Successfully Negotiating Managed Care Contracts

Negotiating effective contracts requires careful planning and a willingness to collaborate.

For many organizations, managed care contracts are an essential part of a sound financial strategy. Managed care dollars can represent a significant percentage of a healthcare organization’s revenue, and successfully negotiated contracts can not only preserve revenue but yield additional dollars through new insurance products and models. Strong managed care contracts can also enhance patient satisfaction because they facilitate patient access to comprehensive treatment and services.

Reaching an agreement with a payer about managed care requires preparation, collaboration, and compromise. “The more an organization solidifies its own expectations for contract negotiation and appreciates the needs of the payer, the more likely it is to reach an acceptable agreement,” says Paula Dillon, director of managed care for Rockford Health System.

Set Goals for the Relationship

When preparing to negotiate, organizations should think about the kind of payer-provider relationship they want. “Is this a one-time negotiation or the beginning of a long-term partnership,” says Dillon. “When trying to establish or foster a partnership, your focus will be different than with a short-term agreement. For example, you may be more interested in new products, payer-employer affiliations, or risk-sharing models.”

Keep in mind the role that managed care plays in your organization. “Approximately 30 percent percent of our revenue comes from managed care, so it is very important we establish positive working relationships with our managed care payers,” comments Dillon.

Look Beyond Rates

A primary goal for any managed care negotiation is to receive fair compensation for services. However, that should not be an organization’s sole objective.

“Getting a good rate is important but there are other things to consider,” says Dillon. “For example, we look at the impact the payer will have on our workflow—items such as how responsive the payer is to problems with claims, implementation of new policies and procedures, and whether the payer allows delegated credentialing—where it turns over the responsibility for credentialing to us, provided we follow its guidelines for verifying competency. Delegated credentialing streamlines patient access to new
physicians by getting physicians up and practicing faster.”

“Another thing we look at is the breadth of products the payer offers,” says Dillon. “If a payer is pursuing a variety of offerings, such as value-based care, tiered networks, Medicaid, or Medicare managed care, that can be a way in which to diversify the level of participation with a specific payer.”

**Access related tools:** Checklist for Managed Care Contracts

**Address More than Just the Hospital**
For integrated healthcare systems with multiple service lines, managed care negotiations can be complex. “While payers often focus on negotiating with the hospital, an integrated system needs to think about the bigger picture,” says Dillon. “For example, increased rates in certain settings can offset decreased rates in others. By looking at the net changes across the organization, you can negotiate more effectively and realize a robust agreement for the entire organization. That includes incorporating other entities, such as ancillary providers and physicians in the negotiations”

**Develop a Payer Profile**
Before sitting down to the negotiating table, organizations should work to create a comprehensive payer profile. “A panoramic view can offer insight into what the payer hopes to gain from the negotiation and what it brings to the table,” says Dillon. “The old adage ‘know your audience’ applies here—the more detailed the payer profile, the better prepared you will be for negotiations.”

There are several ways to generate a complete payer profile:

**Reach out to your contracting counterpart.** “The payer is a good source of information,” says Dillon. “By engaging in a dialogue with your contracting peer on the payer side, you can gather key information, such as what the payer goals are for the negotiation and what new products they plan to promote.”

You can also get a sense of how the payer’s operations are structured and whether it outsources particular functions, such as approvals for imaging services or physical therapy. “Too much outsourcing can lead to fragmented communications—something to avoid if at all possible,” offers Dillon.

**Mine internal claims data.** When preparing to negotiate with an existing payer, review a year or two of claims history. “Investigate how much revenue the payer brings to your organization and how that breaks down by inpatient care, outpatient care, and various service lines, including the NICU, surgery, maternity, and diagnostic imaging,” says Dillon. “If a payer represents 30 percent of reimbursement dollars for the NICU, for example, that is an important piece of information to know because negotiations could impact that service line dramatically.”

**Scrutinize denials.** This effort can reveal recurring negative patterns that the payer should address. “The negotiation is a good time to get any denial issues on the table,” says Dillon. “The more transparent communications are between the provider and payer, the more likely you are to foster a profitable partnership.”

**Survey operational staff.** Reaching out to your revenue cycle staff and asking about current payer issues can also uncover useful information. “We connect with about 70 key operations staff before a payer negotiation and ask about what’s working and what’s not,” says Dillon. “This generates feedback about certain intangibles, such as payer responsiveness, rep knowledge, willingness to problem solve, and so on.” Specific staff to survey could include insurance verification, registration, billing, case management, medical records, and denials management staff.

**Keep Your Options Open**
Although preparation and due diligence lay the groundwork for effective contract negotiations, healthcare organizations must also enter the conversations with the right attitude. By keeping an open mind, payers and providers can reach an agreement in which all parties win.
“Both providers and payers should be prepared to compromise and collaborate to achieve a mutually beneficial arrangement,” says Dillon. “Negotiators must avoid only thinking about their own organization’s needs and take into consideration the objectives of the other side.”

Kathleen B. Vega is a freelance healthcare writer and editor who contributes regularly to HFMA Forums.

Interviewed for this article:

Discussion Starters
Forum members: Please share your insights, questions, and comments about this article. You can use the "inshare" button at the top of this web page or visit the Payment and Reimbursement Forum LinkedIn discussion board.

- What are some of your strategies for managed care negotiations?
- What benefits are you seeing from well-developed managed care contracts?
Patient financial engagement is more challenging than ever – and more critical. With patient responsibility as a percentage of revenue on the rise, providers have seen their billing-related costs and accounts receivable levels increase. If increasing collection yield and reducing costs are a priority for your organization, the metrics outlined in this presentation will provide the framework you need to understand what's working and what's not, in order to guide your overall patient financial engagement initiatives and optimize results.
recruit the most talented healthcare finance professionals. Place your classified ads today.

**PUBLICATIONS**

**Healthcare Cost Containment**

Drive down costs while improving quality in a reform environment.

**JOIN**

**HFMA Is Where You Need to Be**


---

**HFMA's Revenue Cycle Conference**

September 25-27, 2016 // Phoenix, AZ

---

HFMA

**INDUSTRY INITIATIVES**

**EDUCATION**

**PUBLICATIONS**

**MARKETPLACE**

**CONNECT**

**HFMA SITES**
