Kelsey Care Health Plans

# Transforming healthcare with value-based care

# Contents



# Executive summary

In this guide, we'll explore the principles of value-based care (VBC), its potential to improve health outcomes, improve patient experience, and lower costs. We'll also dive into the different approaches to VBC, with a special emphasis on capitated models, illustrating their key features and benefits. Furthermore, we'll examine how Kelsey-Seybold Clinic successfully implements VBC through robust clinic infrastructure, a tight-knit provider network, and care coordination capabilities. By the end of this guide, you'll gain a deeper understanding of VBC's potential and how it can transform the way healthcare is delivered and experienced—especially when executed well, leading to both better care and cost savings for all involved.

# What is value-based care?

Value-based care represents a transformative shift in healthcare business models. Unlike the traditional fee-for-service (FFS) model—where providers and health plans are compensated based on the volume of services rendered—**VBC aligns financial incentives** with the quality of care provided. Here, we define quality (from the patient perspective) as **better outcomes** and an **improved healthcare experience**. Simply put, in a VBC model, providers and health plans **succeed when patients remain healthy**.

| | Fee-for-service | VS | Value-based care |
|---|---|---|---|
| **How is the provider compensated** | Paid by service | | Monthly fee for member or quality bonus |
| **What are the incentives** | Revenue tied to services rather than outcomes | | Revenue tied to patient outcomes |
| **What are the potential downsides** | Risk of redundant/ wasteful care or risk of gaps in care | | Harder to implement and manage |
| **What are the potential upsides** | Easier to implement and manage | | Aligned incentives help optimize care |

# Value-based care aims to eliminate the volume-for-value tradeoff, prioritizing quality over quantity

**Objectives of value-based care**

The ***first objective*** of value-based care is to improve the ***quality*** of the healthcare provided—by enhancing the patient outcome and experience. This is difficult, though, as it requires a holistic understanding of each patient. This is where traditional FFS models struggle, as those models incentivize providers to focus on their "slice" of overall patient health—preventing the coordination of care that's critical to this objective. With VBC models, providers are incentivized to coordinate with one another to avoid gaps in understanding patient health.

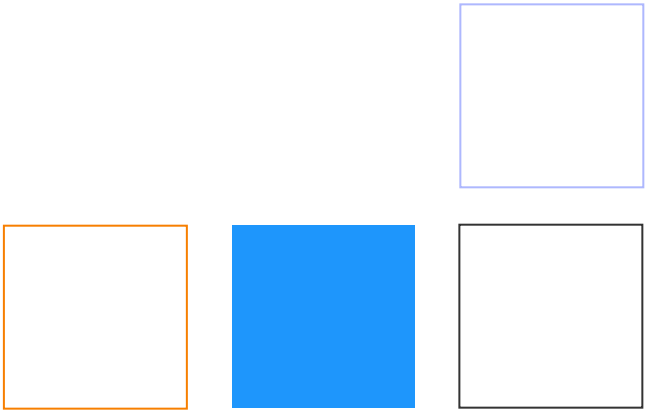
The ***second objective*** is ***cost*** reduction. By incentivizing providers to coordinate patient care, VBC attempts to address key cost drivers in healthcare, including avoidable hospital admissions, ER visits, catastrophic claims, and costly outpatient services. In doing so, this model not only benefits patients but also reduces financial strain on employers and insurers.

Despite its growing adoption, VBC remains misunderstood by many, particularly among consumers and employers managing company health plans. There is often confusion regarding how the model operates, its impact on patients and providers, and how it aligns financial incentives to improve quality. Adding to this complexity, several models of implementing VBC exist, each with their own unique structures.

In general, these models can be grouped into two overarching approaches: **shared savings** and **capitation**. Shared savings models typically begin with FFS interactions and add the back-end incentive of rebates or bonuses based on quality and cost metrics.

