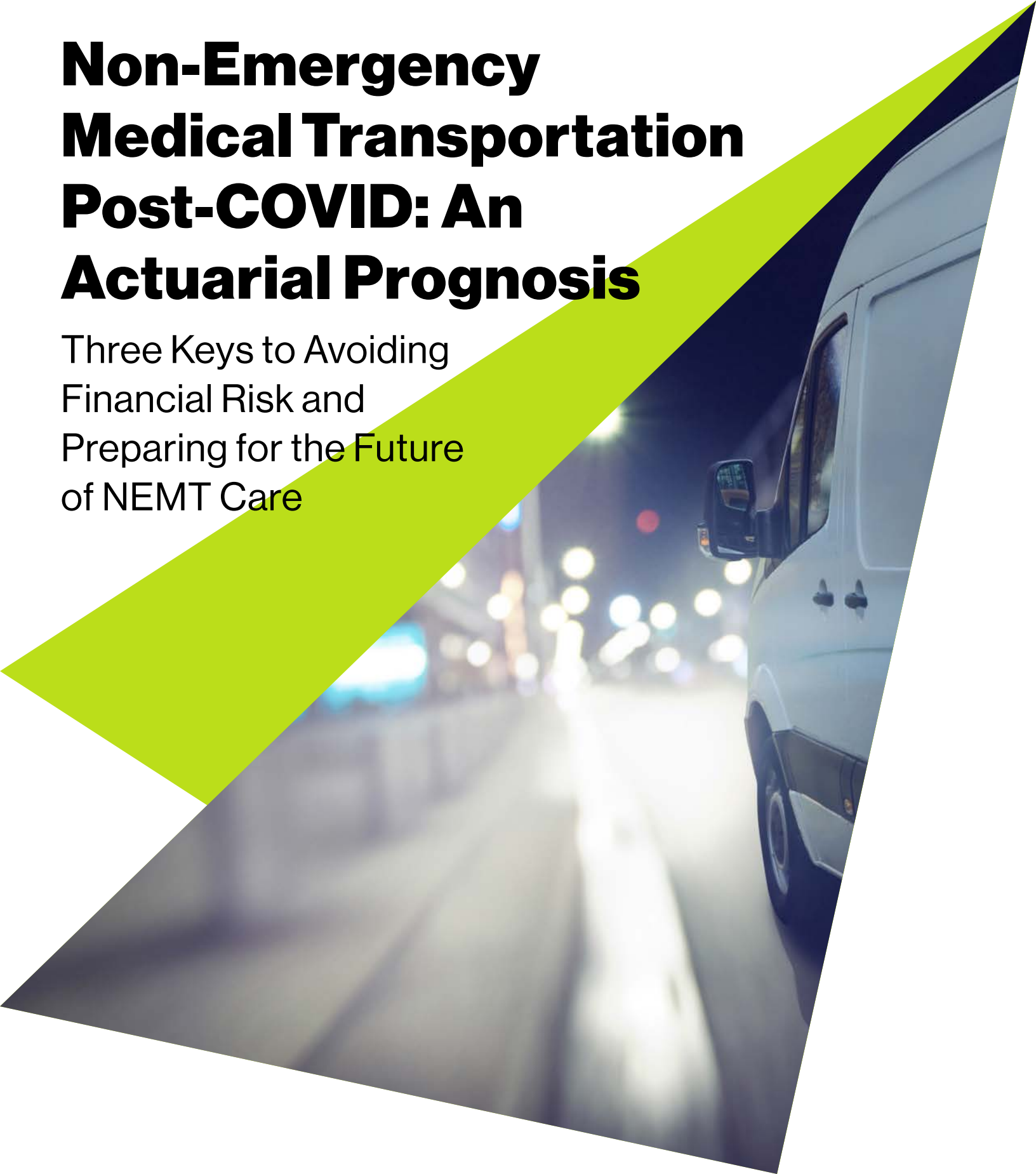




Non-Emergency Medical Transportation Post-COVID: An Actuarial Prognosis

Three Keys to Avoiding
Financial Risk and
Preparing for the Future
of NEMT Care



The proverbial shock that COVID-19 has had on the healthcare industry, and society as a whole, has rendered inertia and historical experience to be a less reliable indicator for projecting future healthcare costs.

