OneCare Vermont Risk Management Model

- OneCare core risk coverage model is based on ACO hospital contracts obligating hospitals to cover potential "risk" payments through OneCare back to contracted payer programs
  - Risk payment calculated at ACO-wide level and payers receive single payment from OneCare with payers agnostic on source of funds for the payment
  - Each hospital has a share of the maximum based on their local HSA-attributed population's maximum risk, designed to guarantee that the combined hospital payments would cover any scenario of overall risk payment owed by OneCare

- For 2018, we currently model the maximum potential combined "risk" payments across all payers – and under a scenario where all payer programs fully exceed spending targets up to maximum limits – as approximately $21M

OneCare Vermont Risk Management Model

- However, OneCare does have some mechanisms which provide some potential relief to the hospitals and their potential cash payments to OneCare to cover payments to payers for the 2018 Performance Year:

In Place Now

- **Medicare** Modified Next Generation Program – required securitized instrument for a portion of the maximum payment to Medicare
  - Medicare calculates and requires this model but does NOT require ACO to use it for repayment (but ACO can allow these funds to be used)
  - This is already established and funded for 2018 with Medicare at $4.1M
- **BCBSVT** QHP Risk Contract - "Truncation" Program which was offered and accepted as part of the contract
  - Protects OneCare from individual patient spending above a defined threshold
  - Individual patient spending in excess of the threshold is excluded from OneCare's risk payment calculation
- **GMCB** required general reserves
  - OneCare's 2018 budget order included funding a $2.2M risk reserve by calendar year end, with requirement that OneCare seek and receive approval from GMCB to use this reserve for full or partial "risk" payments to payers (or other uses)
  - The first required portion of the reserve is established and funded at $1.1M

Still Potential for 2018 Coverage

- **Medicare** also offers an optional "Truncation" program to risk-bearing ACOs
  - We have not been provided any details or decision deadlines (which were originally expected in April)
- **Medicare** - Third Party Medicare Risk Coverage
  - Defined risk protection funded by OneCare through a third party relationship

Focus for Today

New OneCare Vermont Risk Protection Proposal

- **OneCare's GMCB-approved operational budget included $1.5M for "Reinsurance"**
  - At the time of the budget review, it was unclear whether any would be available for 2018 and at we could reach terms acceptable to the OneCare Board, and we advised the GMCB that none should be assumed in their analysis
  - Since then, OneCare has worked with its risk protection broker over to find a risk protection partner and secure a proposal that meets the needs of the network and helps to limit our top-end risk exposure
  - In the last few weeks, a partner has emerged who crafted a desirable proposal to protect against <u>Medicare</u> risk for 2018.

- **As part of the 2018 budget order, OneCare is required to:**
  - "Notify the Board promptly regarding its intent to purchase aggregate total cost of care reinsurance for 2018 and obtain the Board's approval prior to purchasing a policy." (Order F, Item 6)
    - <u>**We request today that this proposal is approved for purchase.**</u>

OneCare Vermont Risk Protection Proposal

Core components of the risk protection proposal:

- OneCare will make defined payments to the risk protection partner based on the final Medicare program benchmark for ESRD and non-ESRD beneficiaries

- If the total-cost-of-care spend against our Medicare target reaches 102.5% of the benchmark, OneCare will receive 72% of the spend value from 102.5% up to the Medicare risk corridor limit of 105%
  - The 72% figure reflects the election of an 80% share with Medicare and a 90% share with the risk protection partner once the threshold has been reached (this is commonplace for protections of this nature to ensure aligned incentives to still limit additional spending once the risk protection threshold is reached)

- This arrangement has been structured as a “swap” rather than a traditional insurance/reinsurance policy
  - A “swap” means we cover their potential risk exposure on the commitment to OneCare through our payments in return for them covering the defined portion of our potential excess risk payments if the 102.5% threshold is eclipsed

OneCare Vermont Risk Protection Proposal

Core benefits of the risk protection proposal:

- The purpose of this arrangement is to limit the maximum downside risk for OneCare and therefore the in-network risk-bearing hospitals
- In the event of a substantial spending overrun on 2018 Medicare Modified Next Generation that reaches the ACO-level maximum risk, this protection will generate maximum proceeds of roughly $6.5M (which <u>reduces</u> the $21M)
- In the event that proceeds are generated, these proceeds will first accrue to HSAs/hospitals that have exceeded their maximum risk limit for Medicare (this will eliminate/minimize the need for cross-coverage from other hospitals)
- Any remaining proceeds will be allocated to other HSAs/hospitals that experienced an overrun

OneCare Vermont Risk Protection Proposal

Summary:

- The expense to implement this proposal is well within the approved operating expense for reinsurance/risk protection

- Moving forward with this protection adds no additional risk for OneCare or the network; rather, it provides additional protection in the event of a substantial total-cost-of-care overrun (which protects participating hospitals)

- The OneCare Board and Finance Committee have voted to approve this program, its parameters, and its purchase price

- Engaging with this partner is intended to be a long-term strategy to secure annual risk protection for "top-end" risk for at least Medicare and potentially expandable to other payers
  - This is especially important as we expand the network, progress toward scale targets, and take on addition risk in future years