From Episodes to Bundles: A Mechanism For Provider Accountability

Fair, Evidence-based Solutions. Real and Lasting Change.

SAS Institute

May 10th 2012

What is HCI^3?

- Not-for-profit emanating from the combination of Bridges To Excellence, Inc. and PROMETHEUS Payment, Inc.
- Engaged in many Foundation-funded and private sector pilots and initiatives
- Focus of organization spans the spectrum of payment reform, excluding the two poles – basic FFS and capitation
- The goal is to improve quality and affordability of health care in the US

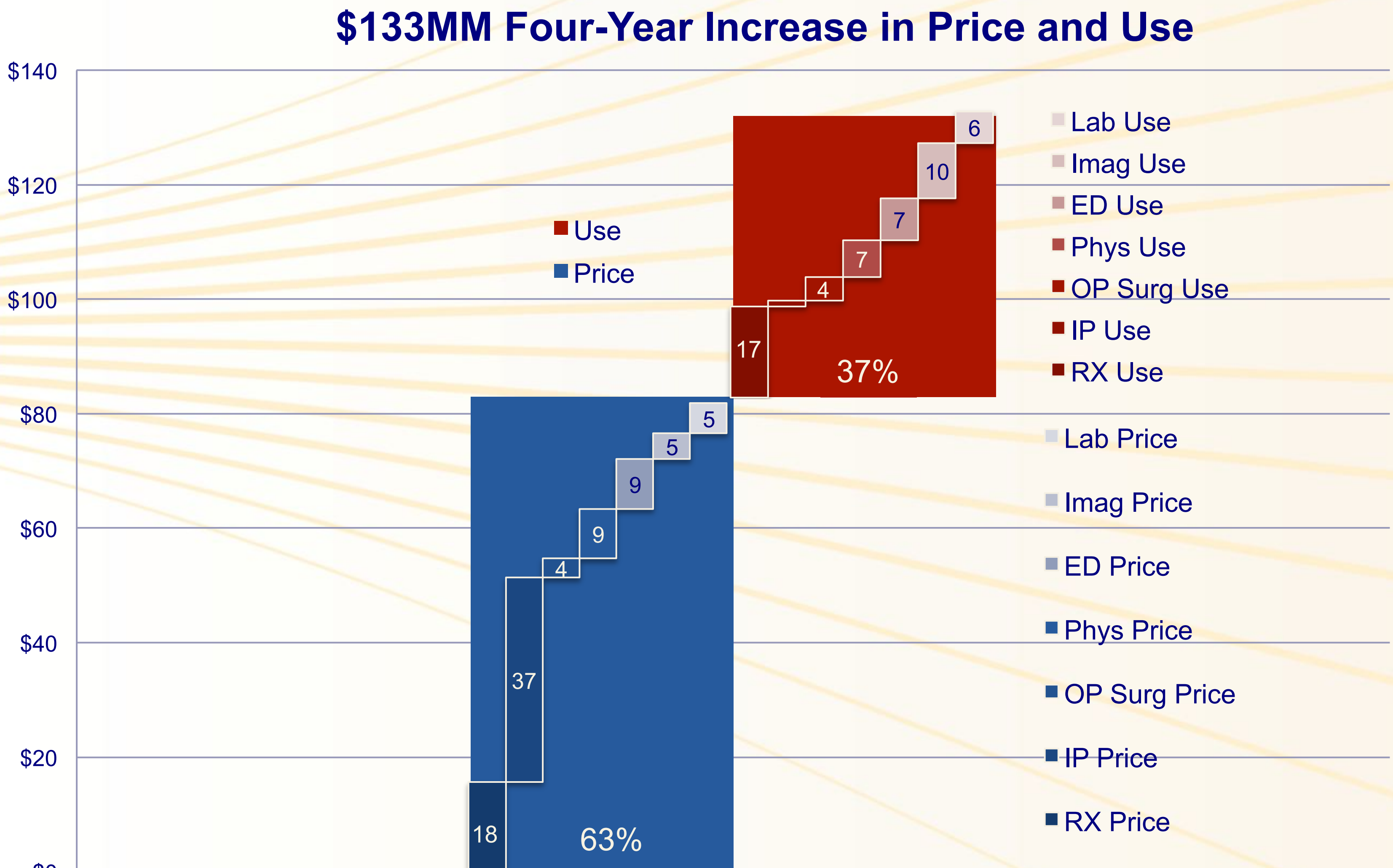
Factors affecting costs of care

- An episode = [Price/Service * Type of Service * Frequency of Service] for a defined period of a defined medical event
  - Price per service – even very low resource users can have expensive episodes (e.g. Mayo)
  - Type of service – the service or component selected will affect total episode cost (e.g. knee implant)
  - Frequency of service – an average price for a procedure can lead to an expensive episode if overused (e.g. anesthesia for a colonoscopy)

Provider actions affecting cost of care (the three "Ps")