The actuarial community largely concedes that inertia is one of the most accurate predictors of consumer choice in healthcare. That is, the American healthcare consumer's previous behavior and utilization will not change significantly from year to year unless a major life event occurs (e.g., family changes, major medical diagnosis, unemployment). The proverbial shock that the COVID-19 pandemic has had on the healthcare industry, and society as a whole— including the political climate— has rendered inertia and historical experience to be a less reliable indicator for projecting future healthcare costs. This is especially true for Non-Emergency Medical Transportation (NEMT).

The pandemic disrupted NEMT consumers' ability and desire to schedule trips to hospitals, as shelter-in-place orders and fear of further spreading COVID-19 have kept most NEMT consumers at home. According to earnings calls from Logisticare, one of the largest brokers in the NEMT industry, ridership is down, but profits are up due to large capitated payment contracts.¹ Unsurprisingly, partners of NEMT brokers such as Uber and Lyft have also experienced significant drops in ridership. According to Uber's Q2 2020 earnings reports, trip volume was down 56% over Q2 2019 levels.²

As actuaries project costs for this industry, a major question to consider is whether or how much the "new norm" will reflect the pre-2020 experience.

Historical and Projected Cost Misalignment

In order to understand the importance of consumer choice in the NEMT space, one must first understand how brokers and NEMT providers are reimbursed via the rate development process. NEMT programs, which come in many shapes and sizes, vary widely by payer, program, and state. For the purpose of this analysis we focused our attention on full-risk, capitated payment arrangements, specifically within the Medicaid environment.

The process of developing capitated payment rates (paid on a per member per month basis) is one that is tremendously comprehensive and detailed in order to ensure actuarial soundness. From a very high level, the goal is to capture baseline historical experience and adjust for anticipated changes between the base period and the rating period (when rates are paid out to brokers by the governing entity). Therefore, broker profitability as well as appropriation and distribution of taxpayer dollars are fully dependent on accurate rate setting.

COVID-19, however, complicates this process because it is highly likely that none of the historical experience is sufficiently representative of expectations for the future, especially with accelerated advancements in telehealth, as well as growing competition in commercial entities, such as Uber and Lyft's health segments.

1. Providence Service Corp., "The Providence Service Corporation Reports Second Quarter 2020 Financial Results," <https://www.logisticare.com/news/the-providence-service-corporation-reports-second-quarter-2020-financial-results>.
2. Uber Technologies, Inc., "Uber Announces Results for Second Quarter 2020," <https://investor.uber.com/news-events/news/press-release-details/2020/Uber-Announces-Results-for-Second-Quarter-2020/default.aspx>.



Legislative Hurdles and Emergency Waivers

Key indicators for NEMT utilization trends are strongly tied to legislative changes, such as 1135 waivers and the Coronavirus Aid, Relief and Economic Security (CARES) Act. Specific to COVID-19, all 50 states and the District of Columbia submitted 1135 waivers, many of which include a section for NEMT services to allow more adequately equipped entities to participate in state NEMT programs. Although most emergency legislation will expire at the conclusion of the pandemic, 1135 waivers could potentially serve as the momentum for change to NEMT market competition, as well as open the door for state governments to consider long-term programmatic changes, either in the form of directly partnering with ride-share programs or allowing NEMT brokers to do so (which was becoming increasingly common even before the pandemic).

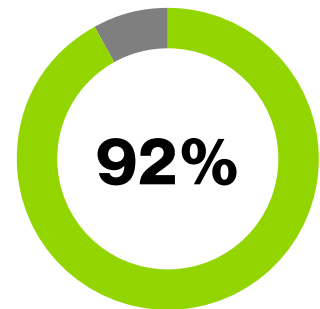
States are also increasing access to telehealth via emergency 1135 waiver declarations. Medi-Cal, for example, will reimburse telehealth services at the same rate as in-person visits.³ This reimbursement structure provides no incentive for providers to promote in-person visits over virtual/telephonic communication modalities. Additionally, although it was not intended to affect NEMT directly, the CARES Act also expands telehealth during COVID-19 and allows doctors to provide telehealth to new patients. While increased utilization will likely subside after the emergency legislation expires, it's unlikely to go back to pre-COVID levels.

