Value-Based Health Care Delivery: Reimbursement

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This presentation draws on Redefining Health Care: Creating Value-Based Competition on Results (with Elizabeth O. Teisberg), Harvard Business School Press, May 2006; "A Strategy for Health Care Reform—Toward a Value-Based System," *New England Journal of Medicine*, June 3, 2009; "Value-Based Health Care Delivery," *Annals of Surgery* 248: 4, October 2008; "Defining and Introducing Value in Healthcare," *Institute of Medicine Annual Meeting*, 2007. Additional information about these ideas, as well as case studies, can be found the Institute for Strategy & Competitiveness Redefining Health Care website at http://www.hbs.edu/rhc/index.html. No part of this publication 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 and Elizabeth O.Teisberg.

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Creating a Value-Based Health Care Delivery Organization

The Strategic Agenda

1. Organize into Integrated Practice Units (IPUs) around Patient Medical Conditions
   - Organize primary and preventive care to serve distinct patient segments
2. Establish Universal Measurement of Outcomes and Cost for Every Patient
3. Move to Bundled Prices for Care Cycles
4. Integrate Care Delivery Across Separate Facilities
5. Expand Areas of Excellence
6. Create an Enabling Information Technology Platform

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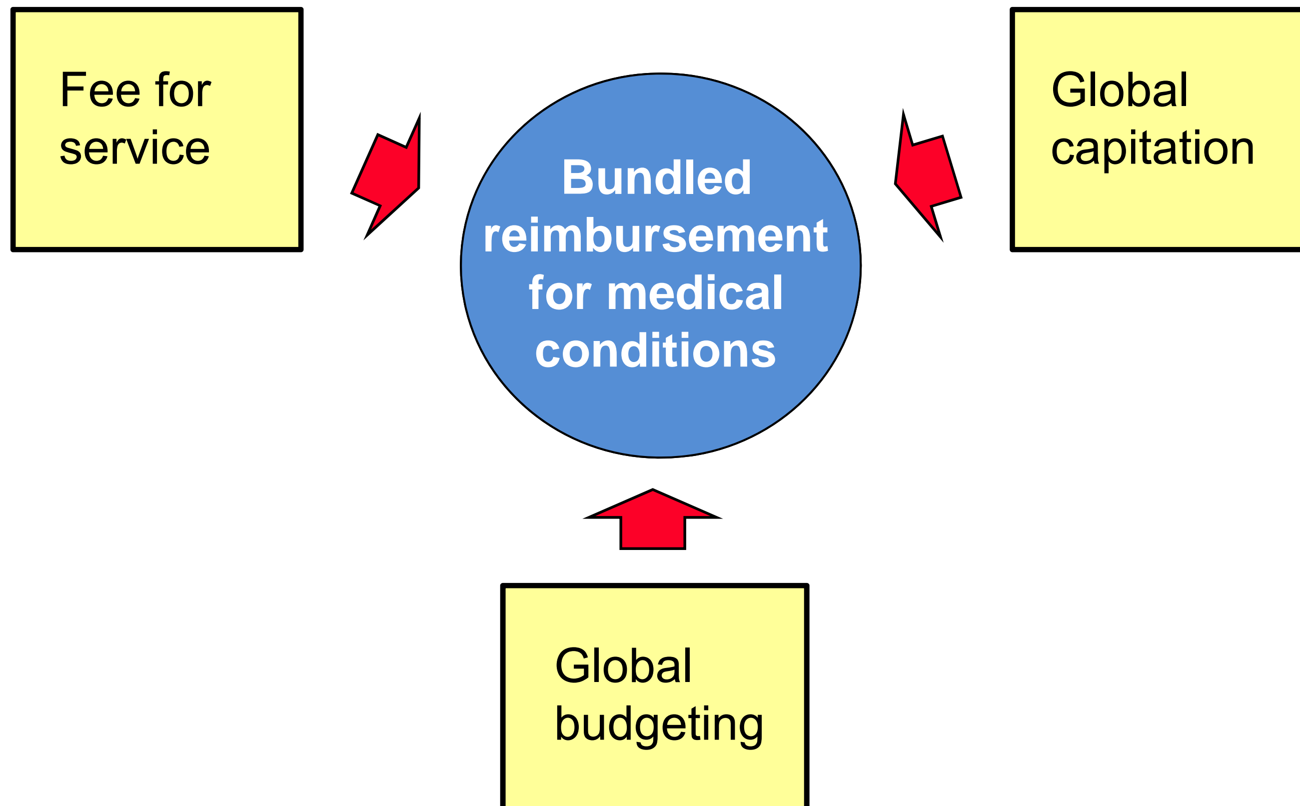
3. Move to Bundled Prices for Care Cycles



