Value-Based Health Care Delivery

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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, and "How Physicians Can Change the Future of Health Care," *Journal of the American Medical Association*, 2007; 297:1103:1111. 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.

Redefining Health Care Delivery

- Universal coverage and access to care are **essential**, **but not enough**
- The core issue in health care is the **value of health care delivered**

Value: Patient health outcomes per dollar spent

- How to design a health care delivery system that **dramatically improves patient value**
  - Ownership of entities is secondary (e.g. non-profit vs. for profit vs. government)
- How to construct a **dynamic system** that keeps rapidly improving

Creating a Value-Based Health Care System

- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements

> Today, 21st century medical technology is often delivered with 19th century organization structures, management practices, measurement, and pricing

  - Process improvements, care pathways, lean production, safety initiatives, disease management and other overlays to the current structure are beneficial but **not sufficient**
  - "Consumers" **cannot fix the dysfunctional structure** of the current system

Harnessing Competition on Value

- **Competition for patients/subscribers** is a powerful force to encourage restructuring of care and continuous improvement in value
- Today's competition in health care **is not aligned with value**

Financial success of system participants	$\neq$	Patient success

- Creating positive-sum **competition on value** is a central challenge in health care reform in every country

Principles of Value-Based Health Care Delivery

The fundamental issue in health care is **value for patients**, not access, volume, convenience, or cost containment

$$\text{Value} = \frac{\text{Health outcomes}}{\text{Costs of delivering the outcomes}}$$

- Outcomes are the **full set of patient health outcomes** over the care cycle
- Costs are the **total costs of care for the patient's condition**, not just the cost of a single provider or a single service

How to design a health care system that **dramatically improves patient value**

Principles of Value-Based Health Care Delivery

Quality improvement is the key driver of cost containment and higher value, where quality is **health outcomes**

- Prevention
- Early detection
- Right diagnosis
- Right treatment to the right patient
- Early and timely treatment
- Treatment earlier in the causal chain of disease
- Rapid cycle time of diagnosis and treatment
- Less invasive treatment methods
- Fewer complications
- Fewer mistakes and repeats in treatment
- Faster recovery
- More complete recovery
- Less disability
- Fewer relapses or acute episodes
- Slower disease progression
- Less need for long term care
- Less care induced illness

- **Better health** is the goal, not more treatment
- Better health is **inherently less expensive** than poor health

Value-Based Health Care Delivery
The Strategic Agenda

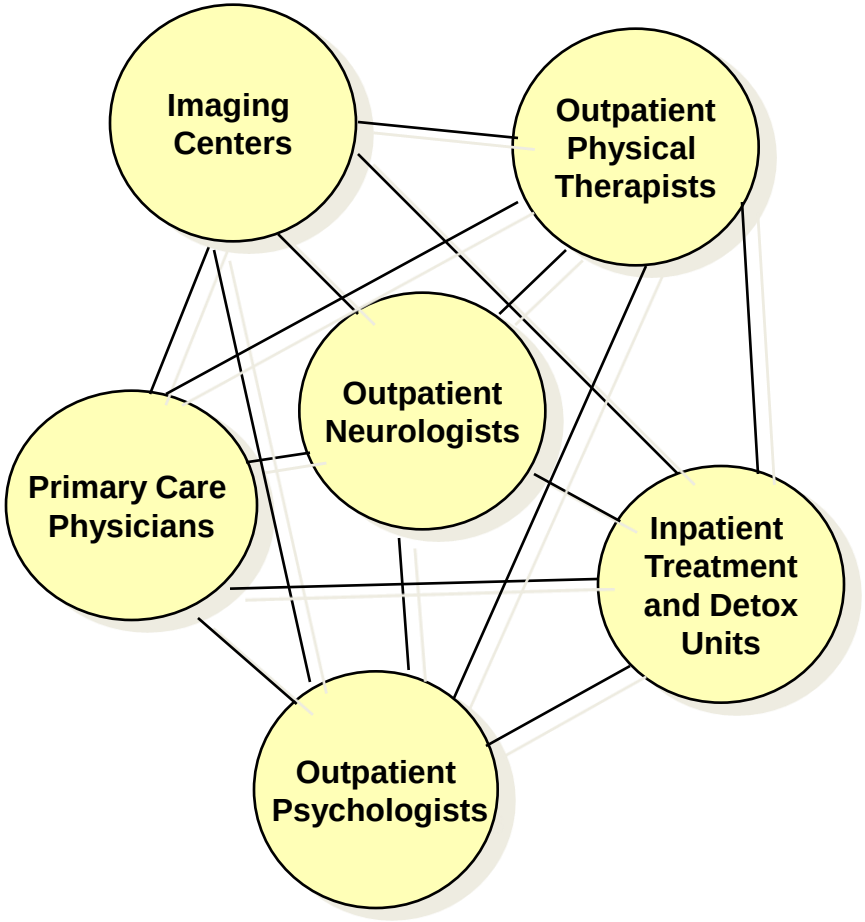
1. **Organize into Integrated Practice Units (IPUs)**
   - **Including primary and preventive care for distinct patient populations**
2. **Measure Outcomes and Cost for Every Patient**
3. **Utilize Bundled Reimbursement Models for Care Cycles**
4. **Integrate Provider Systems**
5. **Grow by Expanding Excellent IPUs Across Geography**
6. **Create an Enabling Information Technology Platform**

1. Organize into Integrated Practice Units

Migraine Care in Germany

Existing Model:

Organize by Specialty and Discrete Services



Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

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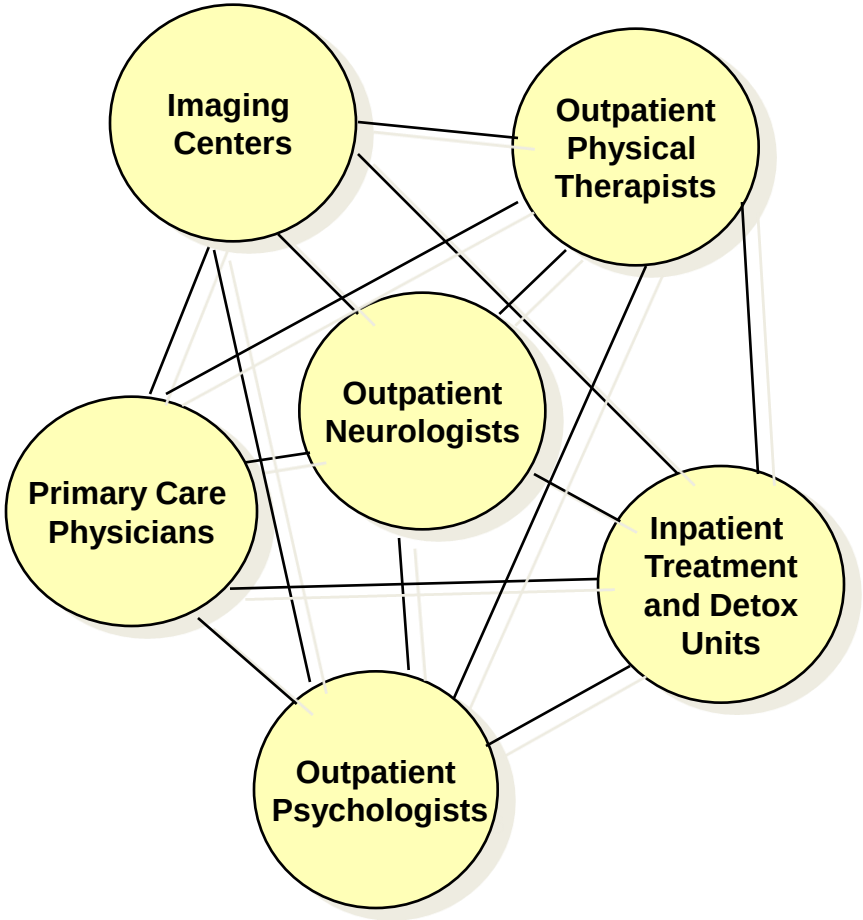
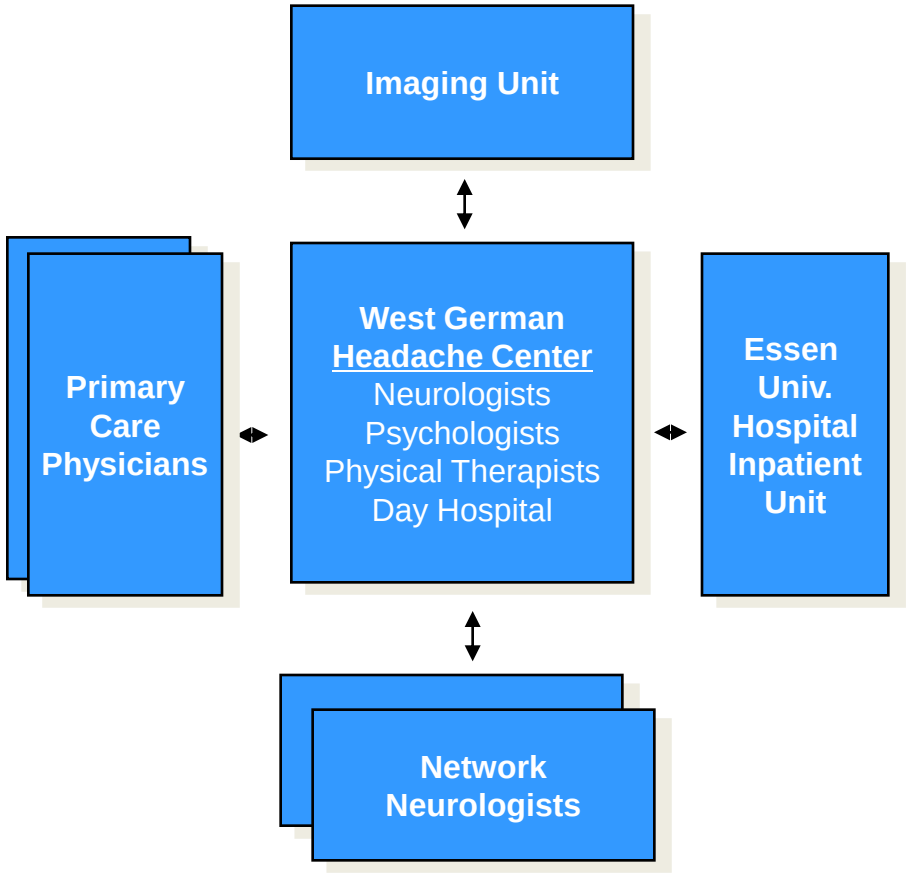


New Model:
Organize into Integrated Practice Units (IPUs)



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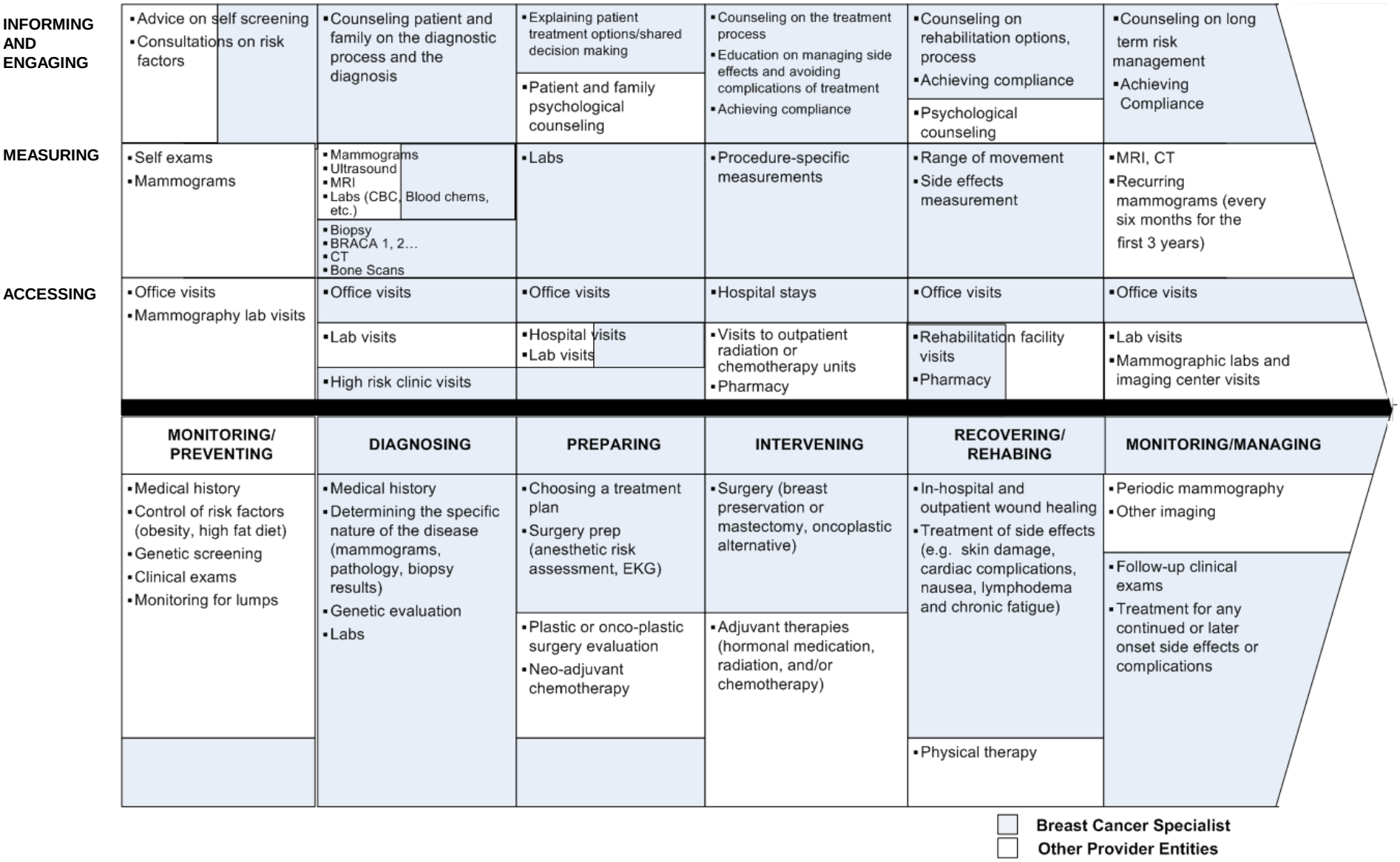
Integrating Across the Cycle of Care

