



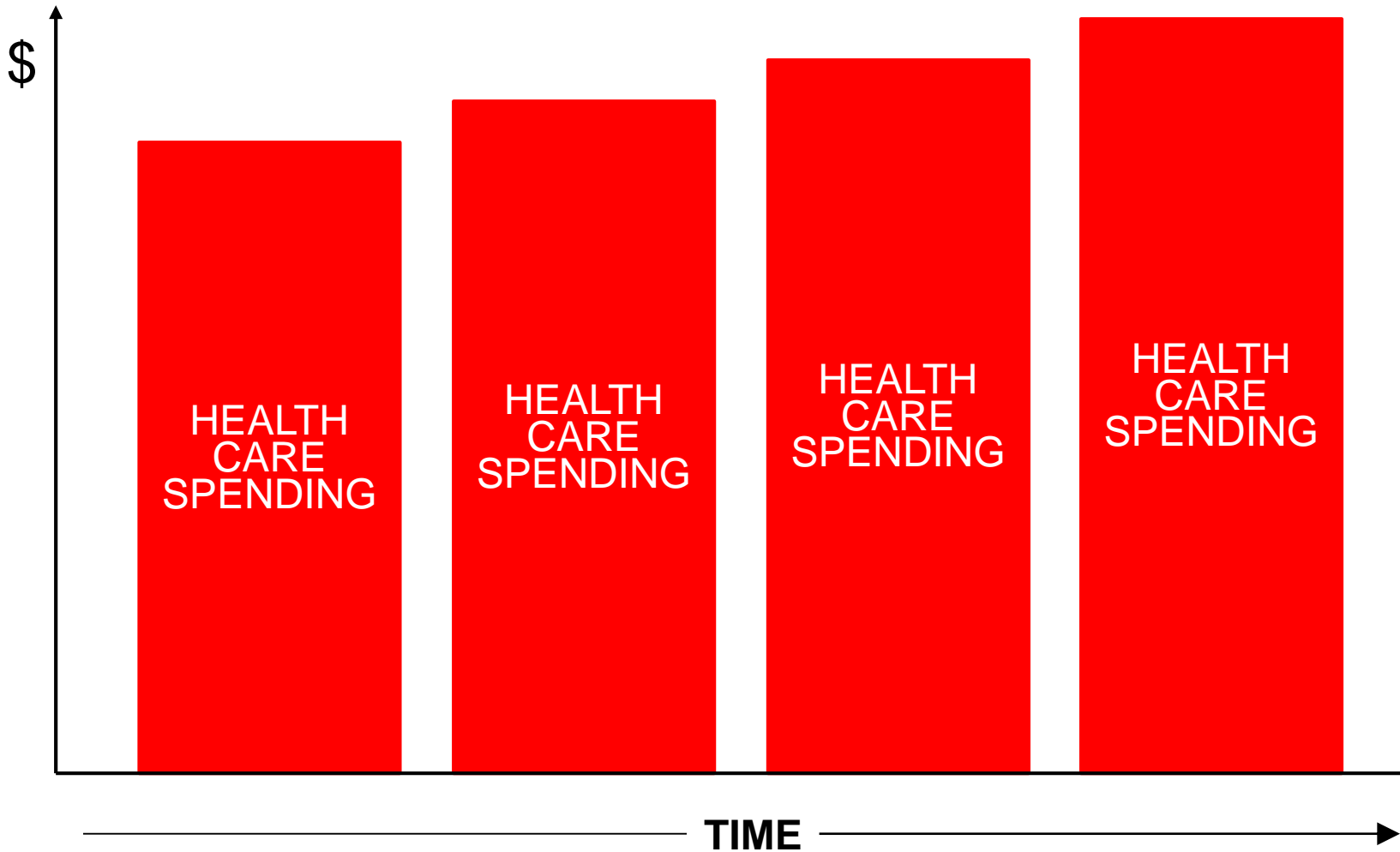
WIN-WIN-WIN APPROACHES TO MATERNITY CARE

How Payment Reform Can Enable Better Care for Mothers & Babies and Lower Medicaid Spending

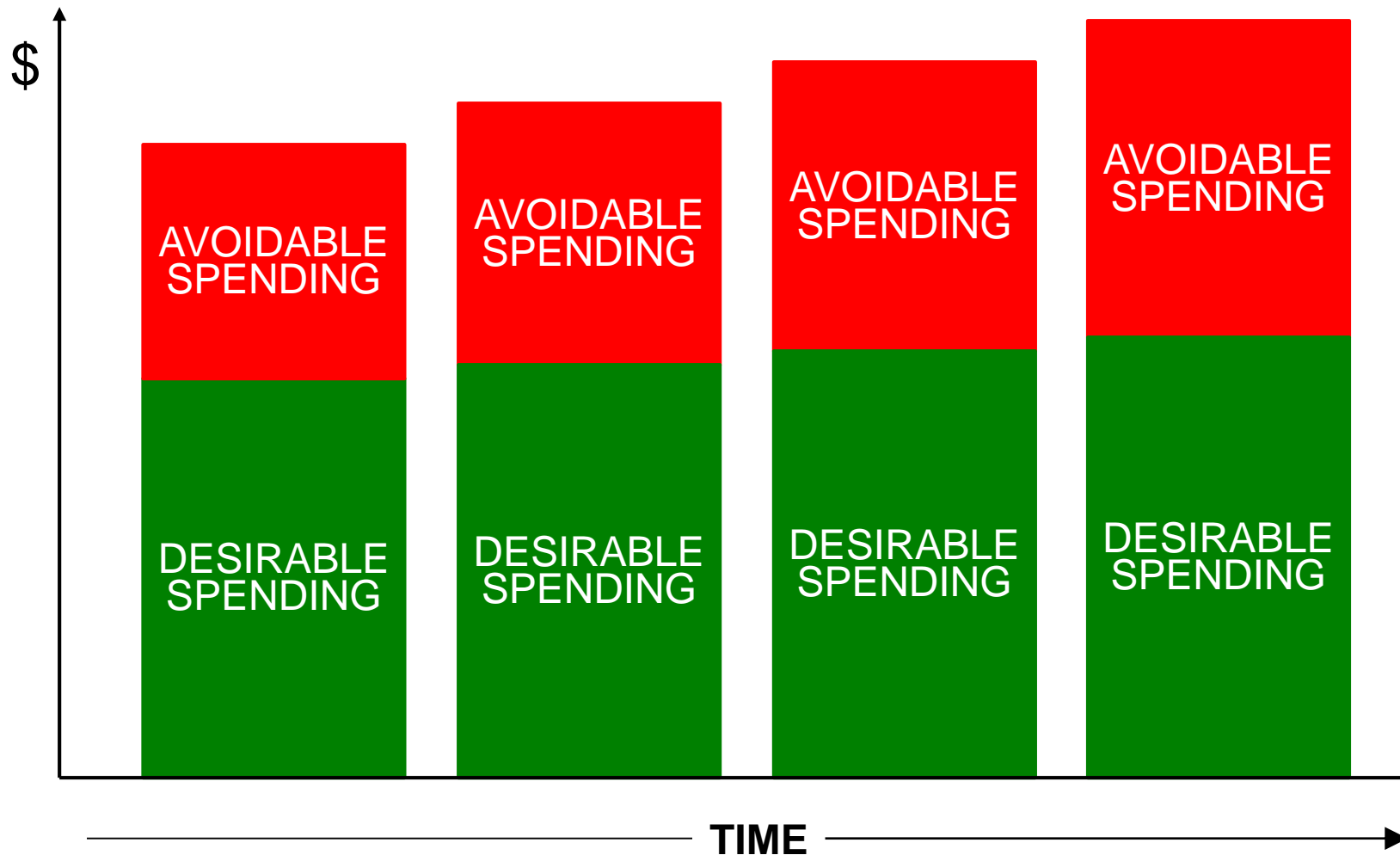
Harold D. Miller
President and CEO
Center for Healthcare Quality and Payment Reform

www.CHQPR.org

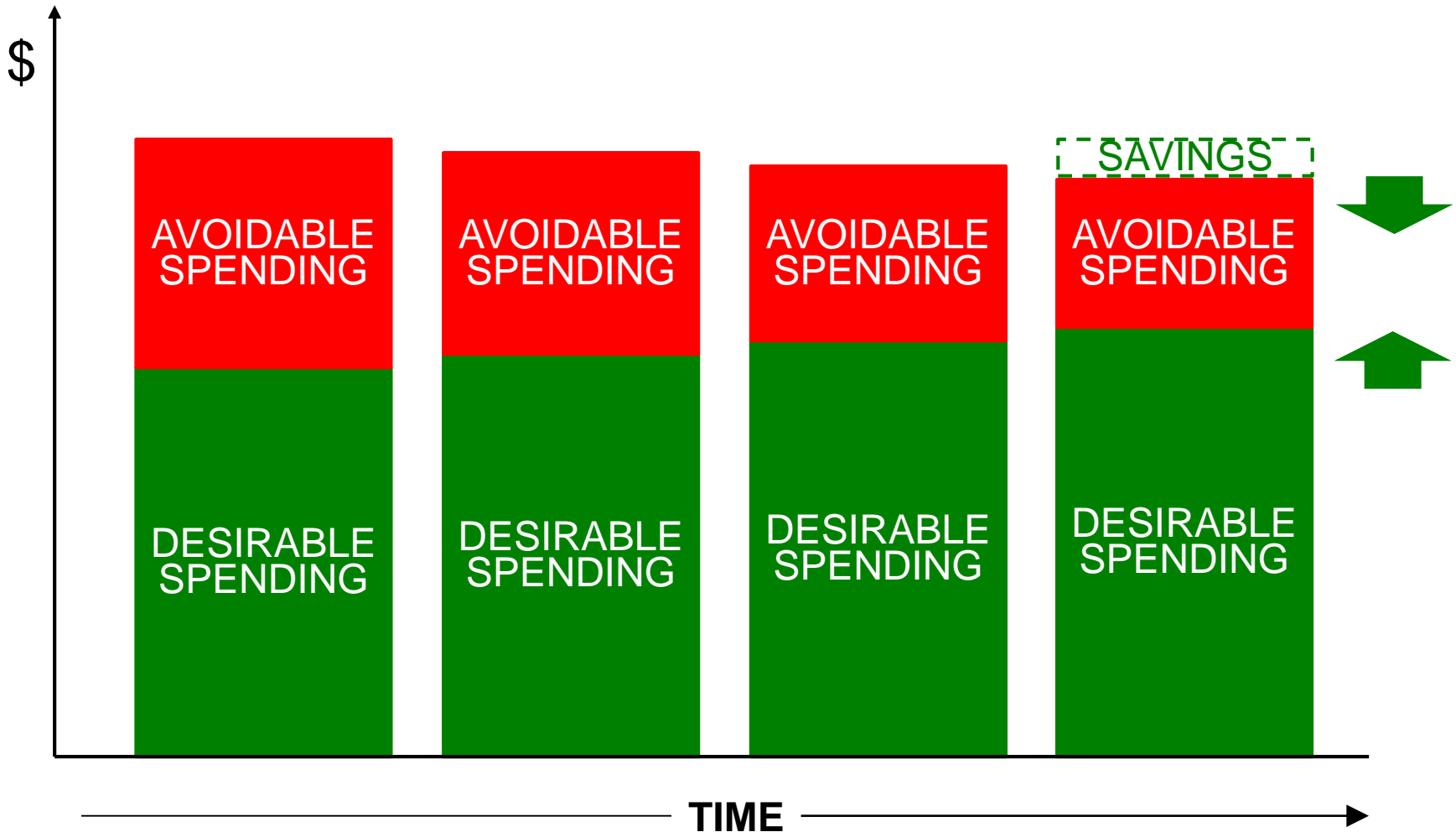
The Problem of High and Growing Healthcare Spending



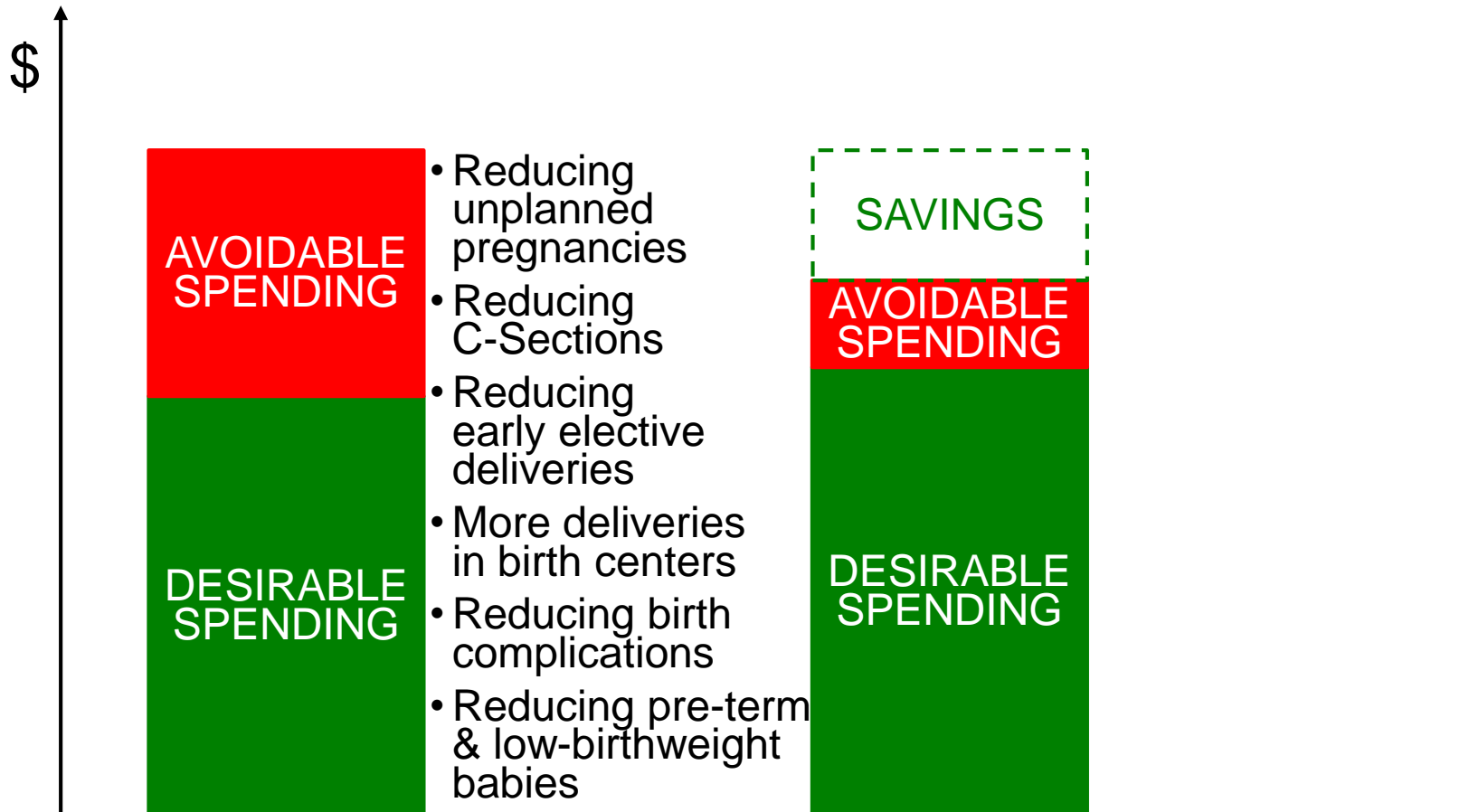
The Opportunity: Spending That is Unnecessary or Avoidable



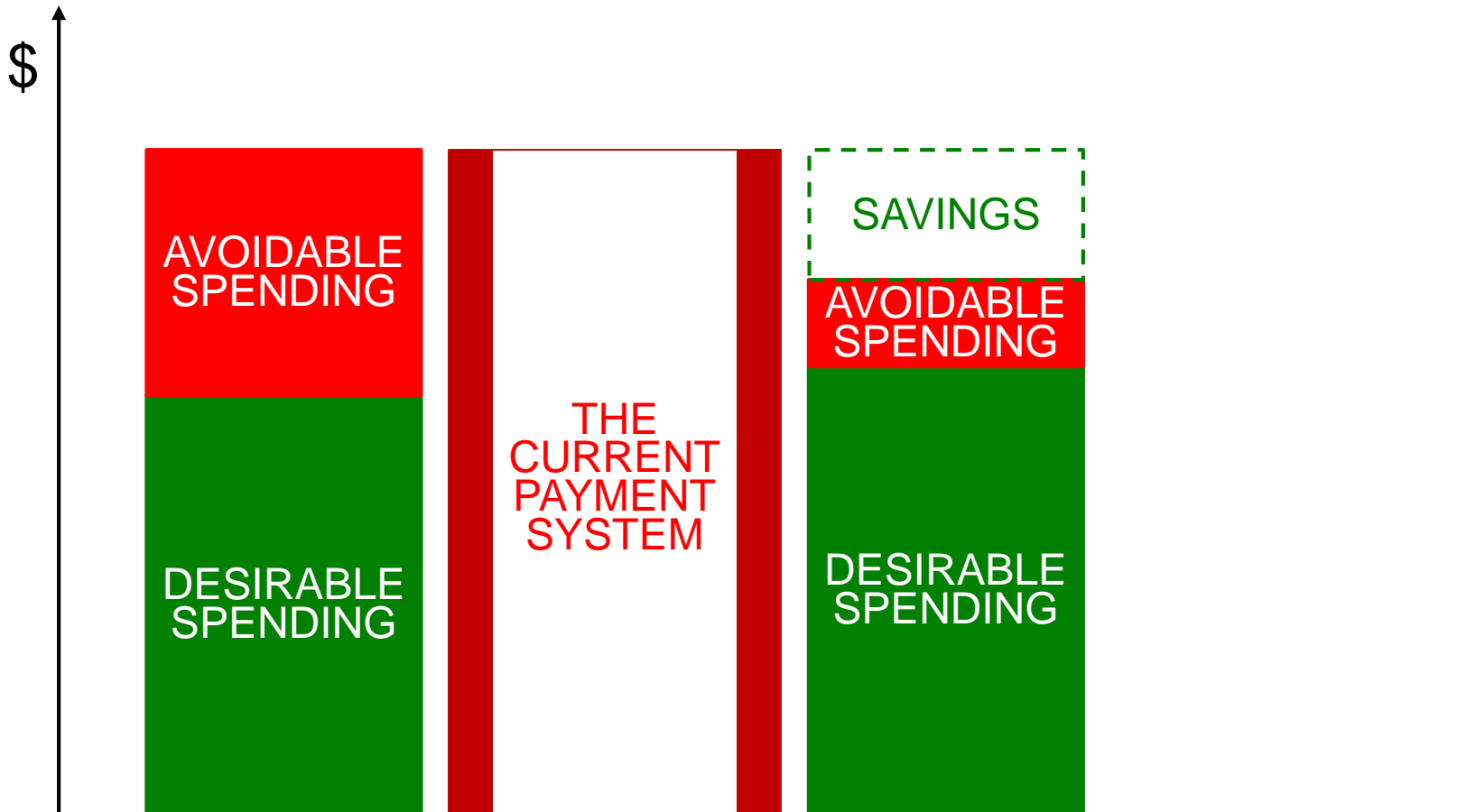
The Goal: Less Avoidable \$, More Desirable \$, Less Total \$



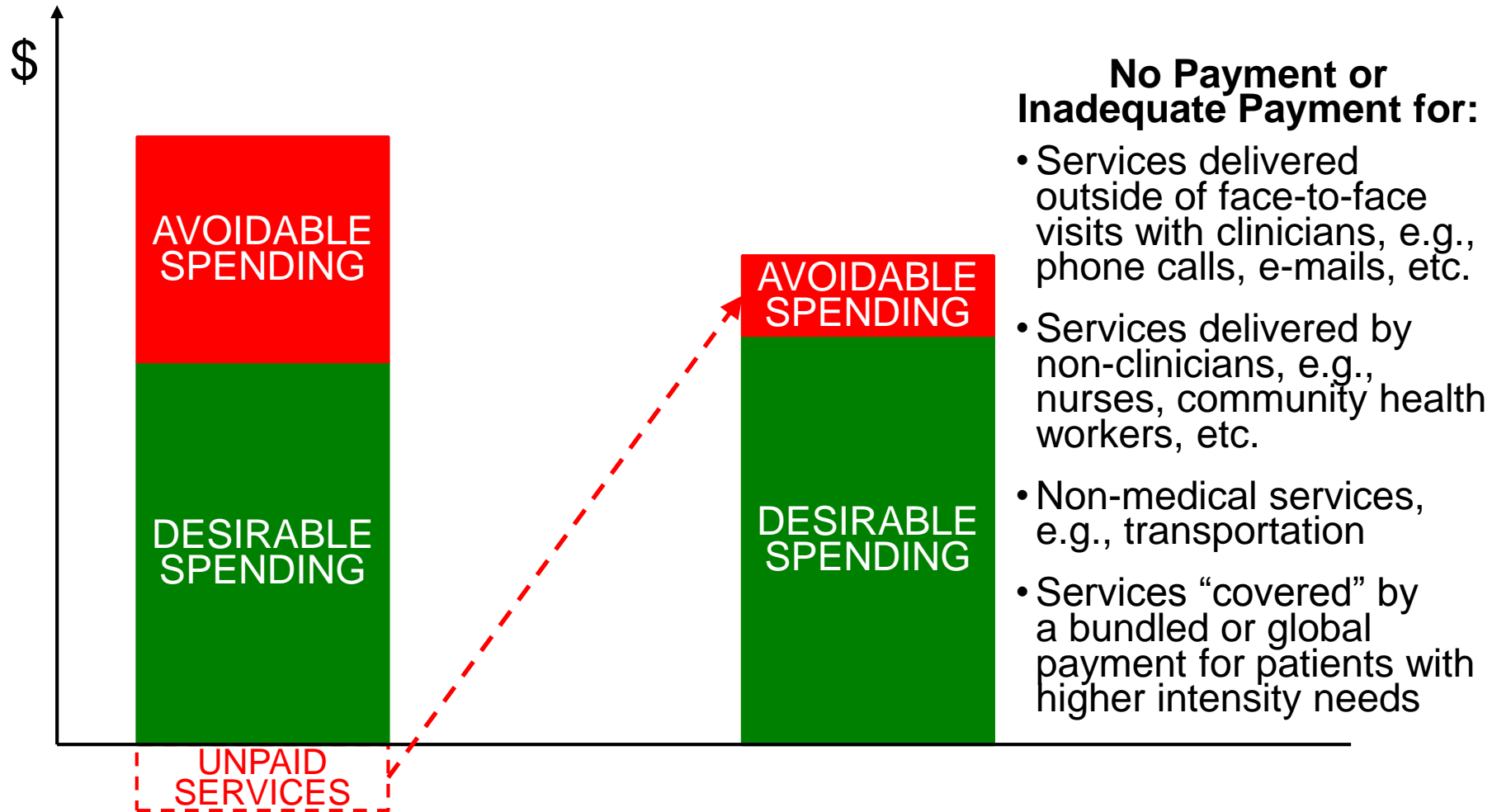
Significant Opportunities to Reduce Maternity Care Spending