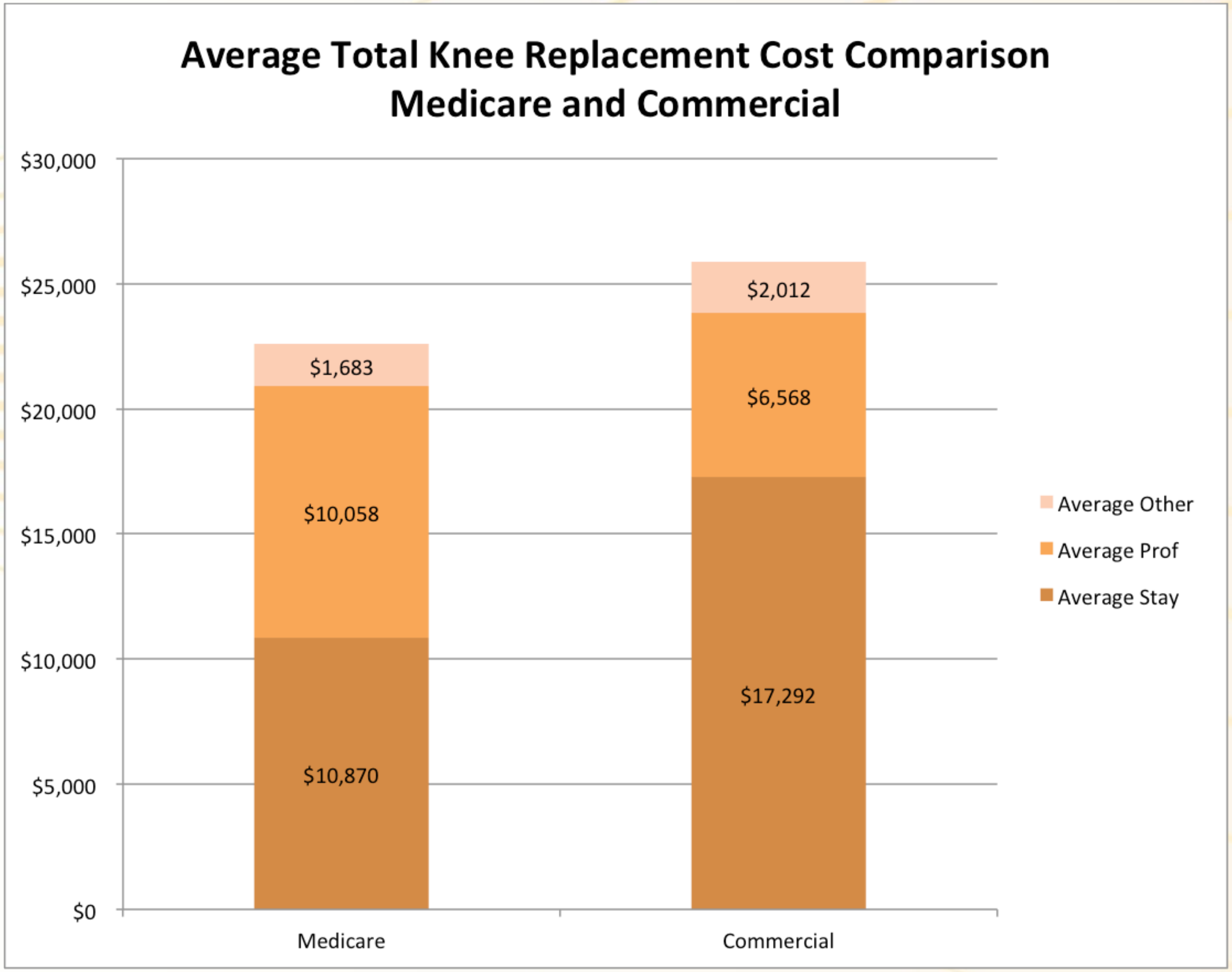
- Price – leveraging market position to extract a higher than average market price
  - Absent other signals, price is considered a proxy for quality by consumers (Hibbard, 2012)
- Practice patterns – conservative or aggressive; regional practices (MN v. FL); conflicts of interest (e.g. surgeons with patents on devices, need to fill beds)
- Performance – care defects leads to costs for potentially avoidable complications

The effect of the first P – Price



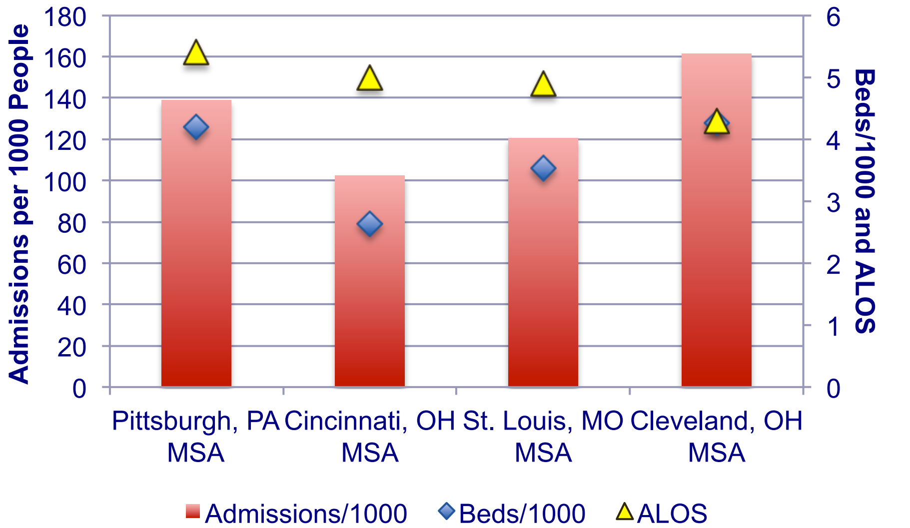
Regional employer, 2006-2010 Total Health Plan Costs