Breast Cancer



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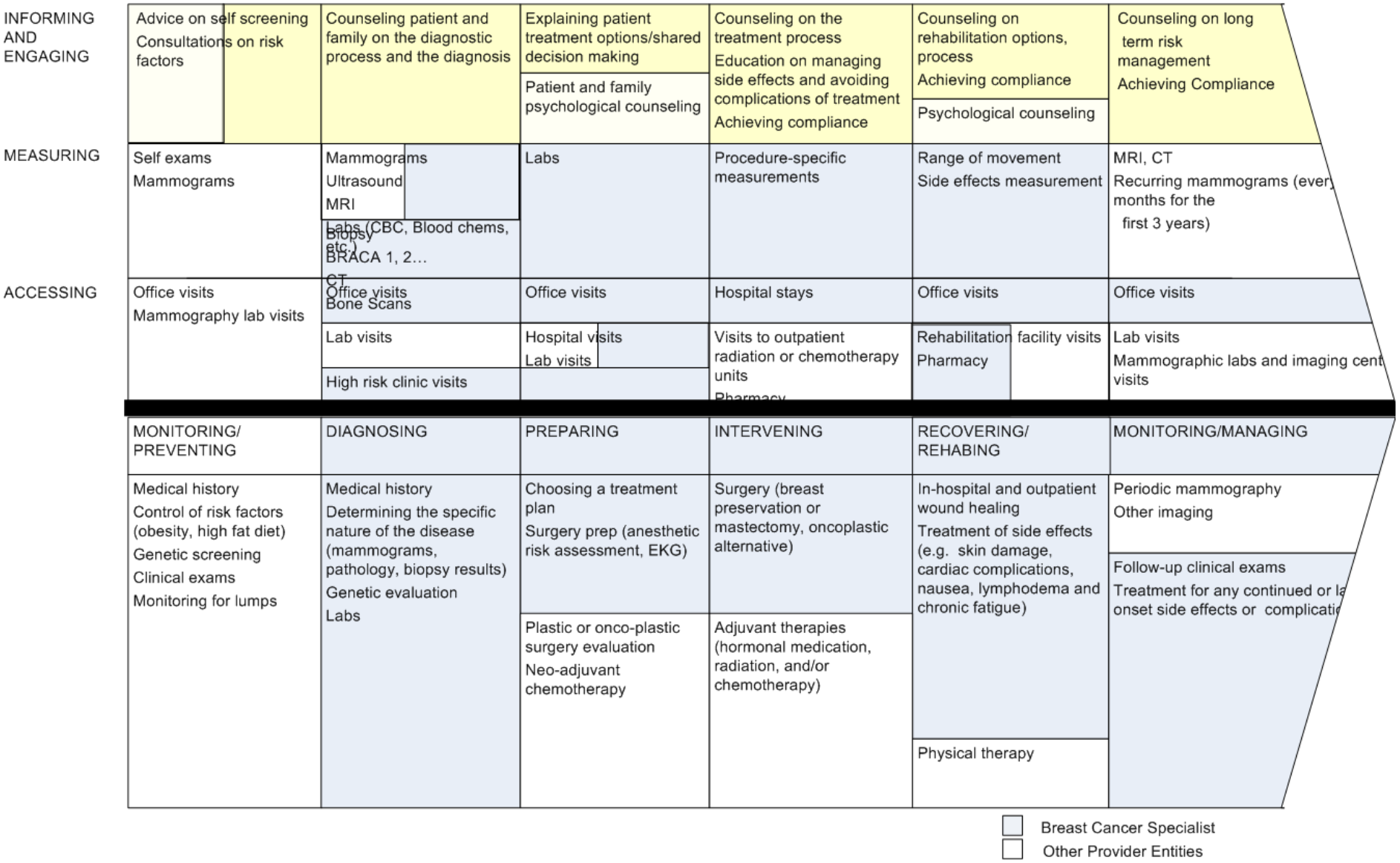
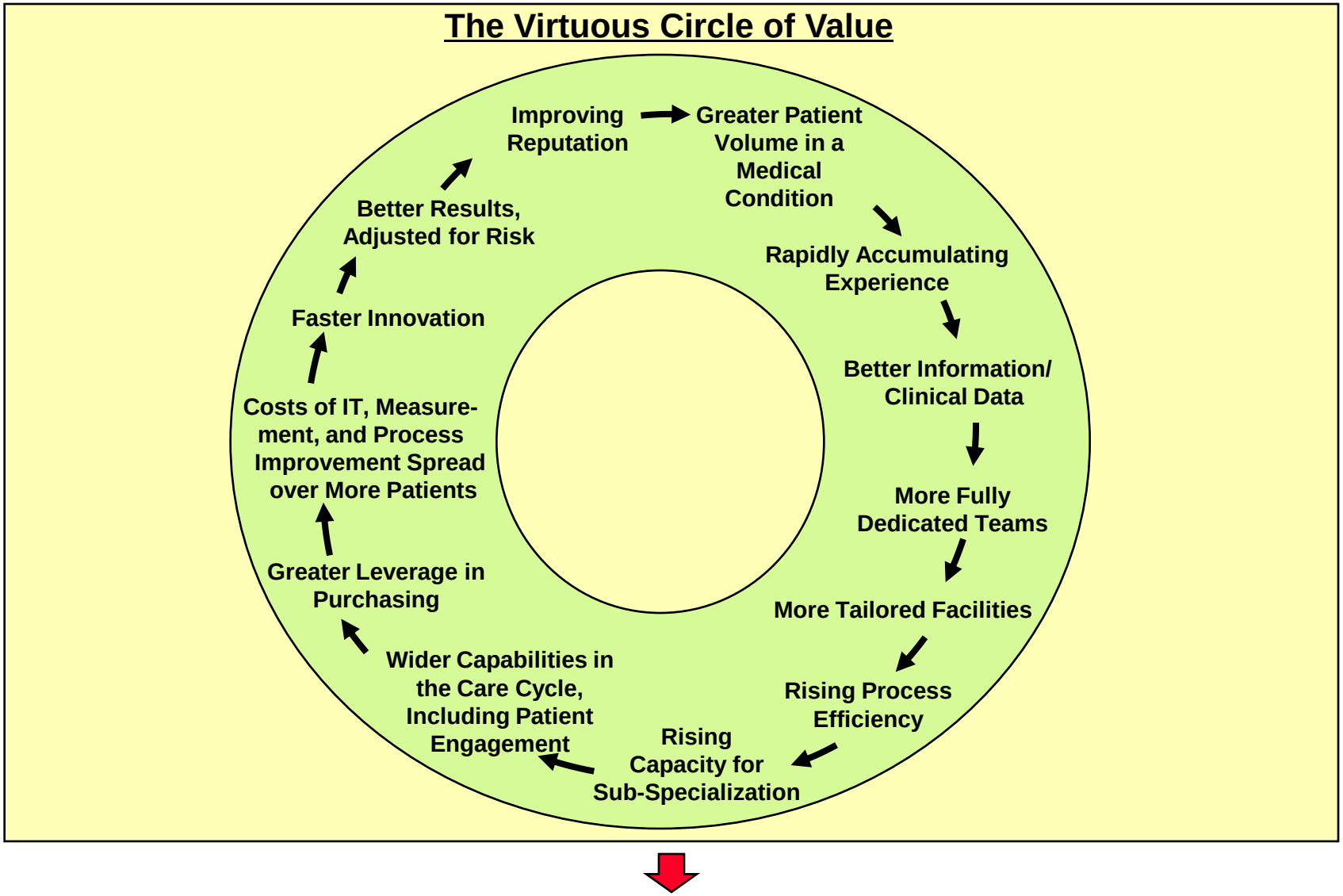


