Not-for-Profit Hospitals & Health Systems Market Update

Industry Specialty Team | September 2024

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Hospitals Facing Medicare Advantage Challenges

Medicare offers health coverage to seniors through two primary methods:

- Traditional Fee-for-Service (FFS)
- Medicare Advantage (MA)

While FFS operates on a claim-based model where providers treat patients and send the bill to Medicare, MA operates similarly to employer-based health insurance. A third-party insurer sells plans to a population of seniors and negotiates rates with an array of healthcare providers, including hospitals. These plans are attractive to seniors because they often include additional benefits such as dental and vision care at lower out-of-pocket costs compared to traditional FFS Medicare.

Hospitals participate with MA plans in various ways:

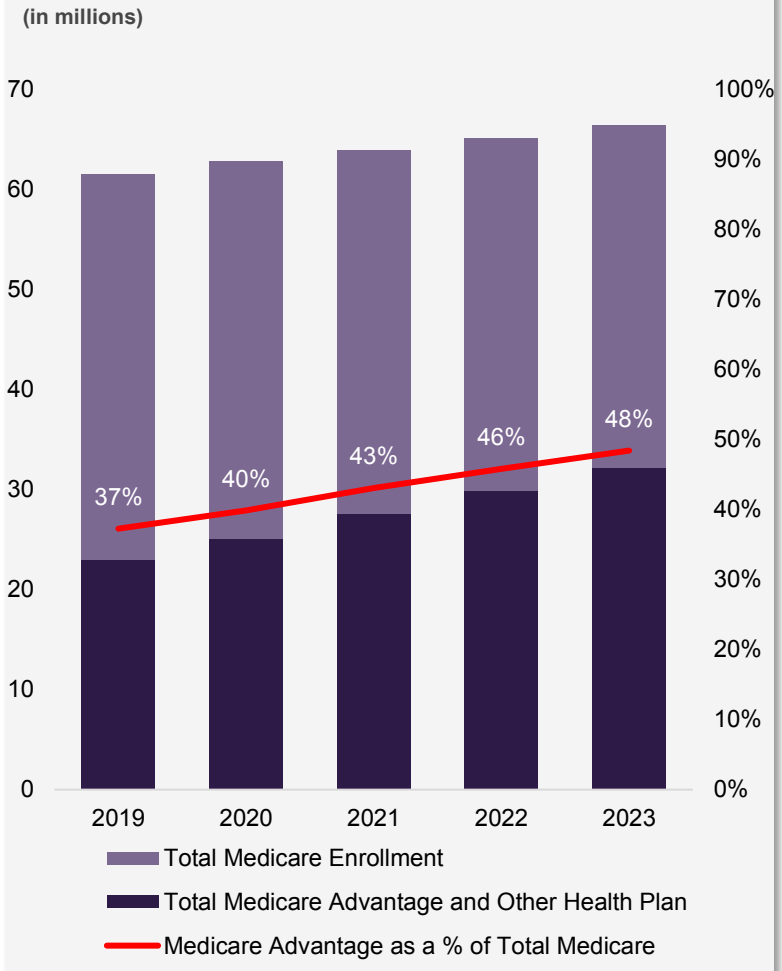
- Some enter into a capitation or fixed payment per patient model, where they share financial risk with the insurer.
- Others negotiate to become part of a Preferred Provider Organization (PPO) network, offering services at negotiated rates and still others treat patients on an "out of network" basis.

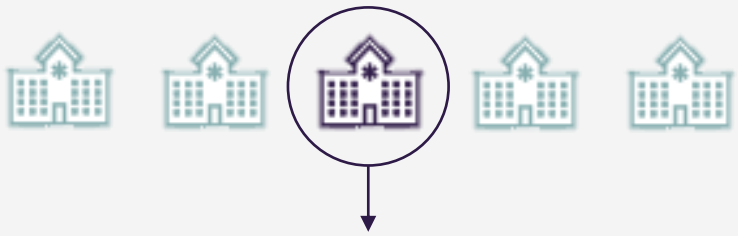
A survey by the Healthcare Financial Management Association (HFMA) found that nearly one in five health systems plan to stop accepting one or more MA plans in the next two years.

Hospitals cite several challenges, including:

- Administrative burdens, noting that MA plans often require extensive prior authorizations
- Higher denial rates
- It takes longer to pay claims compared to traditional Medicare, stretching out the revenue cycle

Medicare and Medicare Advantage Enrollment





Nearly **one in five health systems** plan to stop accepting one or more MA plans in the next two years

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Sources: Becker's, American Hospital Association, Centers for Medicare & Medicaid Services, Modern Healthcare, Fierce Healthcare, KFF

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Current Hospital Challenges

Prior Authorization	In 2022, MA plans received over 46 million prior authorization requests for health care services. This high volume of requests creates a substantial workload for hospital staff, who must navigate the often complex and time-consuming process of obtaining approvals for various treatments and procedures. Of the 46 million requests, MA plans denied 3.4 million (7.4% of total requests) leading to delays in patient care and additional time & effort on the part of care teams to appeal or find alternative treatment options.
Slow Payments	Delayed payments, which cause cash flow disruptions and require extra staff and time to resolve are also a significant concern for hospitals dealing with MA plans. The complexity of MA payment models, which often include risk-adjustment factors and quality bonuses, adds another layer of administrative complexity for hospitals.
Risk Sharing	For hospitals opting into the shared risk/capitation models, they are increasingly exposed to payment risk as they assume responsibility for the overall health of MA patient populations. Underperforming on quality metrics or experiencing higher-than-expected utilization can lead to financial penalties. As noted by a recent study in the Journal of the American Medical Association (JAMA), "Hospitals are caught in a difficult position. They must balance the desire to provide high-quality care with the need to manage costs and avoid financial risk."

Strategic Approach

To navigate the complexities of the MA landscape, hospitals must adopt a deliberate approach that addresses operational inefficiencies, improves financial sustainability, and enhances patient care.

- **Investing in Advanced Technology:** Leveraging artificial intelligence and automation can streamline operations, reduce administrative costs, and speed up tasks such as prior authorizations.
- **Strengthen Provider Partnerships:** Collaboration with insurers and value-based care models can improve patient outcomes. Hospitals can establish incentive programs with 3rd party providers to improve clinical outcomes, reduce medical loss ratios, and enhance the overall patient experience. Focusing on higher-risk patients allows hospitals to drive better outcomes, particularly for those in dual-eligible and low-income subsidy programs.
- **Improve Risk Sharing:** Hospitals that enter into financial risk-sharing agreements, such as capitation models, should closely monitor quality metrics and healthcare utilization. Ensuring that these models are structured to balance financial risks can help hospitals avoid penalties and maintain financial stability.
- **Improve Patient Engagement:** Engaging patients is key to improving outcomes and lowering costs. Hospitals should focus on consistent personalized outreach that encourages preventative measures. With the use of AI, targeted digital outreach tools can help hospitals track the impact of these efforts, allocating resources to the most effective engagement strategies.

Ultimately, hospitals need to strike a delicate balance between financial viability and patient care. By adopting a proactive approach, investing in the necessary infrastructure, and fostering strong partnerships with MA insurers, hospitals can position themselves for success in this evolving healthcare landscape. As stated by the CEO of a leading healthcare system, "The MA landscape is challenging, but it also presents opportunities for innovation and improvement. By working together, hospitals and insurers can create a healthcare system that delivers high-quality, affordable care for all."

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