The Increasing Utilization of Telehealth

In sharp contrast with recent NEMT utilization patterns, telehealth is experiencing major growth in utilization as a result of the COVID-19 pandemic. According to a Guidehouse Center for Healthcare Insights analysis, 92% of healthcare providers have increased their use of telehealth, and the telehealth industry in general has received enormous capital investments.^{4,5}

An Annals of Internal Medicine study found approximately 44.7% of Veterans Administration hospital services are telehealth-related post-COVID-19 and have stabilized at that level in weeks 11-20 of 2020.⁶ This mix of services represents a 139% increase in telephonic visits and a 72.6% increase in video visits, with a notable decrease in outpatient services of 55.5%.⁷ Conservatively assuming the total volume of in-person services returns to pre-pandemic levels and the volume of telehealth services remains stable, telehealth would still represent approximately a quarter of all services provided by the VA.

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Most healthcare providers have increased their use of telehealth



3. Bradley P. Gilbert, MD, MPP, "Medi-Cal Payment for Telehealth and Virtual/Telephonic Communications Relative to the 2019–Novel Coronavirus (COVID-19)," State of California — Health and Human Services Agency, p. 7. https://www.dhcs.ca.gov/Documents/COVID-19/Telehealth_Other_Virtual_Telephonic_Communications_V4.0.pdf.

4. Guidehouse Consulting, Inc., "POST-COVID-19 OPERATIONAL & FINANCIAL PROVIDER TRENDS," https://guidehouse.com/-/media/www/site/insights/healthcare/2020/gh-hfma-rev-cycle-survey.pdf?utm_source=email&utm_medium=pdf_download&utm_campaign=HFMA_GH_Survey.

5. Heather Landi, "Grand Rounds lands \$175M cash infusion backed by The Carlyle Group," Fierce Healthcare, <https://www.fiercehealthcare.com/tech/grand-rounds-lands-175m-cash-infusion-backed-by-carlyle-group>.

6. Aaron Baum et al, "Reduced In-Person and Increased Telehealth Outpatient Visits During the COVID-19 Pandemic," Annals of Internal Medicine, August 10, 2020, <https://www.acpjournals.org/doi/10.7326/M20-3026>.

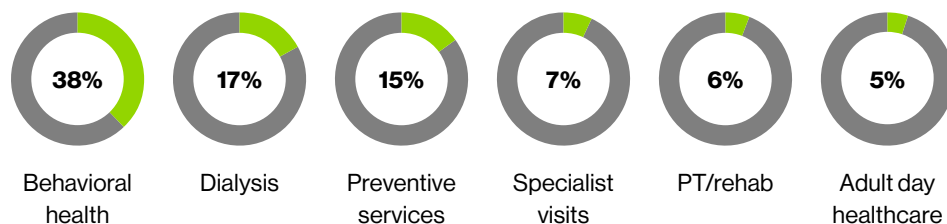
7. See Footnote 6.

The underlying question: How will virtual visits ultimately stabilize between 1% and 25% of outpatient, home health, and professional healthcare services once the COVID-19 pandemic finally subsides?



This substantial increase in telehealth utilization and investment is a leading indicator of significant change in the way healthcare consumers behave and will likely reshape the industry landscape. If early indicators are truly representative of the growth we can expect in US telehealth in the coming years, it will seriously disrupt the entire healthcare industry; especially NEMT.

NEMT has historically improved access to care for beneficiaries who use a wide variety of medical services. A study released by the Kaiser Family Foundation (KFF) examined the medical services members were going to access via NEMT⁸ in 2015. Among them:



Moreover, according to U.S. Government Accountability Office (GAO) reports, there is likely higher utilization of behavioral health services via NEMT in recent years as a result of Medicaid expansion.⁹ Assuming that nothing else has changed materially between KFF's study and the GAO report regarding NEMT in recent years, there is significant crossover in the telehealth target market and NEMT consumerism.

If the telehealth industry were to virtualize 25% of outpatient and office visits, the NEMT industry would begin to see serious cuts in utilization. Assuming, for the sake of argument, that 10% of office visits and outpatient claims become virtualized in the near future, it would be likely that overall utilization of NEMT would continue to decrease over time. Although it's unlikely that virtual office visits as a percentage of total visits will hold stable at 25%, as suggested by the Annals of Internal Medicine study, the healthcare economic shock of the pandemic has likely changed behavioral norms to the point that a return to less than 1% overall utilization is also unlikely.

The underlying question will be how virtual visits will ultimately stabilize between 1% and 25% of outpatient, home health, and professional healthcare services once the COVID-19 pandemic finally subsides.