The Role of Volume and Experience in Patient Value



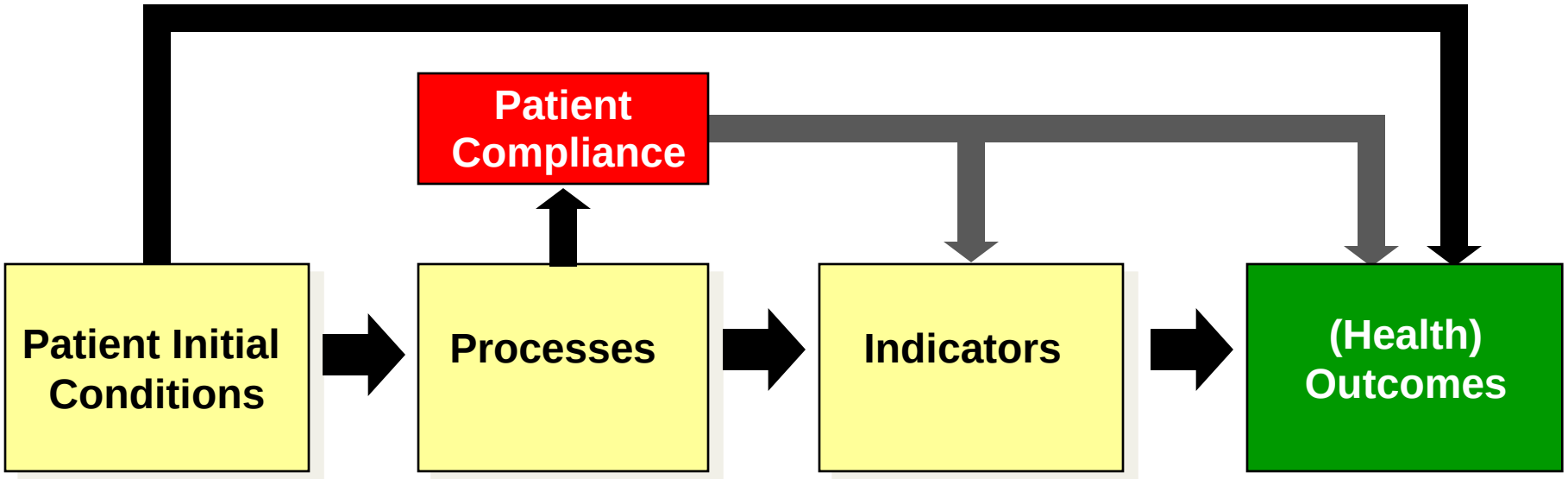
- Volume and experience have an **even greater** impact on value in an IPU structure than in the current system

Fragmentation of Hospital Services
Sweden

DRG	Number of admitting providers	Average percent of total national admissions	Average admissions/ provider/ year	Average admissions/ provider/ week
Knee Procedure	68	1.5%	55	1
Diabetes age > 35	80	1.3%	96	2
Kidney failure	80	1.3%	97	2
Multiple sclerosis and cerebellar ataxia	78	1.3%	28	1
Inflammatory bowel disease	73	1.4%	66	1
Implantation of cardiac pacemaker	51	2.0%	124	2
Splenectomy age > 17	37	2.6%	3	<1
Cleft lip & palate repair	7	14.2%	83	2
Heart transplant	6	16.6%	12	<1

Source: Compiled from The National Board of Health and Welfare Statistical Databases – DRG Statistics, Accessed April 2, 2009.

