

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

Professor Michael E. Porter
Harvard Business School

*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:

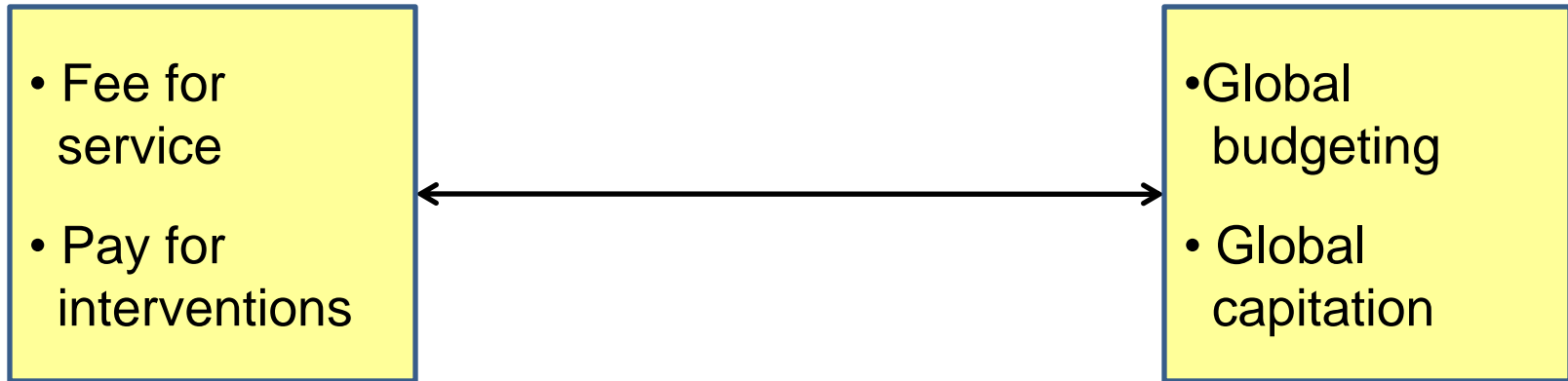
The Strategic Agenda

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

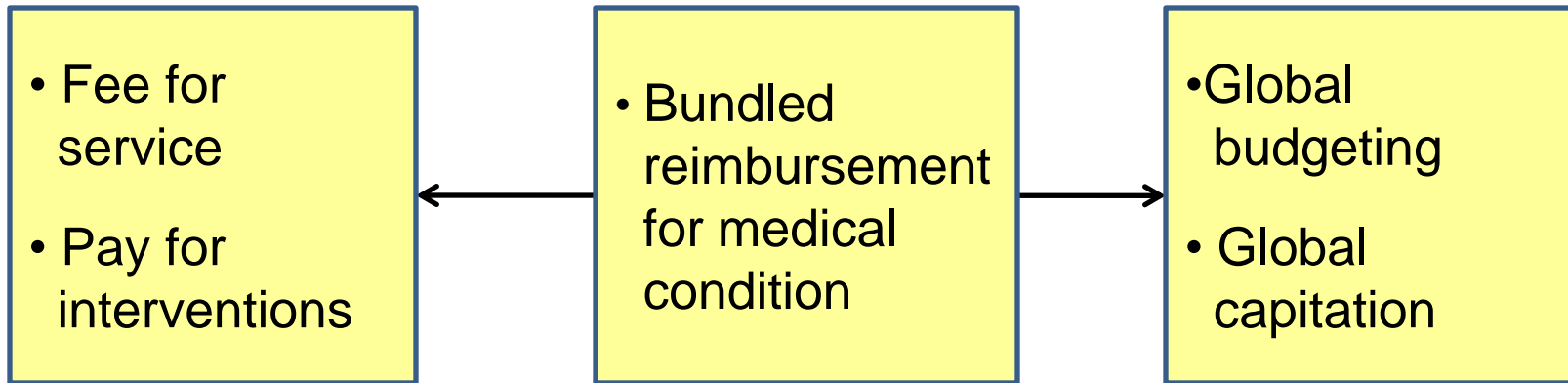


- How can **health plans**, **employers**, and **government** best encourage and enable these changes?

