Why Should We Transform the Payment System?

MHDC
April 12, 2012

March 29, 2012
Because you get what you pay for.....and we’re not getting what we want
Today: Some Thoughts on the “How”

- Putting payment reform in perspective
- Thinking clearly about payment reform
- Creating a history of the future: the FMEA
#1: VALUE = QUALITY / COST

#2: INCENTIVES DRIVE BEHAVIOR

#2: PAYMENT SHOULD MOVE FROM VOLUME-BASED TO VALUE-BASED
Payment Reform One Piece of Delivery System Reform

Key Evolutionary Steps

Value of Health Expenditures

High

Low

2000

2020

Prevention

Performance Comparisons for Hospitals, MDs & Tx

Market Sensitivity to Hospital/MD Quality & Cost

Clinical Re-Engineering by MDs, Hospitals & Suppliers

Enabled by IT

Higher Quality

Lower Cost

Healthier Population

Transparency

Incentives and Rewards
Is This Just Another Fad?

- It’s a federal budget, not a healthcare issue
- Medicare is leading
- Both sides of the aisle support the approach
- The momentum dwarfs the fate of PACA
- The private sector is following
Thinking Clearly About Payment Reform
• What are we trying to accomplish?

• Does the Emperor Have New Clothes?

• “Ready-Aim-Fire”
Over-riding Goals

• Pay for evidence-based care
• In a way that maximizes affordability
• Accounts for patient experience of care
• Can be administered & accomplished politically and realistically
• And which enables innovation
Payment Paradigm Shift – Shift Happens

- **Rewards / penalties: today’s chassis**
  - IT: meaningful use
  - Hospitals: value-based payment
    - Value-Based Processes and Outcomes, re-admissions, HACs
  - Physicians: pay for reporting and professional credentialing
  - Health Plans: MA quality / star payments

- **CMMI: Innovation Center: new chassis**
  - Bundled Payments
  - Accountable Care Organizations
  - Medical Homes
Alternatives to FFS Require New Relationships

Continuum of Payment Bundling

- Risk-adjusted global fee
- Bundled acute case rates
- Global primary care fees
- Blended FFS and medical home fees

Degree of challenge and risk

Continuum of Organization

Patient-centered medical home  Specialty-specific integration  Integrated ambulatory and inpatient systems

Continuum of Quality

Bonuses and Shared Savings

- Quality bonuses for patient outcomes; large % of shared savings, some shared risk
- Quality bonuses for care co-ordination and intermediate outcome measures; moderate % of shared savings
- Quality bonuses for preventive care; management of chronic conditions; small % of shared savings

Degree of challenge and risk
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<td>Premium Hospital Quality</td>
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<td>Medicare Heart Bypass Demonstration</td>
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THE FMEA: A HISTORY OF THE FUTURE
The Emily Litella Rule: “It’s Always Something”
We didn’t learn enough from past failures
We didn’t understand what worked and why
Medicare fee lowering crushed innovation
Hospitals could not transform due to contradictory payment systems
We under-anticipated the resources to effect the changes
The new payment models couldn’t be administered
The changes cost more than they saved
We created organizations with too much pricing power
We didn’t find a solution to the “Who Loses” challenge
We applied a national solution to local issues
Will Too Big To Fail Come To Healthcare?

Improved Outcomes
Lower Costs

Doctors

Hospitals

Higher Prices
Unchanged Outcomes

Integration
Consolidation
“You Talking To Me?”

- **Real Losers - Providers**: “Where did my income and autonomy go?”

- **Perceived Losers – Consumers/Patients**: “No one told me I couldn’t have everything”
After a Two-Year Loan to the United States, Michelangelo’s David Is Being Returned to Italy

His proud sponsors were:

- McDonald's
- KFC
- Starbucks
Name the Price

MRI Scan of Shoulder: Same Scanner

Hospital Outpatient $1200

Imaging Center $600

If You Were Paying the Whole Cost, Wouldn’t You Go Shopping?
Better Quality at Lower Cost

Spine, Back and Neck Procedures

Quality Index

Price Index

EQUITY HEALTHCARE
Know More, Feel Better, Stay Healthy
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**Reference Pricing**

- Consumer engagement
- Familiar decision-making context
The Return of Narrow Networks?

- Employees incentivized financially by lowered premium/co-insurance or waived co-pay

- Different from the 90’s closed panel HMO’s
  - Choice: optional not mandatory
  - Quality and cost as criteria
  - Can do by service, e.g., joint replacement, vs. total network

- Increased volume is an effective form of payment reform!
One Size Does Not Fit All
The U.S. health care system needs CPR.

Rather than letting the health care payment systems of the status quo continue to drain the value out of the care we buy, we need to design and implement systems of payment that signal powerful expectations for better care.

Recent health reform legislation begins to address this for Medicare, and to some extent, Medicaid. Catalyst for Payment Reform will help fill the void in the private sector by promoting solutions.

There are significant challenges that we need to overcome.

While there is significant momentum toward reforming how we pay for health care, several noteworthy challenges exist:

- There is limited coordination among current efforts
- Momentum is moving faster than the evidence
- The lack of a national framework
- No 'one size fits all' solution

Read more...
Market Archetypes

Provider System

| Strong Purchasers | | | |
|-------------------|-----------------|-----------------|
| HP +              | 1               | 2               |
| HP -              | 3               | 4               |
| Cautious Purchasers | | | |
| HP +              | 5               | 6               |
| HP -              | 7               | 8               |

HP+/- = degree of health plan power and readiness
Payment Reform Archetypes

• Pay doctors more
• Pay hospitals more
• Hospital penalties
• Providers at risk
• Patient steerage
• Rate setting
## Mapping Payment Archetypes to Market Archetypes

### Provider System

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[www.catalyzepaymentreform.org](http://www.catalyzepaymentreform.org)
The Massachusetts Miracle Redux?
Evolution or Revolution

• Plenty of opportunity in fee-for-service and DRG’s

• Re-organizing the delivery system is unbelievably resource-intensive and fraught with unintended consequences

• Thoughts on
  • Shared savings
  • Medical homes
  • Bundling
  • Accountable Care Organizations
“Hurry up but take your time, son”

- Famous surgeon to eager medical student