- Bundled reimbursement covers the **full care cycle for an acute medical condition**, time-based reimbursement for **chronic conditions**, and time-based reimbursement for **primary/preventive care for a defined patient population**

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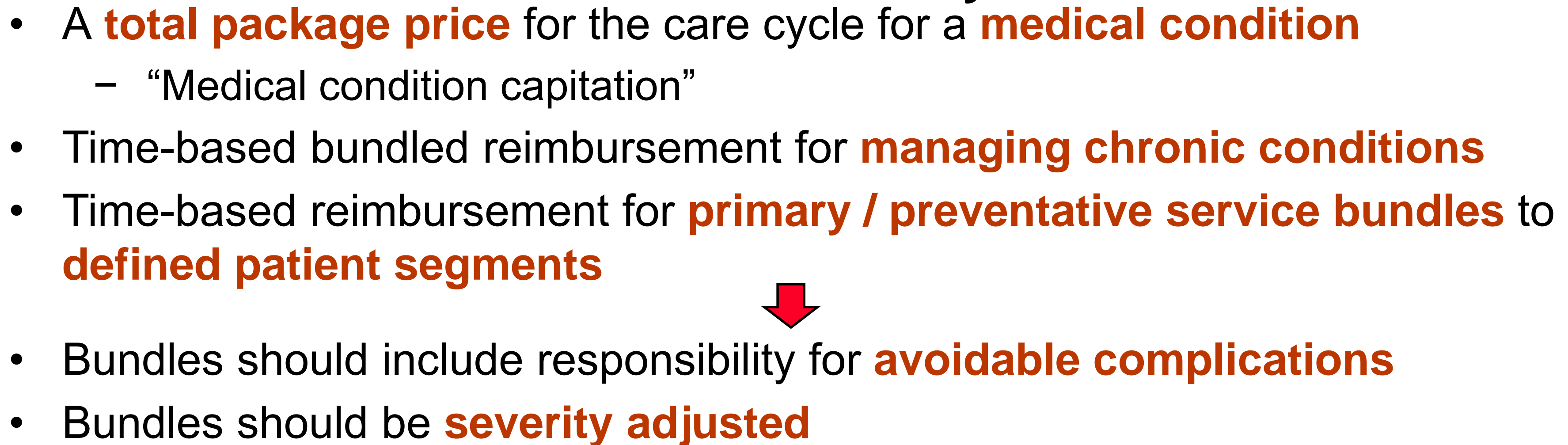
What is a Bundled Payment?



- A **total package price** for the care cycle for a **medical condition**
  - "Medical condition capitation"
- Time-based bundled reimbursement for **managing chronic conditions**
- Time-based reimbursement for **primary / preventative service bundles** to **defined patient segments**