That effect on stay costs for Total Knee Replacements



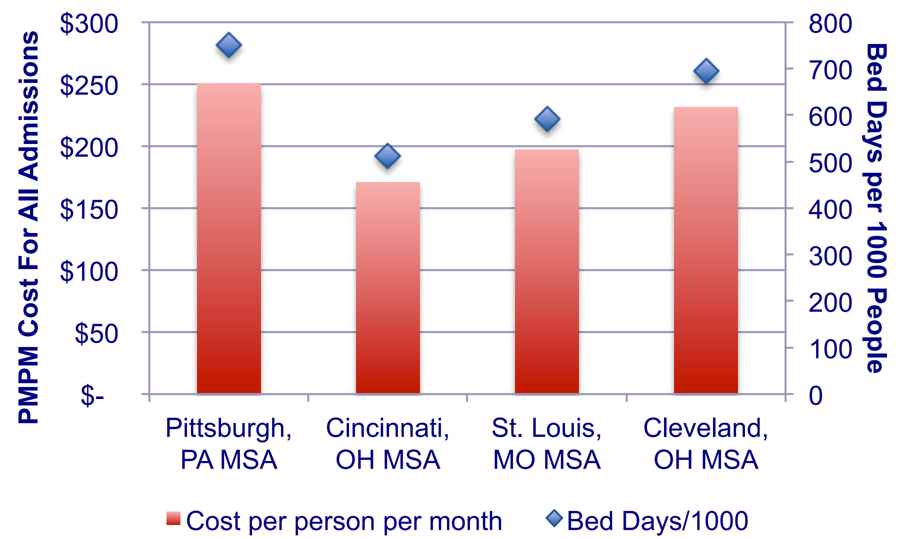
2011 Analysis National Database of Commercially Insured, and nationally representative sample of Medicare beneficiaries