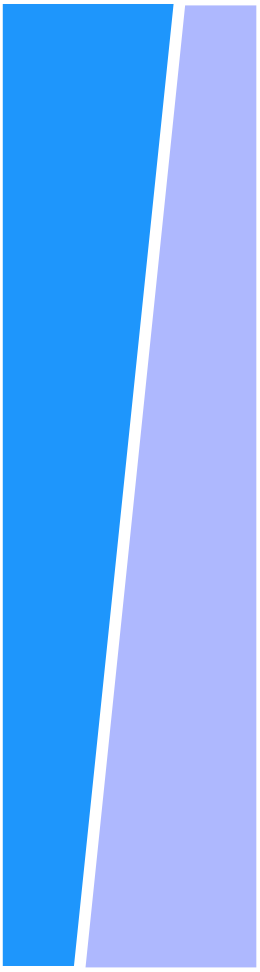
This guide focuses on the other primary variety of VBC called **capitation**—which can be best described as a **"subscription-based"** model. Under this type of model, providers or health plans receive a fixed upfront fee to cover a predefined scope of services for each patient. In return, they are responsible for managing the patient's care within the agreed-upon budget. In this model, the health plan or provider takes on the **risk** that the costs of services they offer might exceed the "subscription fee," incentivizing them to maximize overall patient health. Like other subscription services, there is a sliding scale of what's included in the capitation rate, or the "subscription fee." The table below outlines a few capitated VBC models and their distinct features.

Capitation can be best described as a "subscription-based" model.



## Forms of Capitation (*non-exhaustive*)

| Model | Description | Benefit | Tradeoff |
|---|---|---|---|
| Global Capitation | Entity receives an upfront per-member-per-month (PMPM) capitated payment to cover all medical costs | All risk of health costs are transferred to another party | Transferring all risk of health costs results in a higher capitation fee |
| Professional Capitation | Provider receives an upfront per-member-per-month (PMPM) capitated payment to cover included professional services while excluding costlier services like hospital and outpatient facility fees | Potential to significantly impact the total cost of care (including non-capitated costs like inpatient admissions) through coordination of care across specialties | Does not transfer the risk of high costs associated with institutional coverage (e.g., inpatient and outpatient facility fees) |
| Direct Primary Care | A basic, retail or employer sponsored model where the patient pays a monthly capitation fee for access to a specific primary care provider group along with other basic health services | Simpler, lower cost model that prices basic services into the subscription fee (no cost share at provider visits) | Does not cover costs of specialty or institutional care (e.g., inpatient, ER, etc.) and may experience coordination difficulties with specialty providers |



Though the concept of a subscription-based model may seem straightforward, there are a few common misconceptions regarding it's goals and incentives. The following visual clarifies these misunderstandings and offers insights into the true nature of VBC.

**Common objections to VBC**

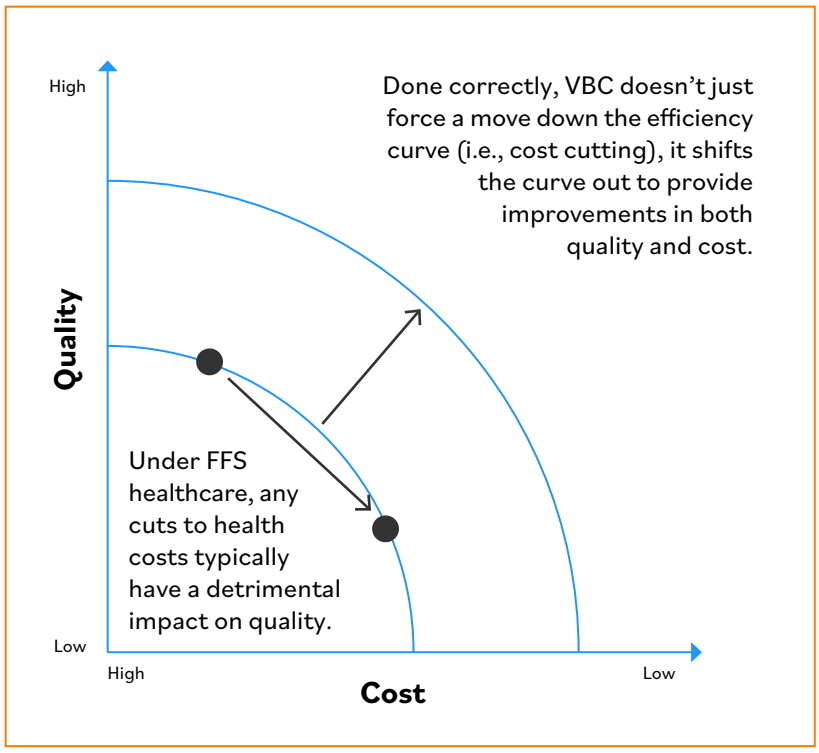
| | |
|---|---|
| VBC is **only** about cutting costs | While "value-based" can sometimes sound like cutting corners to save costs, value-based care is intended to improve both cost and quality simultaneously by delivering the right care, at the right time, and in the right way. |
| VBC **doesn't reduce costs** in the long run | Executed properly, capitated VBC models can achieve significant reductions in total cost of care.[1] |
| VBC incentivizes **rationing/ minimizing** care | Just as duplicative care can lead to waste and increase costs, too little care can lead to significant expenses due to avoidable acute issues. The incentive structure in VBC helps ensure the optimal amount of care to keep members healthy and thriving. |