Traditional Reimbursement Systems



Alternative Reimbursement Systems



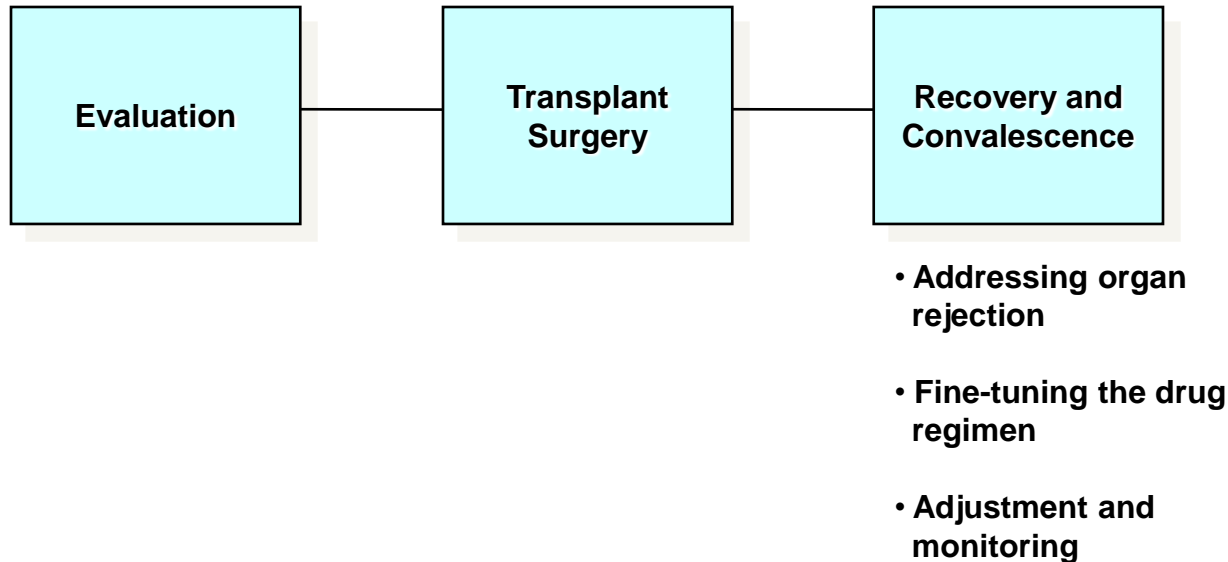
- Bundled reimbursement for care cycles motivates value improvement, care cycle optimization, and spending to save




- **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



- 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

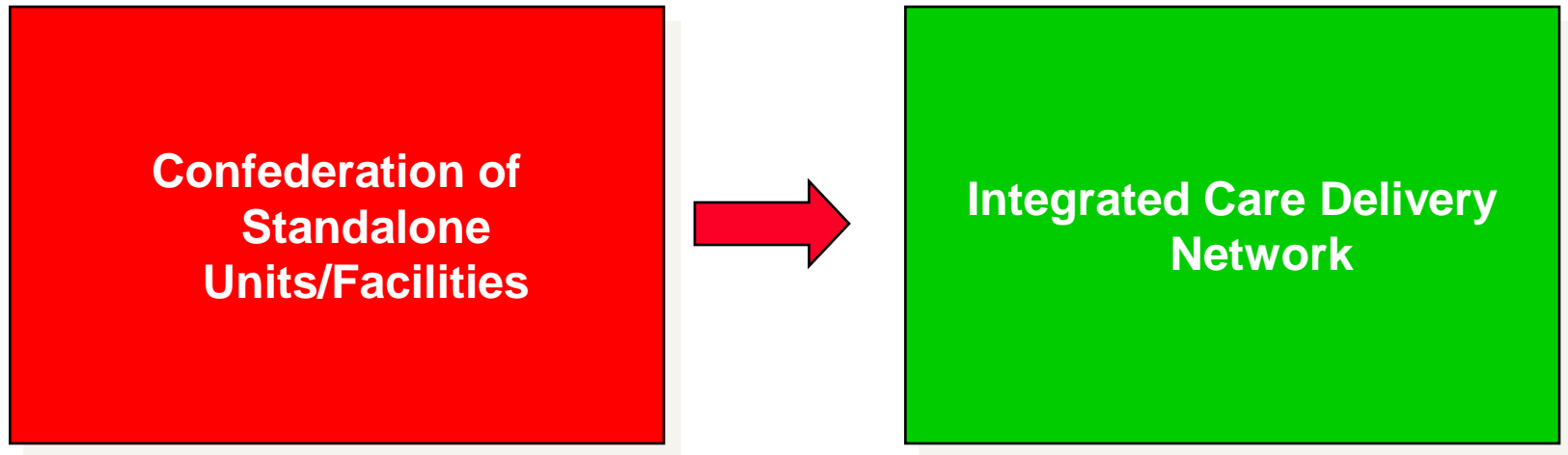
- Determine how to **allocate the payment** and **divide the pie** among providers
 - Let **experts** decide the value of individual services and products within the bundle, rather than outside parties
- Determine which providers/services **bear risk/upside**