The effect of the second P – Practice Patterns/Use

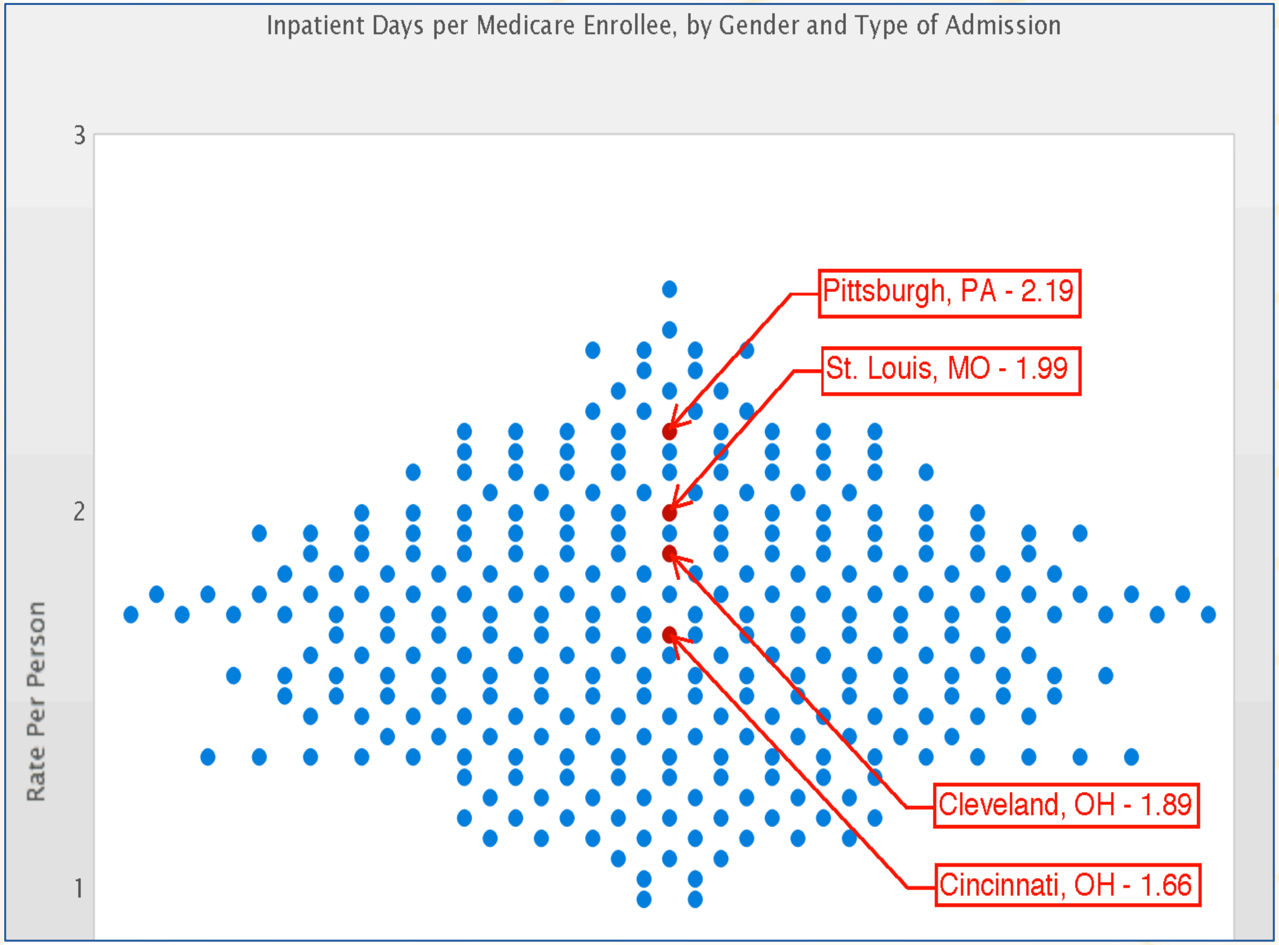


Pittsburgh has 40% more admissions per 1000 residents than Cincinnati, lots of beds to fill, and the highest LOS of the four MSAs. This results in employers in Pittsburgh spending $125PMPM more than employers in Cincinnati.