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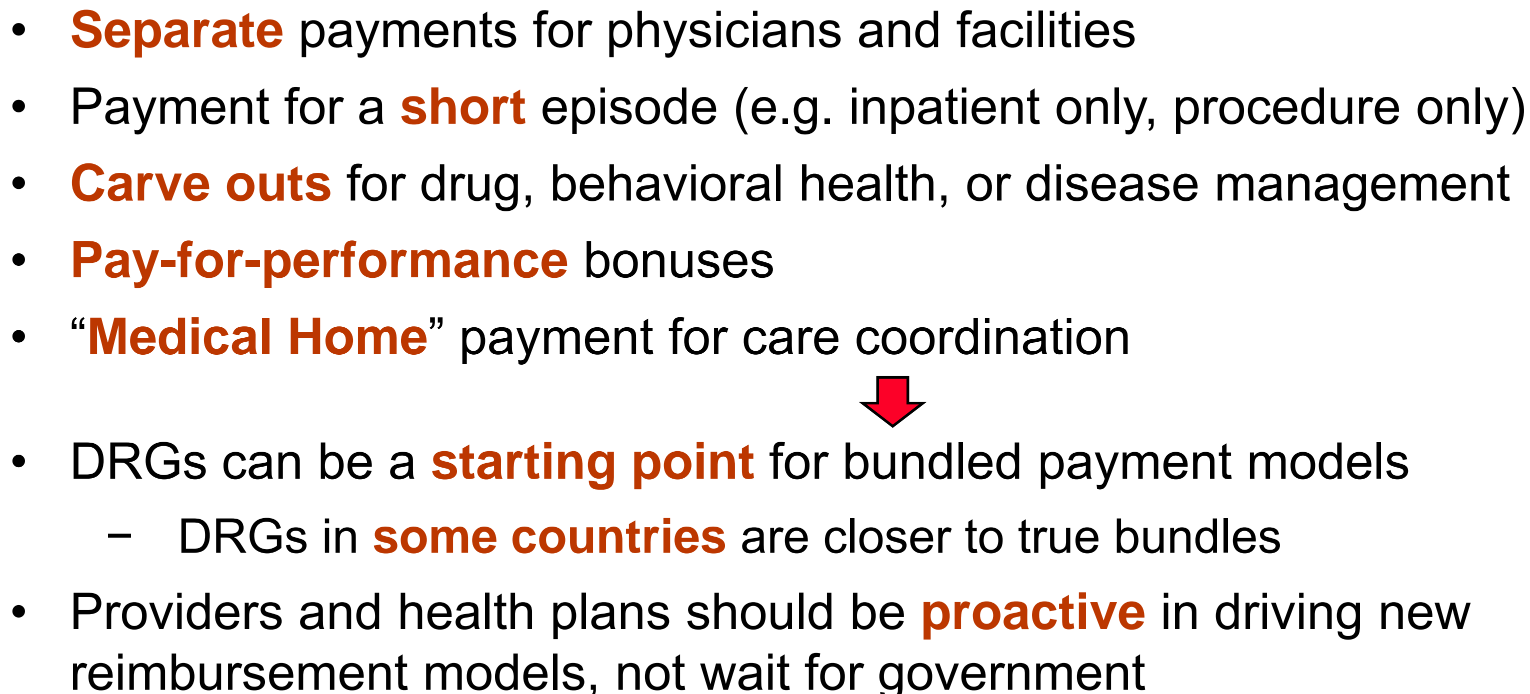
- Bundles should include responsibility for **avoidable complications**
- Bundles should be **severity adjusted**

What is Not a Bundled Payment



- **Separate** payments for physicians and facilities
- Payment for a **short** episode (e.g. inpatient only, procedure only)
- **Carve outs** for drug, behavioral health, or disease management
- **Pay-for-performance** bonuses
- "**Medical Home**" payment for care coordination

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- DRGs can be a **starting point** for bundled payment models
  - DRGs in **some countries** are closer to true bundles
- Providers and health plans should be **proactive** in driving new reimbursement models, not wait for government

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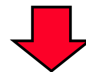
Bundled Payment in Practice
Hip and Knee Replacement in Stockholm, Sweden

- **Components** of the bundle

- Pre-op evaluation - Lab tests - Radiology - Surgery & related admissions - Prosthesis - Drugs - Inpatient rehab, up to 6 days	- All physician and staff fees and costs - 1 follow-up visit within 3 months - Any additional surgery to the joint within 2 years - If post-op infection requiring antibiotics occurs, guarantee extends to 5 years

- Currently applies to all **relatively healthy patients** (i.e. ASA scores of 1 or 2)
- The same **referral process** from PCPs is utilized as the traditional system
- **Mandatory reporting** by providers to the joint registry plus supplementary reporting
- Applies to **all** qualifying patients. Provider participation is **voluntary**, but all providers are continuing to offer total joint replacements



- The Stockholm bundled price for a knee or hip replacement is about **US $8,000**

