

SpectraMEDIX

Uncovering the Hidden Risk Mirage: How One Health Plan Restored Value-Based Contract Profitability

At a Glance

Outdated and siloed risk-normalization practices had inflated budget baselines, misaligned incentives, and masked true performance—causing the plan to overpay for perceived savings



INFLATED RISK-ADJUSTED BUDGETS



FLAWED RISK NORMALIZATION



DELAYED SETTLEMENTS

CHALLENGES



A Regional Health Plan operated several **shared savings and shared risk value-based contracts** (VBCs) with provider groups across its book of business. The provider community consistently demonstrated positive outcomes under these arrangements—achieving shared savings and maintaining lower per-member per-month (PMPM) costs compared to the broader population and expected budget benchmarks.

However, internal financial reviews revealed a troubling disconnect: while providers were earning performance bonuses, **the plan's VBC program was losing tens of millions of dollars annually** after accounting for shared savings and capitation payments.

This raised a critical question—how could the plan be losing money when all indicators pointed to provider success?

ROOT CAUSE ANALYSIS



The Health Plan's Value-Based Contract (VBC) leadership suspected that increases in risk adjustment coding might be inflating results, making performance appear better than it actually was. All providers in VBCs were showing rising risk scores, reinforcing that belief.

However, **after engaging SpectraMedix and its Value-Based Contract Analytics Platform** to perform a Strategic Opportunity Analysis of the plan's VBC program's financial performance as well as its fee-for-service business **SpectraMedix uncovered a deeper, systemic issue.**



Value-based programs often rely on risk and budget methodologies designed in prior years and modified overtime, often by siloed teams lacking the tools or shared visibility to be in sync. Overtime, this can lead to small hard-to-catch misalignments which are often a quiet problem until losses surface.



Through the use of its VBC Analytics Platform and its Actuarial Services, SpectraMedix uncovered the following:

1

Inflation in Risk-Adjusted Budgets

- SpectraMedix’s analysis revealed that **risk scores were rising across the entire population**, not just among those in VBCs.
- Because budgets were risk-adjusted using these elevated scores, **every provider group effectively received an artificial increase to their budget targets.**

This had the same effect as “raising the ceiling” on expected member spend — **shared savings payments were being issued before providers in VBCs had actually achieved net savings** relative to the rest of the book of business.

2

Flawed Risk Normalization Methodology

- The Health Plan’s **risk normalization process had been normalizing to an inflated baseline.**



Even minor risk inflation (e.g., 1.0 → 1.1) can create ~\$100 M in overstated claims.

For example, if total claims equaled \$1B and were normalized to an average risk score of 1.1, the system effectively assumed \$1.1B in expected claims, allowing for \$100 million in extra spend. Furthermore, typical contract settlements reports are produced at least 3+ months after the year ends due to run-out, making this difficult to identify

SpectraMedix identified this misalignment between risk normalization and overall population risk, which was driving the budget inflation.

3

Corrective Action and Methodology Refinement

- Armed with these insights, the Health Plan **re-examined and updated its risk normalization methodology** for the next year’s contracts.
- The revised approach **recalibrated risk normalization relative to the entire population** for the appropriate line of business, **ensuring that provider budgets aligned to actual, not inflated, risk exposure.**

RESULTS



SpectraMedix’s evaluation within its VBC Financial Evaluation and Risk Analytics provided the Health Plan with:

- **Accurate benchmarking of risk-adjusted costs** versus the total book of business.
- **Budget variance tracking** that isolated where performance was driven by coding intensity rather than true utilization efficiency.
- **Year-over-year trend analysis** to validate whether program improvements reflected genuine savings.

Identification of top-performing providers to push towards more aggressive value-based contracts. As a result, the Health Plan was able to **revise its value-based contracts to be fair and reward actual shared savings and shifted from a net loss to a net savings position — confirming the value of recalibrating the risk normalization methodology** (see summary in Table 1 below).

Table 1: Before and After Risk Normalization Correct Summary

Metric	Before Correction	After Correction
VBC Program Financial Performance	Tens of millions in annual losses	Positive shared savings and millions in net gains
Risk-Adjusted Budget Accuracy	Inflated relative to true risk	Normalized to overall population
Shared Savings Payments	Overpaid relative to benchmark	Aligned with actual program performance
Plan–Provider Alignment	Misaligned incentives	Balanced financial and performance goals

SPECTRAMEDIX ROLE



SpectraMedix’s evaluation within its VBC Financial Evaluation and Risk Analytics provided the Health Plan with:

- Identified critical **design flaws that distort financial outcomes in their legacy risk normalization logic.**
- Validate provider performance **using true, population-normalized benchmarks.**
- Implement **corrective adjustments that realigned incentives and restored profitability.**

- Deliver a VBC Analytics Platform that delivered frequent performance updates to providers showing their performance against their value-based contract and what they need to focus on to sustain top performance. The top performing providers were the strongest adopters of this Platform and outperformed the rest by a significant margin.

This analysis—rooted in actuarial-grade risk evaluation and performed using SpectraMedix’s **VBC Financial Evaluation** and **Trend Reporting** tools—enabled the plan to develop fairer value-based contracts.

Key Insight

SpectraMedix-enabled provider networks consistently delivered stronger savings and higher performance scores than peer programs operating under PCMH or FFS models.

IMPACT SUMMARY



The Health Plan’s experience illustrates a broader industry challenge where one value lever can go awry and undermine the plan’s financial viability. Despite perceived VBC successes, **risk normalization and benchmarking design flaws can erode the financial integrity of value-based care programs**—even when provider performance appears strong. **The lack of strong analytics and expertise to assess these factors can be crippling because even with strong actuarial teams, most plans lack the VBC-specific analytic tools to stay on top of this.**

SpectraMedix helps plans close that gap by providing:

- ✔ **Expert Resources to evaluate both current and prospective contracts for financial fairness to both health plans and health systems**
- ✔ **Transparent, actuarially aligned analytics**
- ✔ **Risk and trend evaluation tools**
- ✔ **Financial evaluation systems that ensure shared savings reflect true value creation.**

Why Partner with SpectraMedix?

SpectraMedix helps health plans and providers strengthen the financial integrity of their value-based programs. By combining actuarial expertise with transparent analytics, we enable organizations to identify misaligned methodologies, validate true performance, and ensure budgets and benchmarks reflect real risk. Our collaborative approach helps partners build fair, sustainable value-based contracts grounded in accuracy and accountability.

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