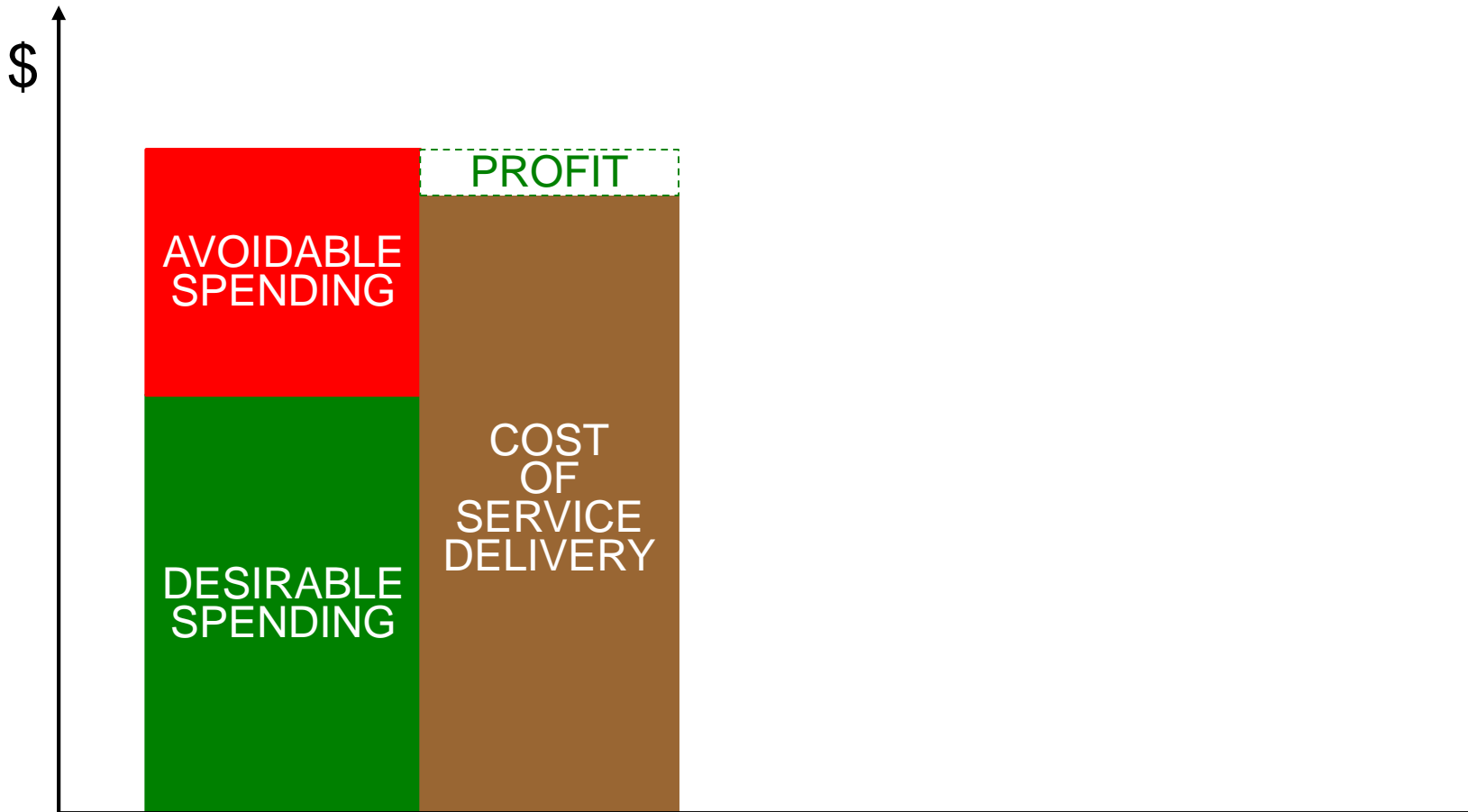
A Major Barrier: The Current Payment System



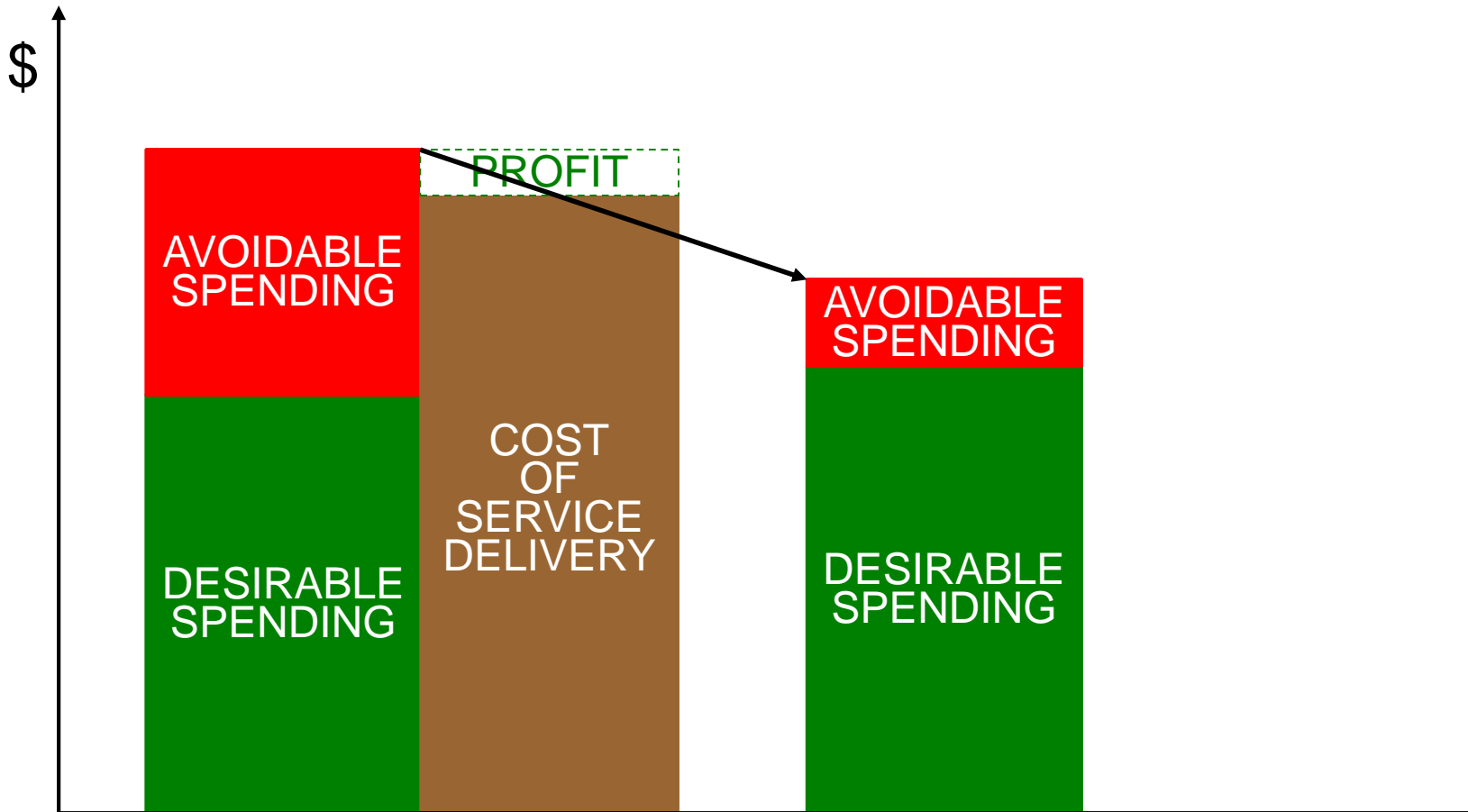
Barrier #1: No \$ or Inadequate \$ for High-Value Services



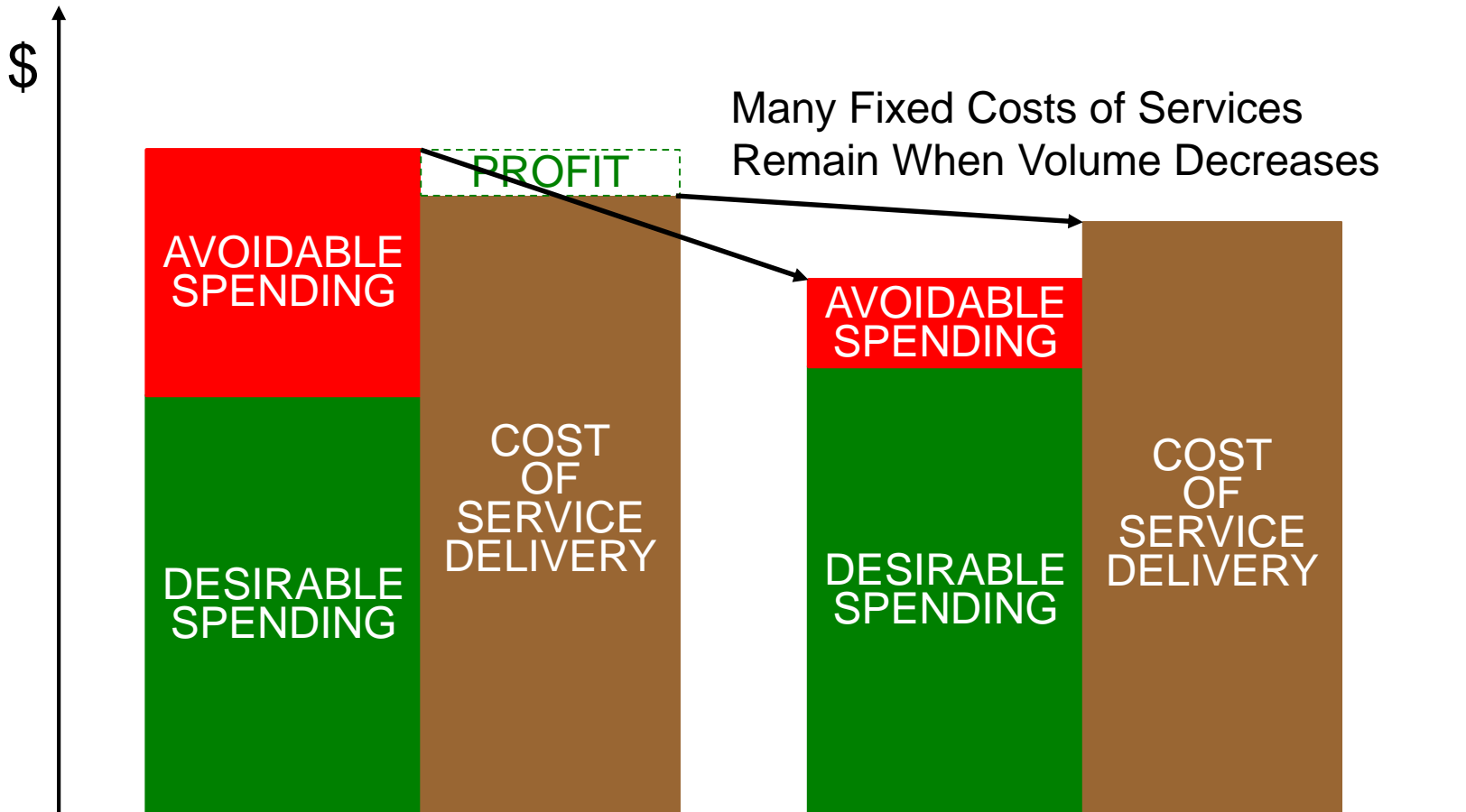
Barrier #2: Avoidable Spending is Revenue for the Providers...



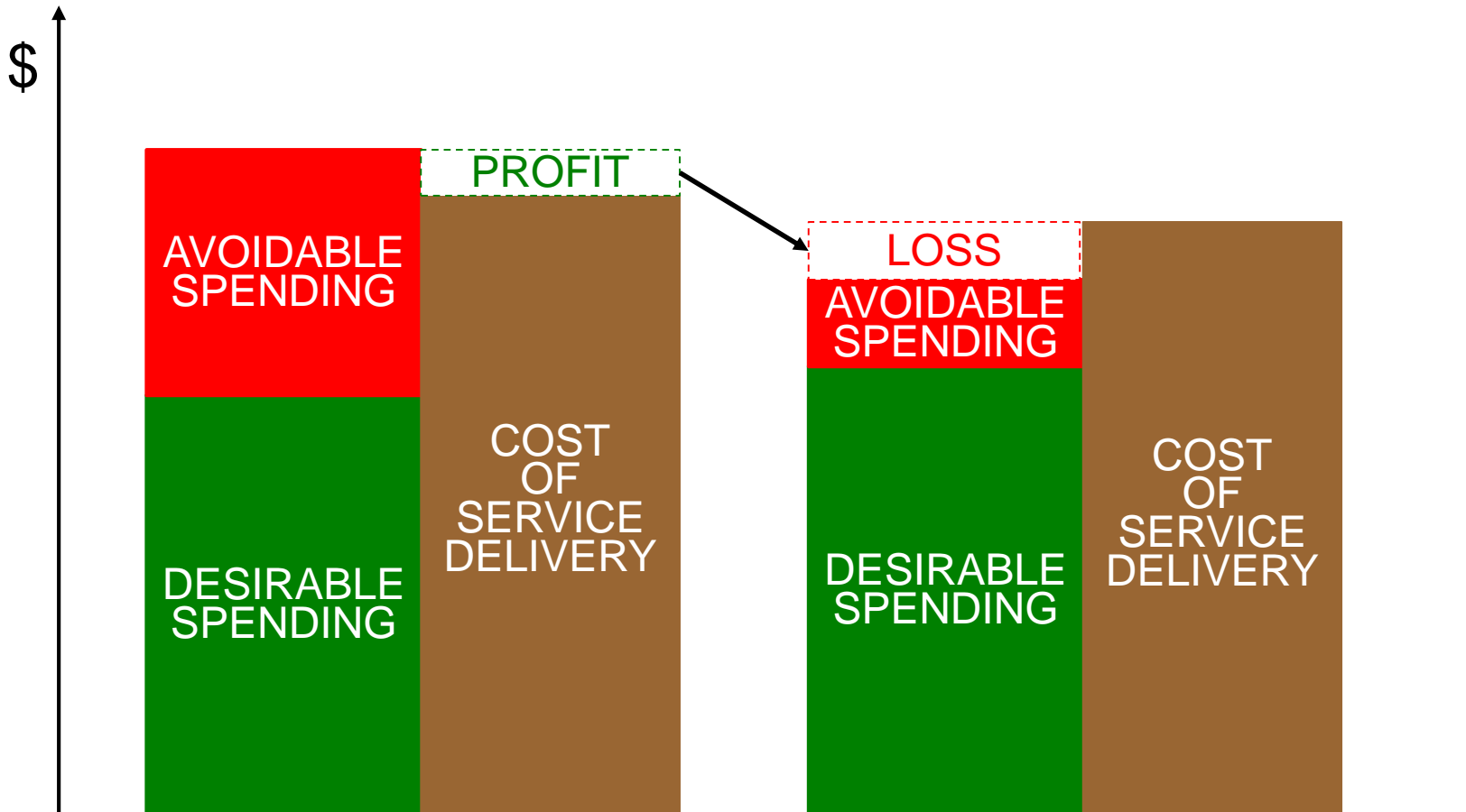
...And When Avoidable Services Aren't Delivered...



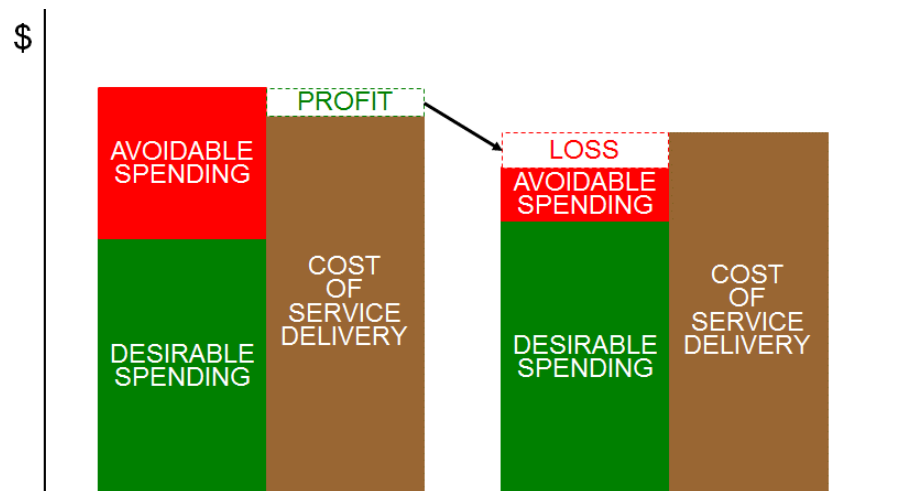
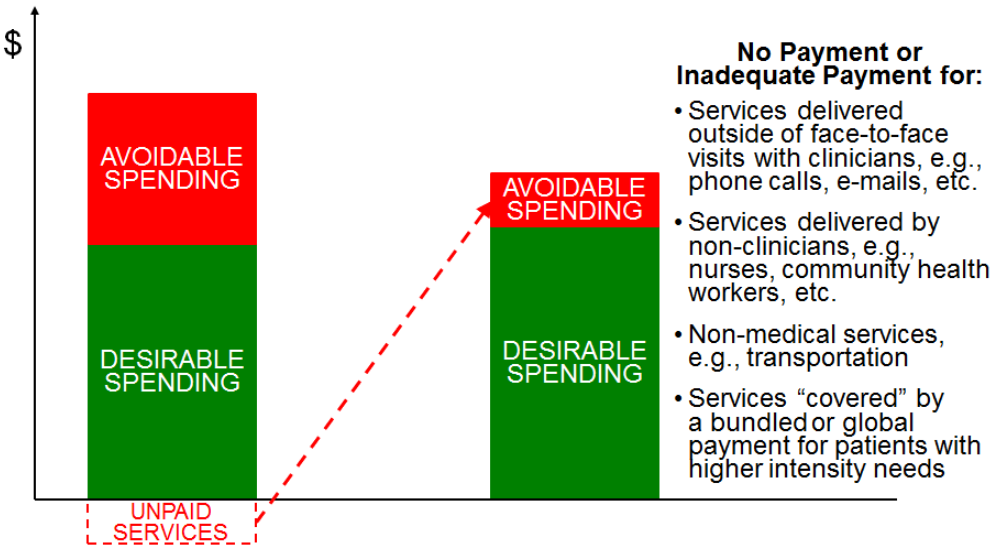
...Providers' Fixed Costs Don't Disappear...