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



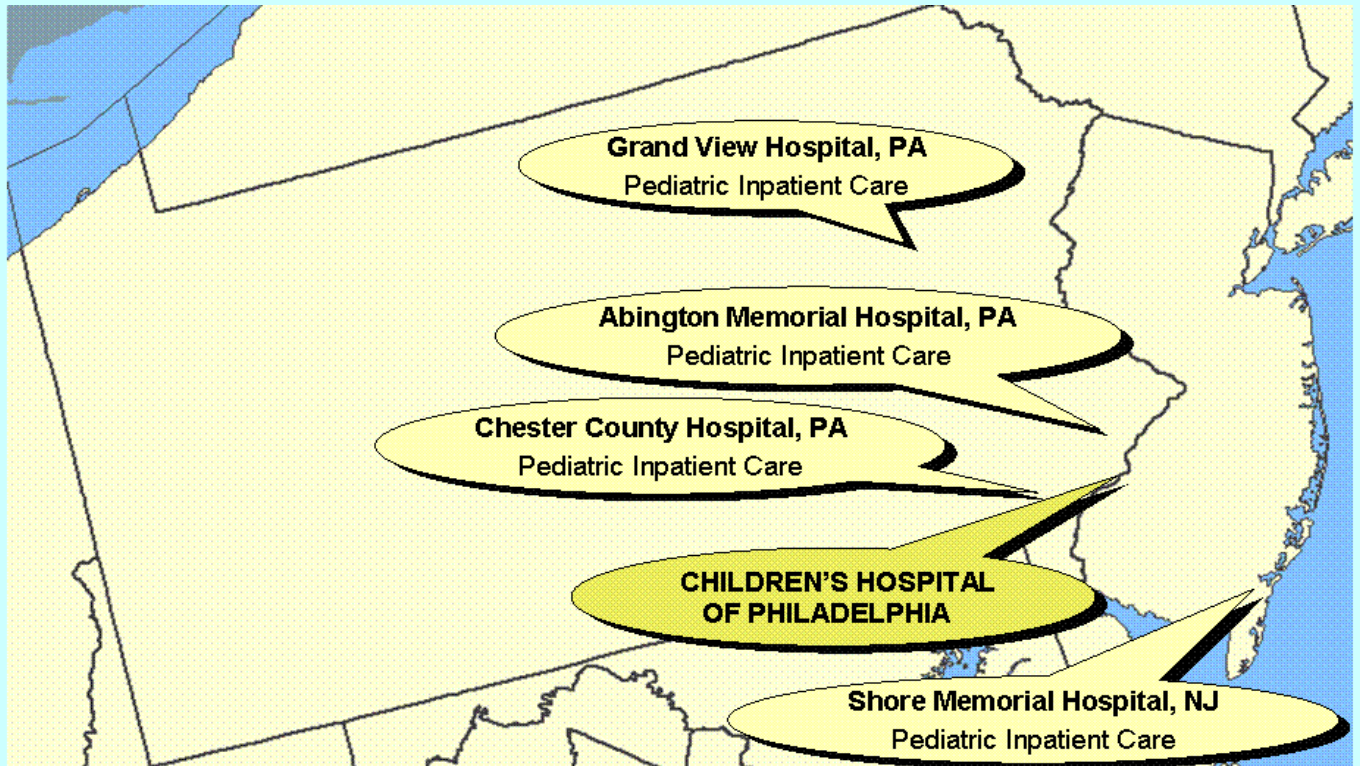
- **Rationalize service lines/ IPU**s across facilities to improve volume, avoid duplication, and achieve excellence
- Offer services at the **appropriate** facility
 - e.g. acuity level, cost level, importance of convenience
- Clinically integrate care **across facilities, within IPU**s
 - Clinical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