Executed properly, capitated VBC models can achieve significant reductions in total cost of care.[1]

# Why should you care about VBC?

The healthcare system is at a critical juncture. With escalating costs, inconsistent quality, and an increasing demand for personalized care, providers based primarily on FFS business struggle to answer these trends. In 2024 alone, the average annual premiums for a family with employee-sponsored health coverage saw a 7% increase to $25,572.[2] Under a FFS model, providers are paid for the volume of services delivered, which—despite likely good intentions of providers—creates an incentive for over-treatment or treatment in higher-cost settings, driving up healthcare costs without necessarily improving patient outcomes.

When executed effectively, VBC drives the efficiency curve outward, improving both quality and cost simultaneously. Unlike traditional approaches that push healthcare providers to reduce costs without necessarily improving quality, VBC enables health plans and providers to **improve outcomes**, **improve the healthcare experience** and **lower costs**.[3]




VBC enables health plans and providers to improve outcomes, enhance the healthcare experience and lower costs.

# Improving outcomes

Employers and employees alike have an interest in improving the health outcomes for their teams. For employees, the benefits of staying healthier are self-evident, but for employers, it's important to understand that healthier teams also impact satisfaction and productivity.[4] A 2015 study from JOEM reflects that employers may realize as much as $1,685 in lost productivity costs per employee per year from their well-being.[5]

Value-based care focuses on improving outcomes through three lines of effort: **preventive care**, **management of chronic conditions**, and **reduction** in the frequency and severity of **avoidable acute health problems**.

Unsurprisingly, optimizing upfront preventive care is the best way to reduce incidence of chronic conditions and avoidable acute issues in the first place. In fact, the World Health Organization (WHO) stated previously that as much as 80%[6] of chronic disorders could be eliminated through the implementation of appropriate preventive measures. However, this is not always possible. For those with existing chronic conditions, it's important to avoid the harmful health effects of leaving those conditions unmanaged, which can include costly ER visits and hospitalization.  There are many patients each year that wind up at the ER or the hospital

for reasons that were avoidable if their care was properly coordinated, or they engaged with their providers. For those hospital visits that were unavoidable, it's just as important that post-inpatient care is coordinated to ensure patients get back to their life, rather than suffer unplanned readmissions due to the same issue.

The potential impact value-based care can have on addressing these drivers of outcomes is clear from a systematic review of commercial value-based payment models, which showed that 81% of the studies reviewed reported positive results for outcomes—though not every implementation is guaranteed to achieve these improvements.[7]

## Streamlining the experience

> 89% [of patients] cited 'ease of navigation' as a primary reason for leaving their provider.[8]

Patient experience remains a significant pain point in healthcare. A 2024 research report on healthcare customer experience revealed that 89% of respondents cited 'ease of navigation' as a primary reason for leaving their healthcare provider, and access was a top factor in selecting new providers for 70% of respondents.[8] It's clear that it's not just "bedside manner" that influences a customer's experience. The ability to interact with their provider when needed, and the assurance of having and understanding the next step, is critical to patient engagement. Frustration in these areas can often lead to patients disengaging with their healthcare, which, in turn, has second-order effects on outcomes and costs.

In VBC models, providers and administrators are incentivized to work together to map out patient care and support this through front desk and scheduling functions. In addition, VBC models are well positioned to reduce wasteful actions, such as duplicate testing, that cause patients to ask, "Why am I doing this again?"

In simpler terms, **removing the guesswork and helping patients navigate their care increases their engagement** with it. This increased engagement, in turn, helps patients achieve the improved outcomes mentioned above.