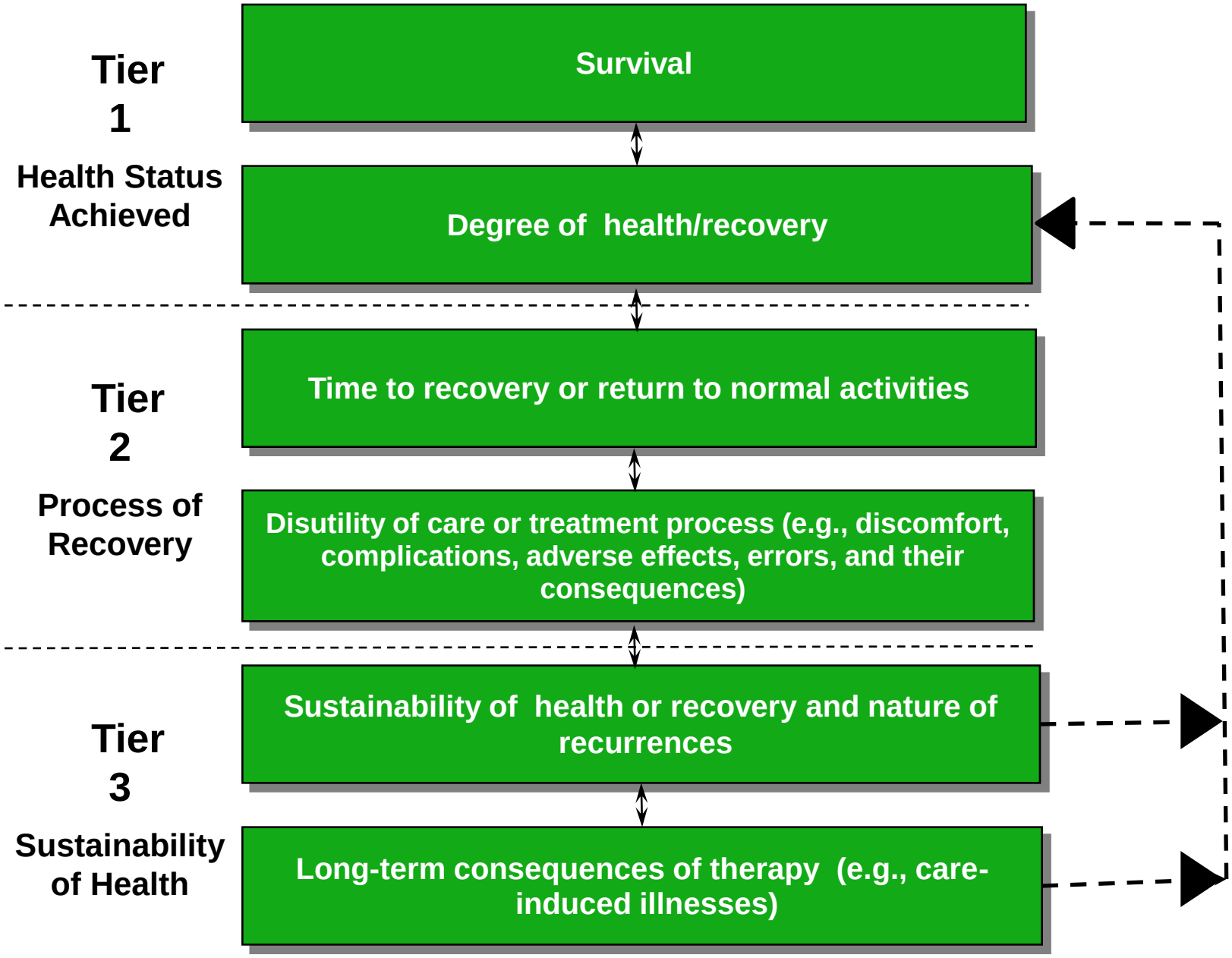
2. Measure Outcomes and Cost For Every Patient