Fundamental Change is Required

Although the pandemic has resulted in inflated short-term profits across NEMT brokers' earnings, the tectonic plates of the healthcare world are still shifting and brokers as well as states will need to adapt.¹⁰ The stream of consumer inertia and trends has been effectively broken, allowing for other segments to potentially grow in place of NEMT (in part, facilitated by emergency waivers).

Bottom line

In order for NEMT brokers to continue to be competitive and profitable, there will need to be a fundamental shift in industry practices going forward.

8. Kaiser Family Foundation, "Medicaid Non-Emergency Medical Transportation: Overview and Key Issues in Medicaid Expansion Waivers," <https://www.kff.org/medicaid/issue-brief/medicaid-non-emergency-medical-transportation-overview-and-key-issues-in-medicicaid-expansion-waivers/>.

9. GAO-15-449 and GAO-16-221. <https://www.gao.gov/assets/680/674674.pdf>

10. See Footnote 1.

Recognizing this need for fundamental change, NEMT brokers in some states are already partnering with Uber and Lyft health segments, while others are administering prescription/grocery/supply pickup services (e.g., Uber Eats). Priority has also been given to improving applications and platforms for requesting rides as a means of improving customer satisfaction. However, the estimated costs of adapting to necessary change is extremely speculative, which implies that capitated program financial risk is at an all-time high—and additional risk is created for both the NEMT brokers and providers, as well as the public entities funding the NEMT programs.

Three Keys to Avoiding Financial Risk and Preparing for the Future of NEMT Care

Generally, brokers and payers of NEMT services are subject to underwriting risk inherent in capitated arrangements. Underwriting risk in the context of NEMT for brokers is the potential for the medical needs of the covered population to be more costly than the population covered during the base period, with the converse applicable to payers.

For example, there is potential that the world will go back to the “old normal,” and a period of high medical/NEMT utilization will occur as a result of pent-up demand. This phenomenon may cause utilization to be higher than the historical basis upon which the rates were developed and could potentially diminish profits for brokers. Additionally, brokers will need to be careful to work with payers of their capitated contracts to accurately incorporate the projected costs of any approved programmatic changes.

1. Risk Mitigation

In times of financial risk, the importance of a risk mitigation strategy is paramount. Capitated public NEMT programs are no exception to this principle. Full-risk (capitated) contracts can leave both the payer and provider exposed to financial risk due to the uncertainty of setting appropriate capitation rates. Although capitation contracts may result in higher levels of risk due to pandemic-driven uncertainty, capitation is still the preferred reimbursement method as it naturally incentivizes the containment of medical costs. Full-scale rollbacks of capitation contracts to fee-for-service style arrangements would drive significant disruption and would likely remove efficiencies otherwise achieved by full-risk capitation in the long run.

2. Tailoring Risk Corridors

Implementing a risk corridor is an appropriate and responsible risk mitigation strategy when facing temporary extenuating circumstances that threaten financial stability or budgetary uncertainty. Risk corridors are a mechanism for sharing financial risk between the NEMT broker and the state or the insurer, usually based on the broker's loss ratio, and normally last for a year at a time. It is important to develop appropriate risk corridors by tailoring them to the specific features of the NEMT program. State health and transportation departments will need to consider consulting an actuary about incorporating risk corridors into their contracts with NEMT brokers as a means of avoiding taxpayer funding waste.

3. Alternative Program Structures and Payments

Review alternative program structures and payment mechanisms that account for material changes in demand for services. These may include carving out specific populations from the program to mitigate risk for more volatile populations or the impact of moving toward or away from capitated arrangements. Actuaries should also quantify the impact of partnering with transportation network companies or implementing new benefits into the program to address pandemic-driven concerns.

Conclusion

The actuarial perspective is an important asset to leverage when facing uncertain financial outcomes, especially for the healthcare industry during the pandemic, as these insights can help to structure and optimize risk mitigation strategies for programs facing capitation arrangement-related risks.

Although COVID-19 is a major challenge to NEMT and healthcare in general, the industry is quickly adapting as a matter of necessity. All stakeholders of NEMT will need to consider corresponding shifts in healthcare utilization as a result of adaptation to the new norms in a post-COVID world, especially programmatic changes adopted by brokers, legislative influences, and the shifts in utilization to telehealth services. Proper planning and strategizing with actuaries to implement appropriate risk mitigation strategies, will help NEMT programs avoid financial risk and position themselves for success in the future of NEMT care.

All stakeholders of NEMT will need to consider corresponding shifts in healthcare utilization as a result of adaptation to the new norms in a post-COVID world.



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