# Lowering cost of care

KelseyCare capitated plans often see reductions of 20% or more in the total cost of care.[3]

Because VBC models incentivize providers to improve the overall patient experience, they often see a corresponding impact on the cost of care for both employers and employees. This is because they address key cost drivers for health plans, such as:

- Avoidable ER visits
- Inpatient admissions
- Outpatient utilization
- Catastrophic claimants

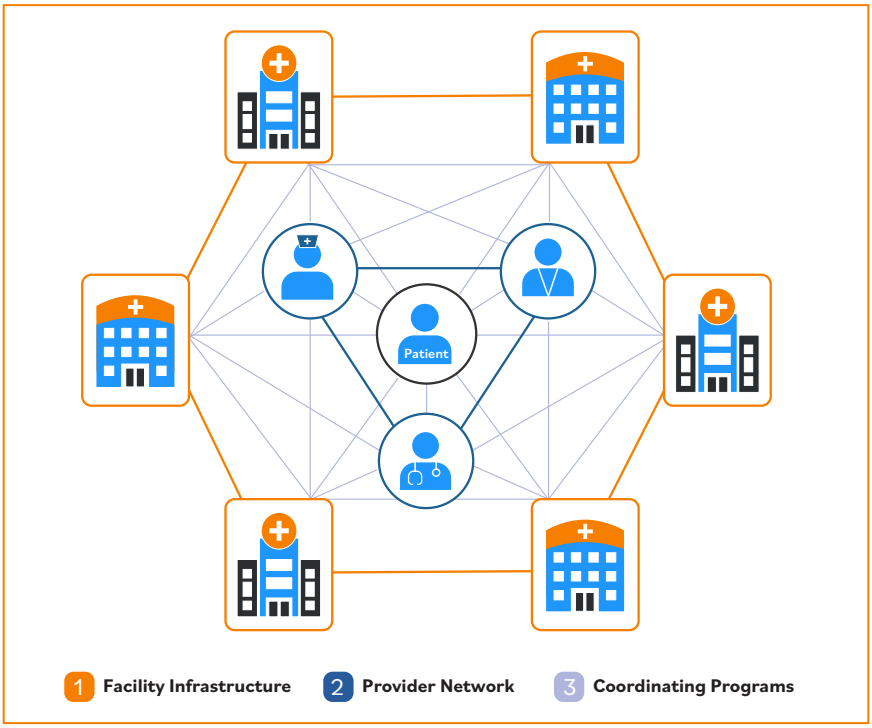
Because of reductions in these metrics, KelseyCare capitated plans often see reductions of 20% or more in the total cost of care.[3] These savings can then be shared with employees through reduced premiums or cost shares, creating a virtuous cycle that helps drive employees toward a health plan that improves their health.

# Why hasn't VBC become the standard?

While value-based care holds significant potential, scaling it across the healthcare industry remains a challenge for one primary reason: **It's difficult to implement**. Though the capitated VBC model is a straightforward concept (subscription fee), it's successful implementation demands careful design and strategic execution. If executed poorly, even the best-intentioned VBC programs can lead to high medical losses and fail to deliver the promised improvements in care and cost savings.

Kelsey-Seybold Clinic exemplifies a successful approach to executing VBC by aligning the interests of patients, providers, and payers—creating a system that focuses on improving quality while controlling costs. Below, we explore three key components of Kelsey-Seybold's approach:

> Scaling value-based care across the healthcare industry remains a challenge because it's difficult to implement.



# 1 Facility infrastructure: A hub of coordinated care

The facility infrastructure at Kelsey-Seybold is designed to support high-quality, coordinated care. The multispecialty clinics allow primary care providers (PCPs) and specialists to work in the same location. This promotes coordination and improves convenience for patients who need to access multiple providers for care.

The onsite pharmacies and laboratories further enhance this model by providing an all-in-one solution that streamlines access to prescriptions and tests, reducing logistical barriers and simultaneously enhancing patient experiences.

Additionally, Kelsey-Seybold's integration of specialized services—like Cancer Centers, Ambulatory Surgery Centers (ASCs), and Rapid Treatment Centers (RTCs)—into their clinics ensures patients receive comprehensive care without being referred to external facilities.

# 2 Provider network: Integrating care across specialties

At the core of Kelsey-Seybold's VBC model is its integrated network of providers, designed to foster seamless collaboration across specialties. Unlike traditional healthcare systems, where primary care doctors and specialists may operate independently or in loosely contracted arrangements, Kelsey-Seybold directly employs the vast majority of providers within its clinics.