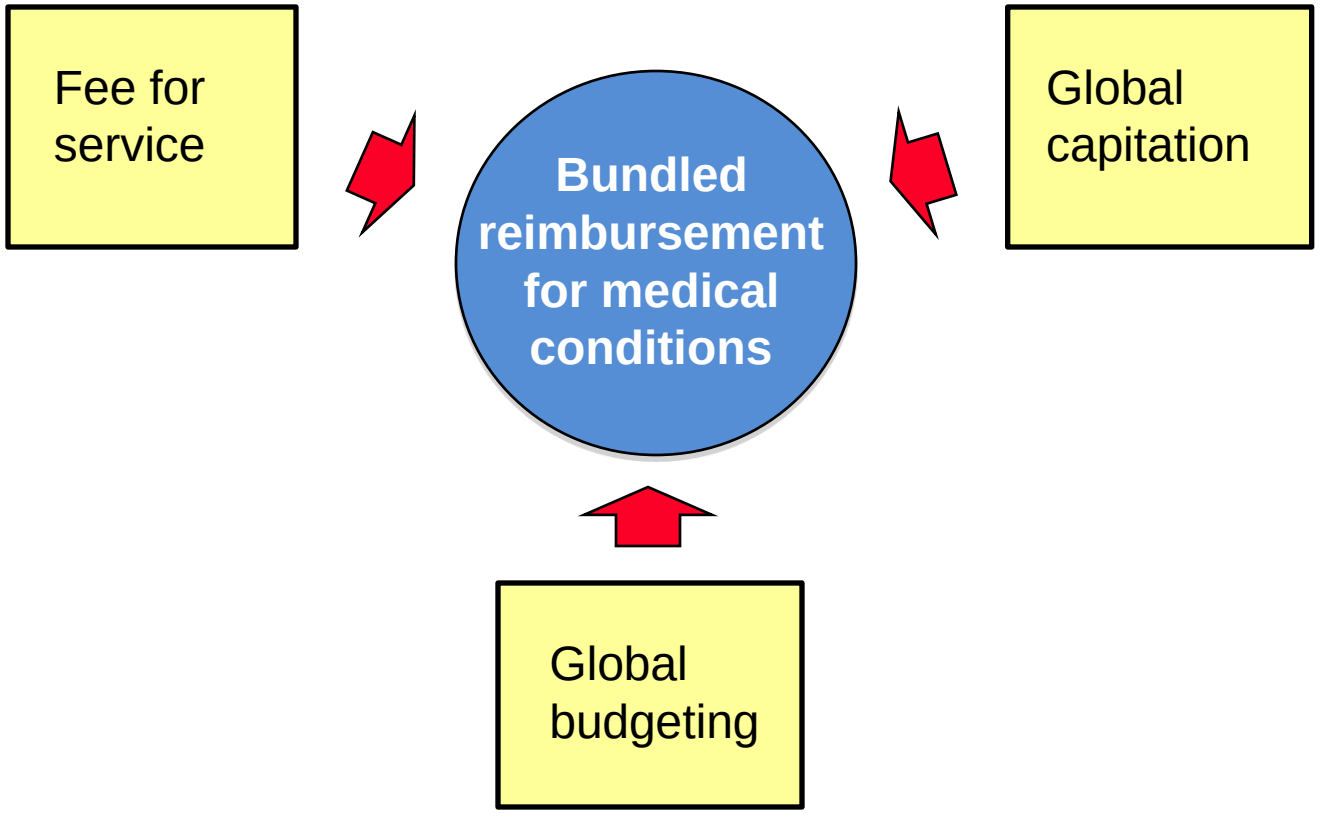
Protocols/ Guidelines

E.g., Hemoglobin A1c levels for diabetics

The Outcome Measures Hierarchy



3. Utilize Bundled Reimbursement Models for Care Cycles



What is Bundled Payment?

- **Total package price** for the care cycle for a medical condition
  - Includes responsibility for **avoidable complications**
  - Medical condition capitation
- The bundled price should be **severity adjusted**

What is Not Bundled Payment

- Prices for **short** episodes (e.g. inpatient only, procedure only)
- **Separate** payments for physicians and facilities
- **Pay-for-performance** bonuses
- "**Medical Home**" payment for add-on services

- DRGs can be a **starting point** for bundled models

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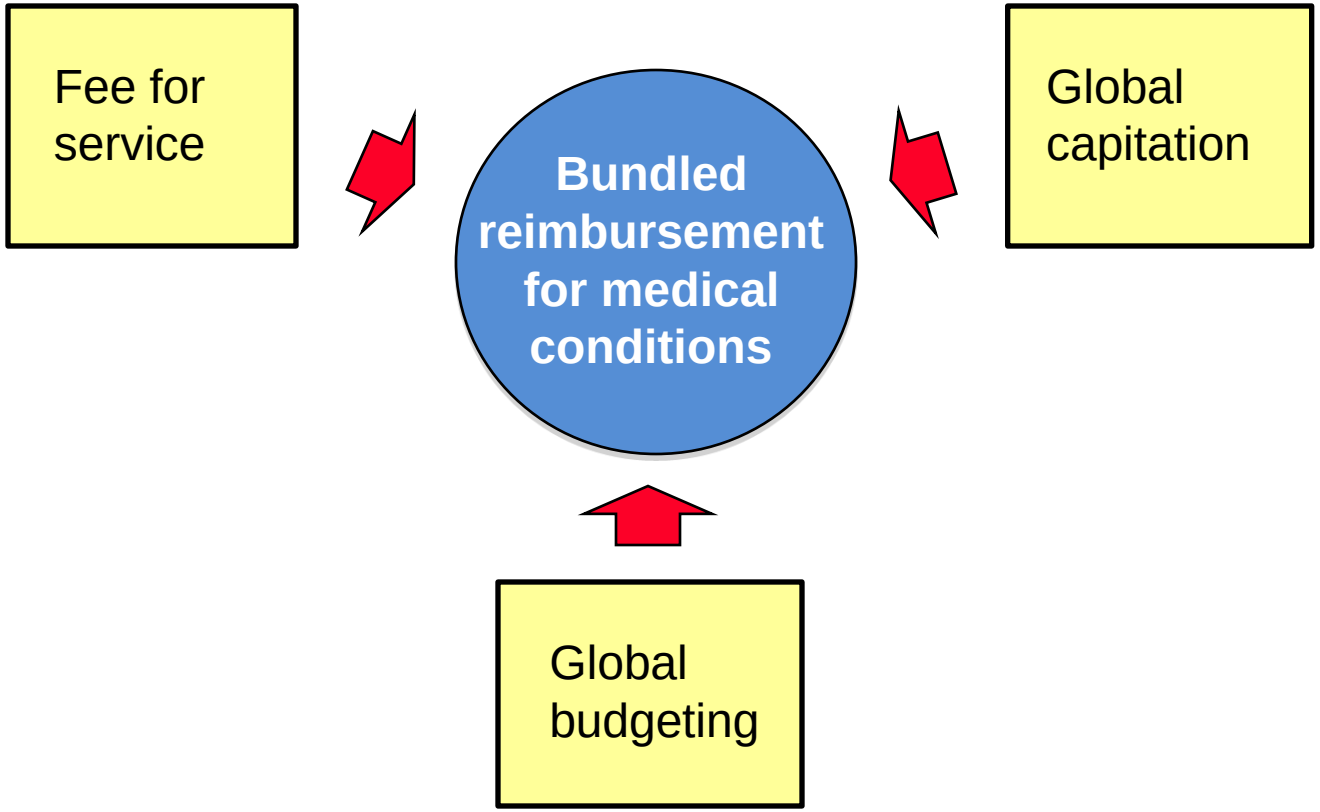
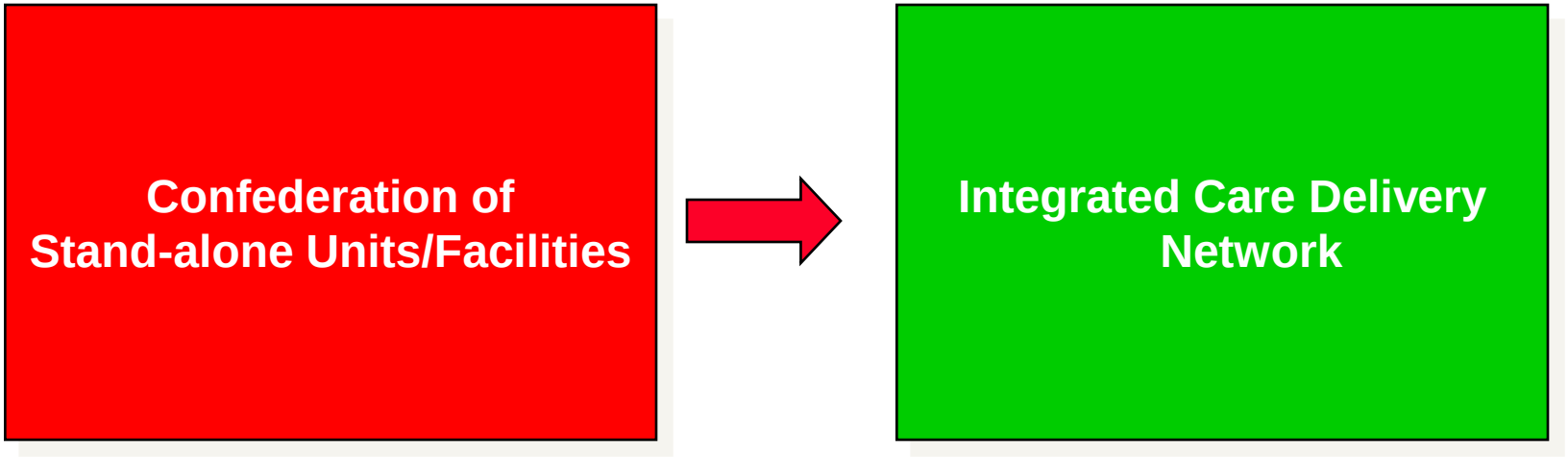


