Redefining Health Care:
Creating Value-Based Competition on Results

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The Paradox of U.S. Health Care

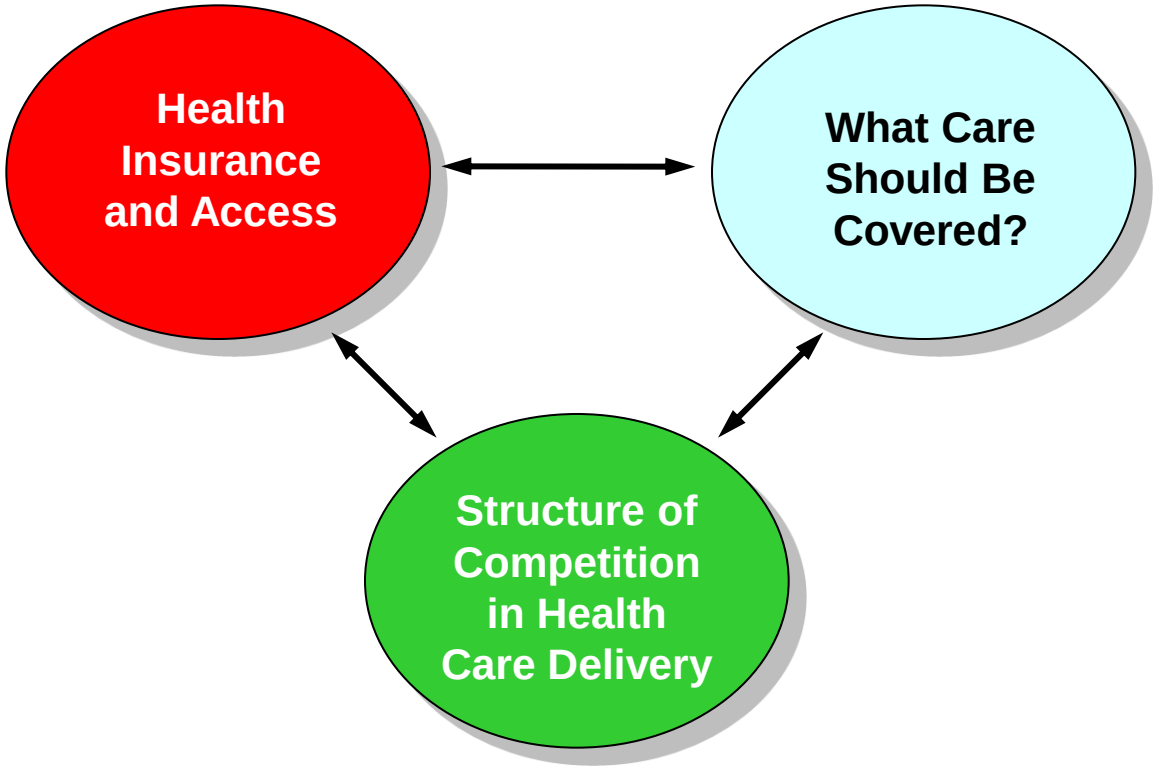
- The United States has **more competition** than virtually any other health care system in the world

BUT

- Costs are **high** and **rising** without delivering higher quality
- Services are **restricted** and fall far short of recommended care
- Standards of care often **lag** accepted benchmarks and preventable treatment errors **persist**
- In many cases, **overuse** of care occurs
- Huge **quality** and **cost differences** persist across **providers**
- Huge **quality** and **cost differences** persist across **geographic areas**
- Best practices are **slow** to spread
- Innovation is **resisted**

How is this state of affairs possible?

