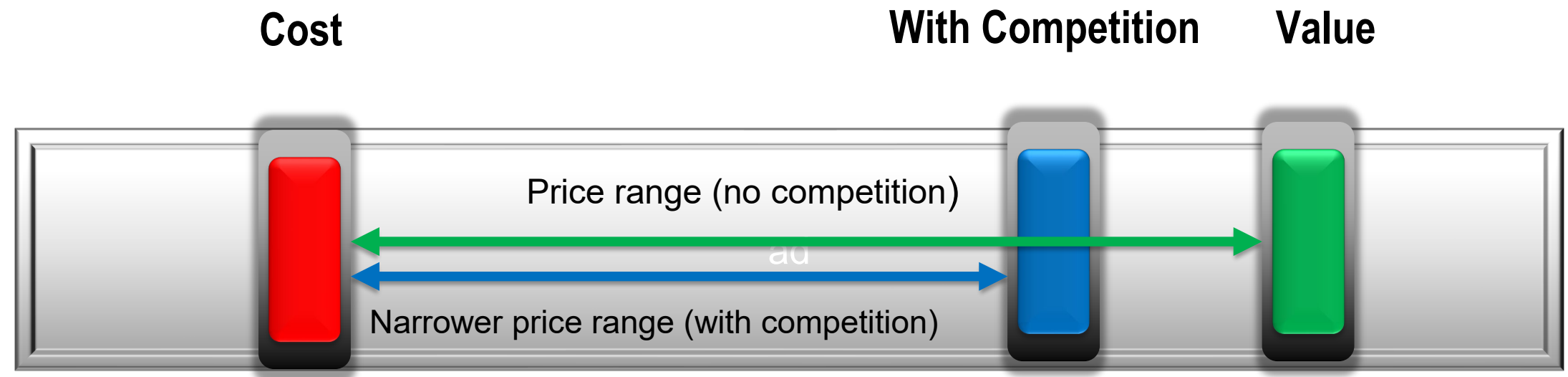


The competitor's value proposition

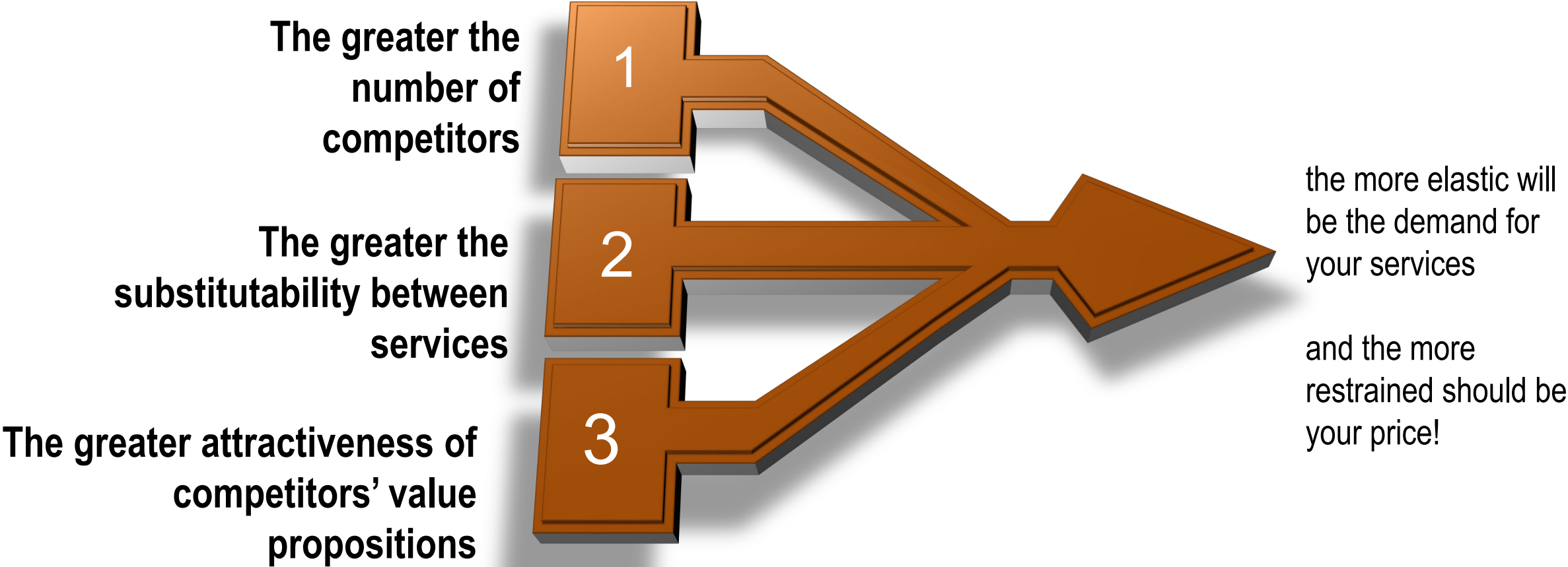


Plans seek the superior value proposition

Your value proposition must be more attractive



Degree of Competition Depends on Three Factors