- Bundled reimbursement motivates **value improvement, care cycle optimization**, and **spending to save**
  - Let **experts** decide the value of individual services and products within the bundle, rather than outside parties
- **Outcome measurement and reporting** at the medical condition level is needed for any reimbursement system to ultimately succeed

4. Integrate Provider Systems



- Fragmented and duplicative services
- Passive referrals

- The provider network is **more than** the sum of its parts

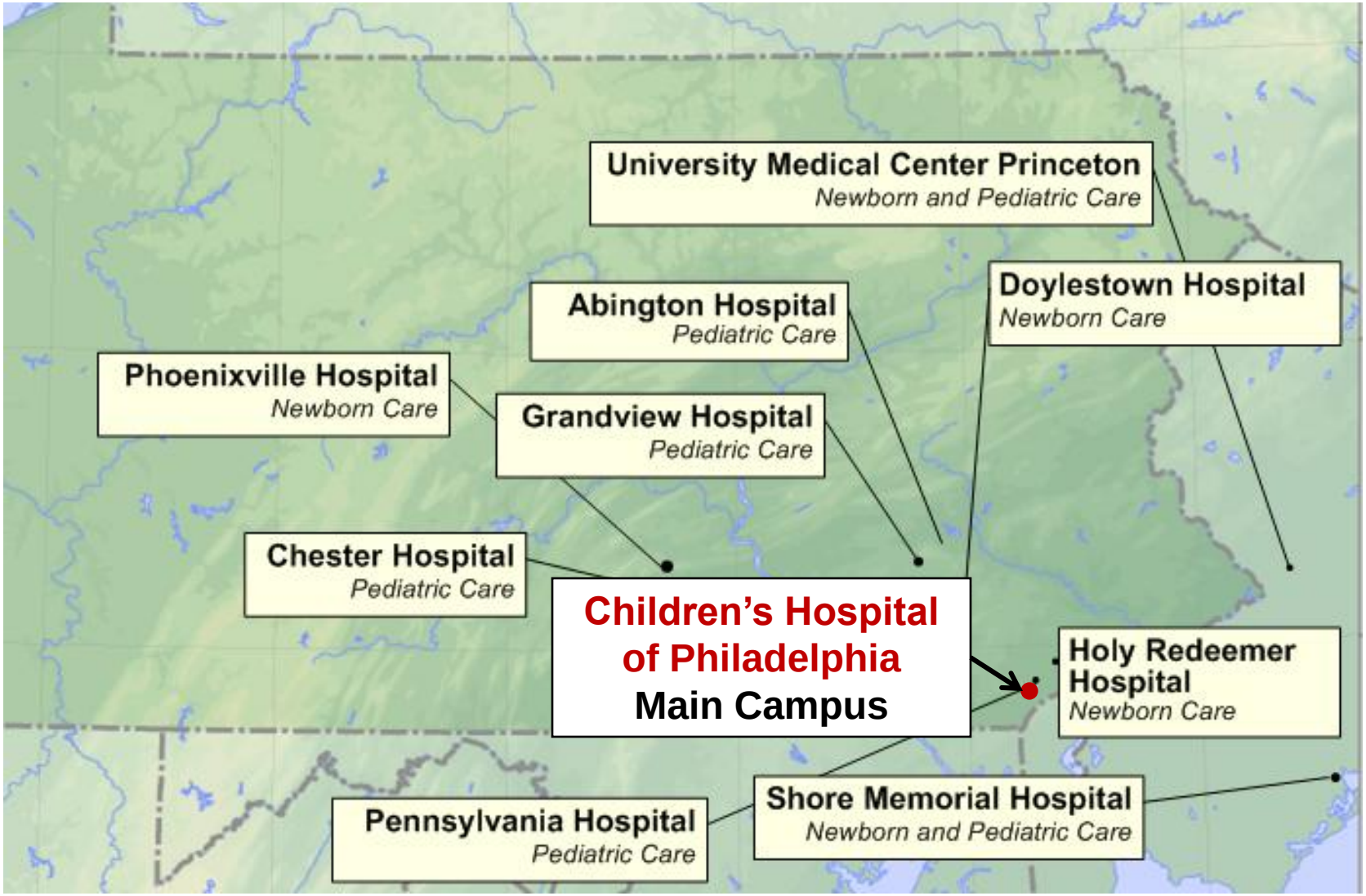
Levels of System Integration

1. **Rationalize service lines/ IPUs** across facilities to improve volume, avoid duplication, play to strength, and concentrate excellence
2. Offer specific services at the **appropriate facility**
   - E.g. acuity level, cost level, need for convenience
   - Refer patients to the appropriate unit
3. Clinically integrate care **across facilities,** within an IPU structure
   - IPUs extend across facilities
     - Consistent protocols, consultations with experts
   - Integrating across the full care cycle
   - Linking **preventative/primary care** units to specialty IPUs
   - Connecting **ancillary service** units to IPUs
     - E.g. home care, rehabilitation, behavioral health, social work, addiction treatment