Issues in Health Care Reform



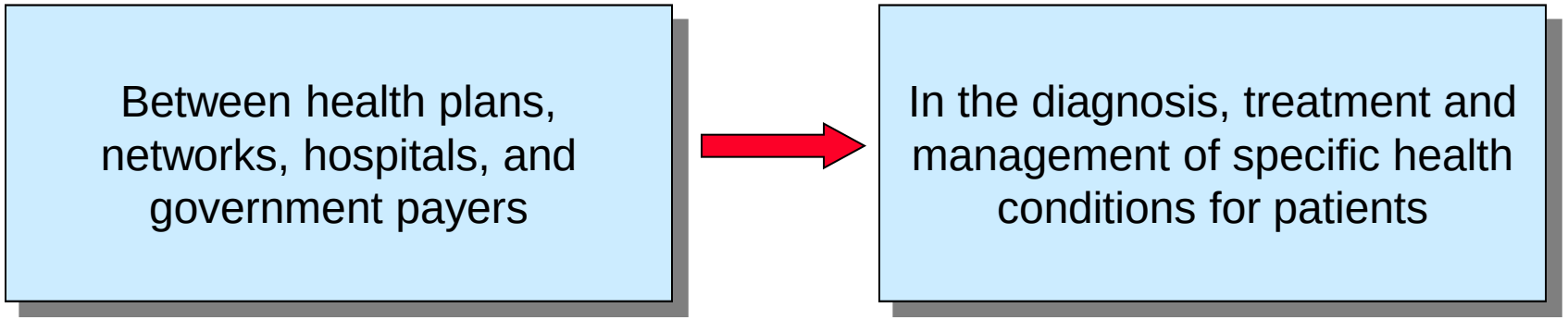
Zero-Sum Competition in Health Care

- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**

- None of these forms of competition **increase health care value for patients**
  - Gains of one system participant come **at the expense** of others
  - These types of competition **reduce value** through added administrative costs
  - These types of competition **slow innovation**
  - These types of competition result in major **cross subsidies** in the system
  - Adversarial competition proliferates **lawsuits**, with huge direct and indirect costs

The Root Cause

- Competition in health care is not focused on **value** for patients
- Competition in the health care system takes place at the **wrong level** on the **wrong things**



- Competition at the right level has been **reduced** or **eliminated** by health plans, by providers/provider groups, and by default
- Efforts to improve health care delivery have sought to **micromanage providers** and **level the playing field** rather than foster provider competition based on **results**
  - Recent quality and pay for performance initiatives do not address quality itself, but process compliance

Why Competition Went Wrong?

- **Wrong definition of the product**: health care as a commodity, health care as discrete interventions/treatments
- **Wrong objective**: reduce costs (vs. increase value)
  - Piecemeal view of costs
- **Wrong geographic market**: local
- **Wrong provider strategies**: breadth, convenience and forming large groups
- **Wrong industry structure**: mergers and consolidation in regions, but highly fragmented at the service level
- **Wrong information**: patient satisfaction and (recently) process compliance, not results
- **Wrong patient attitudes and incentives**: little responsibility
- **Wrong health plan strategies and incentives**: the culture of denial
- **Wrong incentives for providers**: pay to treat, reward invasive care

- **Employers went along**: discounts and pushing costs to employees

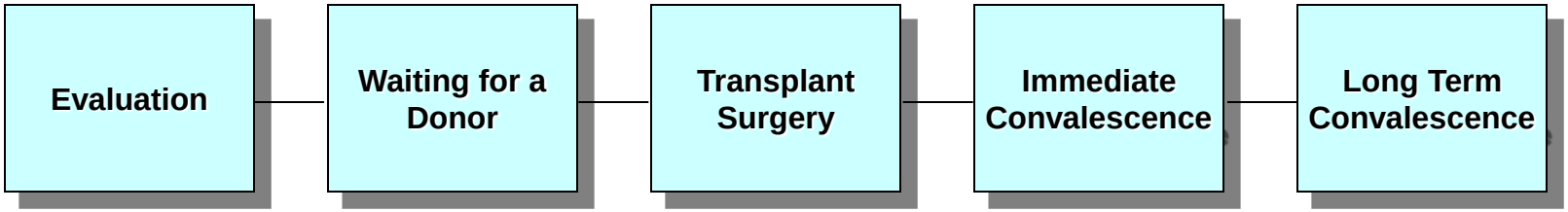
Principles of Positive Sum Competition

- The focus should be on **value** for patients, not just lowering costs.
  - Improving quality in health care usually also lowers cost
- There must be **unrestricted competition** based on **results**.
- Competition should **center on medical conditions** over the **full cycle of care**.
- Value is driven by **provider experience, expertise,** and **uniqueness** at the disease or condition level.
- Competition should be **regional** and **national**, not just local.
- Results and price **information** to support value-based competition must be collected and made widely available.
- **Innovations** that increase value must be actively encouraged and strongly rewarded