How strong is your competition?

1. We have none
2. We have competitors, but they are weak relative to us
3. Competition is moderate
4. Competition is fierce

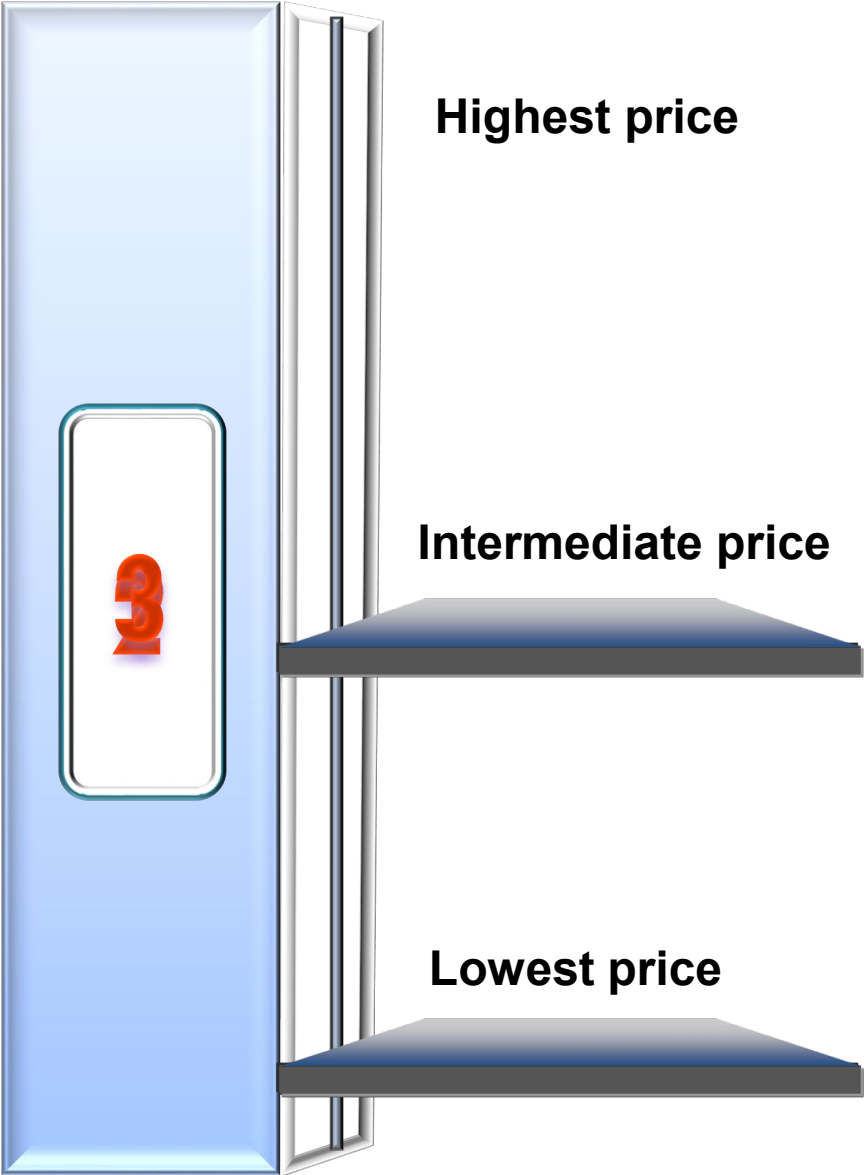
Rather than a simple pricing strategy (A)

