Summary of Possible Payment Options
(This is not an exhaustive list of payment models—it is intended to illustrate a couple of options.)

1 - Case Rate

The risk for managing the cost for the delivery of services rests upon the lead agency or provider. Careful use of stop-loss protections, profit/savings sharing and risk-pooling will be essential to protect against under-service of clients and/or fiscal risk for provider.

Annualized: Case rate is usually a retroactive fixed payment, usually paid in monthly per child per month (PCPM) based payments (based on annual expenditure for services with 1/12 per month paid to the lead agency or provider). This payment mechanism helps the private agency manage cash flow issues.

Episodic: Case rate is based on an estimate of the total length of time that the child or family will receive services during an episode of involvement in the child welfare system. This may also include aftercare services. An episodic case rate could extend over multiple months or years (i.e.: CRPP rate in Cleveland is for 24 months plus 9 months of aftercare). This puts the burden on the lead agency or provider to reserve or hold back enough funds to pay for services into the future.

Strengths:

- Can be structured to provide flexibility in providing services not otherwise covered in a cost reimbursement system. This could produce a reduction in out-of-state, out-of-county, and out-of-home placements.
- Encourages evaluation of the necessity and the efficiency of services, either prospectively, concurrently, or retrospectively.
- Promotes wrap around planning and family conferencing that address the child and families needs from a strength and community based approach.

Challenges:

- The private agency needs to completely understand the terms of the contract and risk inherent in model.
- May lead to cash flow issues if the private agency does not reserve funds through the length of the contract.
- Agencies may fall back on providing services as usual, thus recreating some of the same public system challenges.

2 - Global Budget:

A global budget is a modified capitation rate which is based on the total number of persons who are eligible to receive services and the expenditures to provide those services. The private lead agency or provider receives a fixed amount for all persons covered by the arrangement—though payments are usually cost reimbursement until $$ runs out…

In a global budget transfer, the state has its lowest level of risk. The Lead Agency or Provider is at risk for the cost of providing services for an unknown total number of children and families who become consumers for an indefinite time until permanency is achieved (and beyond).

Risk pools can be created to mitigate risks.

In this system the Lead Agency or provider has to develop an early intervention process to keep children and their families from having to use high-end services.

Strengths:

- May include flexible funding to cover services that the categorical funding otherwise would not allow.
- Could include blending of public (federal and state) and private funding streams.

Challenges:

- The private lead agency needs a sophisticated understanding of the public budgeting and reporting process, as they will be held accountable for providing information which will be used to justify both state and federal funding.
- With a large population growth, the funding may not keep up with the number of children and families entering the system.
- The retrospective payment may not give front-end flexibility.

3 - Mixed Models with Penalties or Bonuses

A portion of the payment to the lead agency or provider is a "base" payment to cover specified administrative or service costs. The other part of the payment is tied to performance. The incentives help hold private lead agencies or providers accountable for meeting outcomes or goals. If the private lead agency meets the goals of the contract, they are paid an agreed upon incentive payment. If they exceed the goal, they may also be paid an additional bonus. The bonus might be based upon reaching outcomes faster than expected, or exceeding the goals (i.e.: more children placed in adoptive families, shorter lengths of stay in high end placements). Penalties might be based upon failure to reach outcomes or goals (i.e.: permanency plans are not developed within a predetermined time limit). Penalties could be specified for failure to meet acceptable levels of practice.

Strengths:

- Allows for more accountability without major system changes.
- Takes a step towards aligning payments with results.
- It may be less frightening to private agencies as the "risk" portion has tended to be a small percent of overall budget.

Challenges:

- Lead Agency or Providers may lack the operational infrastructure or knowledge to earn incentives.
- May not result in the dramatic improvements in outcomes.

4 - Risk Mitigating Mechanisms

Risk-reward corridors or other mechanisms are often used in a risk or performance based contract when there is a concern that contractors will lose money and terminate the contract or go out of business or that that risk-bearing organizations will make large profits at the expense of the service delivery. The ceiling for earnings and the floor for loss is established in contracts with lead agencies and providers. Contracts will spell out the amount of earnings a lead agency or provider can make before having to share that with the public payer. Also once the lead agencies or provider's loss reaches a predetermined limit the public agency will then share in the loss. At this point however, the public agency might consider terminating the contract.

Strengths:

- Solvency and stability of providers
- Opportunity for Lead Agency or provider to retain earnings for reinvestment in the system of care for under or un-funded services.

Challenges:

- Determining the right mechanism and right level of protection.