Moving to Value-Based Competition
Providers

1. Redefine the business around **medical conditions**
2. Choose the range and types of services provided based on **excellence** in value, both within and across locations
   - Deliver care at the **right** place
   - **Separate** providers and health plans
3. Organize and manage around **medically integrated practice areas**
4. Create a distinctive strategy in each **practice area**
5. Design and implement **processes** and **facilities** that enable these strategies, and systematic approaches to improve them
6. Collect comprehensive **results**, **methods**, **experience**, and **patient attributes** for each practice area, covering the **complete care cycle**
7. **Accumulate costs** by practice area and activity over the care cycle
8. Build capability for **single billing for cycles of care**, and **bundled pricing**
9. **Market** services based on excellence, uniqueness, and results
10. Grow locally and geographically in **areas of strength**, using a medically integrated care delivery approach

Organ Transplant Care Cycle

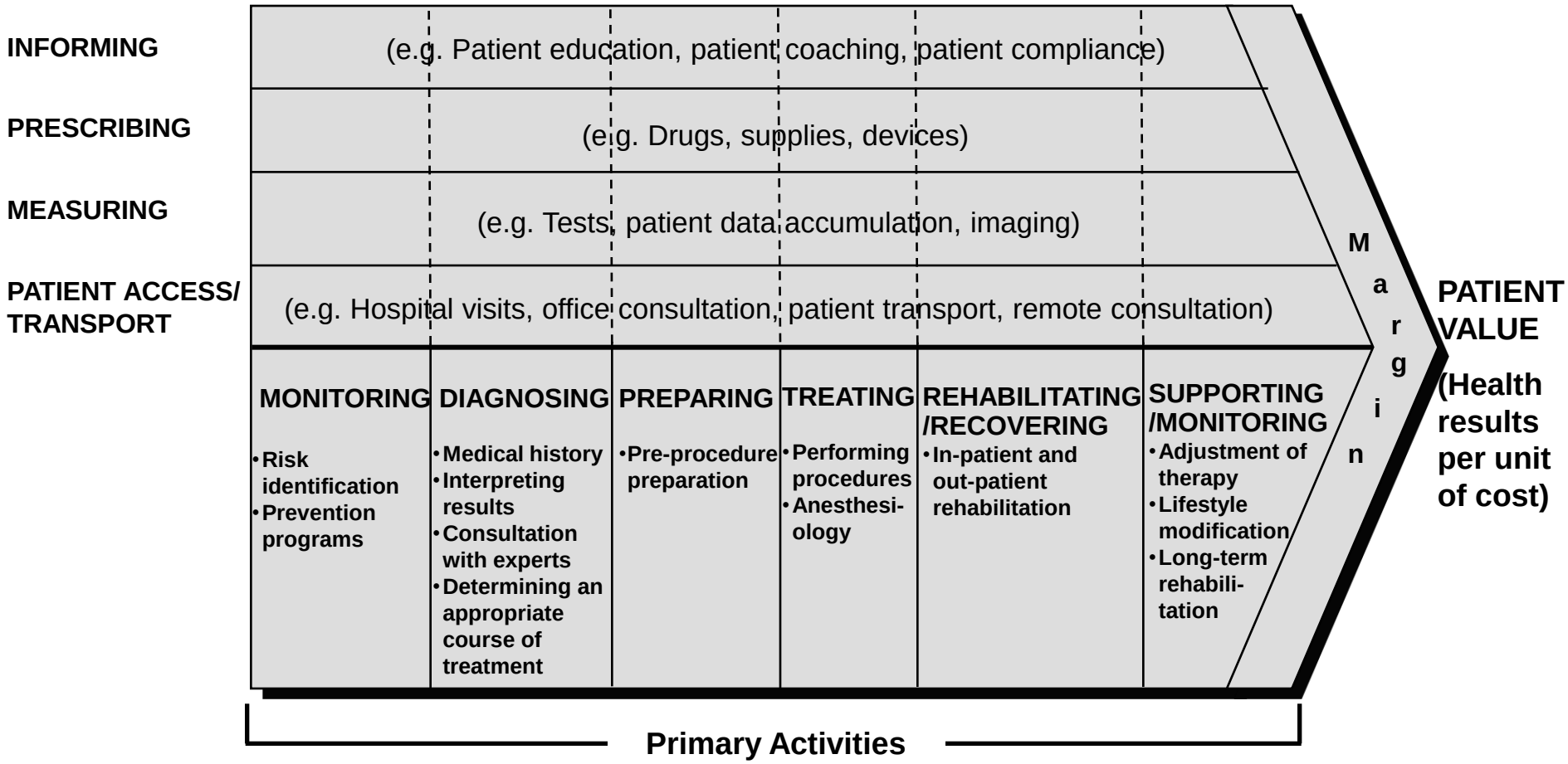


Addressing organ rejection

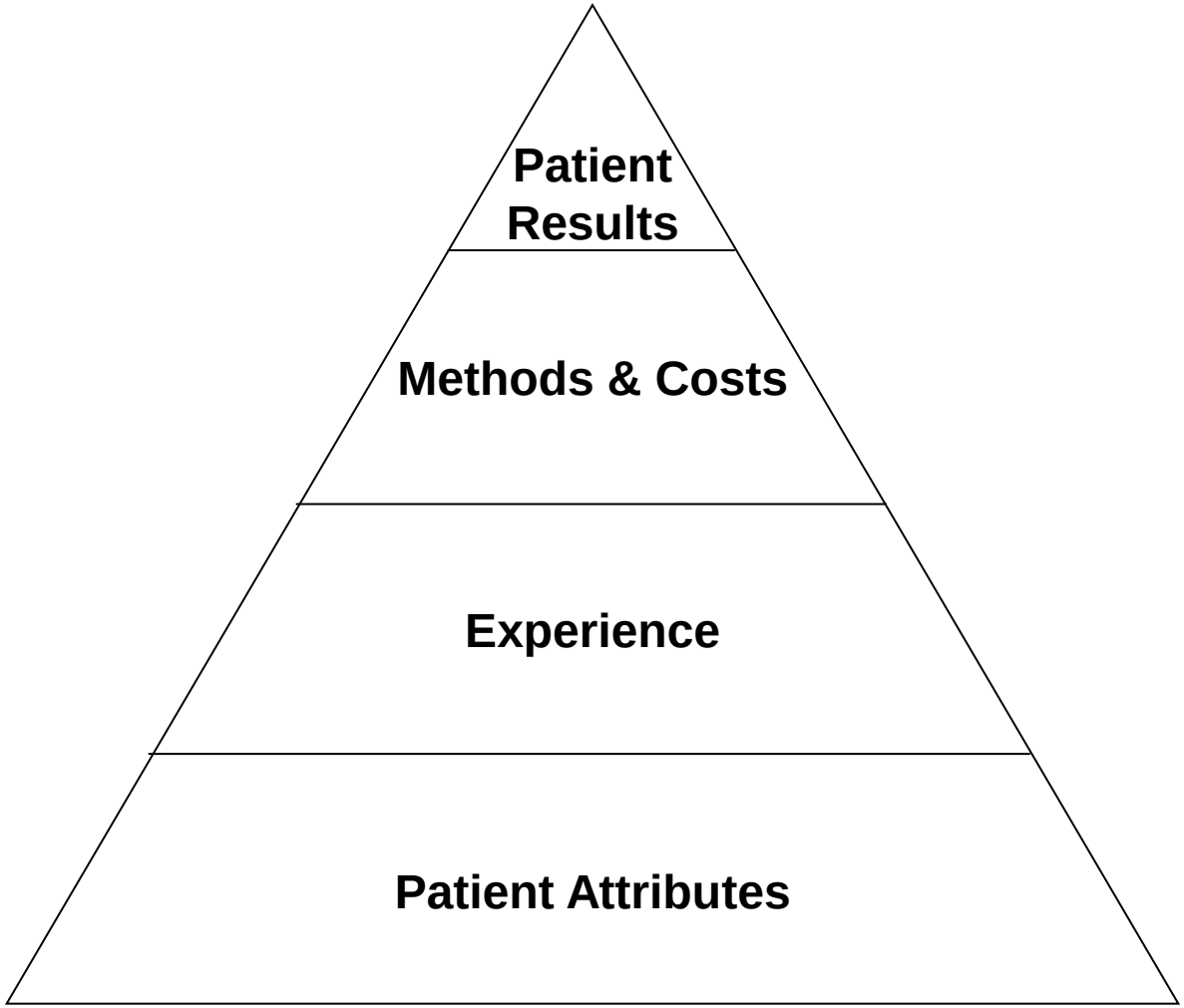
Fine tuning the drug regimen

Adjustment and monitoring

The Care Delivery Value Chain for a Practice Area



Information Hierarchy



Boston Spine Group

Clinical and Outcome Information Collected and Analyzed

Patient Outcome Measures

(*before and after treatment, multiple times*)