PBGH 2011, Pittsburgh Healthcare Market Analysis

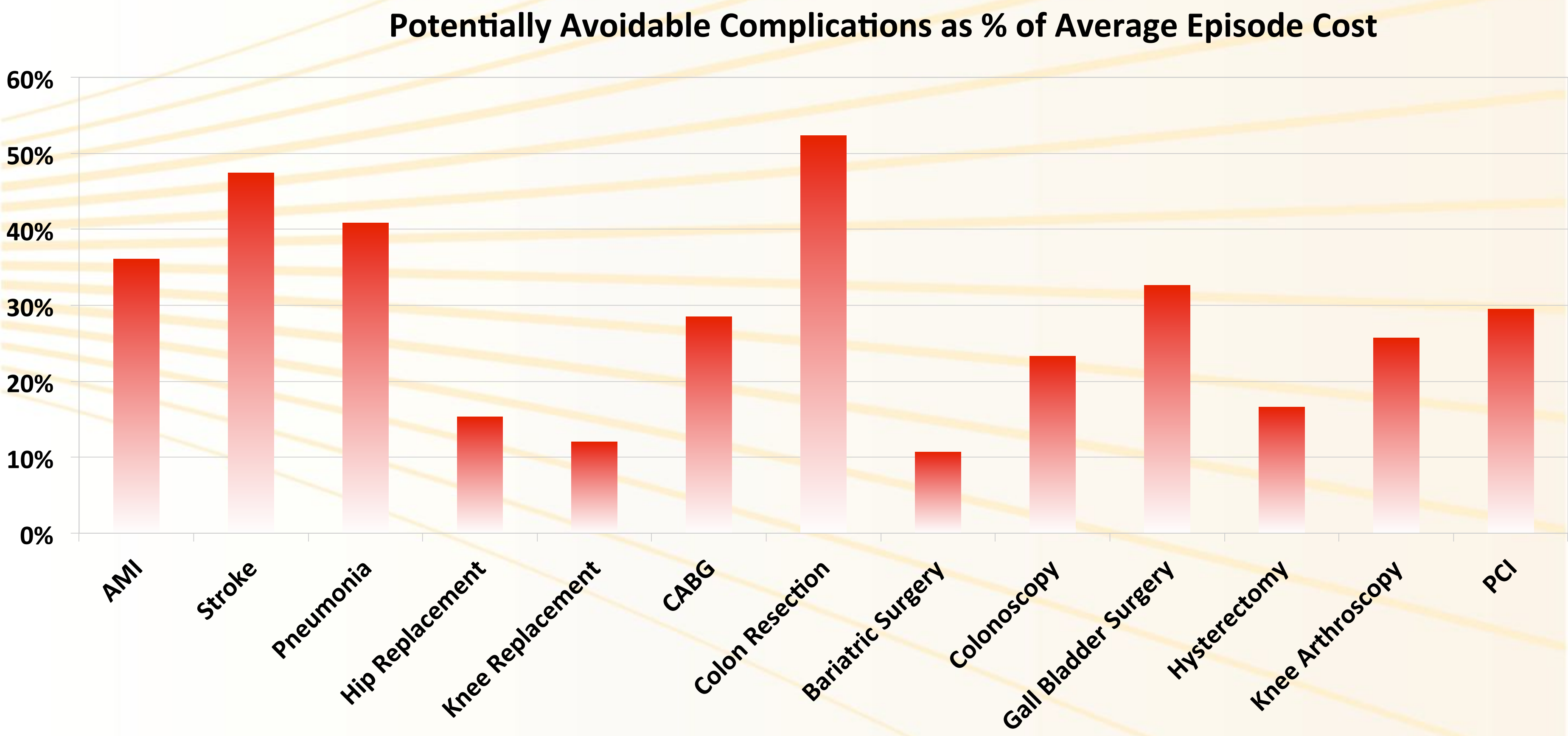


A similar view from the Dartmouth Atlas



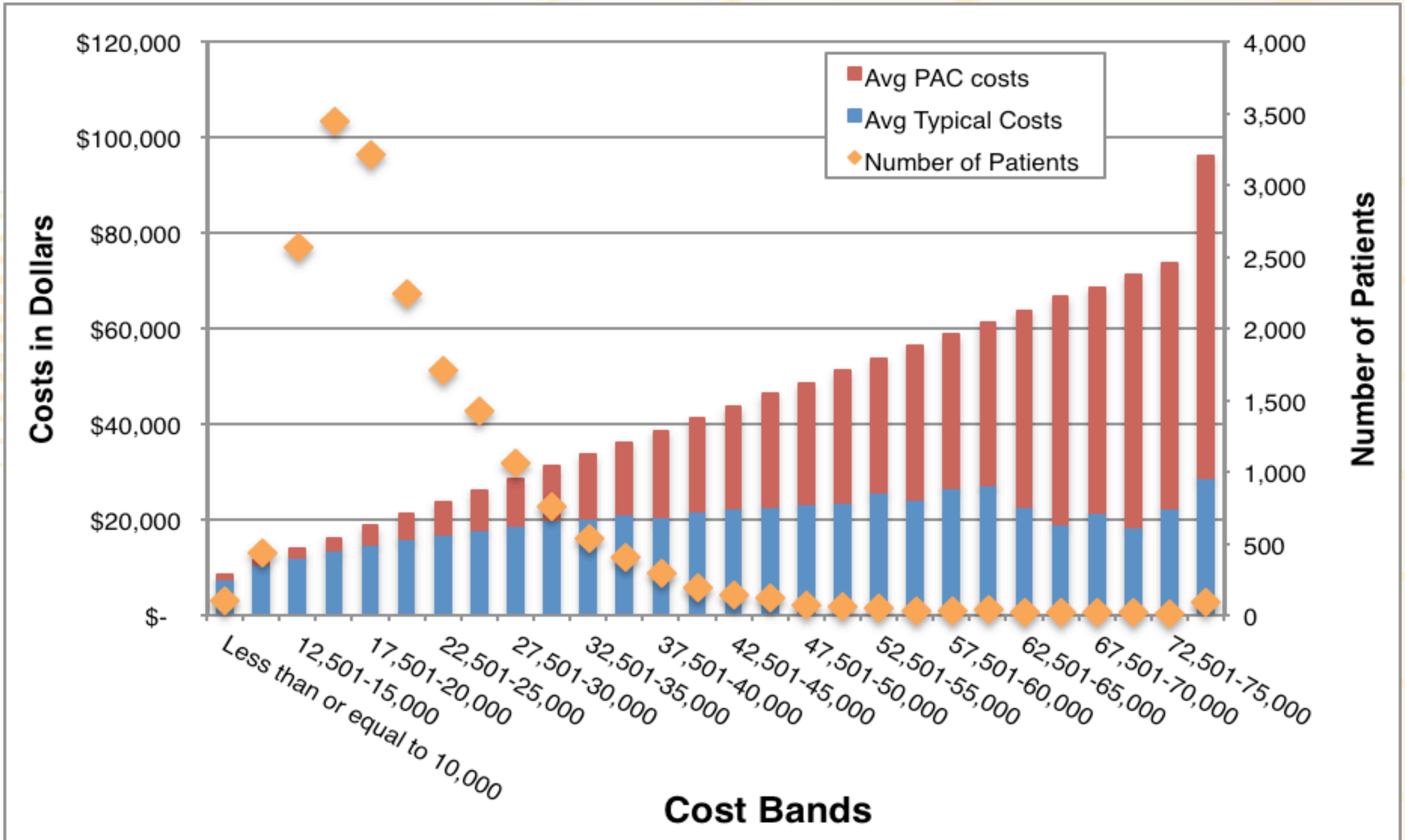
Pittsburgh and Cincinnati retain the same rank in the Dartmouth Atlas as they have in the PBGH analysis, while St. Louis and Cleveland are flipped. This might suggest that the excess use in Cleveland comes from the private sector.