Pricing **B**

1. A uniform price
2. The same regardless of payer and volume

1. Multipart pricing
2. Different prices depending on volume and on the payer

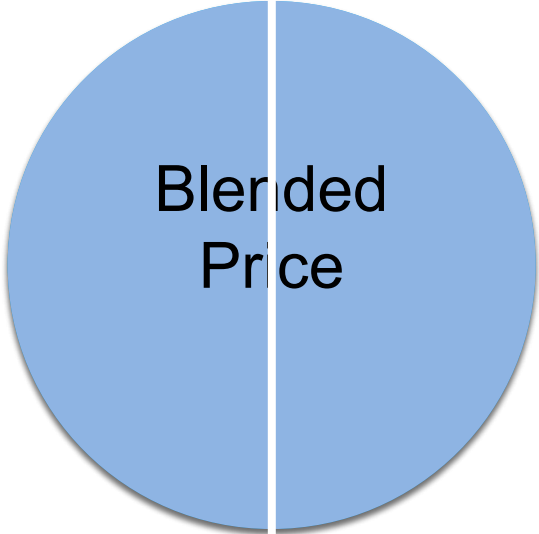
Multipart Pricing: Example of Volume Discount



3 | Low volume - per unit fixed costs high

2 | Intermediate volume - per unit fixed costs moderate

1 | Large volume - per unit fixed costs low



Lower Price for
Lower Cost
Beneficiaries

High Price for
Higher Cost
Beneficiaries

When payers differ in their willingness to pay (Medicare versus Medi-Cal or Commercial)