5. Grow Excellent Services Across Geography

Children's Hospital of Philadelphia (CHOP)

Hospital Affiliates



Models of Geographic Expansion

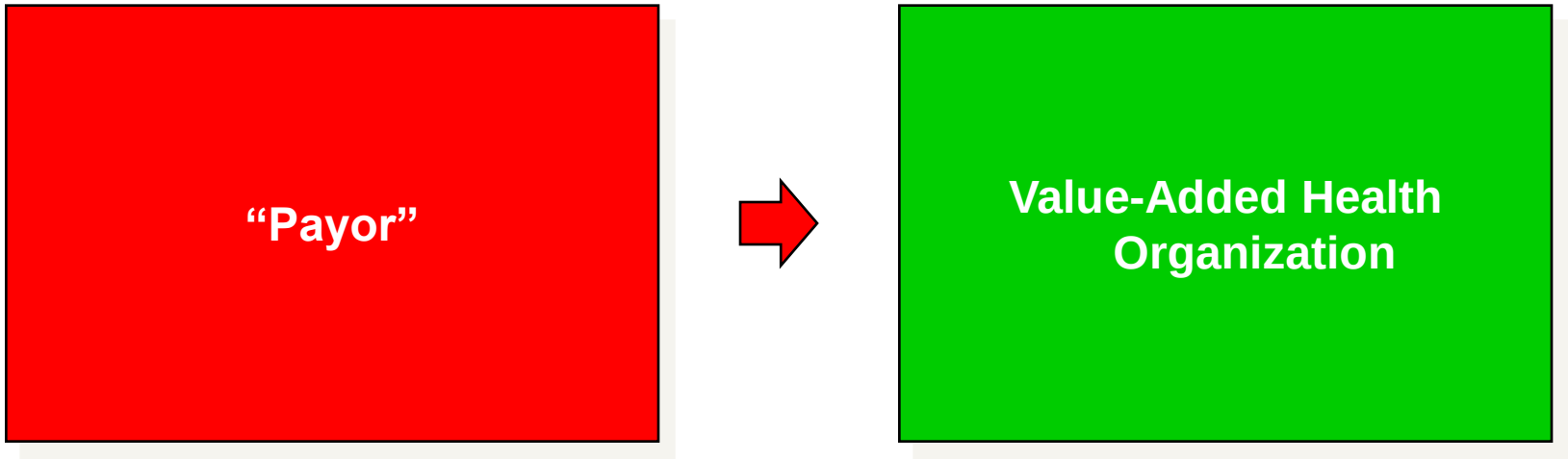
- Diagnostic Centers
- Second Opinions and Telemedicine
- Affiliation Agreements with Independent Provider Organizations
- Locate Convenience Sensitive Services in the Community
- Expand Complex IPU Components (e.g. surgery) to Additional Locations
- Focused Hospitals in Additional Locations

6. Create an Enabling Information Technology Platform

Utilize information technology to enable **restructuring of care delivery** and **measuring results**, rather than treating it as a solution itself

- Common **data definitions**
- Combine **all types of data** (e.g. notes, images) for each patient over time
- Data encompasses the **full care cycle**, including referring entities
- "**Structured**" data vs. free text
- **Templates** for medical conditions to enhance the user interface
- Allowing access and communication among **all involved parties**, including patients
- Architecture that allows **easy extraction of outcome and process measures**
- Interoperability standards enabling communication among **different provider systems**

Value-Based Healthcare Delivery:
Implications for Health Plans



Value-Based Health Care: The Role of Employers

- Employer interests are **more closely aligned with patient interests** than any other system player
  - Employers need healthy, high performing employers
  - Employers bear the costs of chronic health problems and poor quality care

  - The cost of poor health is 2 to 7 times more than the cost of health benefits
    - Absenteeism
    - Presenteeism
- Employers are **uniquely positioned** to improve employee health
  - Daily interactions with employees
  - On-site clinics for quick diagnosis and treatment, prevention, and screening
  - Group culture of wellness

Transforming the Roles of Employers

Old Role	New Role
• Set the goal of **reducing health premium costs**	• Set the goal of **employee health**
• Focus on **direct cost** of health benefits	• Focus on the **overall cost of poor health** (e.g., productivity, lost days)
• Use bargaining power to negotiate **discounts** from health plans and providers	• Work with health plans and providers to improve overall **value** delivered
• **Shift costs to employees** via premium payments, co-payments	• Improve access to **high-value care** (e.g., wellness, prevention, screening, and disease management)
• Evaluate plans and providers based on **process compliance** (P4P)	• Evaluate plans and providers based on **health outcomes**
• **Limit or eliminate the employer role** in health insurance	• Take a leadership role in **expanding the insurance system** to encompass individually purchased plans on favorable terms

A Strategy for U.S. Health Care Reform

Shift Insurance Market :

- Build on the current **employer based system**
- Shift **insurance market competition** by ending discrimination based on pre-existing conditions and re-pricing upon illness
- Create large statewide and multistate **insurance pools to** aggregate volume and buying power and provide a viable insurance option for **individuals and small groups**, coupled with a **reinsurance system** for high cost individuals
- Phase in **income-based subsidies** on a sliding scale for lower income individuals, at a pace that reflects progress of value improvements
- Once viable insurance options are established, **mandate the purchase of health insurance** for higher income and ultimately all Americans
- Give employers a choice of providing insurance or a payroll tax based on the proportion of employees **requiring public assistance**

A Strategy for U.S. Health Care Reform

Restructure Delivery:

- Establish a universal and mandatory **outcomes measurement and reporting system**
  - **Experience reporting** as an interim step
- Shift reimbursement systems to **bundled payment for cycles of care** instead of payments for discrete services
  - Including primary/preventive care bundles for patient segments
- **Remove obstacles to restructuring** of health care delivery around medical conditions
  - E. g. Stark Laws, Corporate Practice of Medicine, Anti-kickback, Malpractice
- **Open up value-based competition** for patients within and across state boundaries
  - E.g. Harmonize state licensing, insurance rules
  - **Minimum volume standards** as an interim step
- Mandate **EMR adoption** that enables integrated care and supports outcome measurement
  - National **standards** for data definitions, communication, and aggregation
  - **Software as a service** model for smaller providers
- Set rules that encourage **responsibility of individuals** for their health and health care through incentives for healthy behavior