The effect of the third P – Performance



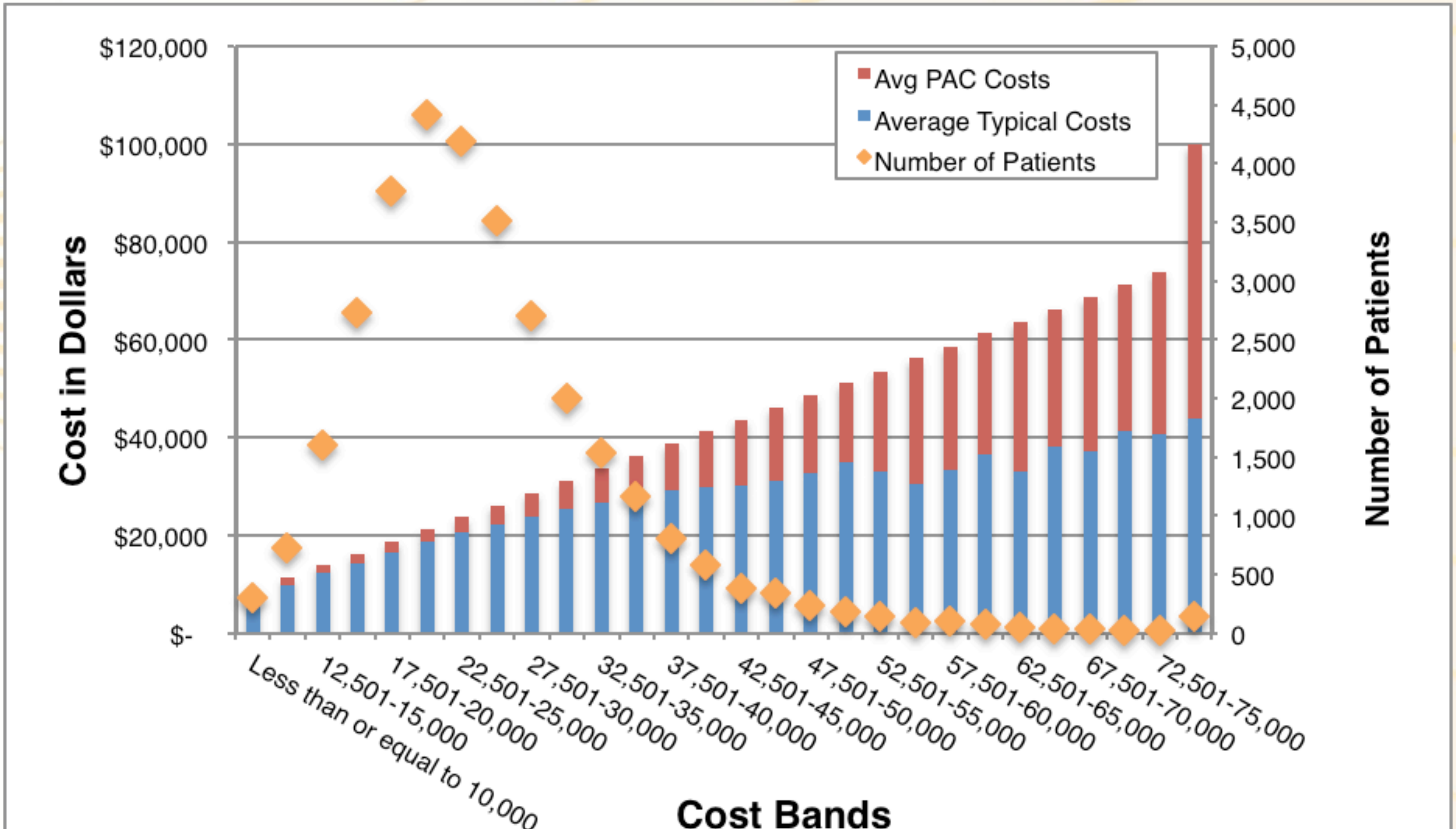
2011 Analysis of a sample of Medicare claims (Parts A and B only)