Visual Analog Scale (pain)

Owestry Disability Index, 10 questions (functional ability)

SF-36 Questionnaire, 36 questions (burden of disease)

Length of hospital stay

Time to return to work or normal activity

Patient Satisfaction Metrics

(*periodic*)

Office visit satisfaction metrics (10 questions)

Overall medical satisfaction

("Would you have surgery again for the same problem?")

Medical Complications

Cardiac

- Myocardial infarction
- Arrhythmias
- Congestive heart failure

Vascular deep venous thrombosis

Urinary infections

Pneumonia

Post-operative delirium

Drug interactions

Surgery Complications

Patient returns to the operating room

Infection

Nerve injury

Sentinel events (wrong site surgeries)

Hardware failure

Surgery Process Metrics

Operative time

Blood loss

Devices or products used

Length of hospital stay

The Virtuous Circle in Health Care Delivery

Overcoming Barriers to Value-Based Competition
Providers

External
- Health plan practices
- Medicare practices
- Regulations

Internal
- Assumptions, mindsets, and attitudes
- Governance structures
- Management expertise
- Medical education
- The structure of physician practice

- Providers who have made progress towards value-based competition have often been ones **who face fewer barriers** and have avoided the dysfunctional aspects of the current system
  - e.g. Cleveland clinic (all physicians are salaried), Intermountain, the Veterans Administration Hospitals (integrated with a health plan).

Transforming the Roles of Health Plans

Old Role	New Role
• Monitor and restrict patient choice of providers and treatment	• Enable **patient choice and management** of their health
• Micromanage provider processes and choices	• Measure and reward providers based on **results**
• Minimize the cost of each service or treatment	• Maximize the value of care over the **full care cycle**
• Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills	• **Simplify** payments dramatically, and **minimize** the need for administrative transactions in the first place
• Compete on minimizing premiums	• Compete on subscriber **health results**

Moving to Value-Based Competition
Health Plans

Health Information and Patient Support

1. Organize around **medical conditions**, not administrative functions
2. Develop and assemble **information** on providers and treatments
3. Actively **support patient choice** with information and unbiased counseling. Reward excellent providers with patients.
4. Organize patient information and interaction around **full cycles of care**
5. Provide comprehensive **disease management** and **prevention** services to subscribers, even healthy ones

Streamline Contracting, Transactions, Billing, and Pricing

6. Set **reimbursement** to reward provider excellence and value-enhancing innovation for patients
7. Move to **single bills** for episodes and cycles of care, and **single prices**
8. Simplify, standardize, and eliminate **paperwork** and **transactions**
9. Move to **multi-year subscriber contracts** with gainsharing, and modify the process of plan contracting
10. **End cost shifting practices**, such as re-underwriting ill subscribers, that breed cynicism and erode trust in health plans

Moving to Value-Based Competition
Health Plans (Continued)

Patient Medical Records

11. Provide the service of aggregating, aggregating, updating and verifying **patients' complete medical records** under strict standards of privacy and patient control

Overcoming Barriers to Health Plan Transformation

Health Plans

External

- Medicare practices
- Lack of information on results and costs

Internal

- Information technology
- Medical expertise
- Trust
- Mindsets
- Culture and values

- Health plans that are **integrated** with a provider network have had advantages in moving in these directions in the current system, but **independent** health plans offer greater potential to support value-based competition

Moving to Value-Based Competition
Employers

Set new expectations for health plans, including self-insured plans

- Select or specify plans that **do not restrict employees' access** to excellent out-of-network providers
- Select or specify plans that help subscribers **obtain** and **understand results information** on specific conditions
- Select or specify plans that ensure that patients are diagnosed and treated by **experienced** and **excellent** providers
- Select or specify plans that provide comprehensive **disease** and **risk management services**

