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Aetna and Inova unveil joint venture for improved, cost-effective health care

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Health insurers and hospitals often operate as rivals with clashing economic interests, but Northern Virginia's Inova Health System is teaming with Aetna to create an unusual health-care plan in which both sides will share costs and profit.

The partnership, one of the first of its kind in the nation, will provide financial incentives to encourage doctors to use less-costly care, such as prevention, but also promises to measure and reward quality.

And when companies pay premiums to enroll employees in the plan, they will get a rebate if the cost of health care comes in lower than expected.

The joint venture suggests that industries aren't waiting on the Supreme Court's pending decision on the health-care law, which could come as soon as Monday, to pursue new collaborations and big changes to their business models.

It also speaks to a wave of consolidation sweeping through the health-care industry. Under the financial pressures of employers' growing health-care costs, doctors, hospitals and insurance carriers have looked to become more efficient — and have grown more integrated in the process.

"It really picked up last year," said Chas Roades, chief research officer at the Advisory Board Co., a consulting firm. "If you're trying to do things like coordinate care more effectively and reduce unnecessary admissions, it's helpful for you to have control over beneficiary dollars. Then you can change the incentives for beneficiaries, doctors and other facilities."

But making that vision a reality is a challenging task for two companies accustomed to working at cross-purposes. Hospitals, paid by procedure, have an economic reason to provide the most care. Insurers, looking to keep premiums down, want to limit the amounts hospitals can charge.

A partnership between the two "can end up in a situation that looks something like a bad marriage," said Stephen Parente, a University of Minnesota health-finance professor who studies the hospital sector. "If the money isn't handled in an adult way, and there's not good accountability, you end up with a lot of infighting and finger-pointing."

Through Innovation Health Plans, Inova and Aetna plan to use the existing hospital system alongside a group of affiliated doctors as the network of providers that subscribers can see. Using electronic medical records, they will be able to track how well each doctor hits quality metrics — and provide more personalized medicine.

“We really think that creating a network of partners, all of whom agree to treat their patients with the best-known practice — that can materially improve the outcomes and reduce the costs,” said Inova Health System’s chief executive, Knox Singleton. “We think this selective focus can get us the best care around.”

Consumers want choices

Similar limited networks became popular in the 1990s with the rise of health-maintenance organizations, but they ultimately saw a backlash from consumers who saw their choice of providers shrink. Singleton contends that if Innovation Health Plans can provide more personalized medicine from a small network of doctors with expansive information about each patient, it can be more successful.

“We want to be like Amazon,” he said. “They look collectively at my habits and tell me which books I’m going to buy. We want to build a delivery system that can look at your medical record and understand what risks you have.”

Not everyone agrees. Bob Kocher, a partner at the venture capital firm Venrock who focuses on health industries and has a medical degree, said patients remain leery of health plans that limit which doctors they can see.

“The market, so far, has yet to embrace these types of plans,” Kocher said. “Having a limited network would mean many patients having to switch doctors, especially specialty doctors. The Inova system isn’t complete enough now to become a totally viable plan.”

Incentives for doctors

A limited network, however, is one key way Innovation Health Plans would try to keep costs down. Participating doctors would have incentives to provide better quality care with their salary partially tethered to their compliance with standards for best practice, patient reviews and their willingness to keep longer hours in the evenings and on weekends.

Like traditional health-insurance plans, employers will pay Innovation Health Plans a premium for each employee they enroll. But it also does something new: If the cost of health care comes in lower than that amount, part of the difference will be refunded to the company or applied to future health-care costs.

That is meant to lure employers who have faced growing health-care costs in recent years. Over the past decade, the average premium for a family with employer-sponsored insurance has grown 160 percent, from $5,791 in 1999 to $15,073 in 2011.

“There will be a profit center for the health plan, for the delivery network and for each of the individual participants,” Singleton said. “If we get our health-care costs down, there’s a financial reward for everyone involved.”

Since 2005, Aetna has been looking for ways to reshape its business as it noticed segments of the insurance market eroding under the pressures of health-care costs. The company has about 570,000 subscribers in

Virginia, a relatively small number compared with such competitors as UnitedHealth and CareFirst BlueCross BlueShield.

“We did a deep dive into where the individual and small group insurance markets were headed,” Aetna Chief Executive Mark Bertolini said. “We saw an individual market in inexorable decline and, on the small-group side, fewer were offering benefits and costs were rising. We knew we had to change something.”

The health carrier has run 57 pilot programs to test new payment models that would lead to better health outcomes and make care less expensive for consumers. It has been impressed with the results: When the health-insurance company paid for case managers to work with 20,000 diabetes patients in Pennsylvania, it saw their acute sick days in the hospital drop by 31 percent.

Inova motivated to change

Inova is the dominant health-care system in Northern Virginia, seeing more than 1 million patients in 2010 at its five hospitals in Alexandria, Falls Church and Fairfax County. It has also spent five years attempting to restructure its business in response to a market that has increasingly paid doctors not for the quantity of care they provide, but for the quality.

“Health-care reform came along, and that signaled a serious move from fee-for-service to some form of bundled payments for a period of care for patients,” Singleton said. “For the first time, there was an economic reward to improve health. The future belongs to folks who can improve quality, and we want to be part of that.”

Turning that vision into reality could test two companies that are unused to working as close collaborators.

“The cost part is probably the quiet but very vital Achilles’ heel,” Parente, of the University of Minnesota, said. “To make this work, the cost accounting has to be really good so that when something is going wrong, it can easily be identified and readjusted. If they can’t do that, then there’s going to be a lot of arguing about which medical unit is spending wrong.”