Average typical/PAC costs for TKR – Medicare



2011 Analysis of a sample of Medicare claims (Parts A and B only)

Average typical/PAC costs for TKR – Commercially Insured

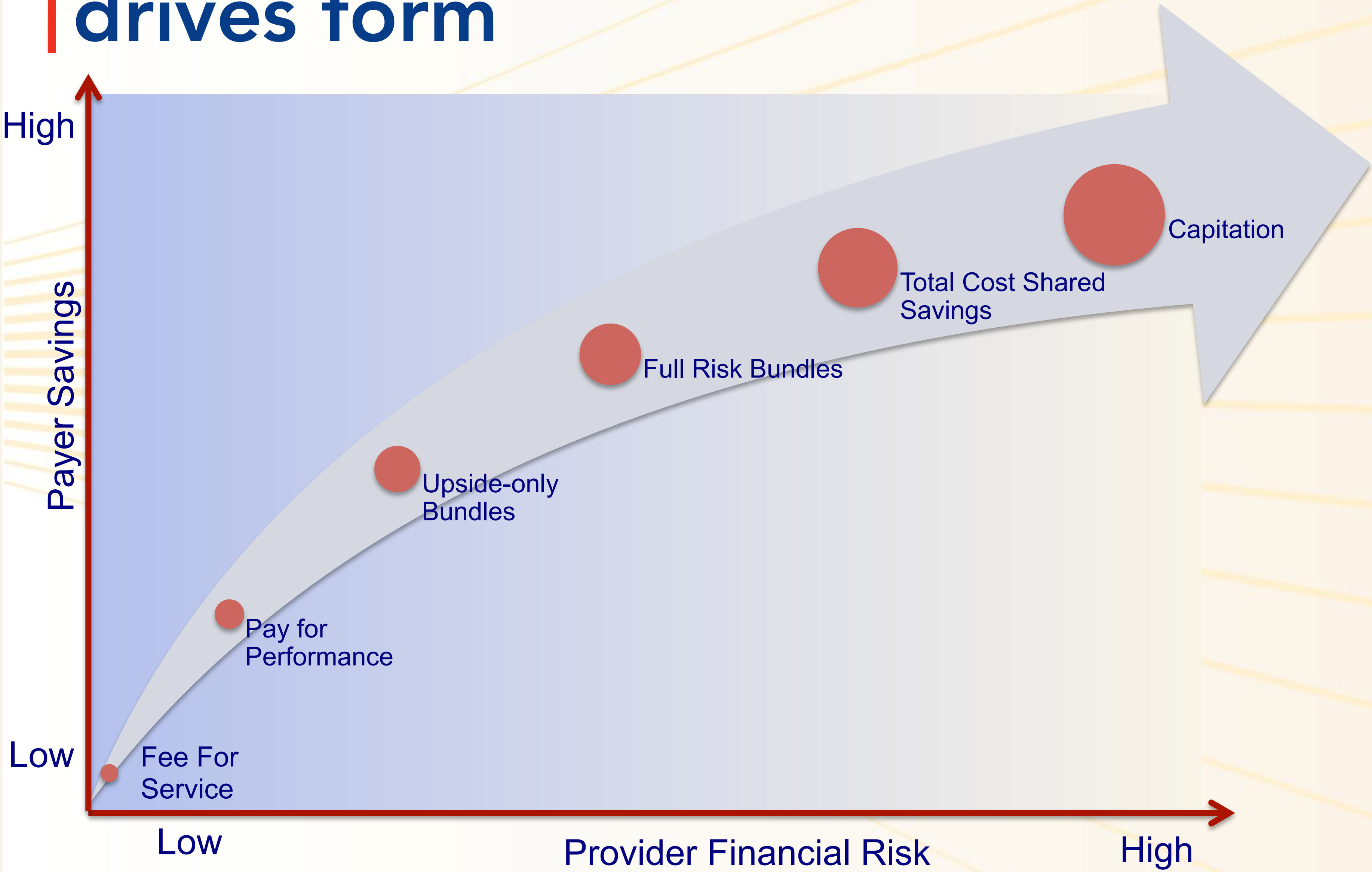


2011 Analysis, National Database of Commercially Insured

Given the three Ps, how are Payers responding?

- Medicare/the Affordable Care Act:
  - Burning platform for basic FFS
    - Penalties for excessive readmissions
    - Penalties for excessive patient safety failures
    - Value-based modifiers for Hospitals and for Physicians
  - Center for Medicare & Medicaid Innovation (CMMI)
    - ACO Gain-sharing, ACO Pioneer and ACO Advanced Payment Initiative
    - Bundled Payment for Care Improvement
    - Comprehensive Primary Care Initiative
- Private sector Payers:
  - Gain-sharing/ACO-type contracts
  - Bundled payments
  - Patient-centered Medical Homes

Payment drives function, which drives form



The consumer's view of provider payment

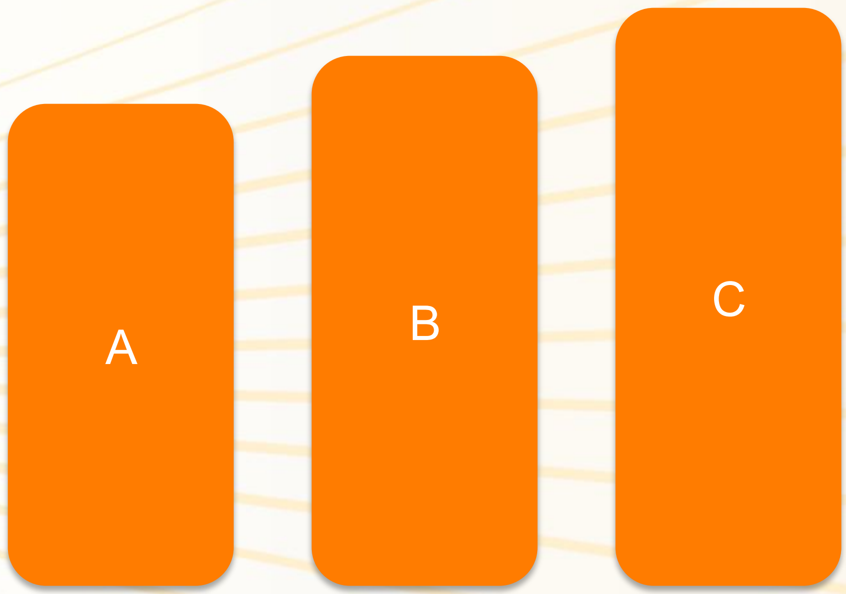
Fee for Service

"Bundle"