Provide for health plan continuity for employees, rather than plan churning

Enhance provider competition

- Expect providers to provide **information** about their experience and practice standards at the condition level
- Require **one bill** per hospitalization or treatment cycle
- Require a **single posted fee** for each service bundle
- **Eliminate billing of employees** by health plans or providers for any service covered by the plan, except for co-pays or deductibles
- **Collaborate** with other employers in advancing these aims

Support employees as consumers and in managing their health

- Provide encouragement and support for **health management**
- Offer **independent** information and advising services to employees to supplement other sources
- Enable cost-effective health plan structures and **Health Savings Accounts**

Find ways to expand insurance coverage and advocate reform of the insurance system

- Create vehicles to offer **lower cost** insurance to employees not currently part of the system
- Support reform that **levels the playing field** among employers

Measure the company's health value received and hold staff accountable

Moving to Value-Based Competition
Consumers

Participate Actively in Managing Personal Health
- Take responsibility for health care **choices** and health care
- Manage health through lifestyle choices, obtaining **routine** care and testing, **compliance** with treatment protocols, and active **participation** in disease management

Expect Relevant Information and Seek Help
- Expect transparent information on provider medical results, **experience**, and **cost** from any provider that is considered
- Seek help, if necessary, to **interpret** information
- Utilize **independent** medical information companies if information and support is not offered by the health plan

Make Provider Choices Based on Excellent Results in Addressing the Patient's Medical Condition, Not Overall Reputation, Convenience, or Amenities
- Choose **excellent** providers, not just local providers or past providers
- Pay attention to **costs** as part of the value equation

Choose a Health Plan Based on Value Added
- Choose health plans based on their excellence in **information**, **assistance in securing the best care**, and comprehensiveness of **disease management** and **prevention programs**
- Consider **alternate health plan structures** such as high-deductibles and HSAs to improve value in health care choices and save for future health care needs

Build a Long-term Relationship with an Excellent Health Plan

Act Responsibly
- Provide for own health care
- Litigate only for **truly bad** medical practice

Moving to Value-Based Competition
Suppliers

- Compete on value over the full cycle of care
  - Superior patient results per dollar expended for a defined set of patients
  - Value over the **cycle of care** rather than a discrete treatment
- Demonstrate value based on careful study of long term costs and results
- Ensure that the products are utilized by the right patients
- Ensure that drugs/devices are embedded in the right care delivery processes
- Build marketing campaigns based on value, information, and customer support
  - Improve value by providing **continuing information** that supports consumers, providers, health plans, and employers
- Offer services that contribute to value rather than reinforce cost shifting

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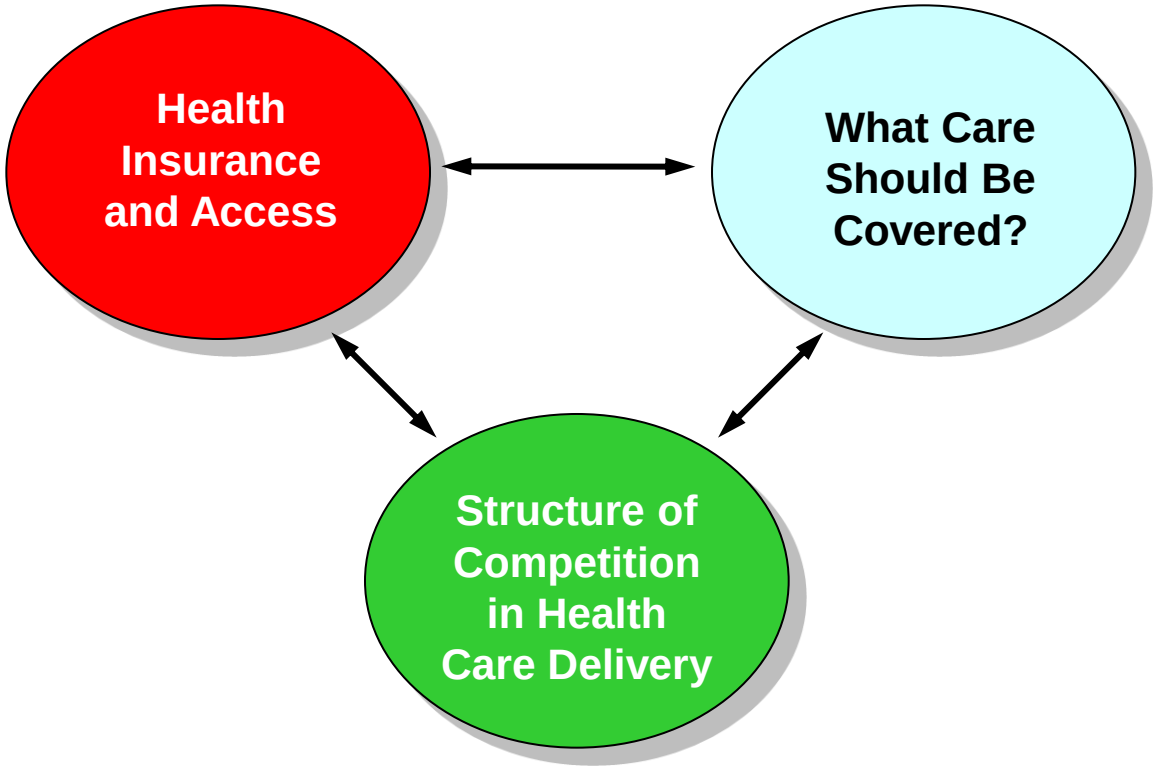

