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Sources of savings in episodes of care programs

Moving beyond unit cost discounts to deliver improved savings and outcomes

Self-insured employers have long sought novel ways in which to control medical spending and improve the quality of care for their employees and their dependents. Episodes of care programs can address as much as 50% of the total health plan spend and are a value-based payment model that shifts savings from being focused on fee-for-service discount negotiations.

In the analysis that follows, we break down the three sources of savings within our episode of care model:

Guaranteed episode price
Savings derived from quality improvements

Multi-year fixed cost
Savings derived from eliminating inflation

Provider steerage
Savings derived from motivating members to be cared for by high quality/value providers

All three sources of savings align incentives to decrease excess spending in facilities, but it's important to note that the savings potential becomes even greater for chronic conditions.

Typical allocation of episode costs

Episode category	Facility (savings target)	Professional
Procedures/maternity	60%	40%
Chronic conditions	80%	20%

An episode of care approach can address both procedures and chronic conditions

Value-based payment programs such as episodes of care shift the focus away from unit pricing discounts to deliver even greater savings that are driven by how and where care is delivered — not merely on what the care costs — as well as address chronic conditions that influence costs beyond a point-in-time procedure. The key is steerage to high-quality providers who are proven to deliver better outcomes and who are incentivized to collaborate with other providers to deliver care within a fixed price.

Outcomes **Incentives** **Collaboration**

Employer impact in all episodes is attributable to guaranteed pricing, multi-year fixed costs, and the effect of steerage to high-value providers.

Guaranteed episode price

Employers contract for a fixed and guaranteed episode price, typically set at a discount relative to a trended historic cost (THC). All the costs associated with the episode duration are included in the guaranteed episode price.

Length of episode types

Surgical	Chronic condition	Maternity/newborn
120 days	365 days	330 days

Diabetes patient + **Provider A**

$2,400*
Employer cost **without** episodes of care program

$2,280
Employer cost **with** episodes of care program

*THC cost for diabetes episode in geographic region

Savings for maternity and chronic condition episodes are generated from quality improvements and care coordination, while savings for surgical episodes are driven from improved site/facility selection.

5% discount = $120 per episode

Multi-year fixed cost

Under an episode of care model, the guaranteed episode price is locked in place, without inflation, for three years.

Savings*	
Year 1	$120
Year 2	$240
Year 3	$366

*assuming annual healthcare inflation at 5%

Up to 30% in cost variance among providers

Effect of steerage

It is essential to steer members from low-value to high-value providers, usually in the form of a financial incentive. Continuing with the diabetes example, diabetes episode costs can vary significantly within a specific region.

	Provider A (high value)	**Provider B** (low value)
Historical price	$2,400	$3,000
Guaranteed episode price	$2,280	$2,850
Steerage savings	$570	

The effect of steerage considers additional savings derived from steering a member to high-value Provider A from low-value Provider B, who has a higher trended historical price of $3,000.

Savings increase year after year

The benefits of guaranteed episode pricing and multi-year fixed pricing help to reduce costs — as do the effects of steerage to higher value providers. Over time, a greater proportion of medical spend becomes more predictable, helping to offset annual healthcare inflation.

Example: Multi-year savings across 10,000 plan members

	Year 1	Year 2	Year 3
Guaranteed episode price	$1,560,000	—	—
Multi-year fixed savings	—	$2,808,000	$4,105,920
Steerage	$6,240,000	$6,489,600	$6,749,184
Total	$7,800,000	$9,297,600	$10,855,104
% of plan spend	13%	15%	18%

PEPY = $6,000
Annual inflation without program = 4%
Steerage Year 1 = 35%, Year 2 = 40%, Year 3 = 50%
Discount to trended historical cost = 5%
Percent savings from steerage to higher value providers = 20%

Key takeaways

It's time to rethink current assumptions about value-based care programs. Price negotiations will only get you so far, and much of the low-hanging fruit has been picked. By expanding the focus of value-based models to include chronic conditions, organizations can foster better outcomes and achieve significantly greater savings — a win for patients, providers, and employers.

Drive greater savings and predictability through an episodes of care program

Signify Health is a leading national provider of value-based episode of care solutions. We do this at scale, managing billions of dollars of at-risk episodes every year through programs that provide complete price transparency, warranties on quality care and cost, and better member engagement in their health.

Contact us to discuss how an episode of care program can shape your benefit plan design in 2022 or beyond.

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