This reduces the barriers to coordination that are often inherent in traditional HMO networks, where the PCP operates separately from the specialists they refer to. Providers within the system work under a shared financial model that incentivizes collaboration and care coordination. By eliminating financial barriers , Kelsey-Seybold's integrated network encourages providers to work together to improve the overall health of the member-patient.

While the structural design of the provider network is critical to encouraging coordination, it's equally important to foster a culture that supports coordinated care. Building this culture requires deliberate effort—especially in today's environment, where only 2 in 10 employees feel connected to their organization's culture.[9]

Dr. Kelsey founded the clinic over 75 years ago on the Mayo Clinic model of care, which emphasizes multi-specialty integration and coordinated care. That philosophy continues to guide the Kelsey-Seybold Clinic today, as it actively reinforces a culture of collaboration across its providers and staff.

# 3 Care coordination: The structure that supports us

While facilities and providers incentives are essential to delivering value-based care, they must be supported by practices, processes, and technologies to enable effective coordination. Kelsey-Seybold uses many enablers that ensure the full care team has a common understanding of each patient at all times. Some of these practices, programs, or tools may be visible to the patient, while others happen behind the scenes. Though some of these enablers may seem minor individually, together they amount to more than the sum of their parts.

Below are a few examples:

- **Hospitalist program:** Kelsey-Seybold Hospitalists are a group of physicians embedded in hospitals across Greater Houston. When a Kelsey-Seybold patient is hospitalized, providers in this program act as a liaison, representing the patient to hospital providers. This can include aiding the admission process, providing patient medical context, communicating with the patient's PCP or specialists back at Kelsey-Seybold, and facilitating a smooth discharge with clear next steps. All of this helps to prevent costly errors in the hospital setting and reduce unplanned readmission rates.
- **Disease state management:** Patients with chronic conditions often live busy lives. The Disease State Management program provides outreach to patients, helping remind them to complete condition-specific testing, labs, and preventive visits at appropriate intervals.
- **E-consults:** E-consults are offered as part of Kelsey-Seybold's virtual health platform for providers. An e-consult is a provider-initiated virtual consult from PCP to specialist or specialist to specialist. This consult allows for quick answers and, in many cases, avoids the need for a follow-up specialty appointment, saving time and reducing healthcare costs for both patients and employers.

# Conclusion

Value-based care aligns financial incentives with patient outcomes, prioritizing the right care, at the right time and in the right way. While implementing VBC on a broad scale presents challenges, models like Kelsey-Seybold Clinic represent long-standing demonstrations of how to successfully execute its potential to benefit patients and employers.

By integrating state-of-the-art clinic infrastructure, a tight-knit provider network, and robust care coordination programs, Kelsey-Seybold offers a comprehensive approach to VBC that improves patient outcomes, reduces costs, and streamlines the healthcare experience. For healthcare systems and employers looking to reduce costs while improving the quality of care, the Kelsey-Seybold model offers valuable insights into the successful implementation of value-based care.

As the healthcare industry evolves, we believe value-based care is key to transforming patient care and establishing a sustainable, cost-effective healthcare system for the future.

Kelsey-Seybold offers a comprehensive approach to VBC that improves patient outcomes, reduces costs, and streamlines the healthcare experience.

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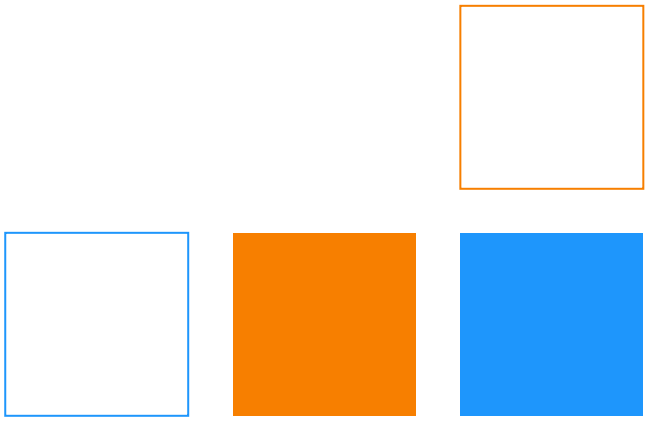

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