What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

Insurance and Access

- Enable value based **competition among health plans**, rather than move to a single payer system
- **Ban** re-underwriting where it remains legal
- Assign **full legal responsibility** for medical bills to health plans – except in cases of fraud or breaches of important plan conditions
- Prohibit **balance billing**
- Make **HSAs** available to all Americans
- **Mandate universal health coverage**
  - Assigned risk pools
- Move to **equalize taxation** of individual and employer purchased health coverage
- **Level the playing field** among employers in terms of **the burden of** health coverage

Coverage

- Establish a **national standard** for minimum required coverage
- The Federal Employees Health Benefit Plan (FEHBP) as a **starting point**

What Government Can Do: Policies to Improve the Structure of Health Care Delivery

Open Up Competition at the Right Level

- Enforce **antitrust** laws
- Eliminate **network restrictions**
- Prohibit **conflicts of interest** such as self referrals or referrals to an affiliated organization without a results justification
- End restrictions on **specialty hospitals**
- Establish **reciprocal state licensing**
- Require periodic **renewal of licenses** based on **results**
- Revise tax treatment for **medical travel expenses**
- Curtail **anticompetitive** buying group practices

Promote the Right Information

- Establish **common national standards** and **metrics** for reporting on results, processes, and experience at the medical condition level
- **Require mandatory reporting** of results information as a condition to practice
- Designate a quasi-public entity to oversee information **collection** and **dissemination**
- Encourage **private** efforts to analyze and build upon mandatory data

What Government Can Do: Policies to Improve the Structure of Health Care Delivery (Continued)

Require Better Pricing Practices

- Require **transparent prices** for health care services
- Over time, require **bundled prices** that aggregate charges for episodes of care
- Limit or eliminate **price discrimination** based solely on plan or group membership

Reform the Malpractice System

- Allow lawsuits only for **truly negligent** medical practice

Redesign Medicare Policies and Practices

- Medicare should act like a **health plan, not just a payer**
- Medicare should set pricing, information, and other practices to enable **value-based competition** at the condition level
- Medicare should **outsource health plan roles** it is not equipped to play itself
- Recent promising Medicare experiments need to be **improved** and **rolled-out**

Redesign Medicaid Policies and Practices

- Medicaid policy should move from state-federal cost shifting to supporting **value-based competition**
- Medicaid should provide for the value-adding roles of **health plans**

Invest in Technology and Innovation

- Continue support for **basic life science** and **medical research**
- Create an **adoption of innovation fund**

How Will Redefining Health Care Begin?

- It is **already happening**!
- Each **system** participant can take **voluntary** steps in these directions, and will **benefit**.
- The changes are **mutually reinforcing**.
- Once competition begins working, value improvement will **no longer be discretionary** or **optional**
- Those organizations that **move early** will gain major benefits.