Value-Based Health Care Delivery: Reimbursement, Systems Integration, and Growth

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Leadership Workshop on
Strategy for Health Care Delivery
January 12, 2009

This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press, May 2006, “How Physicians Can Change the Future of Health Care,” Journal of the American Medical Association, 2007; 297:1103:1111, and “What is Value in Health Care,” ISC working paper, 2008. No part of this presentation may be reproduced, stored in a retrieval system, or transmitted in any form or by any means — electronic, mechanical, photocopying, recording, or otherwise — without the permission of Michael E. Porter. Further information about these ideas, as well as case studies, can be found on the website of the Institute for Strategy & Competitiveness at http://www.isc.hbs.edu.
Value-Based Health Care Delivery:
The Strategic Agenda

1. Integrated Practice Units
2. Outcomes and Cost Measurement
3. New Reimbursement Models
4. Provider System Integration
5. Growth Models

• How can health plans, employers, and government best encourage and enable these changes?
Traditional Reimbursement Systems

- Fee for service
- Pay for interventions

- Global budgeting
- Global capitation
Alternative Reimbursement Systems

• Fee for service
• Pay for interventions

• Bundled reimbursement for medical condition

• Global budgeting
• Global capitation

• Bundled reimbursement for care cycles motivates value improvement, care cycle optimization, and spending to save

• **Price caps**, instead of fixed prices, will enhance value by encouraging value based competition

• **Outcome measurement and reporting** at the medical condition level is needed for any reimbursement system to ultimately succeed
Reimbursement for the Cycle of Care
Organ Transplantation

- Addressing organ rejection
- Fine-tuning the drug regimen
- Adjustment and monitoring

- Leading transplantation centers offer a **single bundled price**

- UCLA medical center was a pioneer in bundled pricing

- In dividing the revenue from transplantation, some UCLA physicians bear risk and **capture some of the value improvement**, while others are compensated with conventional charges
Value-Based Reimbursement Models

• Value based reimbursement requires **bundled payments** for a medical condition over the **cycle of care**
• Most DRG systems are **too narrow**
  – **Short** episodes (e.g. inpatient only, procedure only)
  – **Single** interventions
  – **Separate** payments for physicians and facilities
  – DRGs can be a **starting point** for bundled models

Steps in Defining a Bundled Reimbursement Model

• Define the **service bundle** and **time period**
• Define the “**guarantee**” and a mechanism for handling **unanticipated complications**
• Set a **payment level**
• Adjust **payment** for **risk** if appropriate, or define different service bundles

Internal

• Determine how to **allocate the payment** and **divide the pie** among providers
  – Let **experts** decide the value of individual services and products within the bundle, rather than outside parties
• Determine which providers/services **bear risk/upsde**
Bundled Reimbursement

Additional Examples

• Bundled payment for migraine care (KKH, Germany)

• Risk adjusted capitated payment for care of elderly and disabled (Commonwealth Care Alliance, US)

• Bundled payment for care of disability due to back pain (Sweden)

• Bundled payment for obesity surgery episode including a 12 month guarantee for complications (Sweden)
System Integration

Confederation of Standalone Units/Facilities

Integrated Care Delivery Network

- **Rationalize service lines/ IPUs** across facilities to improve volume, avoid duplication, and achieve excellence
- Offer services at the **appropriate** facility
  - e.g. acuity level, cost level, importance of convenience
- Clinically integrate care **across facilities, within IPUs**
  - Clinical coordination
  - Common organizational unit across facilities
- Link **primary care** to IPUs
System Integration

CHOP

• Integrate health care delivery across facilities and across regions, rather than duplicate services in stand-alone units

Children’s Hospital of Philadelphia (CHOP) Affiliations

- Grand View Hospital, PA
  Pediatric Inpatient Care
- Abington Memorial Hospital, PA
  Pediatric Inpatient Care
- Chester County Hospital, PA
  Pediatric Inpatient Care
- CHILDREN’S HOSPITAL OF PHILADELPHIA
- Shore Memorial Hospital, NJ
  Pediatric Inpatient Care

• Excellent providers can manage care delivery across multiple geographies
Growth Models Across Geography

- International
- National
- Regional
- Metropolitan
- Wholly Owned
- Leased
- Joint Venture
- Owned Staff
- Service Agreement

Stand Alone General Hospital
Multi-IPUs
Single IPUs
IPU Parts (e.g. surgery)
IPU Local Components
Diagnostic Telemedicine
Shared Services

Affiliation
Managing Care Across Geography
The Cleveland Clinic’s Managed Practices

Swedish Medical Center, WA
Cardiac Surgery

Rochester General Hospital, NY
Cardiac Surgery

CLEVELAND CLINIC
Cardiac Care

Chester County Hospital, PA
Cardiac Surgery

Cape Fear Valley Health System, NC
Cardiac Surgery

Cleveland Clinic Florida Weston, FL
Cardiac Surgery