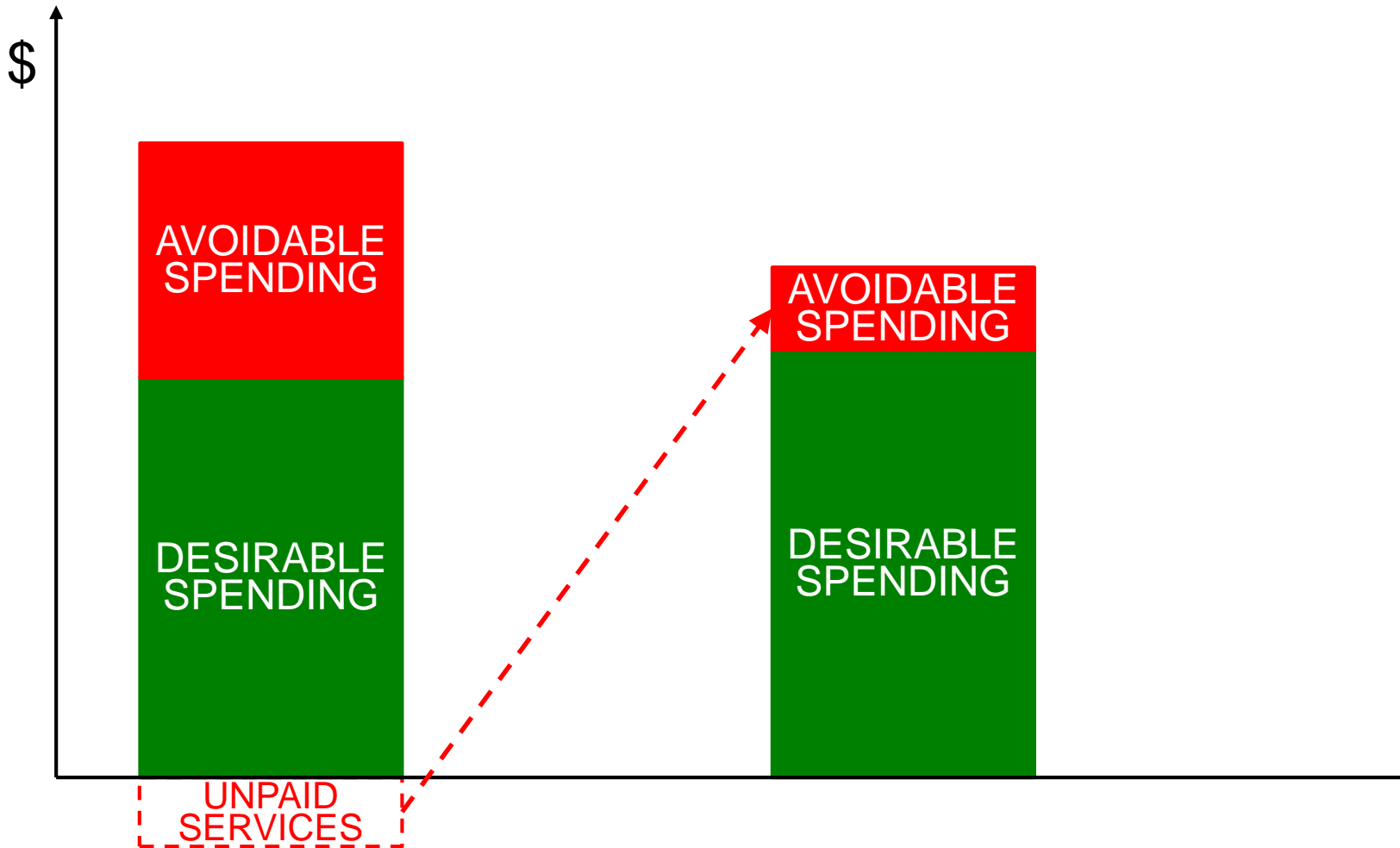
...Leaving Providers With Losses (or Bigger Losses Than Today)



A Payment *Change* isn't *Reform* Unless It *Removes the Barriers*



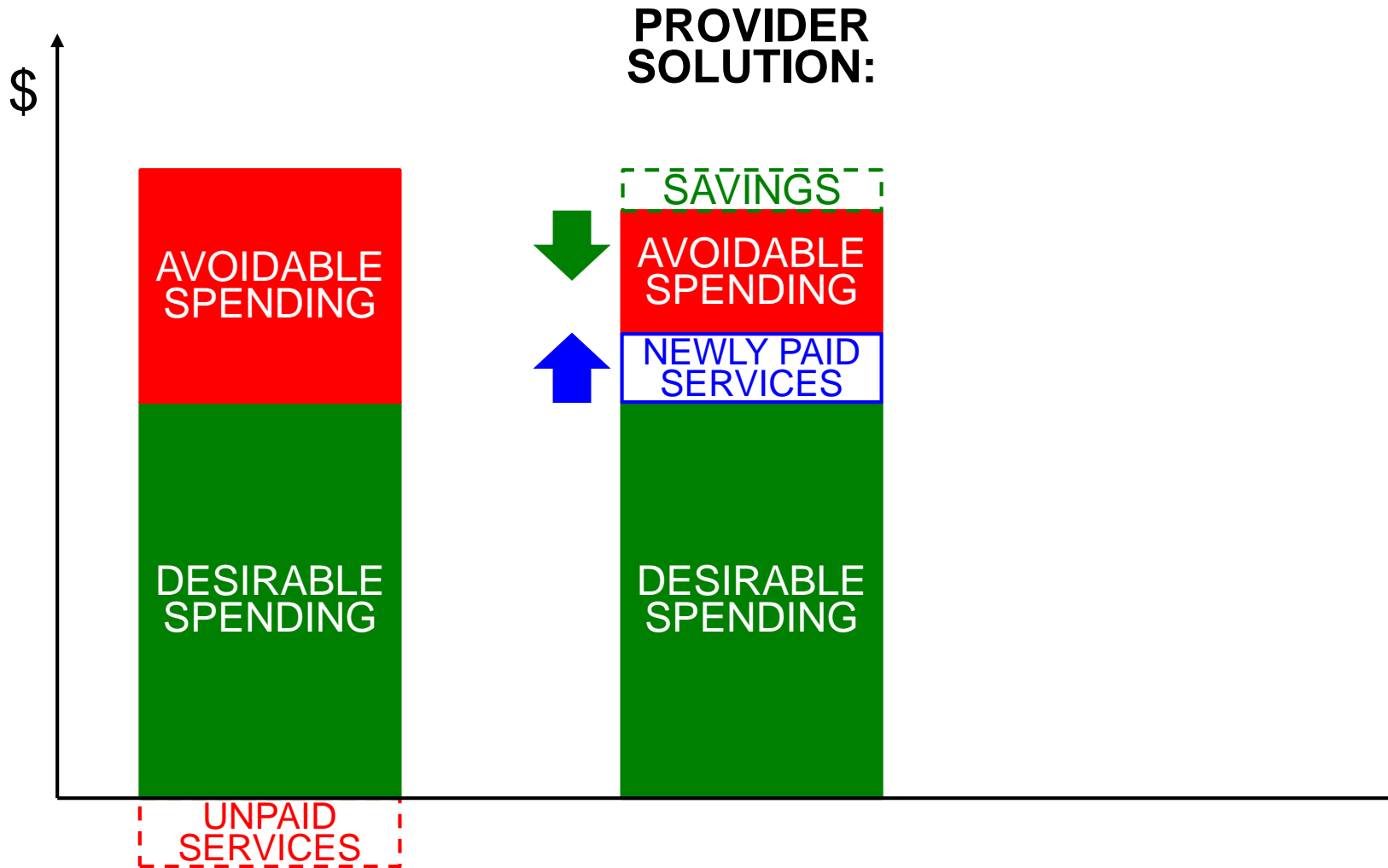
Today's Focus: Paying for High-Value Services



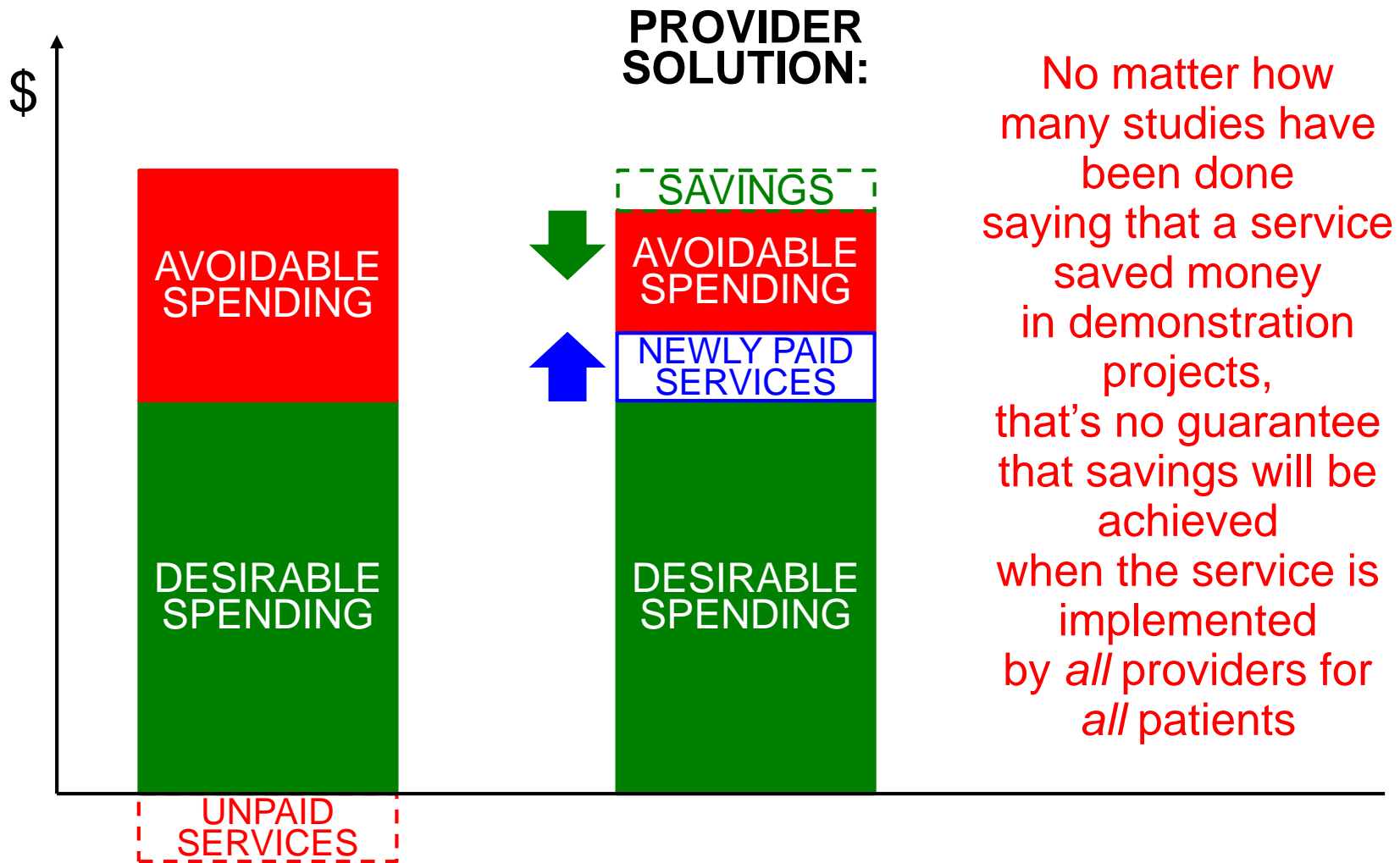
Most Current “Payment Reform” Proposals Are Problematic

- Provider approach
- Payer approach

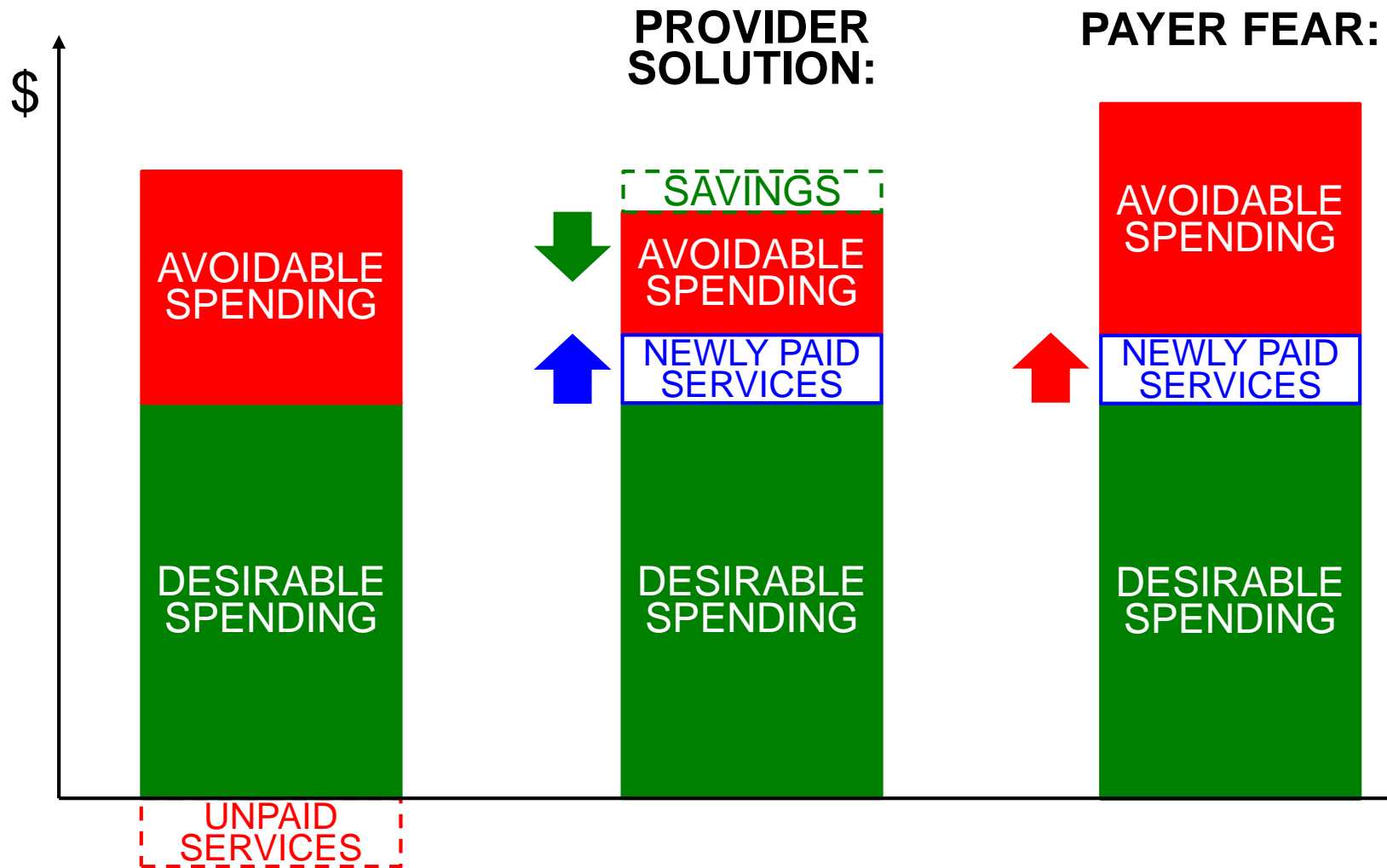
Provider Approach: “Trust Us” (“Studies Say It Will Save Money”)



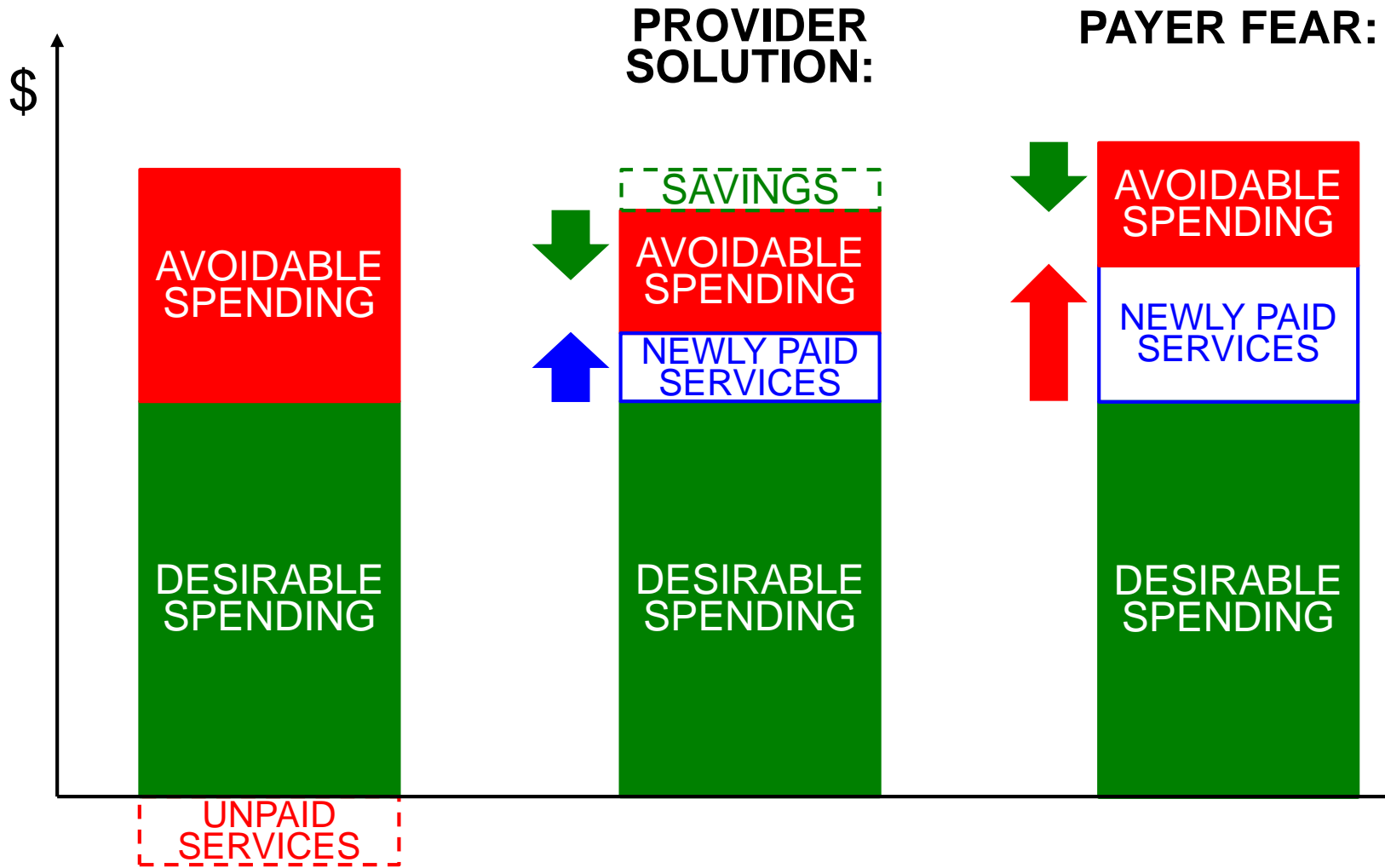
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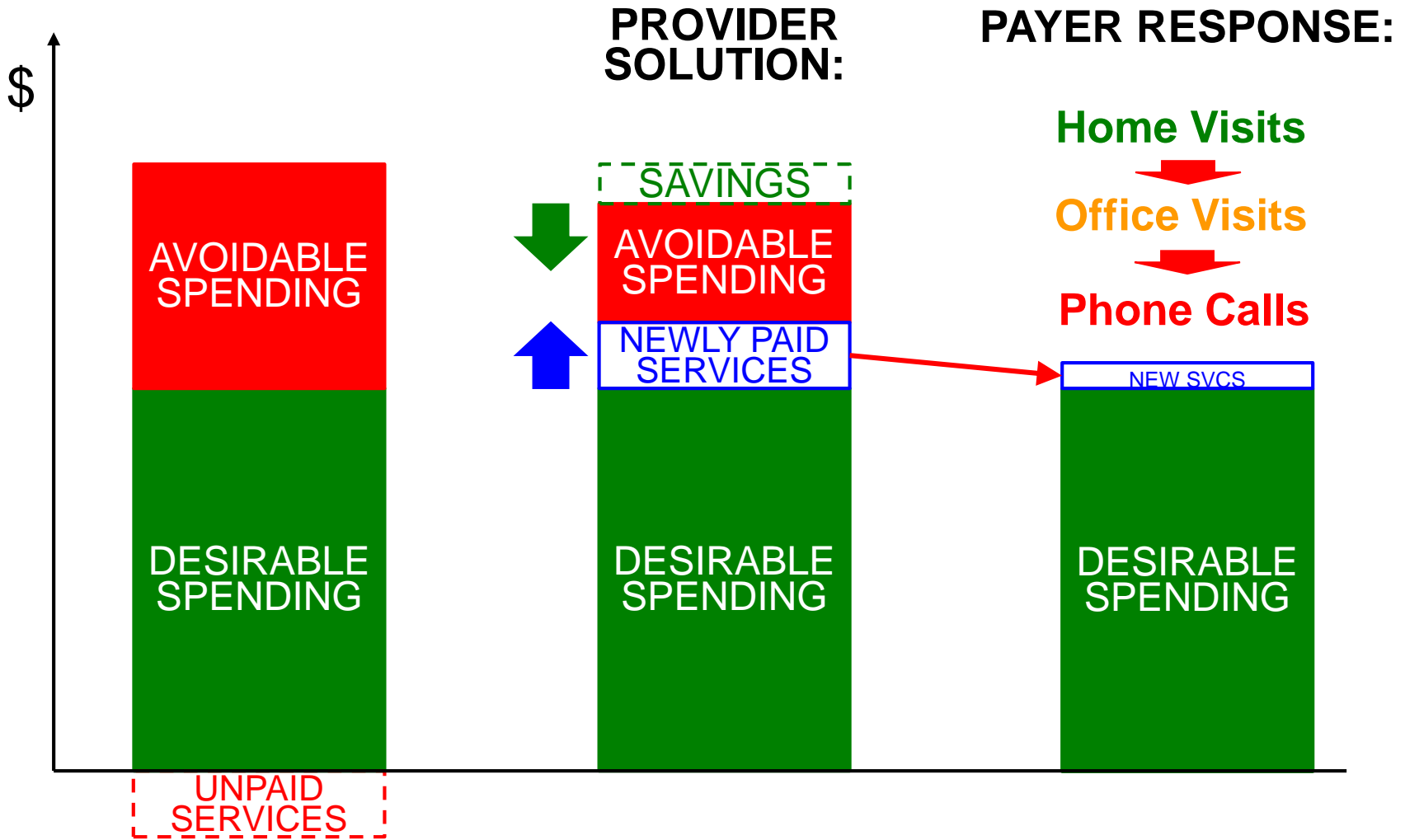
Payer Concern: No *Accountability* to Reduce Avoidable Spending



