PayrHealth

Know When to Renegotiate Your Payor Contracts

Five Questions Every Healthcare Provider Needs to Consider Before Renegotiating

Renegotiations don't need to feel like you're facing Goliath - you've got more than a slingshot and it's not one-on-one combat. There are many misconceptions about negotiating payor contracts. These range from thinking a renegotiation isn't possible to having concerns that payors will retaliate. Nothing is guaranteed in a negotiation, but we can work to identify ripe opportunities to achieve a favorable and successful negotiation.

We've outlined five critical questions that need to be considered for the right contracts to be prioritized. Clarity on internal strategic goals goes a long way and understanding external realities informs strategic positioning to payors. Answering these questions will set you up for success

1 What are your organization's goals and how can you negotiate to support them?

More money is a core goal, but it's not the whole story. You should identify how each potential payor negotiation could support your organization's broader goals. This will guide how you prioritize the right payors to pursue, what requests to make, and where to compromise. These goals can differ by payor, offering, and service area. While there are many ways to categorize your goals, they are commonly sorted into financial, operational, and strategic goals.

Financial goals will drive towards impacting your financial statements. This can include your revenue, profitability, or cash flow.

Operational goals typically drive towards easing your administrative burdens. This can include your denial rates, days in accounts receivable (AR), or bad debt rates. Don't be shy about collecting anecdotal evidence, your team may have a better vantage of the pain points.

Strategic goals typically drive towards developing your competitive advantage. This can include a preferred relationship, strategic pricing, or geographic advantage. Considering a mix of quantitative and qualitative insights will uncover pockets of opportunity for your unique position.

2 How do your current contracts compare to each other?

Begin by gathering historical claims data for each payor in your portfolio. You can gather 12-36 months of data, but allow for a 60-90 day run-out period for claims to settle. Undoubtedly, you will need to consider any adjustments to the data for notable issues (e.g. claims projects). Use your best judgment to normalize your data. It is crucial to develop a like for like comparison of your payor contracts - especially ones that represent a majority of your book of business.

Structurally, you should understand the effective date of each agreement, the renewal structure (e.g. multi-year hard term vs. evergreen), inflators, termination rights, and the last increase you received. Contractually, there are terms that you should understand as well (e.g. timely filing windows, favored nation language, etc.). Identify any areas of current friction or potential exposure.

For reimbursement, at the very least ensure you understand two key metrics: (i) your allowed amount relative to your charges and (ii) your paid amount relative to your allowed amounts (i.e. yield). This will allow you to assess key themes across your payors and pinpoint any outliers.

For yield, you should understand the gap between what you were actually paid and the allowed amount. Identify the key contributors (e.g. patient bad debt, denial rates) to the variance. Moreover, identify what portions of the variance can be improved by your team and which are out of your control. This data should all weigh into your negotiation strategy and impact what your goals are long term.

It's worth noting that measuring yourself against yourself is a good foundation, but your portfolio as a whole may not be representative of fair market rates. Ideally you could perform a benchmarking analysis for your offerings in your service area to ensure you are well aware of the broader market rates. This will help ensure you are well aware of the broader market rates between payors and providers.

3 What portion of your revenue does each payor represent for different segments?

When evaluating your payors and understanding their impact on your business, you can't overlook what portion of revenue each represents. You should understand the effects of terminating any of your agreements, offering steep discounts, or obtaining significant increases.

Having material concentration with a particular payor can yield outsized impacts if you aren't mindful of how they influence your organization as a whole and how they impact individual segments of your organization (e.g. service lines, service areas).

You should also consider if any arrangements you entered with the hopes of higher volumes actually panned out. Don't let the promise of volume influence cloud your perspective and influence you to accept a significantly discounted cost, reflect on the opportunity and ensure you are making the right decision.

These dynamics will inform your negotiation strategy and equip you to drive internal coordination. This may also inform who you seek feedback from on your team. Understanding key operational or strategic issues will prove valuable in your negotiation. Doing the diligence and seeking input for the right stakeholders will put you in the best position to succeed.

4 What portion of your service area does each payor represent?

When comparing your contracts, you need to be conscious of inevitable market powers. For example, there is a tradeoff between volume and price that impacts the distribution of discounts you would expect to see across carriers. Understanding carrier market shares in your service areas - a potential proxy for their leverage - will help you make informed assessments of your portfolio.

Uncover market intelligence about any preferred or exclusive relationships that exist between carriers and your competitors. This should color your decision-making process to identify any opportunities to execute your negotiation strategy.

5 What payors do you have the most opportunity to renegotiate with and how will you execute?

After contemplating these questions, you will have a good sense of where there is an opportunity to renegotiate in the contract language. For example, if you have a contract that has a significantly lower allowed amount relative to other comparable contracts in your portfolio that may be an opportunity. Even more so if you haven't renegotiated that contract for many years.

You should also consider yield and any significant outliers that can be brought to the payor's attention (e.g. abnormally high denial or patient bad debt rates). Also, consider other administrative issues that are having material impacts (e.g. claims projects).

Dedicating the time to evaluate your current portfolio is worthwhile, but can feel impossible given limited resources. You don't have to go it alone, PayrHealth can help you accomplish your contracting goals and serve as an extension for your team when negotiating a contract. We have the experts, tools, and data to get things done and support in renegotiating contracts and the contract negotiation process. We hope to speak with you soon...

WORK WITH PayrHealth TO RENEGOTIATE YOUR PAYOR CONTRACTS

PayrHealth has been the leading outsourcing solution for managed care contracting since 1994. At the core of our business, we help healthcare providers increase their revenue by obtaining new and more profitable contracts with payors. We become an extension of your team in our outreach to payors. Work with PayrHealth to get the payor contracts you need to drive growth. Contact us to learn more.

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