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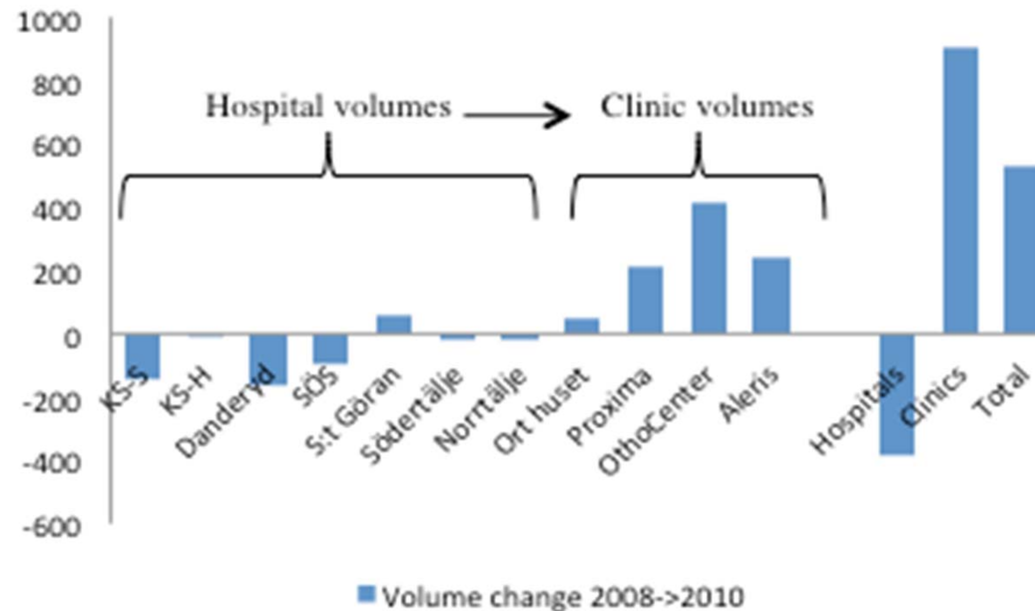
Bundled Payment in Stockholm, Sweden

Provider Response



- Volumes under bundled payment shifted from full-service public hospitals to specialized orthopedic hospitals
- Interviews with private providers revealed the following innovations:

  - Care pathways
  - Standardized treatment processes
  - Checklists
  - New post-discharge visit to check wound healing
  - More patient education
  - More training and specialization of staff
  - Increased procedures per day
  - Decreased length of stay

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Creating a Bundled Pricing System

- Defining the Bundle
  - **Scope** of the medical condition
  - **Range of services** included
  - **Complications** and **comorbidities** included/excluded
  - **Duration** of care cycle/time period
  - **Flexibility** on methods/process of care is essential
- Pricing the Bundle: Key Choices
  - The bundled price relative to the **sum of current costs**
  - Extent of **incentive** to improve value by reducing avoidable complications, improving efficiency, etc.
  - Extent of "**guarantees**" and responsibility for avoidable complications by providers
  - Extent of **severity/risk** adjustments
  - Mechanism for handling **outliers** and **unanticipated** complications
- Implementing Bundles
  - **Provider** billing processes
  - Internal **distribution of the payment** among providers (dividing the pie)
    - Degree of risk sharing by specialty
  - **Payor claims management process** and infrastructure
- **Outcomes measurement** is essential to measure success and minimize incentives to limit value-enhancing services

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Moving to Bundled Pricing: Challenges and Enablers

- Obstacles
  - Lack of historical **cost data** aggregated by patient and by medical condition
  - Existing **care delivery structure**
  - **Fragmentation** of providers and payors
  - Absence of **interoperable EMRs** across the units involved in care
  - The need to modify insurer **reimbursement infrastructure**
  - **Legal impediments** such as gainsharing rules
  - **Resistance** by physicians (e.g. risk-taking)
  - Achieving stakeholder **consensus**
  - Absence of **outcome** measurement
- Enablers
  - Established **IPUs**
  - **Employed** physicians
  - Medical condition-based **cost accounting** (TDABC)
  - Established **outcome measurement**
  - Direct negotiation with **employers**

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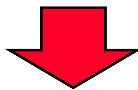
Bundled Payment vs. Global Capitation

Bundled Payment

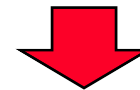
- Fosters **integrated care delivery** (IPUs)
- Payment is aligned with areas the provider can **control**
- Promotes provider accountability for the **quality** of care **at the medical condition level**
- Creates **strong incentives to improve value** and reduce avoidable complications



Aligns reimbursement with **value creation**

Global Capitation

- Shifts overall **insurance risk to providers**
- Largely **decouples payment** from what providers can **control**
- Introduces pressure to **ration services**
- Encourages provider systems to offer **overly broad services lines**
- Amplifies provider incentive to **target generally healthy patients**



Aligns reimbursement with **overall insurance risk**

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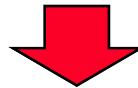
Moving to Value-Based Reimbursement
Strengths of Bundled Payment

- **Decouples** payment from performing particular services
- Fosters **integrated care delivery** (IPUs)
- Promotes provider control and accountability for outcomes at the **medical condition level**
- Creates **strong incentives to improve value** through reducing delays, avoidable complications, and unnecessary services
- Reinforces focus on **areas of excellence**
- Payment is aligned with areas providers can **directly control**



- Aligns reimbursement with **value creation**
- Accelerates care delivery **integration**

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