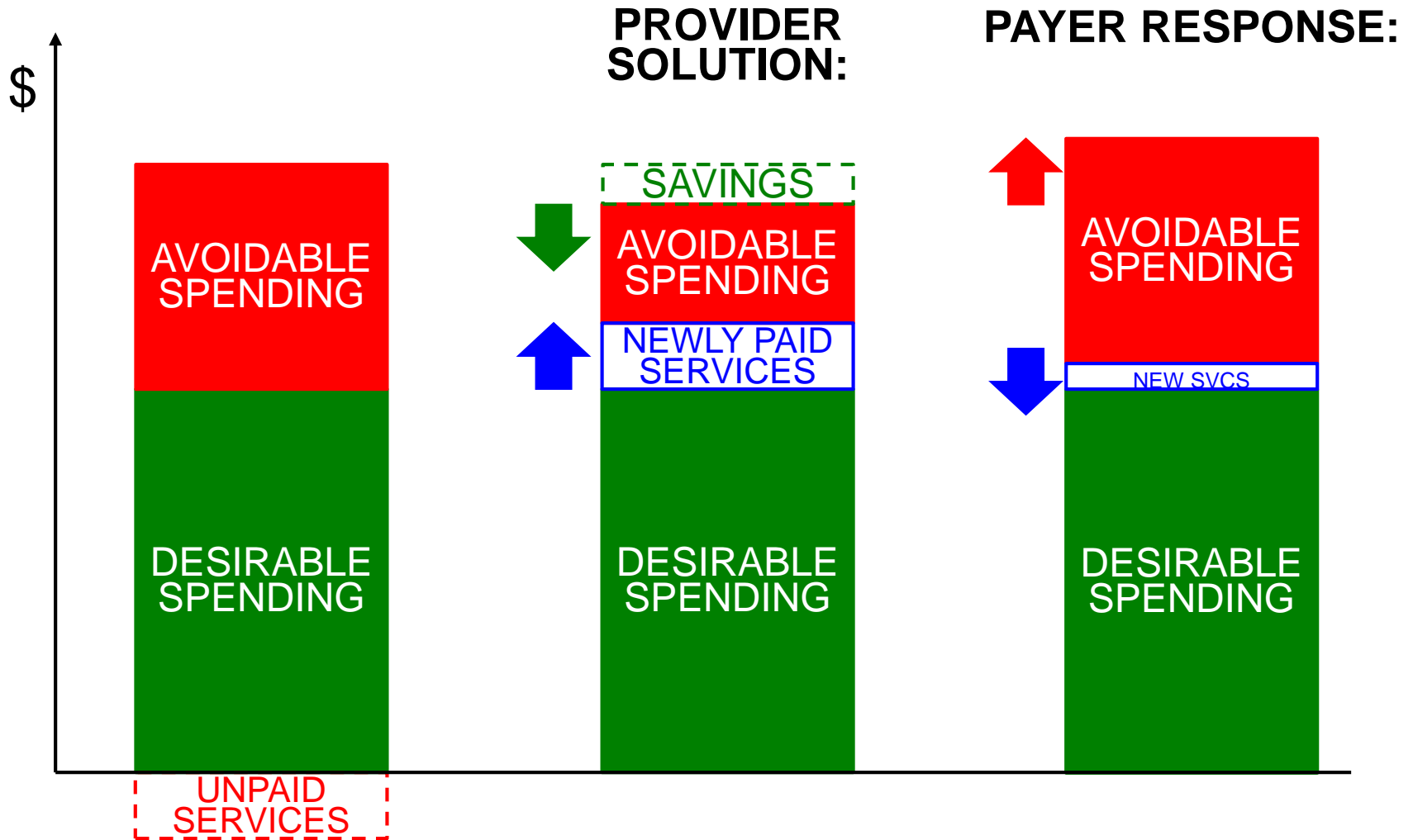
Payer Concern #2: New Services Will Be Used More Than Necessary



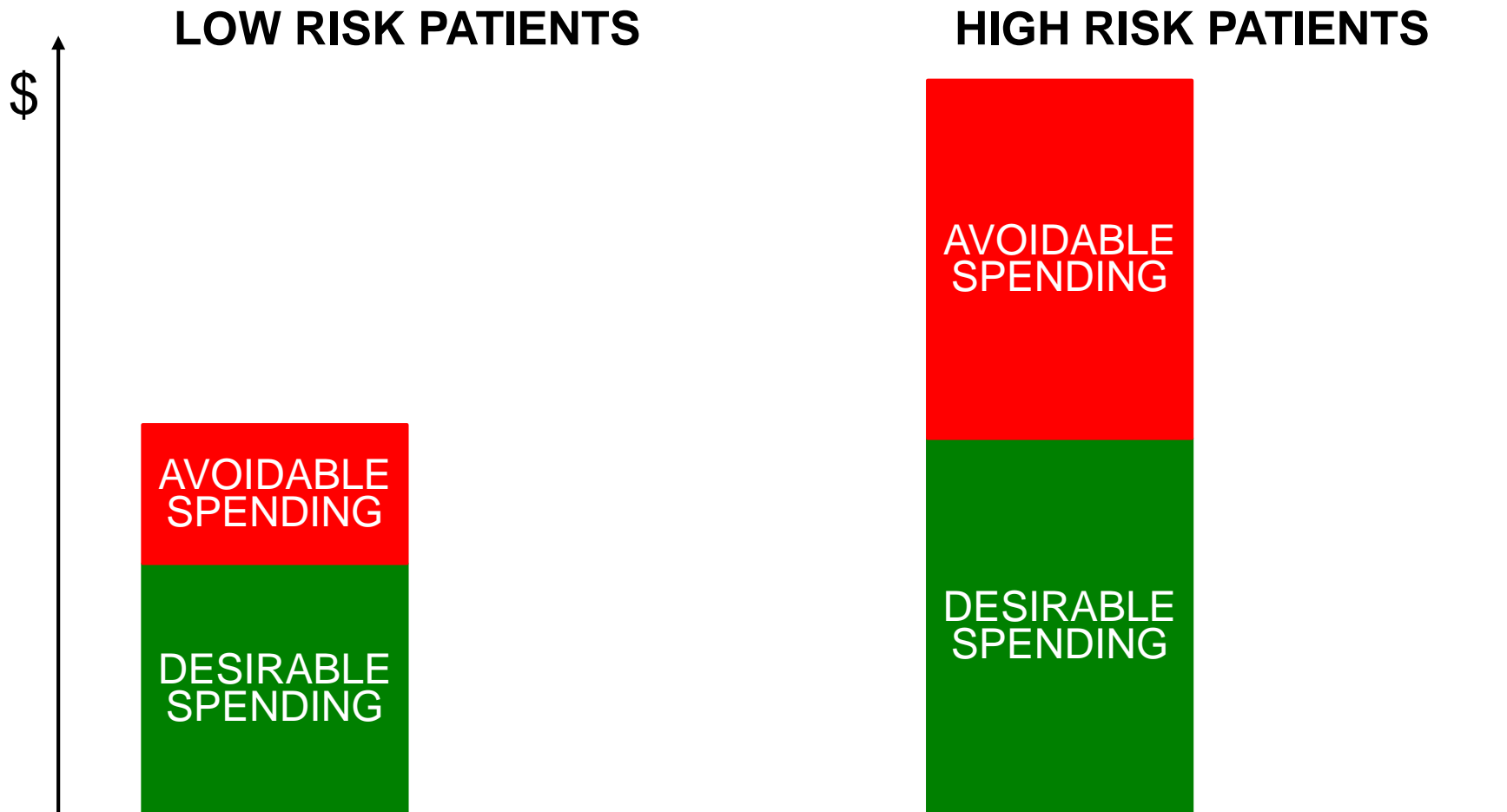
Payer Response: Pay for Less Than What's Needed



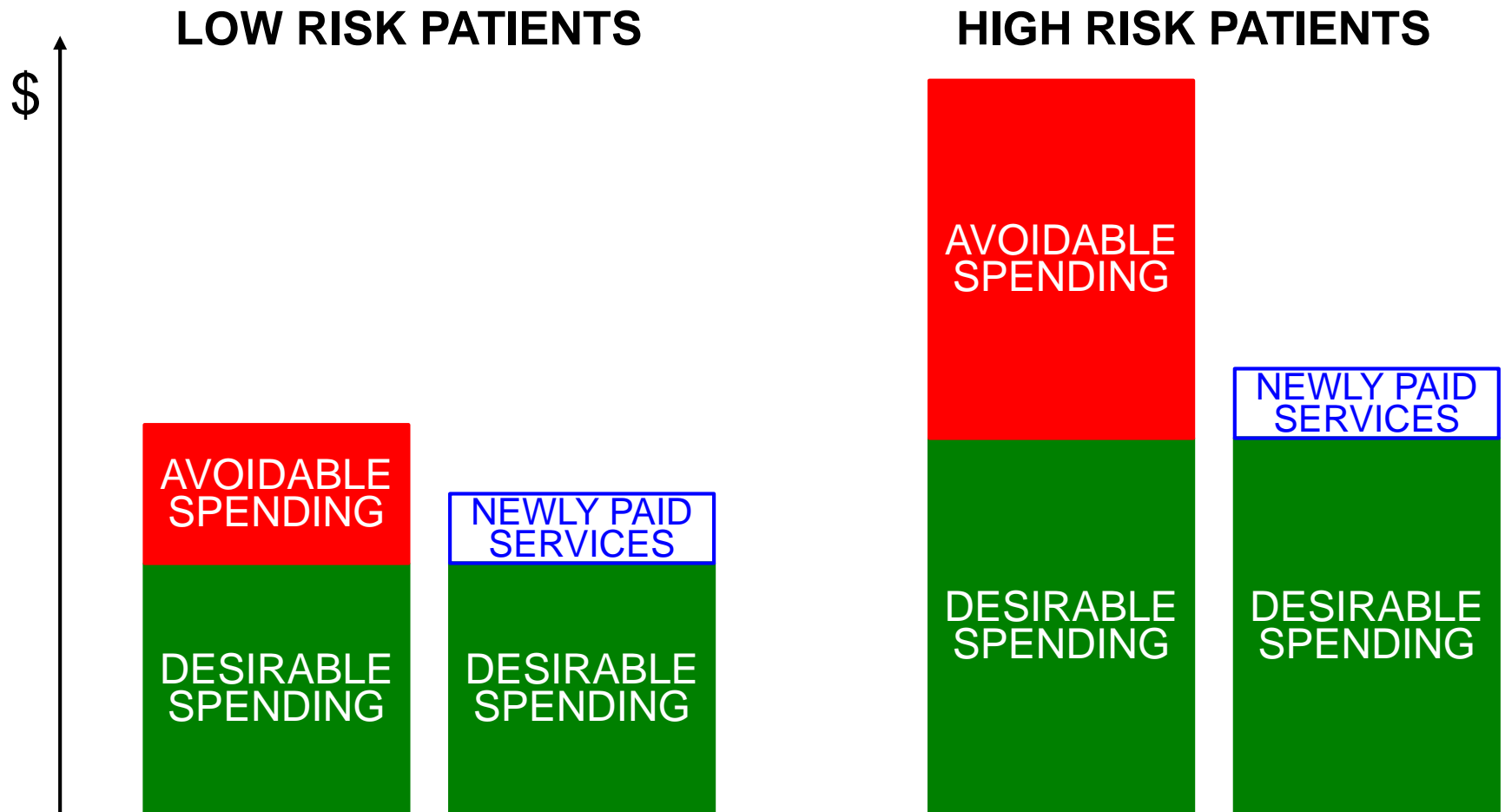
Result: Inadequate Services = Little or No Impact on Spending



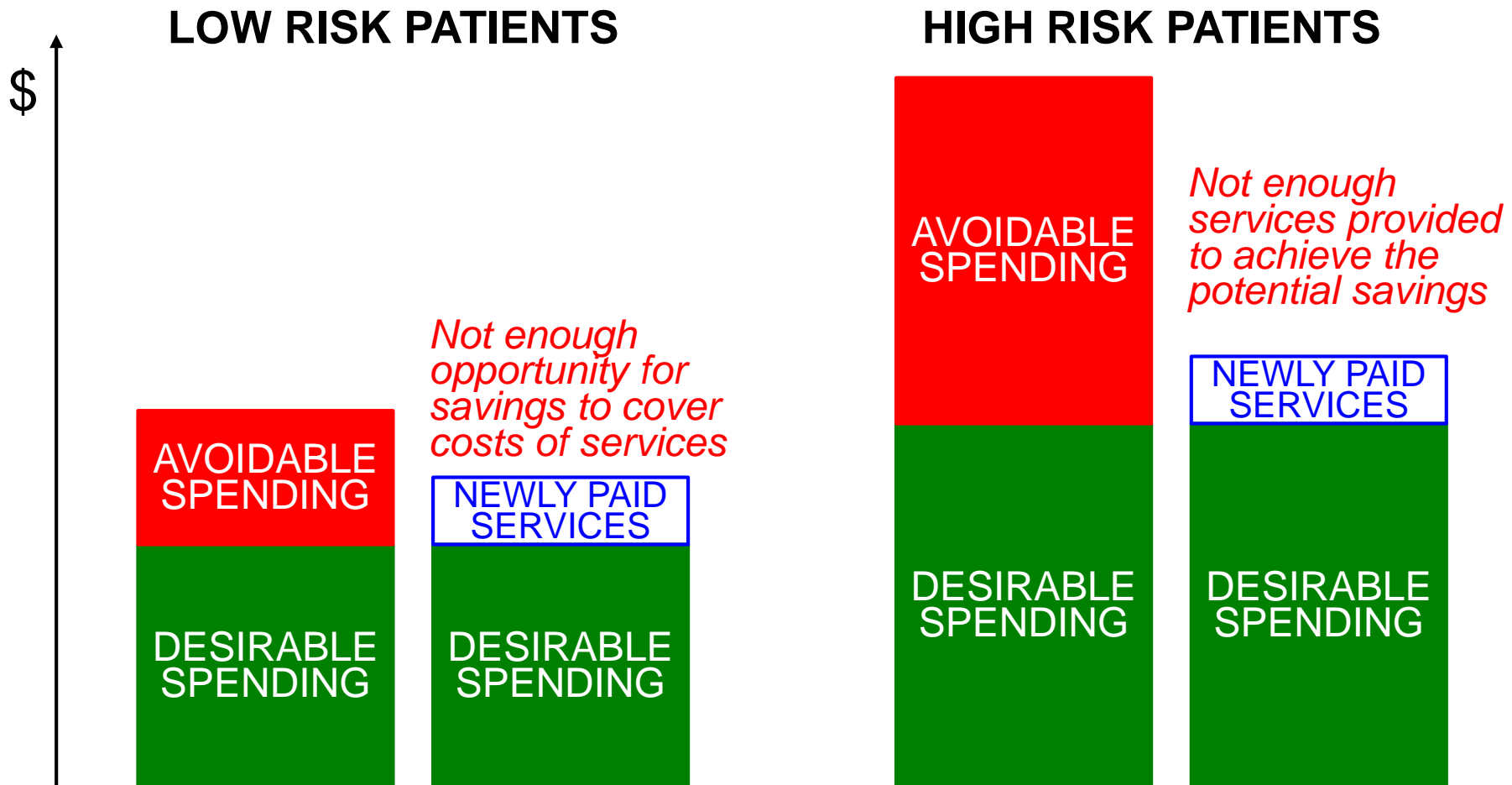
Limitations of FFS Codes: Not All Patients Are Alike



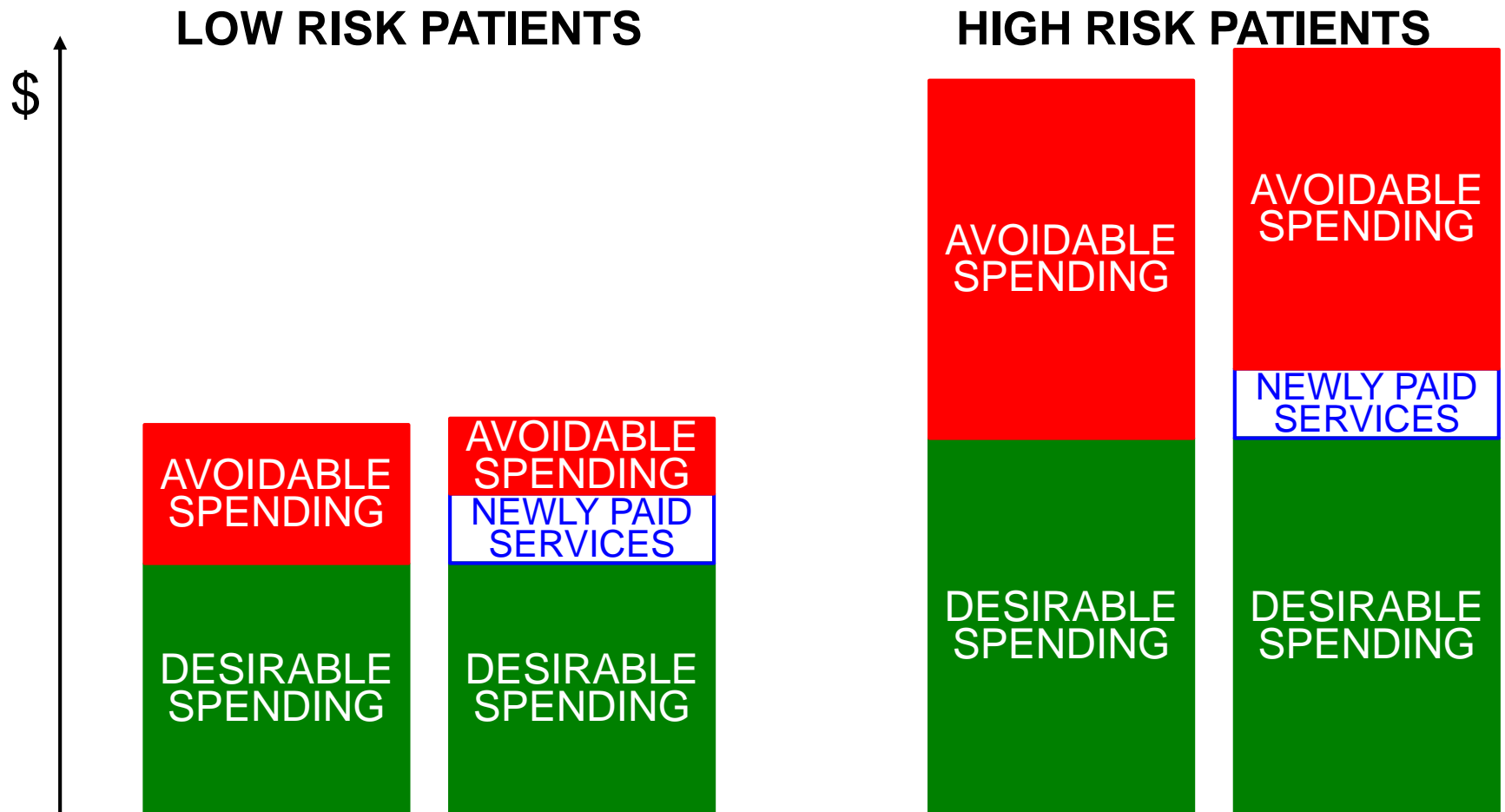
So It Doesn't Make Sense to Deliver the Same Services to Each



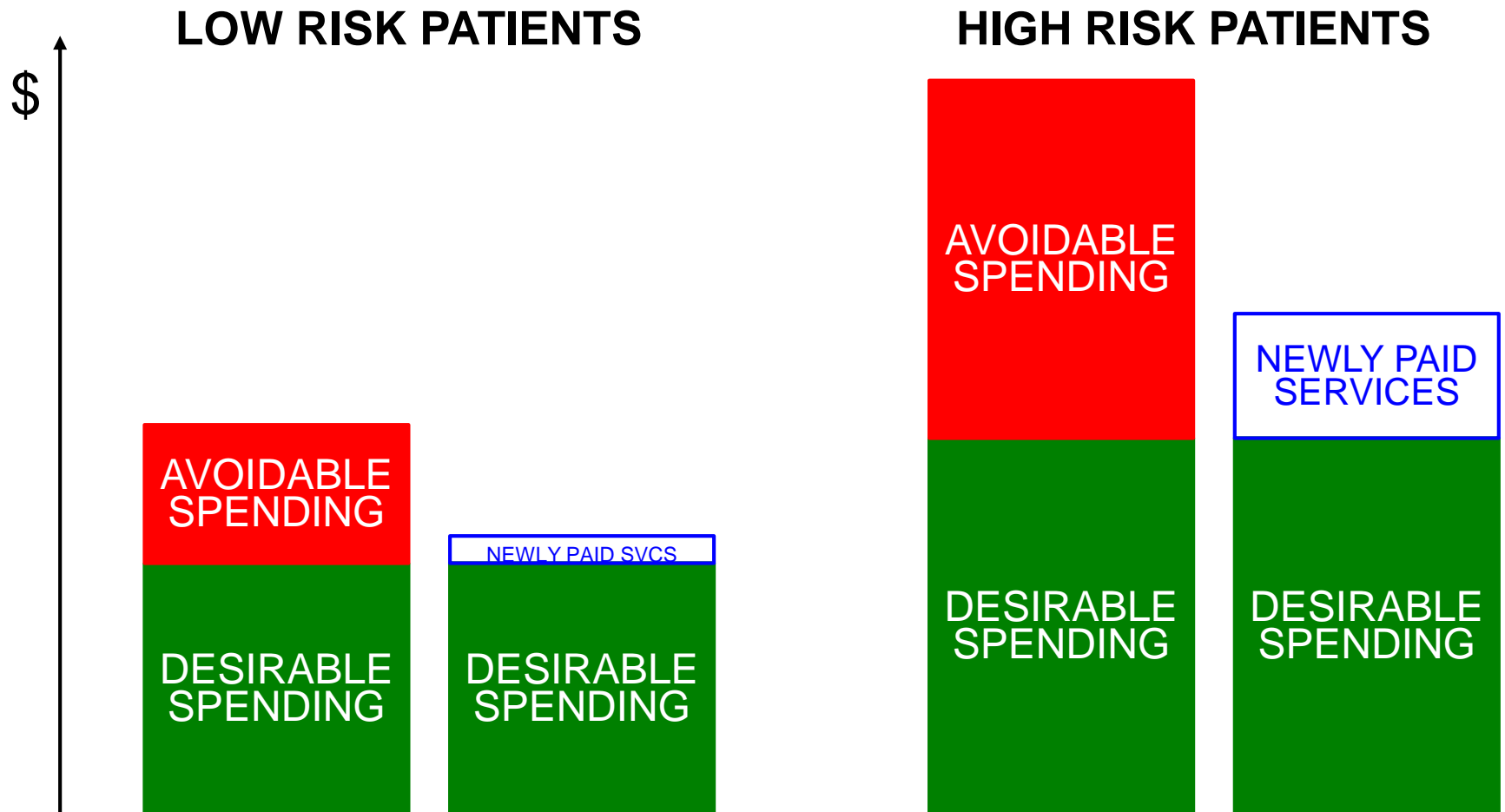
Failure to Target Spending Can Fail to Achieve Adequate Savings



