

Performance-based Trends & Examples



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Performance-based & Risk Payments

- Over 90% of the 39 initiatives in 2003 CWLA survey report included payment arrangements that introduced risk and/or performance incentives into contracts.
- States are increasingly linking payment amounts or schedules to performance. In 2009, QIC found 14 states that link payment directly to performance and 11 others that use PM to gauge renewal decisions.
- There was and is great variability in how payments are structured and risk is introduced.

Performance-based & Risk Payments (cont)

- Very few of the risk or PB payment models are repeated across states.
- Some contracts do not explicitly link performance to incentives but they do pay ONLY when certain services are delivered.
- Some incentivize a combination of both casework activities (outputs) client outcomes, other PMs; others only outcomes.
- Some incentivize ALL outcomes/PMs in contracts; others only incentivize a few permanency and placement stability measures (IL, MO).

Risk-Sharing

- Approaches to **risk-sharing** vary.
 - There is risk in every type of contract. Risk is the potential for revenues and expenditures to vary in unexpected ways. When revenues exceed expenditures, there is a surplus, which can be taken as profit or reinvested in the system. When expenditures exceed revenues, there is a loss.
- **Risk-sharing** is a function of determining who is responsible for each type of risk.

Risk-Sharing (cont)

- Planners have to consider how different types of risk will be shared:
 - Rate of entry
 - Cost of producing a unit of service
 - Volume of units used
 - Types of services used, utilization patterns
 - Duration and performance (e.g., LOS, post-permanency “warranty” periods, or other explicit/implicit outcomes)

Payment Models

- **Global Budgets**

- Whatever was in public agency “pot” for specified target population and service is transferred to the contractor.
- “Theoretically” contractor bears all risks; public agency has none. In reality there are typically provisions to limit losses.

Examples: Florida, Statewide; new NE contracts (intent is to move to case rate)

Payment Models (cont)

- **Case Rates (most common in child welfare)**
 - Payment is per case, with variations:
 - Child or “family” rate
 - Annual or episode of care
 - Services included and excluded
 - Point at which risk ends-the “warranty period”
 - Blended or stratified rate
 - Stable or declining rate
 - Payment schedule
 - Use of bonuses/penalties
 - How rate is set...

Examples: MO, KS, WI

Payment Models (cont)

- Performance-based “Caseload” Models
 - Payment amounts linked to foster care caseloads.
 - Agencies required to accept a certain % of their caseload in new referrals and move a certain % to permanency each year. Agencies have to balance the case flow or risk serving more children than they are paid for and having their new intakes placed on hold.
 - Variations: Underlying assumptions, the mix of bonuses/penalties that may be added to PB payment.

Examples: IL, MO, PA foster care “caseload” contracts

Payment Models (cont)

- Mixed payment models that include performance-based incentives and/or penalties
 - Providers receive a base payment on top of which PB incentives or penalties are imposed. This is typically a “low risk” contract as PB incentives are usually a small % of payment.
 - Can be used with any type of payment --from FFS to Case Rate to global budget.
 - Variations: Events that trigger incentives/penalties, underlying assumptions, the mix of bonuses/penalties

Examples: NE foster care, IA's R & R and Family-based services

Payment Models (cont)

- **Pure Pay for Performance**

- Providers are only paid when they meet a key milestone
- May produce the greatest risk
- Variations in whether rate is standard or variable, and payment schedule.
- Most typical in adoption contracts-only paid when placed in pre-adoptive or finalized.

Examples: ND, NC, MA adoption; NM payments for home studies (3 rates based on timeliness).

Payment Models (cont)

- Payment schedules can be manipulated:
 - Franklin County, OH- Foster care case rate payment schedule:
 - 1/3 paid upon invoice after referral
 - 1/3 paid after 90 days
 - 1/3 after case closure
 - No additional payment if case is re-opened within 6 months but agency re-assumes responsibility for case
 - 1/6 of case rate if re-opened between 6-9 months
 - 1/3 of case rate at 9-12 months if re-opened
 - 1/2 if re-opened between 12-18 months
 - Considered new case after 18 months

Payment Models Change

- The KS example
 - 1997 – Episode of care payment. Providers lost significant \$ - it was too risky.
 - 2001 – Annual case rate. Performance lagged - decided not risky enough.
 - 2005 – Performance-based tiered rate with declining payments.
 - 2009 – Return to an annual case rate with fixed monthly payments (Reason for change is unknown).

Fiscal Design Challenges

- Designing fiscal model neither simple nor straightforward. Planners must consider:
 - Overall pricing (how much \$ is in the pot)
 - How rates will be determined
 - How payments will be made
 - How risk/rewards will be introduced
 - How “savings” will be used/reinvested
 - When and how adjustments will be made.

Fiscal Challenges

- Estimating costs and determining rates:
 - » Two basic approaches to developing cost estimates:
 - Actuarial approach, which uses historical data to predict what will happen in the future
 - Prospective approach, which includes simulation of future scenarios.
- Some states specify rates, others allow the bidding/negotiation process to determine the rates. Errors likely with either approach.

Fiscal Challenges (cont)

- Developing risk-mitigating strategies:
 - *Risk-Reward Corridor* – Defines point at which a contractor' losses and profits will be absorbed by or shared with the public agency (reinvestment common)
 - *Catastrophic Stop-Loss* – Aggregate or individual provisions limit losses when expenditures exceed a certain threshold.
 - *Risk Pool* – Some states have set aside funding to cover increased costs that are outside the contractor's control.
 - *Risk Reserve/insurance* – Contractors are required to have specified reserves to cover unexpected problems.

Fiscal Challenges (cont)

- Achieving flexibility, maintaining federal revenue, managing cash flow:
 - Providers need flexible funding-not guaranteed under various risk-or results-based contracts.
 - Prospective payments - the best option for front-end flexibility - can be hard to achieve with cost reimbursement requirements governing federal and state funds.
 - Achieving better outcomes for clients may produce higher costs for states (though overall costs decline).
 - Some states have tried to work around restrictions by IV-E waivers and blending funds.

Fiscal Issues For Consideration

- Risk must be balanced with control over key decisions.
 - The PB payment options that could be considered for phase 2 demos could introduce more risk than the payment options appropriate for PB contracts.
- The adequacy and flexibility of payments is critical in meeting fiscal or programmatic goals.
 - Are funds adequate to support PBCs and pilots? Can you find start-up funds?
- You can't get something for nothing but cost savings (or a redistribution of expenditures) over time is possible.
 - What are the fiscal expectations in WA? Are they realistic?

For Additional Information

All of the ASPE topical papers can be accessed online:

Assessing Site Readiness: <http://aspe.hhs.gov/hsp/07/CWPI/site/index.shtml>

Program and Fiscal Design:

<http://aspe.hhs.gov/hsp/07/CWPI/models/index.shtml>

Roles of Public & Private Agencies:

<http://aspe.hhs.gov/hsp/07/CWPI/roles/index.shtml>

Evaluating Privatized Efforts:

<http://aspe.hhs.gov/hsp/07/CWPI/guide/index.shtml>

Preparing Effective Contracts:

<http://aspe.hhs.gov/hsp/07/CWPI/contracts/index.shtml>

Quality in Contracted Services :

<http://aspe.hhs.gov/hsp/07/CWPI/quality/report.pdf>

The ASPE series builds upon field research and the work of the [Quality Improvement Center for the Privatization of Child Welfare Services](http://www.uky.edu/SocialWork/qicpcw/) (<http://www.uky.edu/SocialWork/qicpcw/>). The QIC site contains links to other research reports.