Capitation

Our Mission: True value-based purchasing

Episode of Total Knee Replacement

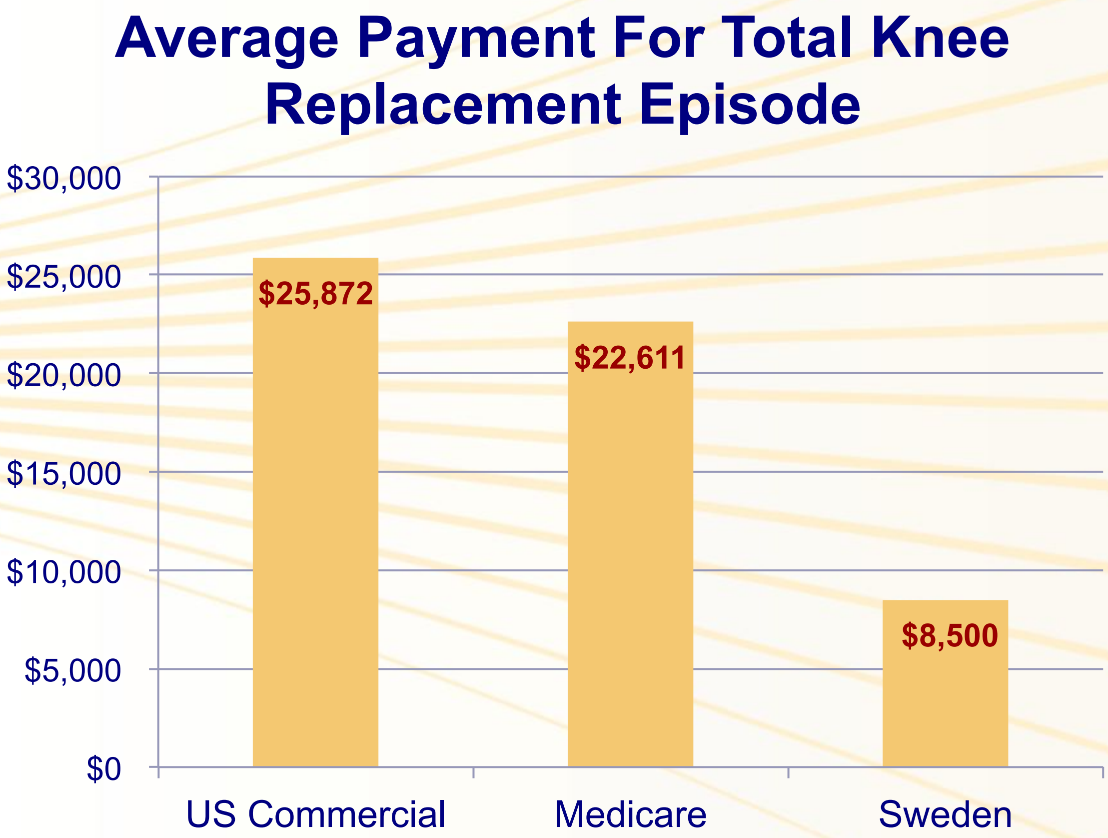


Each “team” can improve by (1) increasing their quality score, (2) decreasing their episode price – provided they meet the min Q score of 80

Episode Cost	$18,500	$20,500	$25,000
Quality Score	75	90	95
Value Index	247	228	263
Co-pay	$1,710	$0	$3,150

Value Index = Episode Price / Quality Score
Co-pay A = (247-228) * 90
Co-pay C = (263-228) * 90

If it was your money and you had a choice…



US Insurers and Employers are paying, on average, 15% more for the same procedure in the same facility than Medicare. Stockholm County pays a global fee of $8,500 for a 5-year warrantied TKR, compared to an average $22,600 in fee-for-service payments by Medicare for a no-warranty TKR.

- US Commercial and Medicare Average Price per Episode is based on a 2011 analysis of representative samples of commercially insured and Medicare members by HCI3 using the ECR Analytics version 3.6.
- Sweden's Price per Episode is set by Stockholm County for County Hospitals and Physicians performing TKR procedures.

Establishing new mechanisms of financial accountability

- Providers are at risk (and at gain) for differences between negotiated bundles and actual costs of producing the care covered under the bundle
  - Payers continue to be accountable for the risk that an episode will occur
- Complications are the providers' responsibility, and not the payer's
  - Implicit (or explicit) warranties are a powerful signal for consumers on the quality of care offered

Breaking the barriers to scaling Bundled Payments

- **Lack of standard definitions for Episodes** – The ACA calls for the development of an Episode Grouper by CMS – vendor selected and working on development of episodes
  - HCI^3 and SAS are developing a new version of HCI^3's episode analytics – we will aim to harmonize episode definitions
- **No pathway for comprehensive play by CMS** – The CMMI launched the Bundled Payment for Care Improvement in August 2011 and applications are due end of June
  - HCI^3 and Brandeis University developed a SAS-based application to analyze Medicare data for the BP pilot
- **Lack of operational infrastructure** – There are now three vendors currently competing for business – TriZetto, McKesson and MedAssets

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