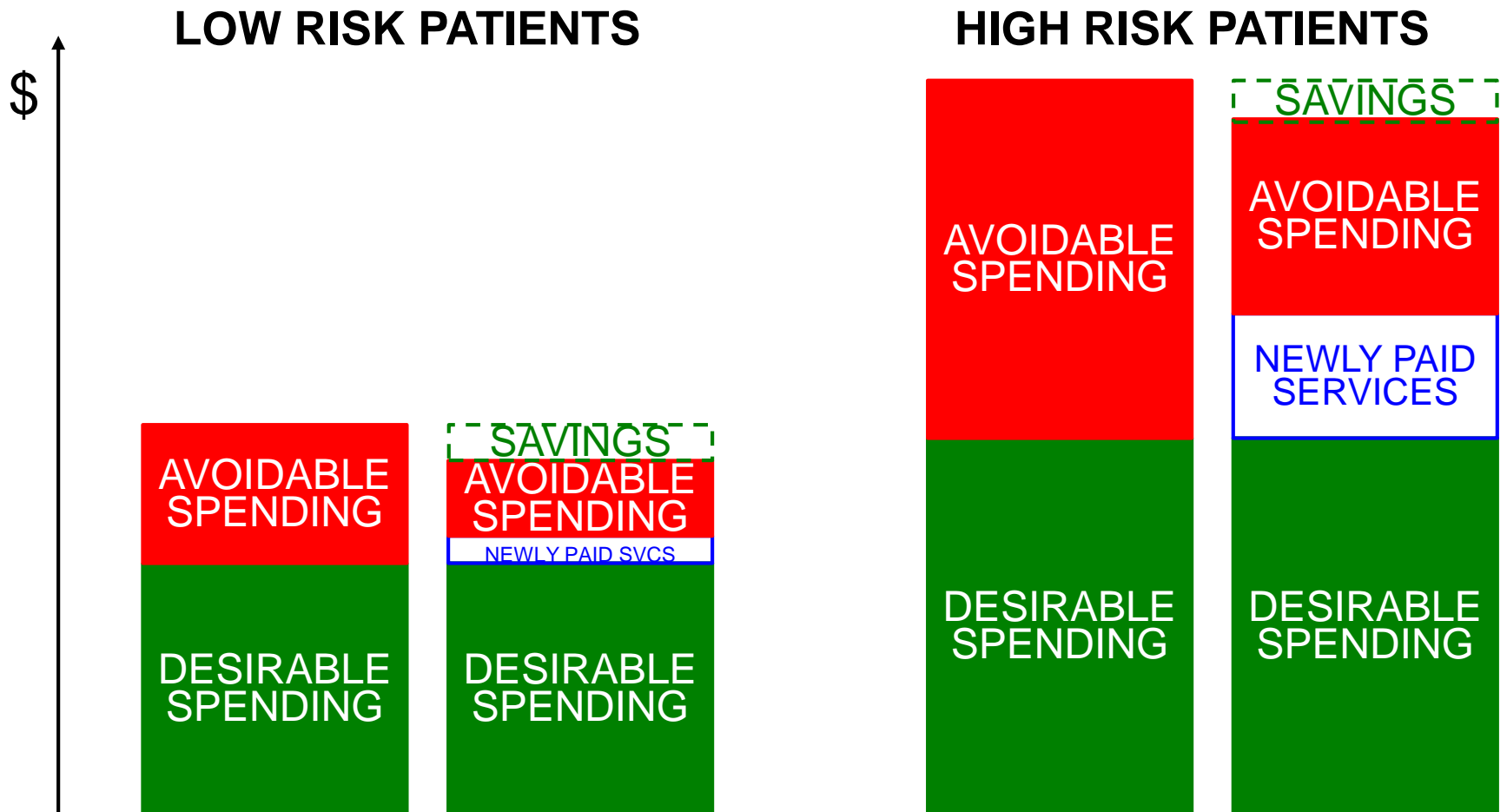
Result: Higher Spending Overall



A Better Approach: Flexibility to Target Services Based on Need



A Better Result: More Savings From Focusing on Higher Needs



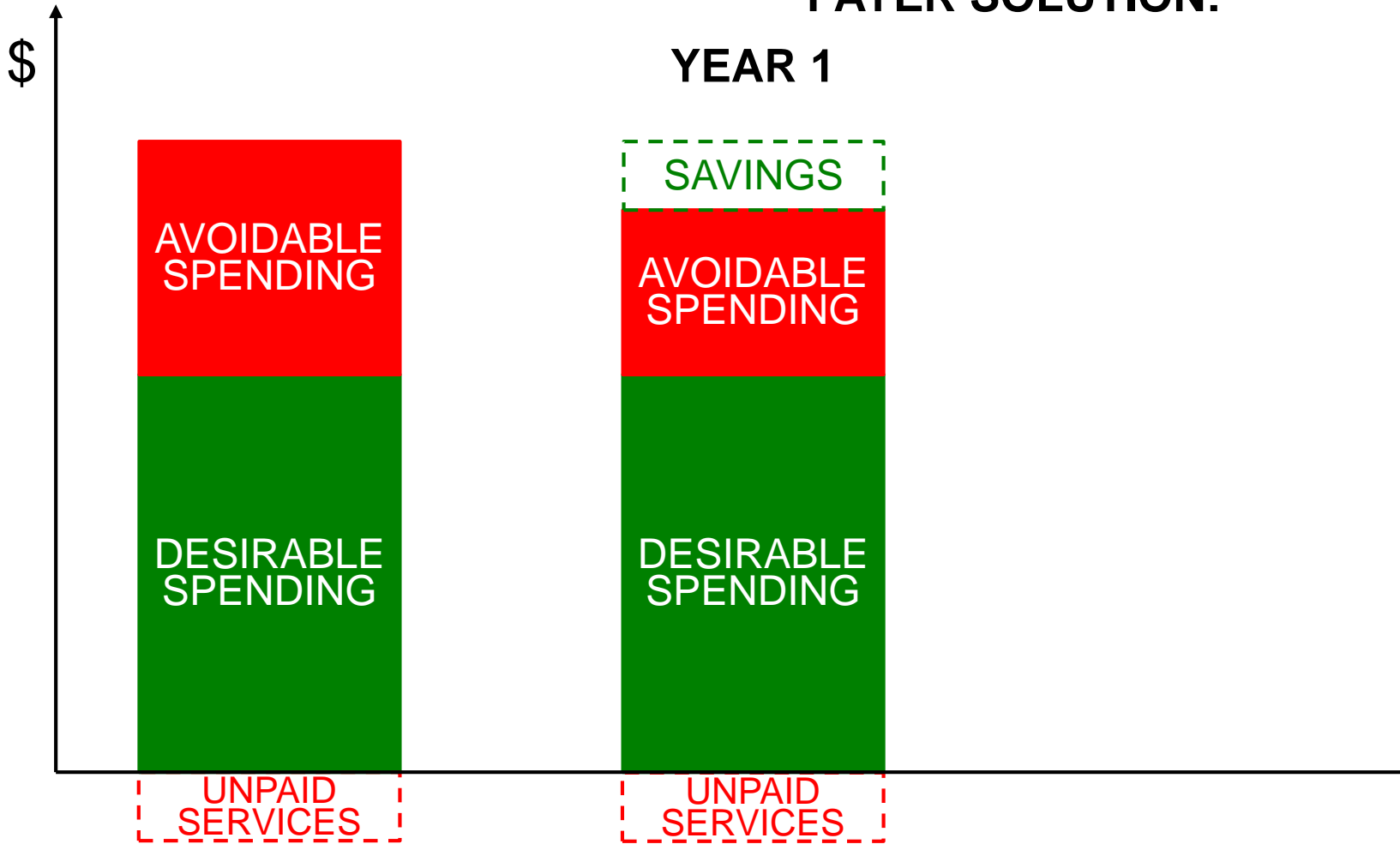
Most Current “Payment Reform” Proposals Are Problematic

- Provider approach
- Payer approach

Payer Approach: Save Us Money and...

PAYER SOLUTION:

YEAR 1

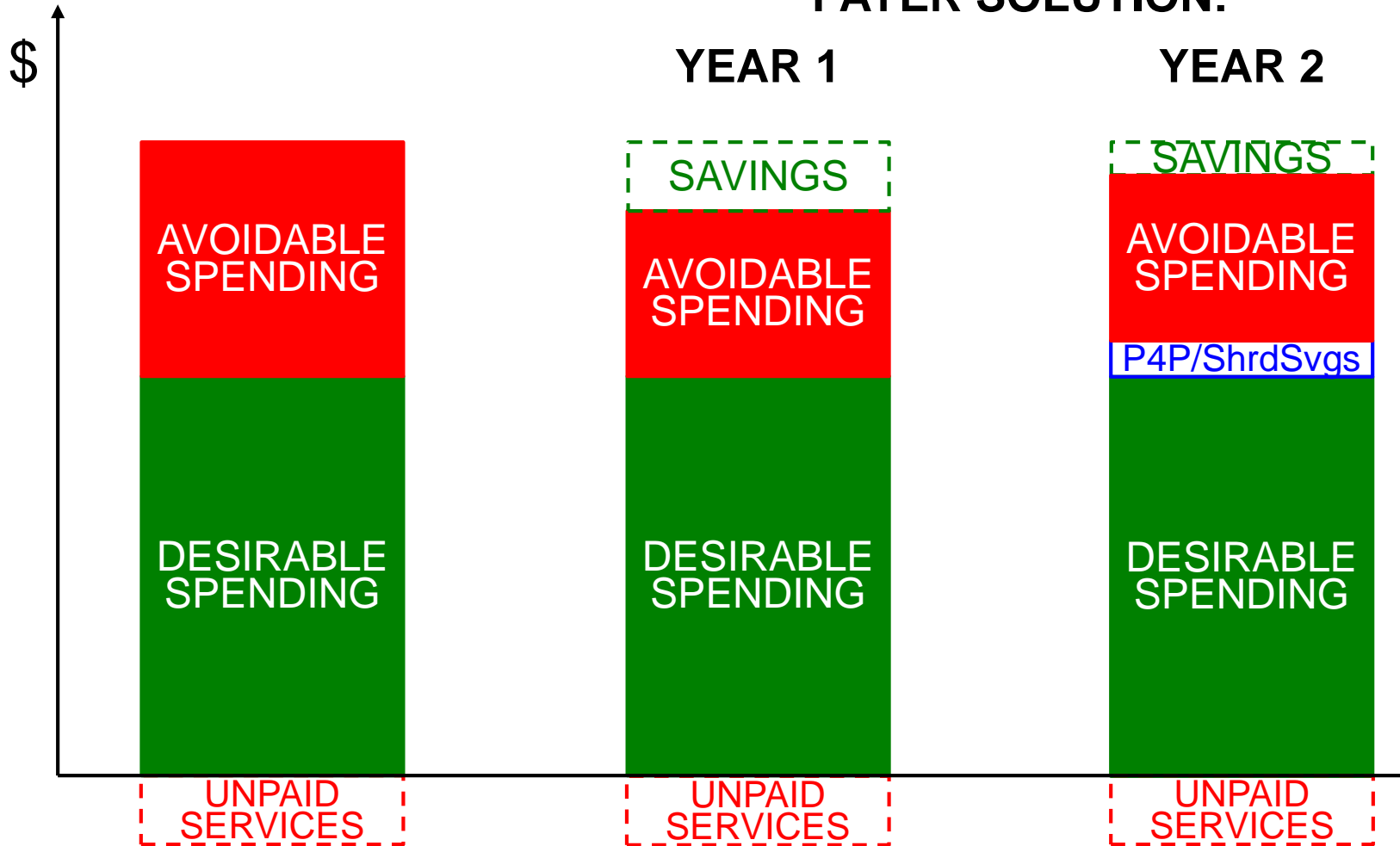


Payer Approach: Save Us Money and We'll You Pay More Next Year

PAYER SOLUTION:

YEAR 1

YEAR 2

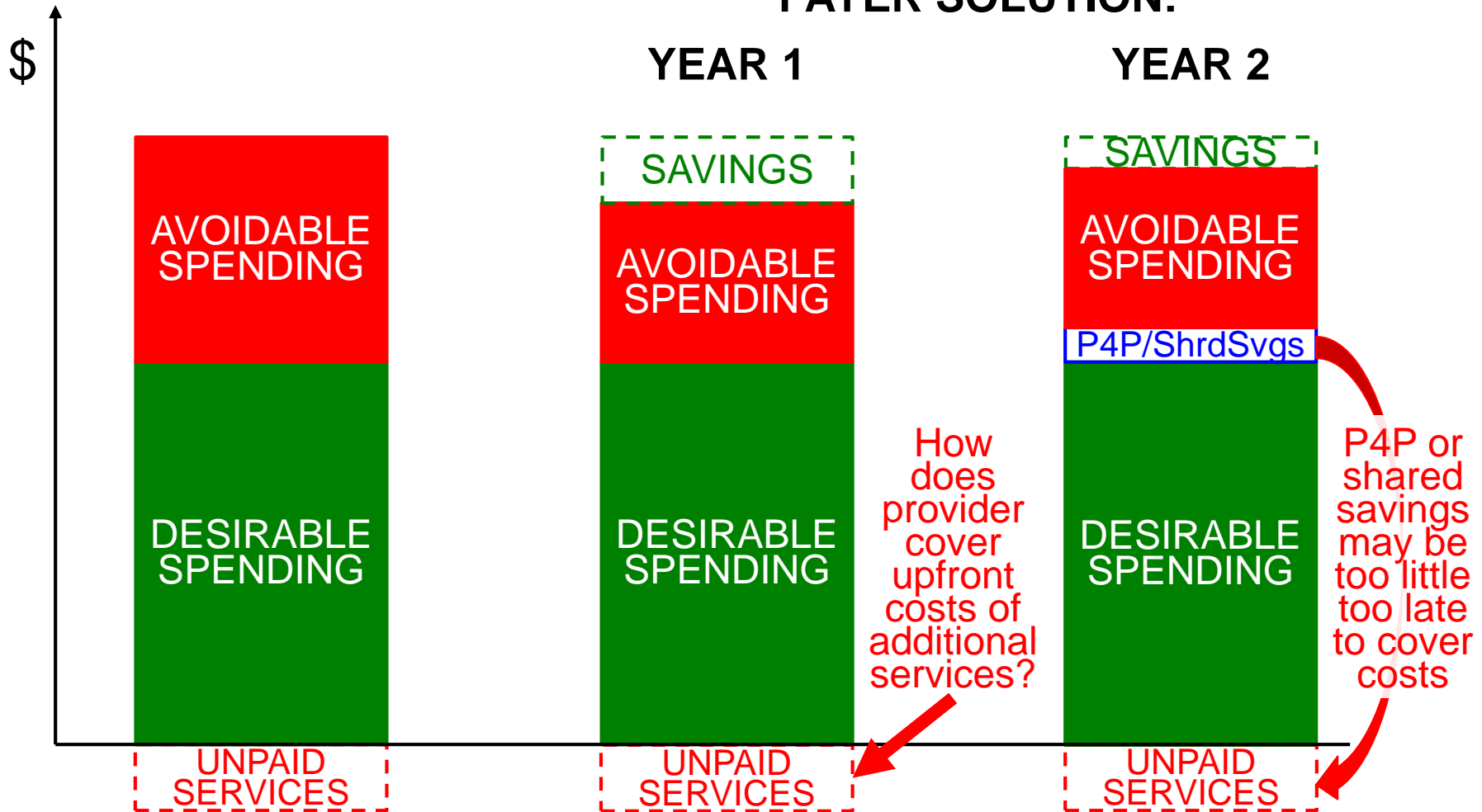


Provider Concern: Shared Savings is Too Little, Too Late

PAYER SOLUTION:

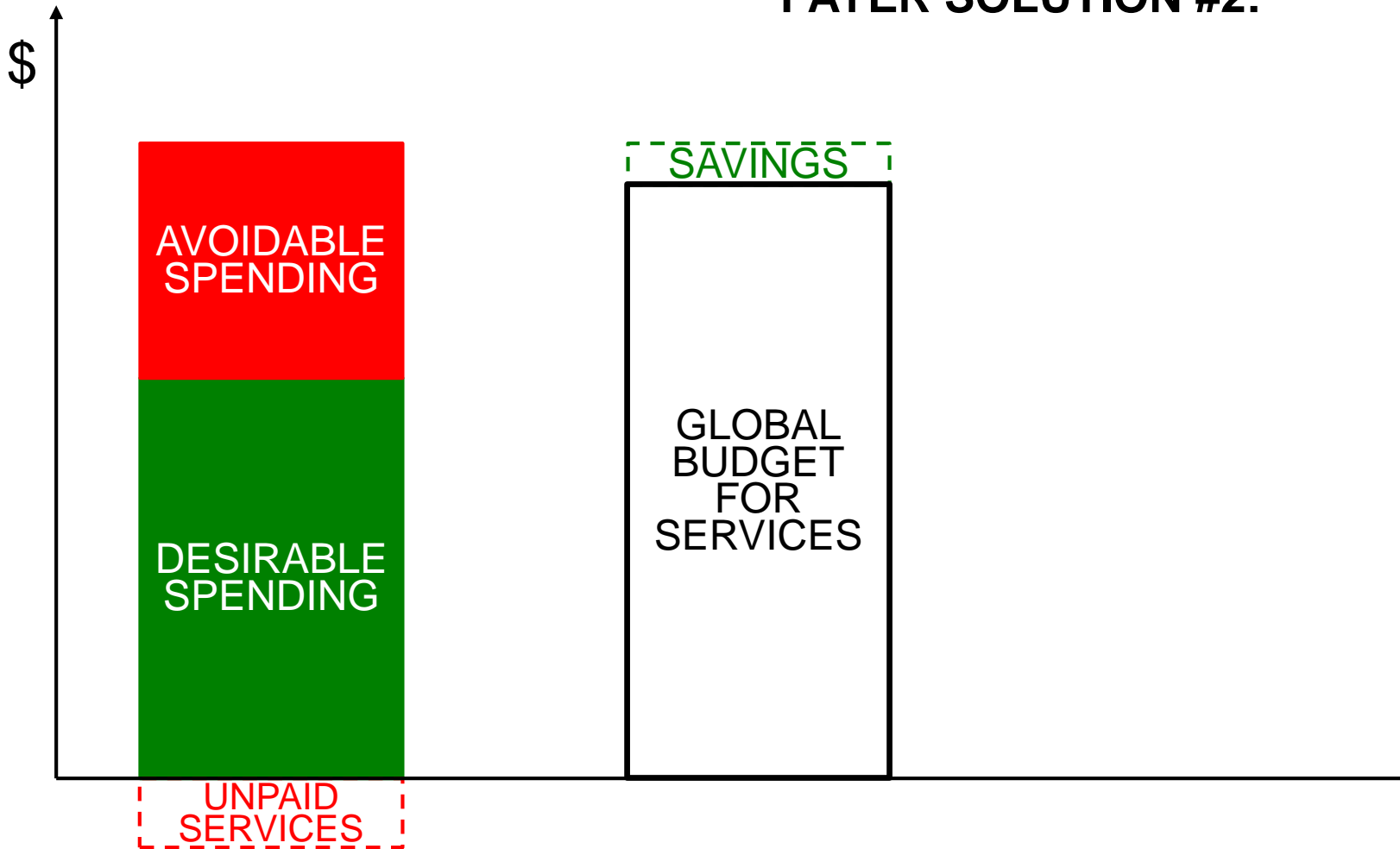
YEAR 1

YEAR 2



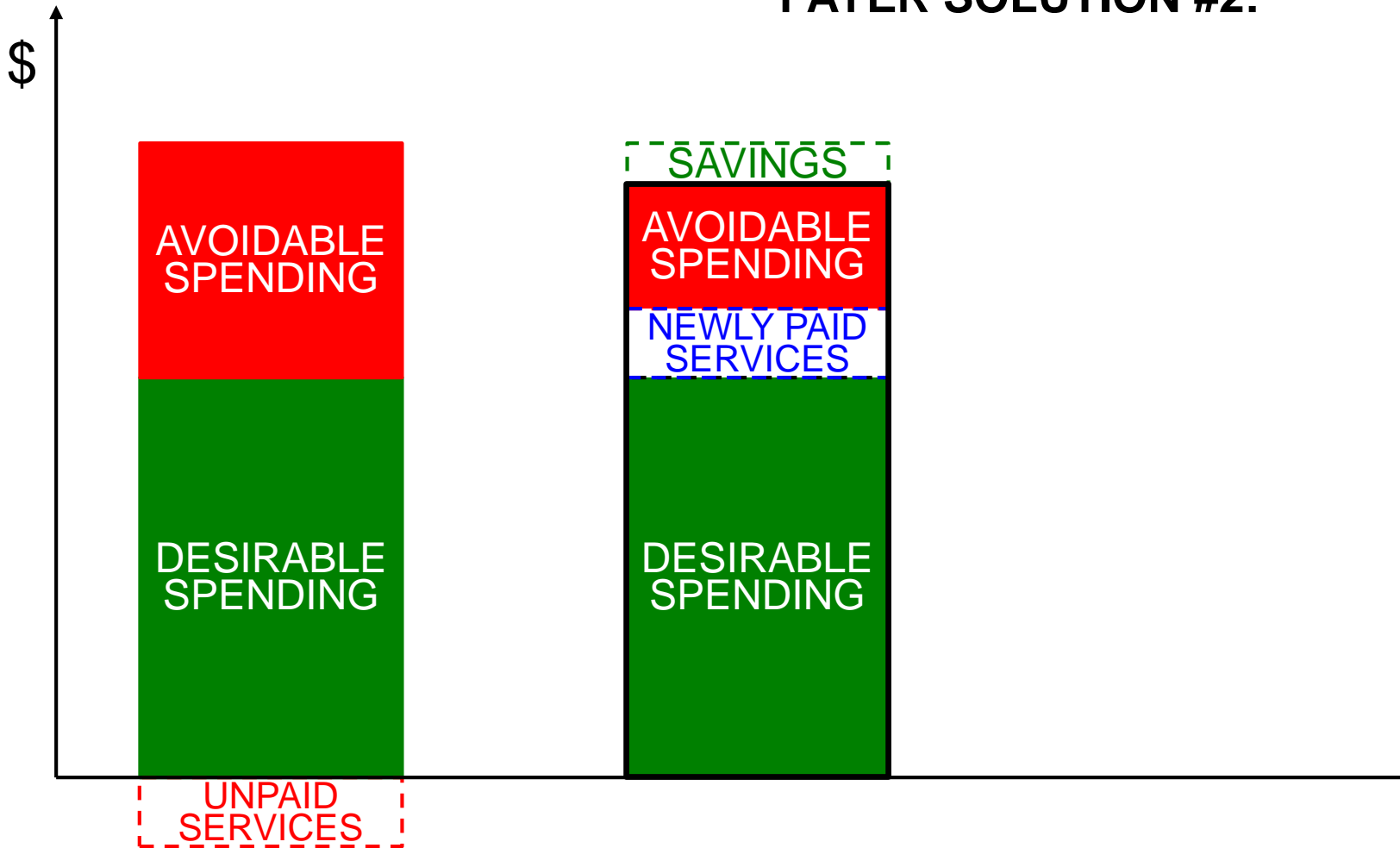
Payer Approach #2: Global Budget for Services