Lower price version

Quality features missing



Higher price version

Quality features added

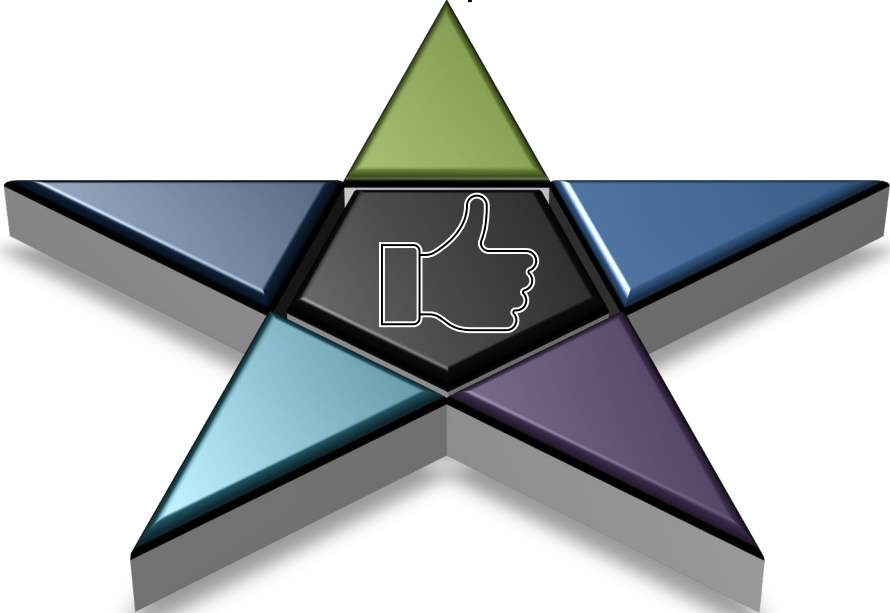


Your (Relative) Price

Attractiveness depends on your price relative to competition

More Plan Revenues

You may help the plan to recruit & retain members



High Risk Population

Referrals differ in medical utilization

Your (Relative) Effectiveness

Your achievements in reducing the TCC

Costly Events Avoided

Utilization of hospital and ED are key

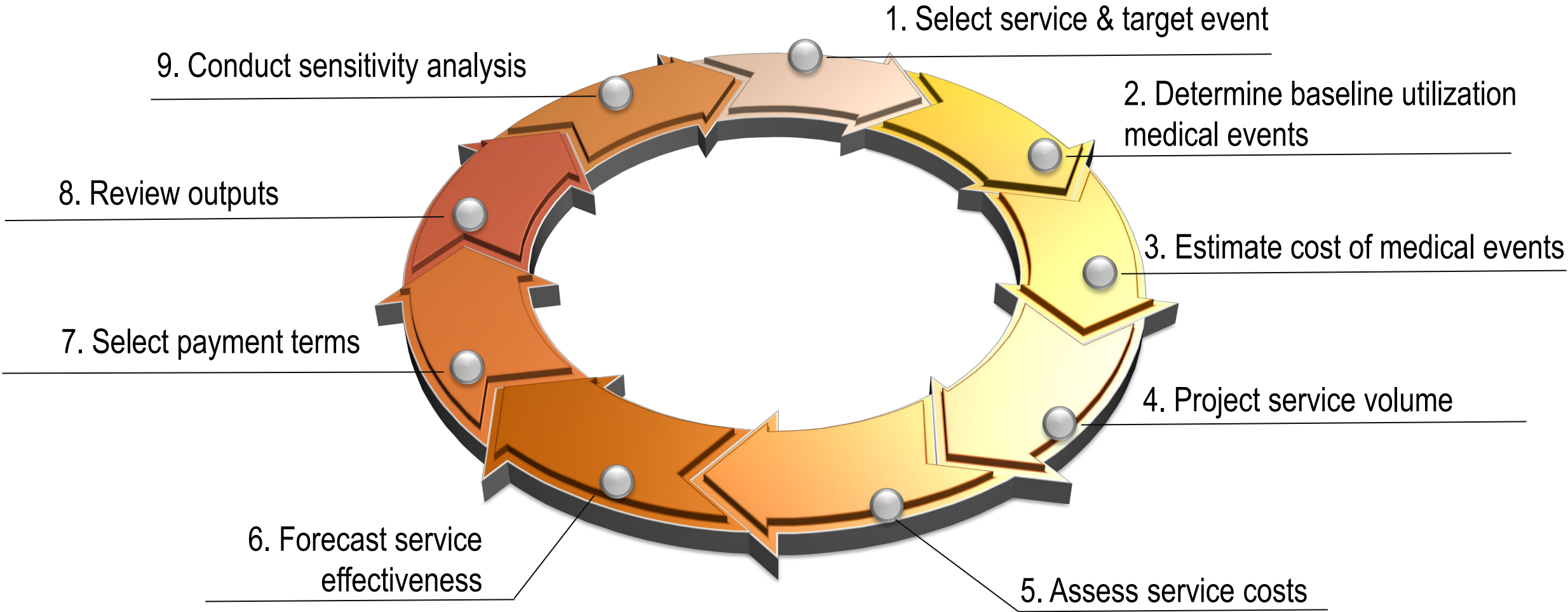


Our Scorecard ranks every state's health care system based on how well it provides high-quality, accessible, and equitable health care. [Read the report to see how your state ranks.](#)

Welcome to the Return on Investment (ROI) Calculator for Partnerships to Address the Social Determinants of Health

This calculator is designed to help community-based organizations and their health system partners plan sustainable financial arrangements to fund the delivery of social services to high-need, high-cost (HNHC) patients. HNHC patients, who account for a large share of overall health care spending, often have social needs, clinically complex conditions, cognitive or physical limitations, and/or behavioral health problems. Research shows that complex patients are likely to benefit from a holistic model of care that addresses the social determinants of health (SDOH) such as transportation, housing, and nutrition, in addition to medical needs.

User Takes Nine Steps



- AAA and an MA plan are negotiating to partner in providing home and community-based services for discharged individuals at risk for readmissions and ED visits.
- The service portfolio is comprehensive
 - Care coordination
 - Transportation
 - Nutritional support
- What is the ROI?
- How much does each partner gain?
- What is the share of risk each bears?

Step 1: Select Services and Targets

1 Make your selections

In each of the two menus below, select only the options relevant for your specific scenario or non-medical intervention. The calculator subsequently will omit references to input and output fields that are not relevant.

To read a detailed overview for the data you will need to use the ROI Calculator, please see the [data checklist](#).

To see data from studies on health-related social needs interventions that may inform values for the calculator, please see the [Evidence Review](#).

Social Services Menu

Select the specific social service(s) that might be offered as part of the cross-sectional partnership.