System Integration

CHOP

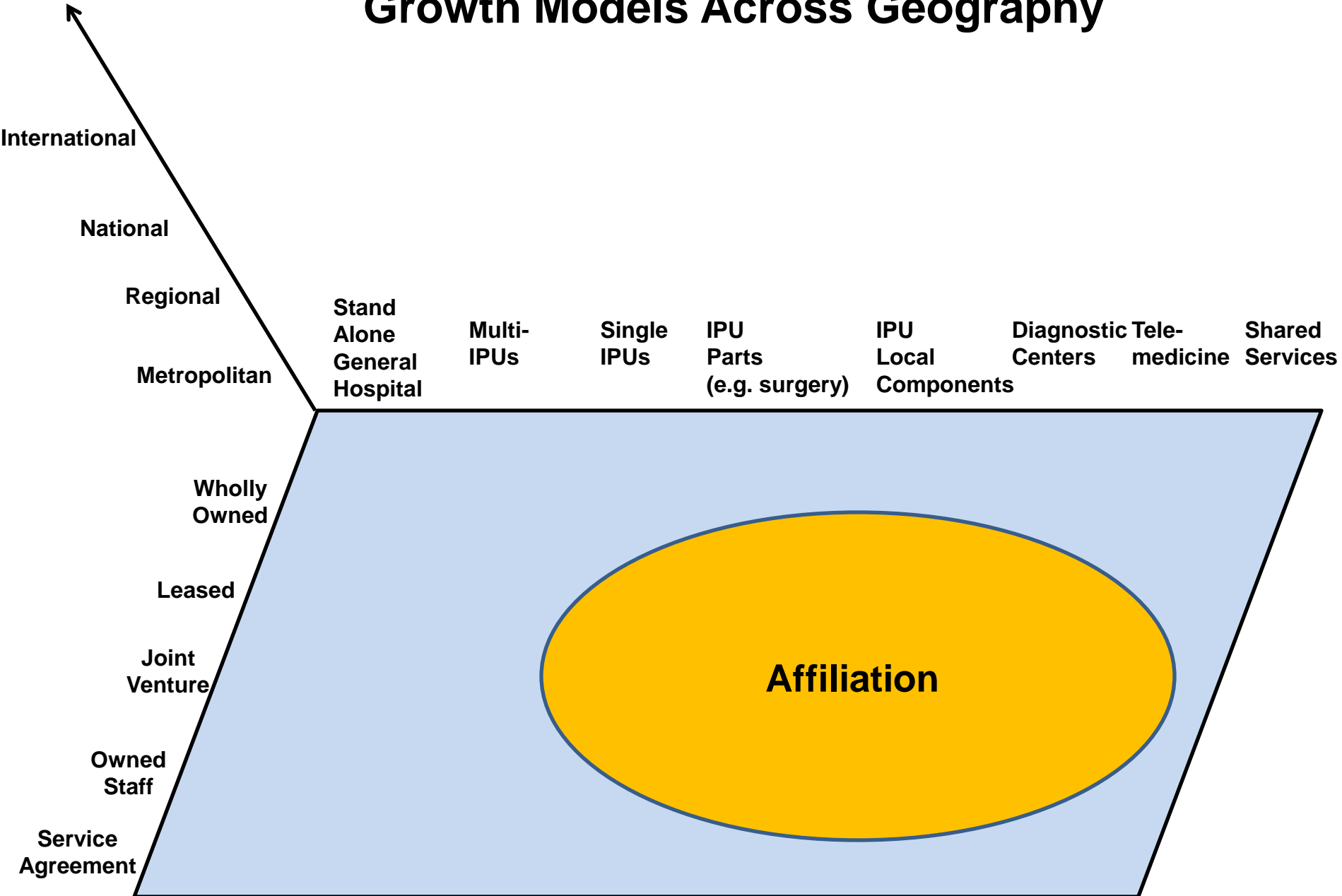
- Integrate health care delivery **across facilities** and **across regions**, rather than duplicate services in stand-alone units

Children's Hospital of Philadelphia (CHOP) Affiliations



- Excellent providers can manage care delivery **across multiple geographies**

Growth Models Across Geography



Managing Care Across Geography

The Cleveland Clinic's Managed Practices