PAYER SOLUTION #2:



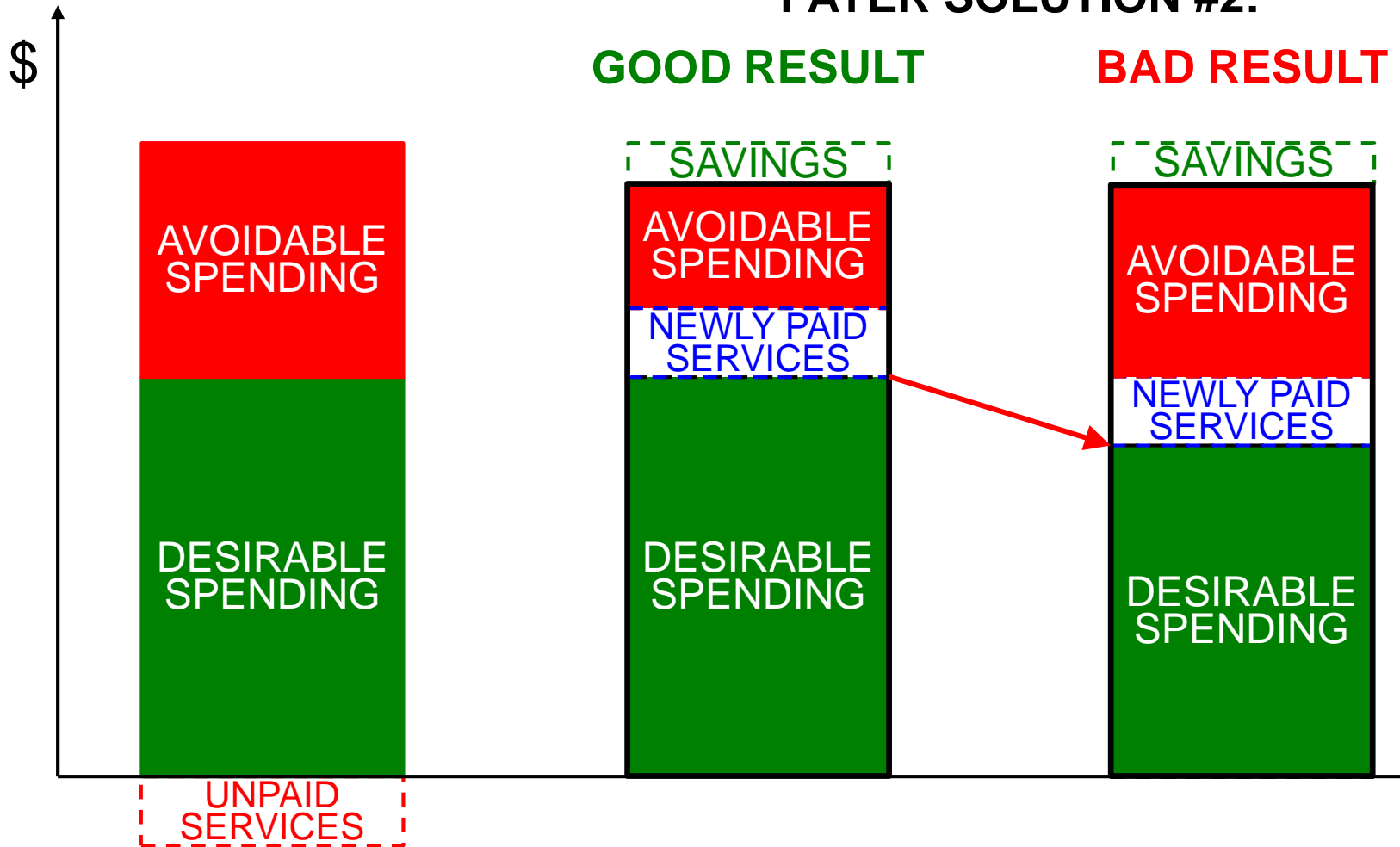
Provider Has Flexibility to Provide Different Services Within Budget

PAYER SOLUTION #2:



Patient Concern: Will Global Budget Result in Stinting on Care?

PAYER SOLUTION #2:



The Four Key Elements of Accountable Payment Models

The Four Key Elements of Successful Payment Reforms

- 1. Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

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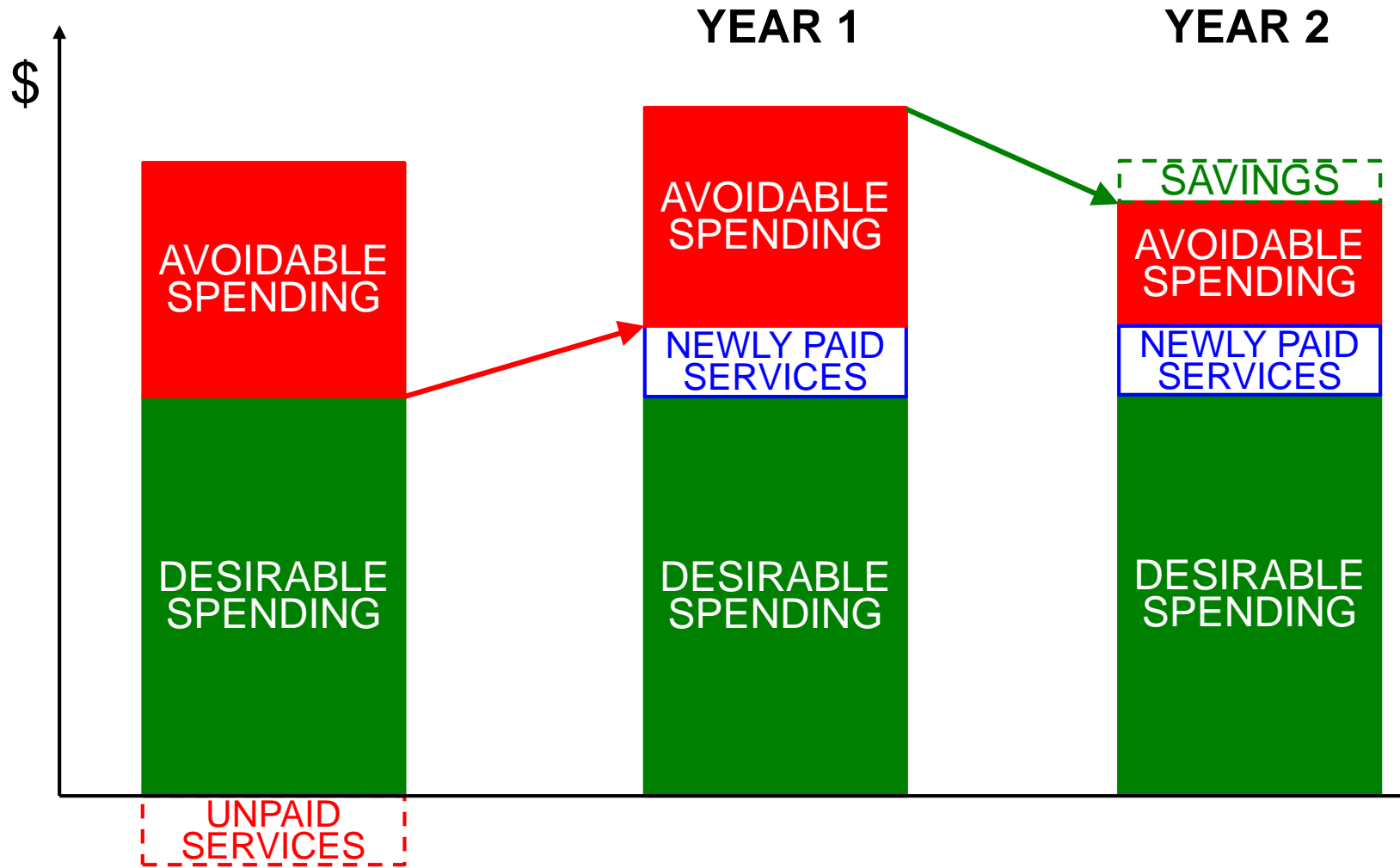
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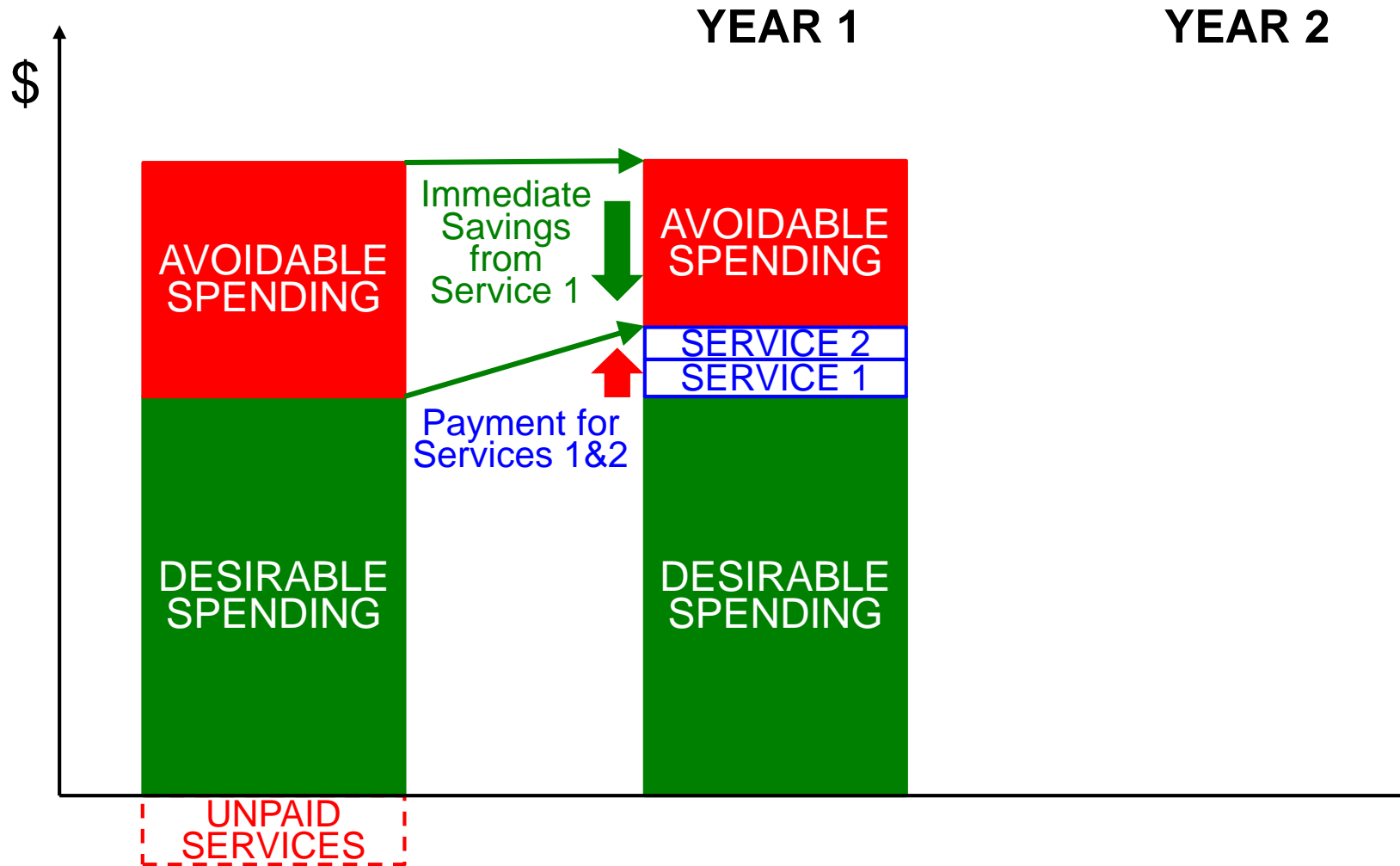
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- 4. Adequacy of Payment.** The size of the payments should be adequate to cover the providers' costs of delivering high quality care for the types of patients they see and at the levels of cost or efficiency that are feasible for them to achieve.

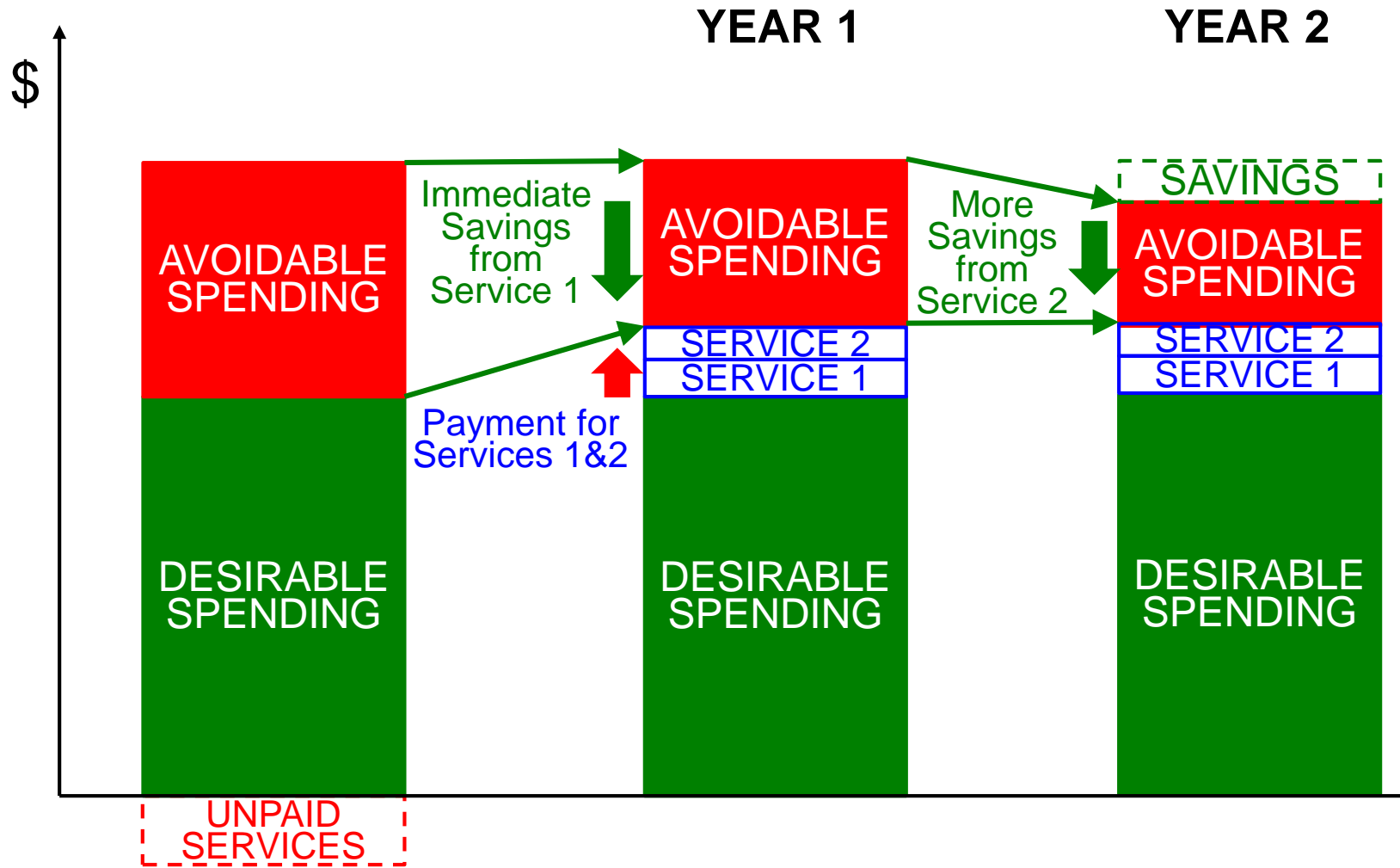
A Final Problem: Some Programs Take Time To Generate Savings



A Solution: Combining Short-Term and Long-Term Savings Initiatives



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Example: Reducing Repeat Unplanned Pregnancies

		CURRENT		
		\$/Service	#/Yr	Total \$
Physician Svcs				
	1 st Pregnancy	\$1,500	100	\$150,000
	Postpartum	\$0	100	\$0
	2 nd Pregnancy	\$1,500	30	\$45,000
	Subtotal			\$195,000
Hospital Pmt				
	1 st Pregnancy	\$3,500	100	\$350,000
	2 nd Pregnancy	\$3,500	30	\$105,000
Total Spending			100	\$650,000

100 Pregnant Women on Medicaid

- Physician delivers babies in the hospital
- Postpartum care included in physician's global fee; no separate or additional payment made
- 30% of women have a subsequent unplanned pregnancy

Pay More for Postpartum Care After Initial Pregnancy?

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$350	100	\$35,000	
	2 nd Pregnancy	\$1,500	30	\$45,000				
	Subtotal			\$195,000				
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000				
	2 nd Pregnancy	\$3,500	30	\$105,000				
Total Spending			100	\$650,000				

More Payment Increases Costs If No Impact on 2nd Pregnancies

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$350	100	\$35,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	30	\$45,000	-0%
	Subtotal			\$195,000			\$230,000	+18%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	30	\$105,000	-0%
Total Spending			100	\$650,000		100	\$685,000	+5%

But Success in Reducing 2nd Pregnancies Reduces Total Costs

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$350	100	\$35,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	15	\$22,500	-50%
	Subtotal			\$195,000			\$207,500	+6%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	15	\$52,500	-50%
Total Spending			100	\$650,000		100	\$610,000	-6%

Affordable Upfront Payment Depends on Minimum Results

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$350	100	\$35,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	23	\$34,500	-23%
	Subtotal			\$195,000			\$219,500	+13%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	23	\$80,500	-23%
Total Spending			100	\$650,000		100	\$650,000	-0%

Affordable Upfront Payment Depends on Minimum Results

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy						0	
	Postpartum						0	
	2 nd Pregnancy						0	-23%
	Subtotal						0	+13%
Hospital Pmt								
	1 st Pregnancy						0	
	2 nd Pregnancy						0	-23%
Total Spending			100	\$650,000		100	\$650,000	-0%

What assures the payer that the provider will actually succeed in reducing repeat pregnancies?

Solution: Lower Upfront Payment With Bonus for Success

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	20	\$30,000	0%
	Bonus				\$1,000	10	\$10,000	
	Subtotal			\$195,000			\$215,000	+10%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	20	\$70,000	0%
Total Spending			100	\$650,000		100	\$635,000	-2%

Better Results = Higher Payment

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	15	\$22,500	-50%
	Bonus				\$1,000	15	\$15,000	
	Subtotal			\$195,000			\$212,500	+9%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	15	\$52,500	-50%
Total Spending			100	\$650,000		100	\$615,000	-5%

Better Results = Higher Payment

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy						0	
	Postpartum						0	
	2 nd Pregnancy						0	-50%
	Bonus						0	
	Subtotal						0	+9%
Hospital Pmt								
	1 st Pregnancy						0	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	15	\$52,500	-50%
Total Spending			100	\$650,000		100	\$615,000	-5%

What assures the payer that the provider will even try to reduce repeat pregnancies?