For definitions for each of the social services listed in the menu below, please see the [SDOH table](#).

- Nutritional Support
- Transportation
- Home Modifications
- Housing
- Counseling: Legal, Financial & Social Support
- Overall Care Management
- Other

Medical Utilization Menu

Select the medical utilization domain(s) that you expect the social service(s) you selected will affect. For example, home modifications might reduce falls. (We suggest you do not select utilization domains that will only affect third parties that are not part of the partnership agreement.)

- Hospital Admissions
- Hospital Readmissions
- Skilled Nursing (SNF)/Rehab Facility Admissions
- Emergency Department (ED) Visits
- Falls
- Outpatient Visits
- Other



Step 2: Establish Baseline Utilization

1 Baseline Medical Utilization Rates ?

Readmissions

ED Visits

Step 3: Estimate Cost of Medical Events

Hospital Day	\$ 1,200.00	Note: LOS assumed to be 6.
ED Visit	\$ 600.00	

Step 4: Estimate Population to Receive Each Service & Intensity

1 Selected Social Services



Now you will need to estimate the percentage of HNHC members who will receive each separate social service. Not all individuals will require safe and stable housing, for example, but 100% could require overall case management. You will then have to specify the monthly service intensity for each service—meaning the expected volume of service units required per recipient per month. The calculator has suggested possible units, for example, the number of meals for nutritional support. The last column in the table then displays the total service volume per month of each service that will be provided.

	Metric	Percentage of HNHC Members	Monthly Service Intensity: Expected Volume PMPM	Number of HNHC Members	Total Service Volume per Month – All Recipients
Nutritional Support	(Meal)	<input type="text" value="20"/> %	<input type="text" value="30.0"/>	20.0	600.0
Transportation	(Ride)	<input type="text" value="20"/> %	<input type="text" value="2.0"/>	20.0	40.0
Home Modifications	(Homes)	<input type="text" value="n/a"/> %	*see footnote 2	n/a	n/a
Housing	(Bed Night)	<input type="text" value="n/a"/> %	<input type="text" value="n/a"/>	n/a	n/a
Counseling: Legal, Financial and Social Support	(Hour)	<input type="text" value="n/a"/> %	<input type="text" value="n/a"/>	n/a	n/a
Overall Care Management	(Call, Visit)	<input type="text" value="100"/> %	<input type="text" value="1.0"/>	100.0	100.0

Step 5: Estimate Service Costs

1 Service Costs

	Metric	Total Annual Health Sector Partner Fixed Cost	Total Annual CBO Fixed Cost	CBO Unit Variable Cost
Nutritional Support	(Meal)	\$ 0.00	\$ 0.00	\$ 12.00
Transportation	(Ride)	\$ 0.00	\$ 0.00	\$ 35.00
Home Modifications	(Homes)	\$ n/a	\$ n/a	\$ n/a
Housing	(Bed Night)	\$ n/a	\$ n/a	\$ n/a
Counseling: Legal, Financial and Social Support	(Hour)	\$ n/a	\$ n/a	\$ n/a
Overall Care Management	(Call, Visit)	\$ 0.00	\$ 25,000.00	\$ 50.00

Step 6: Estimate Impact on Utilization

1 Expected Changes in Medical Utilization



The first column contains your medical events selections. Under “Utilization Impact–All HNHC Members,” please select the expected utilization changes for each event using the sliders. The financial implications of changes are dynamically calculated and are shown once all the input fields have been populated.

You will notice that with every entry or movement of the slider bar, the financial implications are dynamically calculated and shown.

Utilization Impact – All HNHC Members				
Hospital Admissions	n/a	- 0		- 100 +
Hospital Readmissions	- 40.0%	- 0		- 100 +
Length of Hospital Stay	- 0.0%	- 0		- 100 +
SNF/Rehab Admissions	n/a	- 0		- 100 +
SNF/Rehab Admissions LOS	n/a	- 0		- 100 +
ED Visits	- 30.0%	- 0		- 100 +
Falls	n/a	- 0		- 100 +
Other (e.g. Pharmacy or Imaging)	n/a	- 0		- 100 +
Outpatient Visits	n/a	- 100		+ 100 +

