

Spotlight on provider- sponsored health plans

EY-Parthenon Health Care sector



Are provider-sponsored health plans here to stay?

Overview

Provider-sponsored health plans (PSHPs) first emerged in the 1980s and 1990s as a way for hospitals to better control increasing health care costs, capture premiums and manage employee care. More recently – since 2010 – a new generation of PSHPs has emerged in response to changing market, reimbursement and regulatory conditions. The long-term viability of these new plans likely hinges on their ability to gain traction with differentiated plan designs and effectively manage members and physicians in value-based care models. While many plans are showing signs of early success, others are struggling to generate enough membership and scale to cover the substantial up-front investment and operating costs of the plan. There will be winners and losers over the next 5 to 10 years and probably fewer PSHPs by 2025 than there are today.

Key statistics

270 Number of PSHPs as of 2016

>5% PSHP growth over the past six years

~70 Number of stable PSHPs, covering 90% of lives

Should you implement a PSHP?

Industry trends affecting insurers, providers and patients often make PSHPs an attractive venture for health care systems, but they may not work well for every organization. Before implementing, hospital leaders should address these key questions to determine whether implementing a PSHP is a positive, feasible and sustainable approach for their system.

Three key questions:



Do you have a strategic rationale?

Providers should have a compelling strategic rationale for making the decision to build a health plan. This could be related to a transition to value-based care, a response to competitive threats or financial in nature.



Does your system have the necessary capital to invest?

It is also critical to consider whether there are sufficient system funds to acquire a plan, partner with another organization or build a health plan from scratch. All options are viable, but each comes with a significant up-front and ongoing financial investment.



Is the system ready to change?

Finally, the organization should assess whether there is internal readiness and capacity to lead the health plan build. PSHPs require a different set of competencies (e.g., claims processing, network management, marketing), as well as a leadership team and providers that have bought in to the transition.

How do you build a PSHP?

If a system determines that building a PSHP is the right decision, the options include building, partnering or acquiring health plan capabilities and operations. Regardless of your entry strategy, the following five steps are essential to the process. Keep in mind that with a blueprint and internal readiness in place, the plan build itself is likely an 18- to 24-month process.

Five-step process:

- 1 Create health plan infrastructure**
 The organization should develop interim leadership; establish that expertise in claims, compliance, call center and enrollment are in place and identify key gaps.
- 2 Establish strong core functions**
 As early as possible, provider training should begin whereby providers are trained on the value-based care transition and population health approaches.
- 3 Develop competitive plan design**
 Shortly after aligning on the decision to create a plan, plan design should be pursued with a deep understanding of the local market and competition.
- 4 Enroll members and market to employers**
 A targeted marketing plan should focus on key brokers and employers in the market.
- 5 Construct appropriate governance structure**
 Leadership committees with organized reporting structures should be established to oversee both initial implementation and ongoing operations.

Timeline of key health plan building milestones (illustrative)		Initiatives	Rationale	Key success factors
First 90 days	1 Create infrastructure	<ul style="list-style-type: none"> Establish policies and resources for enrollment, claims and customer service 	<ul style="list-style-type: none"> Operations need to be in place so that resources and policies meet plan needs 	<ul style="list-style-type: none"> Experience in claims, compliance, call center and enrollment
6 months	2 Establish strong core	<ul style="list-style-type: none"> Build provider network Train clinicians on value-based care transaction Create medical management and population health programs 	<ul style="list-style-type: none"> Provider network takes time to build successfully to cover member base Invest time engaging physicians and developing care management programs 	<ul style="list-style-type: none"> Health care provider training on transition to value-based care Specialized and integrated population health platforms
1 year	3 Craft plan design	<ul style="list-style-type: none"> Develop plan types and establish marketing approach 	<ul style="list-style-type: none"> Once operations and network are set up, plan specifics can be fully developed 	<ul style="list-style-type: none"> Experienced actuaries and team with local market experience
2 years ongoing	4 Enroll members	<ul style="list-style-type: none"> Build contracts with employers under commercial network and >65 patients in Medicare network 	<ul style="list-style-type: none"> With network, operations and plan design in place, system can begin promoting to employers and members 	<ul style="list-style-type: none"> Well-deployed and locally connected sales and account leadership team
				5 Construct governance structure

Contacts



Dan Shoenholz

Managing Director

EY-Parthenon

Co-head of Health Care

Ernst & Young LLP

New York

+1 212 773 4517

dan.shoenholz@parthenon.ey.com



Andy Bechtel

Managing Director

EY-Parthenon

Ernst & Young LLP

Boston

+1 617 478 4646

andy.bechtelt@parthenon.ey.com



Marisa Greenwald

Senior Consultant

EY-Parthenon

Ernst & Young LLP

Boston

+1 617 478 6302

marisa.greenwald@parthenon.ey.com

For more information, please visit ey.com/parthenon.

About EY-Parthenon Health care sector

EY-Parthenon advises clients across all aspects of the health care industry, including managed care, providers, suppliers, life sciences and private equity. The firm has extensive health care experience in strategy development, operational improvements and mergers and acquisitions. Further, the combination of EY-Parthenon's Private Equity sector team, which has advised clients on more than 2,500 transactions, and our Health care sector team, which has worked across all aspects of the health care landscape, makes EY-Parthenon the preeminent advisor to private equity firms considering investments in the health care industry.

EY | Assurance | Tax | Strategy and Transactions | Consulting

About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

© 2020 Ernst & Young LLP.

All Rights Reserved.

US SCORE No. 03202-171US

CSG No. 2005-3491326

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com