“Accountability” Means Penalty for Failure, Not Just Bonus for Success

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	30	\$45,000	-0%
	Bonus < 23%				\$2,000	0	\$0	
	Penalty > 23%				(\$3,500)	7	(\$24,500)	
	Subtotal			\$195,000			\$195,500	0%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	30	\$105,000	-0%
	Total Spending		100	\$650,000		100	\$650,000	0%

Hitting the Target Rate (23%) Allows Provider & Payer to Win

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	23	\$35,500	-23%
	Bonus < 23%				\$2,000	0	\$8,000	
	Penalty > 23%				(\$3,500)	0	\$0	
	Subtotal			\$195,000			\$209,500	+7%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	23	\$80,500	-23%
Total Spending			100	\$650,000		100	\$640,000	-2%

Beating the Target Rate Allows Both Provider & Payer to Win More

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	15	\$22,500	-0%
	Bonus < 23%				\$2,000	8	\$16,000	
	Penalty > 23%				(\$3,500)	0	\$0	
	Subtotal			\$195,000			\$213,500	+9%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000	\$3,500	15	\$52,500	-50%
Total Spending			100	\$650,000		100	\$616,000	-5%

Targeting Higher-Risk Population Allows More Upfront Investment

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000				
	Postpartum	\$0	100	\$0				
	2 nd Pregnancy	\$1,500	70	\$105,000				
	Subtotal			\$255,000				
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000				
	2 nd Pregnancy	\$3,500	70	\$245,000				
Total Spending			100	\$850,000				

Greater Upfront Investment Plus Expectation of Bigger Impact

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$1,000	100	\$100,000	
	2 nd Pregnancy	\$1,500	70	\$105,000				
	Bonus < 40%				\$2,000	0	\$0	
	Penalty > 40%				(\$3,300)	0	\$0	
	Subtotal			\$255,000				
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000				
	2 nd Pregnancy	\$3,500	70	\$245,000				
Total Spending			100	\$850,000				

Win-Win-Win for Patient, Provider & Payer If Target is Met/Exceeded

		CURRENT			FUTURE			
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	Chg
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$1,000	100	\$100,000	
	2 nd Pregnancy	\$1,500	70	\$105,000	\$1,500	40	\$60,000	-43%
	Bonus < 40%				\$2,000	0	\$0	
	Penalty > 40%				0	0	\$0	
	Subtotal			\$255,000			\$310,000	+22%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	\$3,500	100	\$350,000	
	2 nd Pregnancy	\$3,500	70	\$245,000	\$3,500	40	\$140,000	-43%
	Total Spending		100	\$850,000		100	\$800,000	-6%

Patient Wins →

Provider Wins →

Payer Wins →

Challenges With the FFS+P4P Model

Challenges With the FFS+P4P Model

- The amount of additional upfront payment needs to be determined in advance and it may or may not be adequate
- Stratifying the population based on risk requires stratifying the payment amounts, which adds complexity to coding and billing and increases the likelihood of mismatches between payment amounts and resources needed
- The target performance rates need to be established before it is clear what can be accomplished
- Random variation in patient characteristics can cause windfall bonuses and penalties and lack of predictability for both payers and providers
- The complexity and problematic incentives of FFS continue

Simply Paying More for “Postpartum Care” is Problematic

- There is little or no evidence that postpartum care services for all patients is cost-effective
- A payment that is too small or that is ineffectively targeted could fail to achieve the desired results, could increase net spending, and could cause failure of the overall initiative
- The goal should be achieving outcomes, not (simply) paying for specific services
- The strategy should be to target the right kinds of resources on the patients who will benefit from them

A Better Way: Condition-Based Payment

		CURRENT		
		\$/Service	#/Yr	Total \$
Physician Svcs				
	1 st Pregnancy	\$1,500	100	\$150,000
	Postpartum	\$0	100	\$0
	2 nd Pregnancy	\$1,500	30	\$45,000
	Subtotal			\$195,000
Hospital Pmt				
	1 st Pregnancy	\$3,500	100	\$350,000
	2 nd Pregnancy	\$3,500	30	\$105,000
Total Spending		\$6,500	100	\$650,000

100 Pregnant Women on Medicaid

- Physician delivers babies in the hospital
- Postpartum care included in physician's global fee; no separate or additional payment made
- 30% of women have a subsequent unplanned pregnancy

Start With What's Being Spent Today...

		CURRENT		
		\$/Service	#/Yr	Total \$
Physician Svcs				
	1 st Pregnancy	\$1,500	100	\$150,000
	Postpartum	\$0	100	\$0
	2 nd Pregnancy	\$1,500	30	\$45,000
	Subtotal			\$195,000
Hospital Pmt				
	1 st Pregnancy	\$3,500	100	\$350,000
	2 nd Pregnancy	\$3,500	30	\$105,000
Total Spending		\$6,500	100	\$650,000



...Agree to Do It for *Less*, But With Flexibility to Spend \$ *Differently*

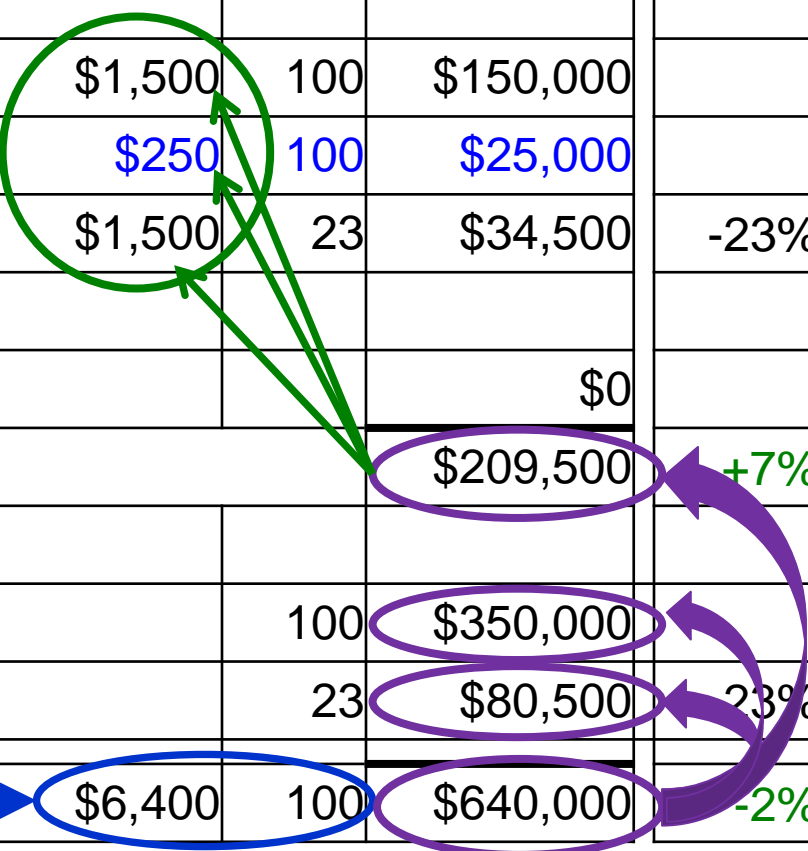
		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000				
	Postpartum	\$0	100	\$0				
	2 nd Pregnancy	\$1,500	30	\$45,000				
	Margin							
	Subtotal			\$195,000				
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000				
	2 nd Pregnancy	\$3,500	30	\$105,000				
	Total Spending	\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%

Use the Payment as a Budget to Allocate Among Providers

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000				
	Postpartum	\$0	100	\$0				
	2 nd Pregnancy	\$1,500	30	\$45,000				
	Margin							
	Subtotal			\$195,000			\$209,500	+7%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000	100	\$350,000		
	2 nd Pregnancy	\$3,500	30	\$105,000	23	\$80,500		-23%
	Total Spending	\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%

Providers “Pay” Themselves in Whatever Way Makes Sense

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	23	\$34,500	-23%
	Margin						\$0	
	Subtotal			\$195,000			\$209,500	+7%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000		100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000		23	\$80,500	-23%
	Subtotal			\$455,000			\$430,500	-5%
Total Spending		\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%



E.g. Provide Services Prior to Delivery as Well as After

	CURRENT			FUTURE			Chg
	\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs							
1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
Postpartum	\$0	100	\$0	\$150	100	\$15,000	
2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	23	\$34,500	-23%
Prenatal				\$100	100	\$10,000	
Margin						\$0	
Subtotal			\$195,000			\$209,500	+7%
Hospital Pmt							
1 st Pregnancy	\$3,500	100	\$350,000		100	\$350,000	
2 nd Pregnancy	\$3,500	30	\$105,000		23	\$80,500	-23%
Total Spending	\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%

Win-Win-Win for Patients, Provider, and Payer

		CURRENT			FUTURE			
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	Chg
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	23	\$35,500	-23%
	Margin						\$0	
	Subtotal			\$195,000			\$209,500	+7%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000		100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000		23	\$80,500	-23%
	Total Spending	\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%

Patient Wins →

Provider Wins →

Payer Wins →

Better Performance for Patients, Bigger Win for Provider

		CURRENT			FUTURE			Chg
		\$/Service	#/Yr	Total \$	\$/Service	#/Yr	Total \$	
Physician Svcs								
	1 st Pregnancy	\$1,500	100	\$150,000	\$1,500	100	\$150,000	
	Postpartum	\$0	100	\$0	\$250	100	\$25,000	
	2 nd Pregnancy	\$1,500	30	\$45,000	\$1,500	15	\$22,500	-50%
	Margin						\$40,000	
	Subtotal			\$195,000			\$237,500	+22%
Hospital Pmt								
	1 st Pregnancy	\$3,500	100	\$350,000		100	\$350,000	
	2 nd Pregnancy	\$3,500	30	\$105,000		15	\$52,500	-50%
	Total Spending	\$6,500	100	\$650,000	\$6,400	100	\$640,000	-2%

Patient Wins →

Provider Wins →

Payer Wins →

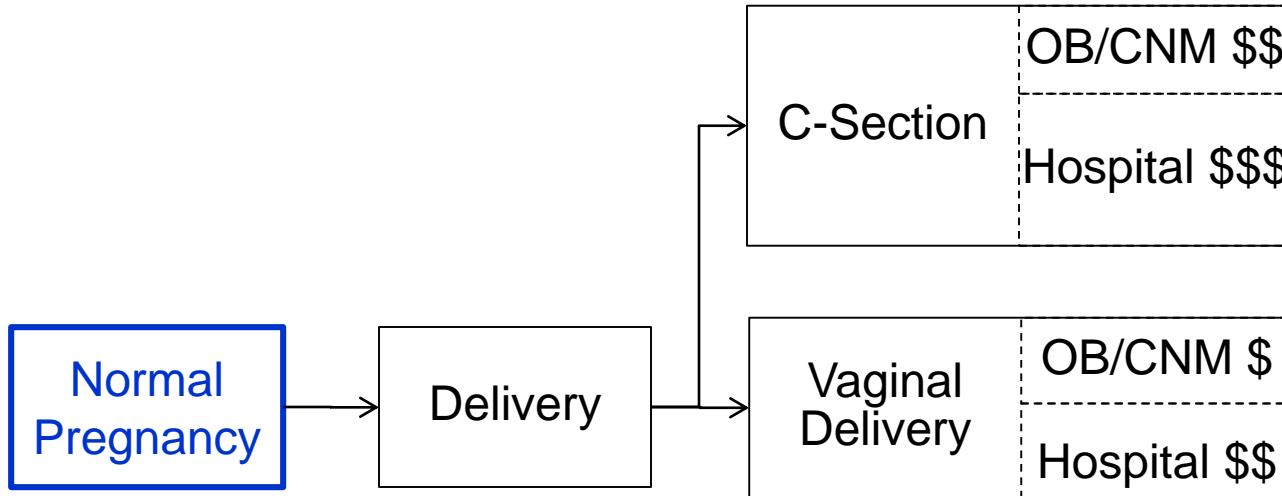
Accountable Payment Models Provide Flexibility + Accountability

BUILDING BLOCKS	HOW IT WORKS
Bundled Payment	Single payment to 2+ providers who are now paid separately (e.g., hospital+physician)
Warrantied Payment	Higher payment for quality care, no extra payment for avoiding complications
Condition- Based Payment	Payment based on the patient's condition, rather than on the procedure used

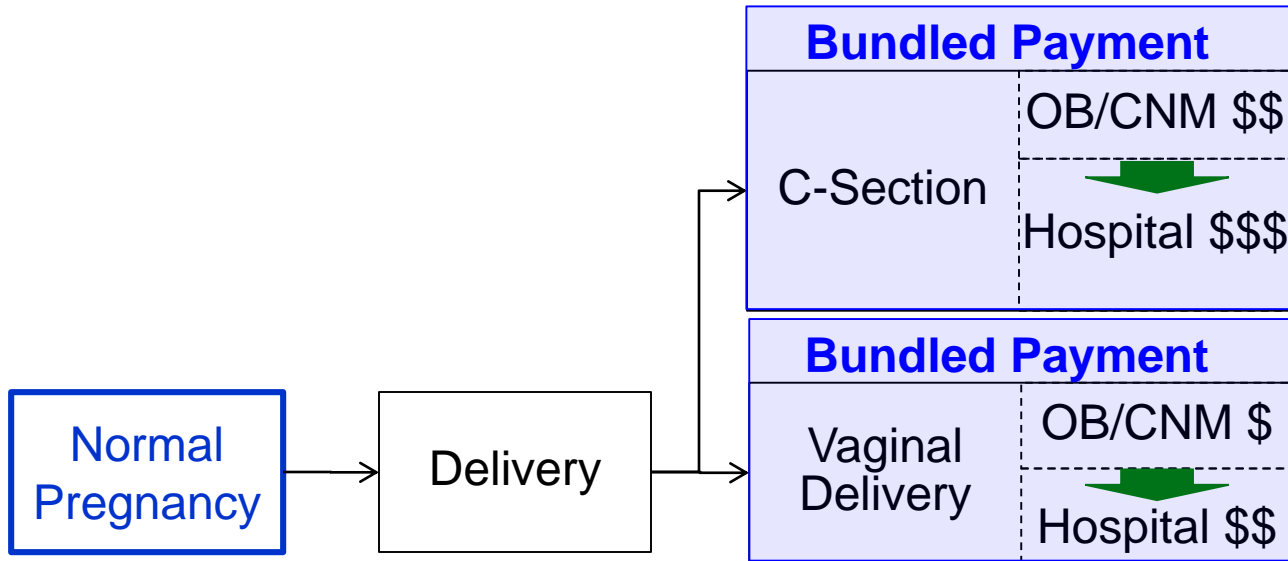
Accountable Payment Models Allow Win-Win-Win Approaches

BUILDING BLOCKS	HOW IT WORKS	HOW PHYSICIANS AND HOSPITALS CAN BENEFIT	HOW PAYERS CAN BENEFIT
Bundled Payment	Single payment to 2+ providers who are now paid separately (e.g., hospital+physician)	Higher payment for physicians if they reduce costs paid by hospitals	Physician and hospital offer a lower total price to Medicaid or health plan than today
Warrantied Payment	Higher payment for quality care, no extra payment for avoiding complications	Higher payment for physicians and hospitals with low rates of complications	Medicaid or health plan no longer pays more for high rates of complications
Condition-Based Payment	Payment based on the patient's condition, rather than on the procedure used	No loss of payment for physicians and hospitals using fewer tests and procedures	Medicaid or health plan no longer pays more for unnecessary procedures

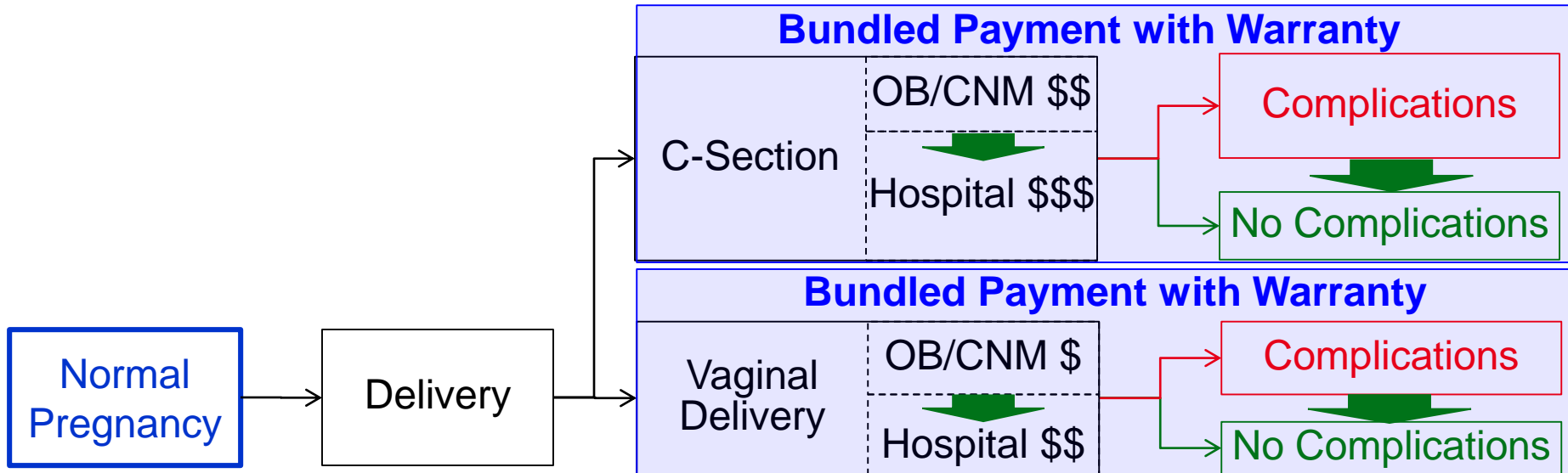
Many Opportunities for Savings With Appropriate Payment Reforms



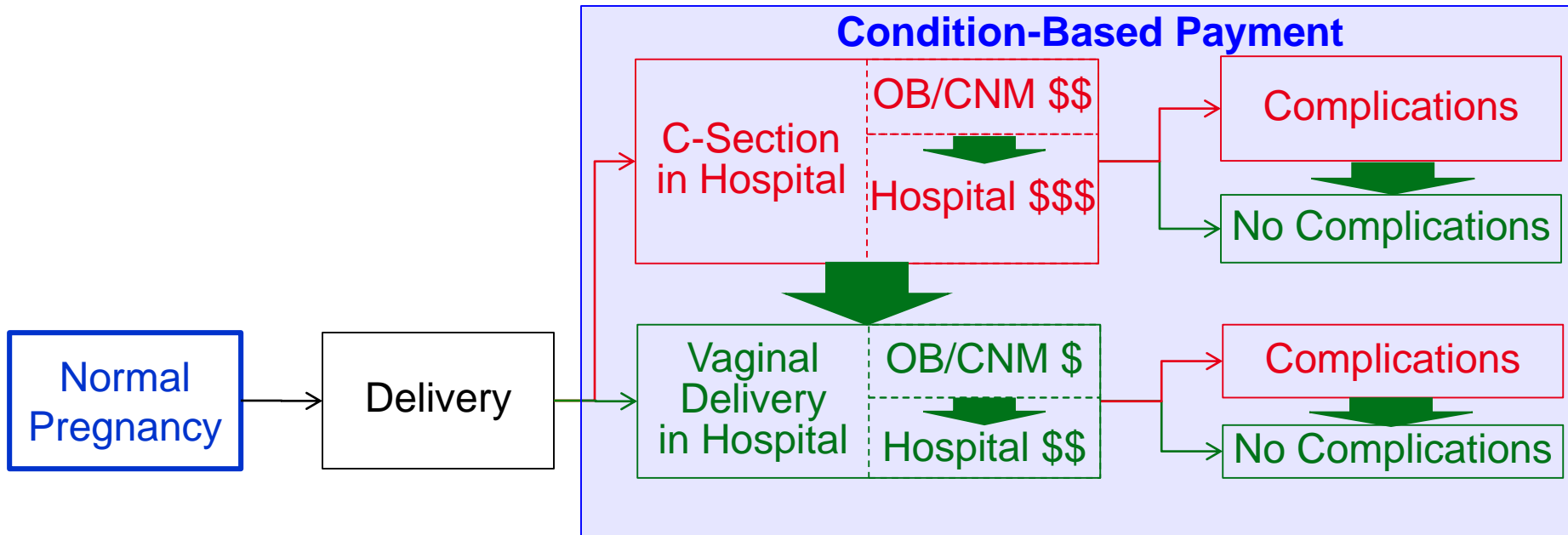
Bundles to Encourage Physicians to Reduce Hospital Costs