Step 7A: Select Payment Systems

- Full Cost Recovery (FCR):** CBO receives payments that equate to its costs
- Fee for Service (FFS):** CBO receives payments for each service unit
- Case Rate:** CBO receives payments to provide a specified social service for a given period
- Capitation:** CBO receives PMPM payments to provide an array of social services
- Gain Sharing:** CBO receives a combination of FFS payments and a share of the financial gains

Step 7B: Select Payment Levels (Case Rate Example)

Set a markup percentage over expected case cost

20.0%


− 0



100 +

Step 8: Review ROI Results

Results: Payment System Comparison

 Print Comparison

This page summarizes the financial results of combining social services with clinical or medical services under the various payment systems. Each payment system will report different financial results for both partners. Once again, for the health sector partner, two financial metrics are displayed for each of the payment mechanisms: the ROI measure and per member per month (PMPM) net income. For the community-based organization (CBO) or other social service partner, there is only one metric reported: PMPM net income.

Payment System Comparison			
Payment System	Health Sector Partner		CBO
	PMPM <i>(Monthly net Income)</i>	ROI <i>(Monthly net Income)</i>	PMPM
Full Cost Recovery	\$616.83	463.2%	\$0.00
Fee for Service	\$590.20	369.3%	\$26.63
Case Rate	\$590.20	369.3%	\$26.63
Capitation	\$590.20	369.3%	\$26.63
Gain Sharing	\$493.47	192.4%	\$123.37

Step 9: Conduct Sensitivity Analysis

Optional Tool: Accounting for Uncertainty in the ROI

The two remaining pages allow a simulation to assess the financial risks to the partners that stem from two types of uncertainty: 1) cost uncertainty surrounding the expenses of providing social services, and 2) uncertainty regarding the effectiveness of social services. There is a risk that financial returns are not forthcoming at the expected levels because of a lack of accurate information about the impact of some key determinants or the inability to predict impact with full certainty. The simulation systematically recognizes this uncertainty and displays a probable and reasonable range of results for the financial returns rather than a single, deterministic value. [Read More](#)

← Previous

Next →

Simulation Steps ?

1 Inclusion

Select those independent variables from the checkboxes below that you believe are subject to variability

2 Set Spread

Lowest Estimate

Highest Estimate

3 Run Simulation

▶ Run Simulation

Step 9: Results - Assess Risk (CBO)

	FCR	FFS	Case Rate	Capitation	Gain Share
Current Value	\$0.00	\$26.63	\$26.63	\$26.63	\$123.37
Minimum Value	\$0.00	(\$6.85)	(\$20.84)	(\$30.59)	\$83.65
Maximum Value	\$0.00	\$61.41	\$70.84	\$76.79	\$170.58
Average	\$0.00	\$24.88	\$25.32	\$31.11	\$124.84
Standard Deviation	\$0.00	\$11.08	\$15.47	\$17.67	\$18.32
Span between Minimum and Maximum Values	\$0.00	\$68.26	\$91.68	\$107.38	\$86.92
Probability of Loss	0.0%	0.2%	5.8%	4.6%	0.0%

Another Use: Setting Goals

1 Targeted Utilization Areas

Select ROI Goal

 %

- Hospital Readmissions
- Emergency Room Visits

2 Utilization Reduction Required to Achieve the Desired ROI

	FCR	FFS	Case Rate	Capitation	Gain Sharing
Hospital Readmissions	5.7%	7.2%	7.2%	7.2%	5.7%
Emergency Room Visits	n/a	n/a	n/a	n/a	n/a

- 1 Converting indirect to direct costs may enable FCR
- 2 Financial risk is inevitable - the partners must share it
- 3 Costs are not the only consideration in pricing
- 4 Your value proposition will compete with that of other providers
- 5 Don't think of price; think of prices
- 6 A tool exists for you to calculate the ROI



Q & A Session

Wrap Up

- Meeting recording and material will be provided by the National Learning Community email team
- **Upcoming meetings:**
 - **Saturday July 15, NLC Gathering** at USAging conference, registration required
 - **Wednesday July 26 @2-3:30pm ET**, Network Management
- Email Maya with USAging (mopdebeke@usaging.org) if you do not have the meeting series in your calendar.