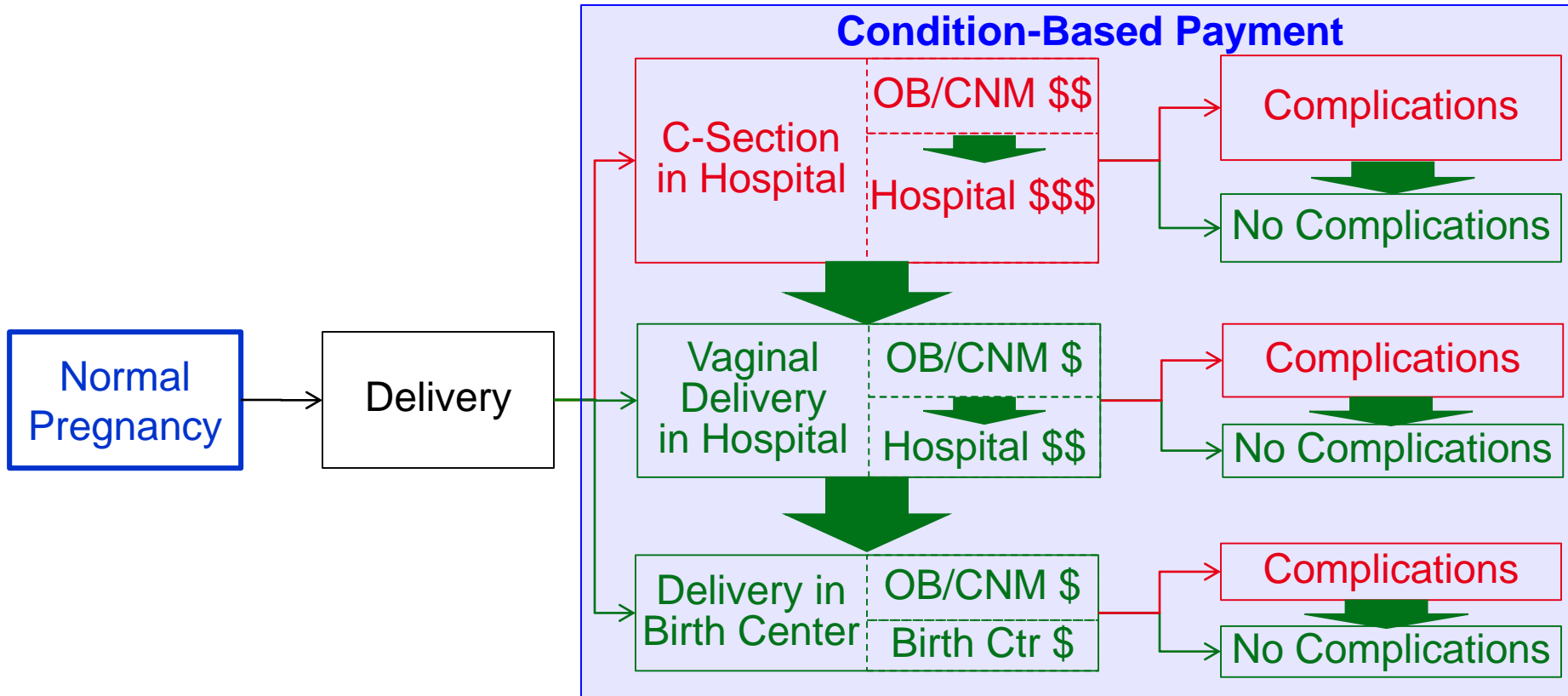
Warranties to Support Reductions in Delivery-Related Complications



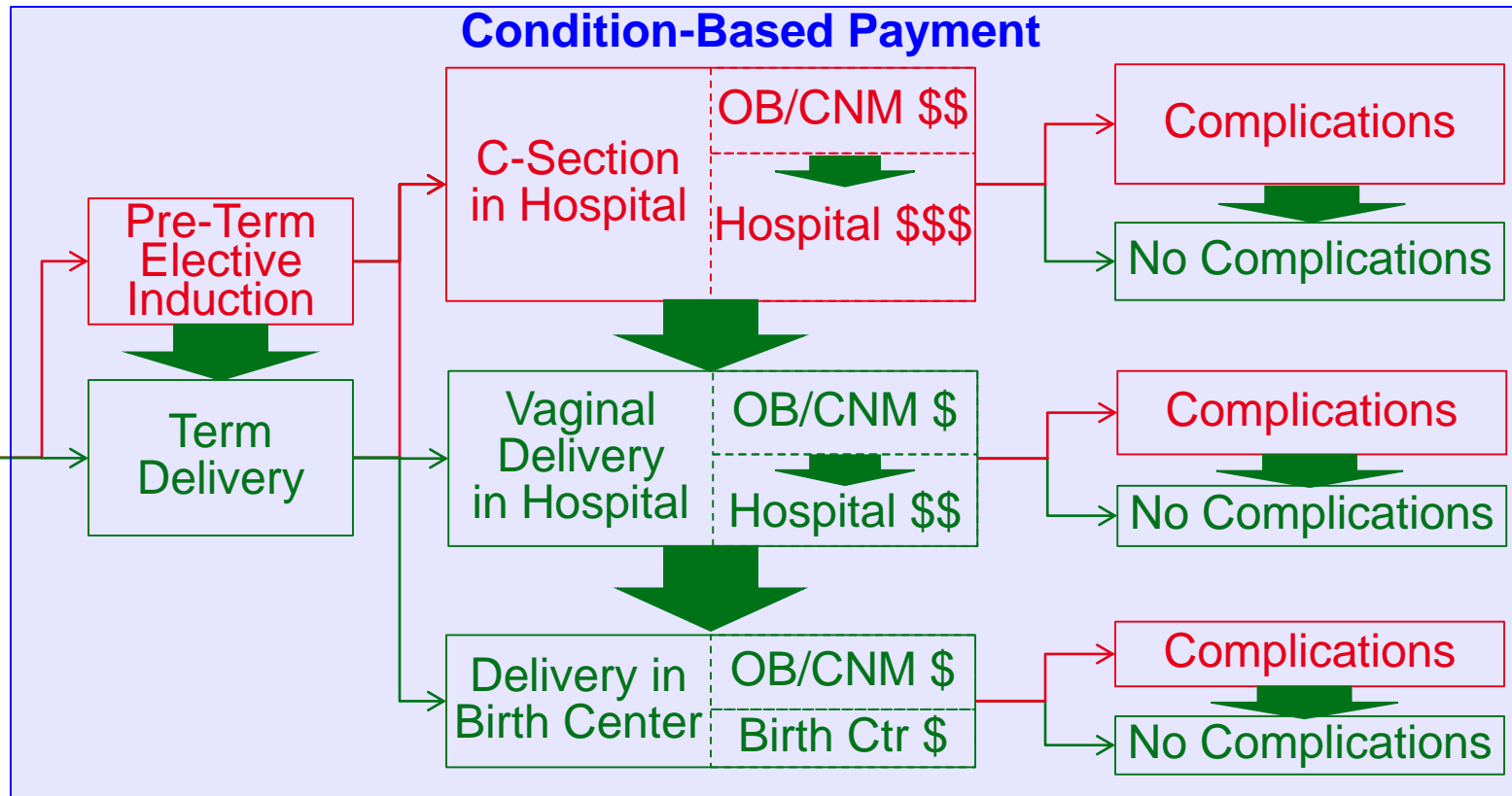
Condition-Based Payment to Encourage More Vaginal Deliveries



Condition-Based Payment Can Encourage Lower-Cost Settings

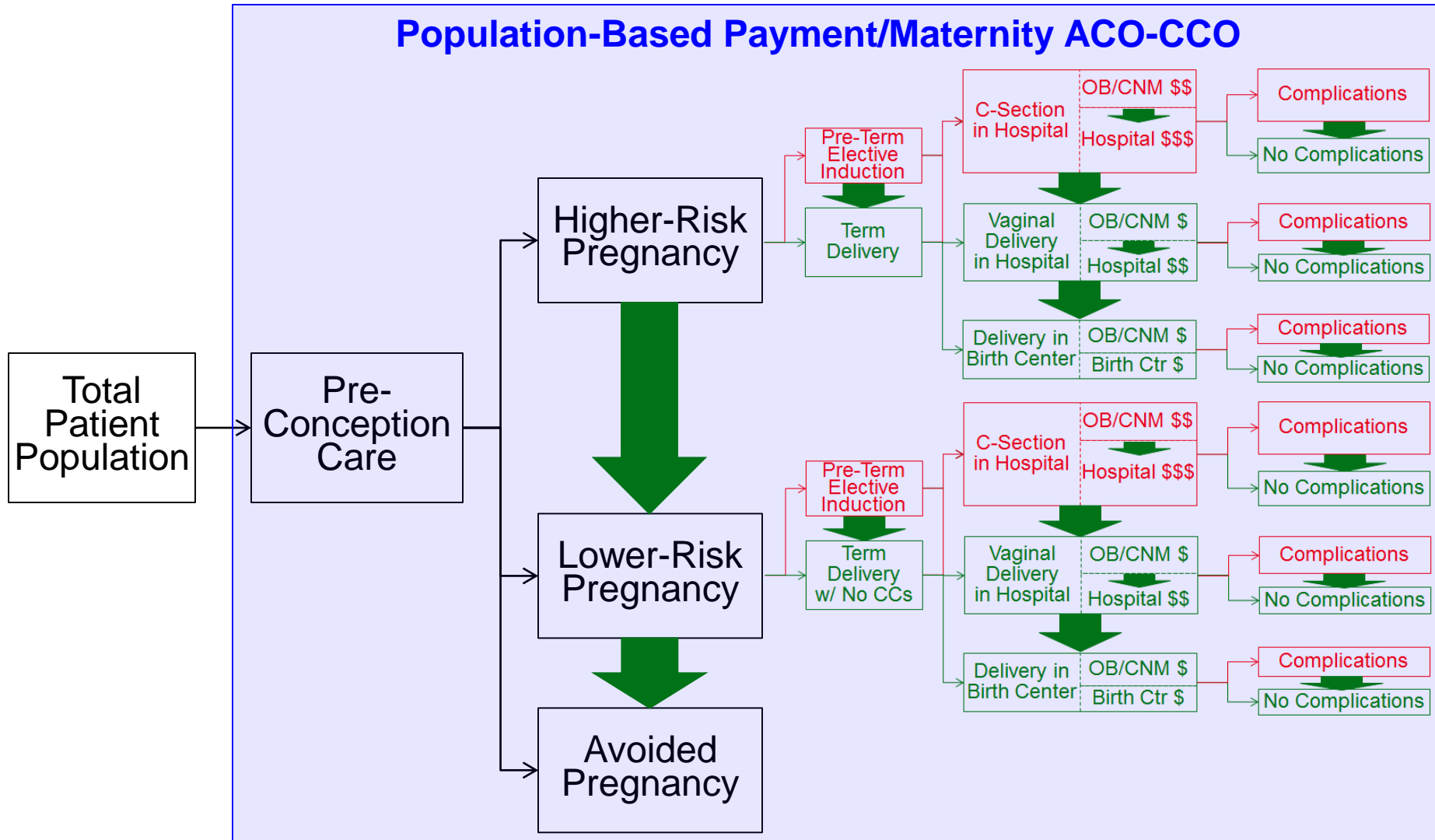


Risk-Adjusted Payment Can Help Reduce Inappropriate Care



Payment Can Also Move Upstream to Improve Outcomes

Population-Based Payment/Maternity ACO-CCO



How Do You Develop Win-Win-Win Solutions?

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1. Defining the Change in Care Delivery

- How can care be redesigned to improve quality and reduce costs?

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2. Analyzing Expected Costs and Savings

- What will there be less of, and how much does that save?
- What will there be more of, and how much does that cost?
- Will the savings offset the costs on average?

More Detail on How to Create a Business Case for Payment Reform

Making the Business Case for Payment and Delivery Reform

Harold D. Miller
Center for Healthcare Quality and Payment Reform

To learn more about RWJF-supported payment reform activities, visit RWJF's Payment Reform webpage (www.rwjf.org/en/topics/rwjf-topics-areas/payment-reform.html)

For additional resources on health care payment reform, visit www.paymentreform.org

Tens of billions of dollars in health care spending could be saved every year by avoiding unnecessary tests, procedures, emergency room visits, and hospitalizations; by reducing infections, complications, and errors in the tests and procedures that are performed; and by preventing serious conditions and providing treatment at earlier and lower-cost stages of disease. However, current health care payment systems create large and often insurmountable barriers to the changes in patient care needed to achieve these benefits.

In order to support improvements in both health care delivery and payment systems, individuals and organizations that purchase health care services need a clear *business case* showing that the proposed change in care will achieve sufficient benefits to justify whatever change in payment health care providers need to support the change in care. Health care providers also need a clear *business case* showing that they will be able to successfully deliver high-quality care in a financially sustainable way under the new payment system.

This report describes a 10 step process to develop such a business case:

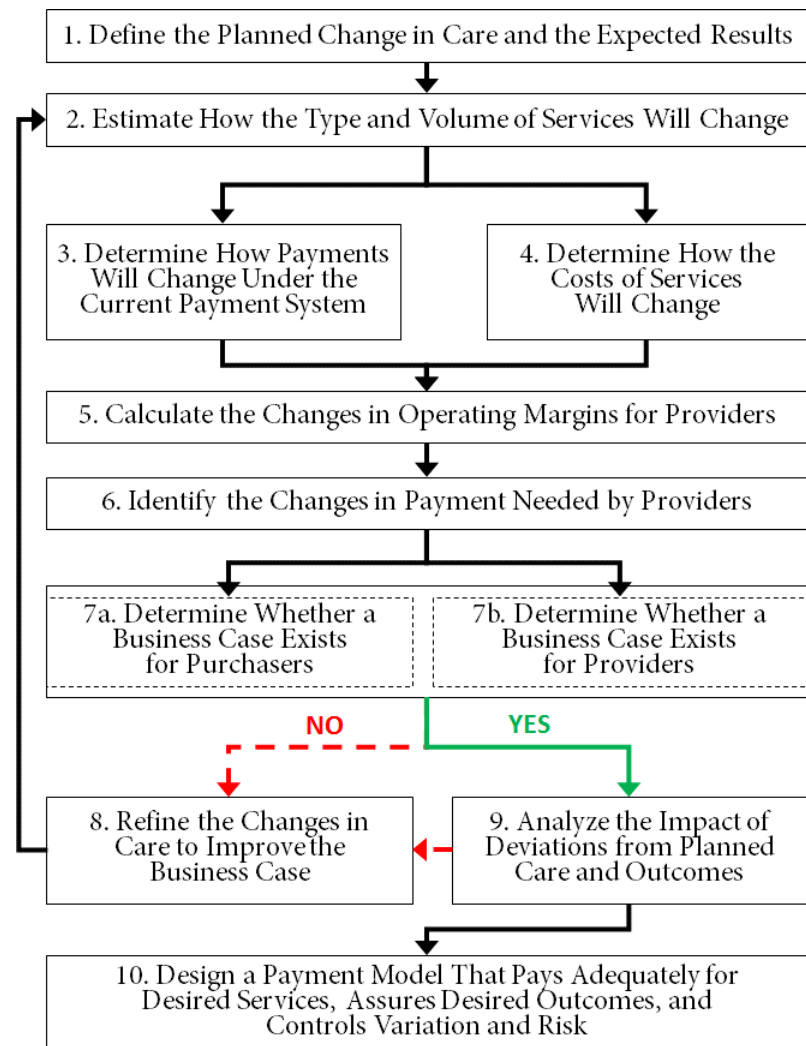
- Step 1. Define the planned change in care and the results it is expected to achieve.
- Step 2. Estimate how the type and volume of services will change.
- Step 3. Determine how payments/revenues will change under the current payment system.
- Step 4. Determine how the costs of services will change.
- Step 5. Calculate the changes in operating margins for providers.
- Step 6. Identify the changes in payment needed by providers to maintain positive operating margins.
- Step 7. Determine whether a business case exists for both purchasers and providers.
- Step 8. Refine the changes in care to improve the business case.
- Step 9. Analyze the impact of potential deviations from planned care and expected outcomes.
- Step 10. Design a payment model that pays adequately for desired services, assures desired outcomes, and controls variation and risk.

The report also describes the four major types of data that will generally be needed to carry out all of the steps in a good business case analysis:

- Health care billing/claims data;
- Clinical data from electronic health records or patient registries;
- Data on the costs of health care services; and
- Data on patient-reported outcomes.

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A Critical Element is Shared, Trusted Data

- **Providers** need to know the current utilization and costs for their patients to know whether the condition-based or bundled/warrantied payment amount will cover the costs of delivering effective care to the patients
- **Purchaser/Payer** needs to know the current utilization and costs to know whether the condition-based or bundled/warrantied payment amount is a better deal than they have today
- **Both** sets of data have to match in order for providers and payers to agree on the new approach!

How Do You Develop Win-Win-Win Solutions?

1. Defining the Change in Care Delivery

- How can care be redesigned to improve quality and reduce costs?

2. Analyzing Expected Costs and Savings

- What will there be less of, and how much does that save?
- What will there be more of, and how much does that cost?
- Will the savings offset the costs on average?

3. Designing a Payment Model That Supports Change

- Flexibility to change the way care is delivered
- Accountability for costs and quality/outcomes related to care
- Adequate payment to cover lowest-achievable costs
- Protection for the provider against unmanageable risk

The Four Key Elements of Successful Payment Reforms

- 1. Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.
- 2. Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly). The payment system should hold providers accountable for utilization and spending they can control, but not for services or costs they cannot control or influence.
- 3. Appropriate Accountability for Quality.** The payment system should assure patients and payers that the quality of care will remain the same or improve. The payment system should hold providers accountable for quality they can control, but not for aspects of quality or outcomes they cannot control or influence.
- 4. Adequacy of Payment.** The size of the payments should be adequate to cover the providers' costs of delivering high quality care for the types of patients they see and at the levels of cost or efficiency that are feasible for them to achieve.

Protections For Providers Against Taking Unmanageable Risk

- **Risk Adjustment:** The payment rates to the provider would be adjusted based on objective characteristics of the patient and treatment that would be expected to result in the need for more services or increase the risk of complications.
- **Outlier Payment or Individual Stop Loss Insurance:** The payment to the provider from the payer would be increased if spending on an individual patient exceeds a pre-defined threshold. An alternative would be for the provider to purchase individual stop loss insurance (sometimes referred to as reinsurance) and include the cost of the insurance in the payment bundle.
- **Risk Corridors or Aggregate Stop Loss Insurance:** The payment to the provider would be increased if spending on all patients exceeds a pre-defined percentage above the payments. An alternative would be for the provider to purchase aggregate stop loss insurance and include the cost of the insurance in the payment bundle.
- **Adjustment for External Price Changes:** The payment to the provider would be adjusted for changes in the prices of drugs or services from other providers that are beyond the control of the provider accepting the payment.
- **Excluded Services:** Services the provider does not deliver, or order, or otherwise have the ability to influence would not be included as part of accountability measures in the payment system.

Quality Measures Should Focus on Protecting Against *Underuse*

- ***Eliminate* measures that impede or duplicate the incentives in the new payment system**
 - Process measures that dictate specific approaches without strong evidence of necessity
 - Overused and expensive services
- ***Emphasize* measures that protect against underuse**
 - Preventive services with longer-term benefits
 - Expensive services with strong evidence of benefit and serious impacts from failure to use when appropriate
- **Implement *appropriate use* criteria wherever possible**
 - Help providers *avoid unnecessary* services
 - Ensure patients *receive necessary* services

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- Accountability for costs and quality/outcomes related to care
- Adequate payment to cover lowest-achievable costs
- Protection for the provider

4. Trust, Transparency, and Collaborative Problem-Solving

- Recognition that only win-win-win solutions are sustainable
- Willingness to share accurate information on costs in order to develop win-win-win approaches
- Commitment to revise payments as necessary when costs, utilization, etc. do not turn out as expected

The Result: Better Maternity Care

- **Better Care for Patients**
 - Providers having the flexibility to design care that matches patient needs
- **Lower Spending for Payers**
 - Providers able to use the best combination of services for patients without worrying about which service generates more profits
- **Financially Viable Healthcare Providers**
 - Physicians, hospitals, hospice agencies, and other providers paid adequately to deliver high-quality care

Learn More About Win-Win-Win Payment and Delivery Reform

CENTER FOR HEALTHCARE QUALITY & PAYMENT REFORM

HOW TO CREATE ACCOUNTABLE CARE ORGANIZATIONS

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Transitioning to Accountable Care

INCREMENTAL PAYMENT REFORMS TO SUPPORT HIGHER QUALITY, MORE AFFORDABLE HEALTH CARE

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Ten Barriers to Healthcare Payment Reform

And How to Overcome Them

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Making the Business Case for Payment and Delivery Reform

Robert Wood Johnson Foundation

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Center for Healthcare Quality and Payment Reform

Key findings of studies in health care, spanning a wide range of settings, by using big data, systems, clinical, and organizational data, and longitudinal data, including delivery, coordination, and care of the work and patients that performed and by providing services, conditions and providing feedback at earlier and later stages of disease. However, current health care payment systems can be a major barrier to the change in patient care needed to bring about these improvements.

To make an impact, organizations in both health care delivery and payment systems, individuals and organizations that pay for health care services need to be... focused on the change in care that will allow patients to receive quality outcomes that are better than care provided in the current system. Health care providers also need a clear business case showing that their efforts to improve care will result in a financially sustainable new model for patient care.

This report provides a set of steps to develop such a business case:

1. Define the planned change in care and the results it is expected to achieve.
2. Assess the size and volume of services and change.
3. Estimate how performance will change under the current payment system.
4. Estimate how the costs of services will change.
5. Calculate the change in operating margins for providers.
6. Identify the change in payment needed by providers to maintain positive operating margins.
7. Determine whether a business case exists for both patients and providers.
8. Define the change in care to improve the business case.
9. Analyze the impact of potential changes to payment, care and related services.
10. Develop a business model that you will qualify for shared services, shared outcomes and control systems and risk.

This report also identifies the five major types of data that will generally be needed to carry out all of the steps in a performance model:

- Health care billing claims data.
- Shared data from electronic health records or patient registries.
- Data on the costs of health care services and
- Data on patient-related outcomes.

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Measuring and Assigning Accountability for Healthcare Spending

Fair and Effective Ways to Analyze the Drivers of Healthcare Costs and Transition to Value-Based Payment

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