

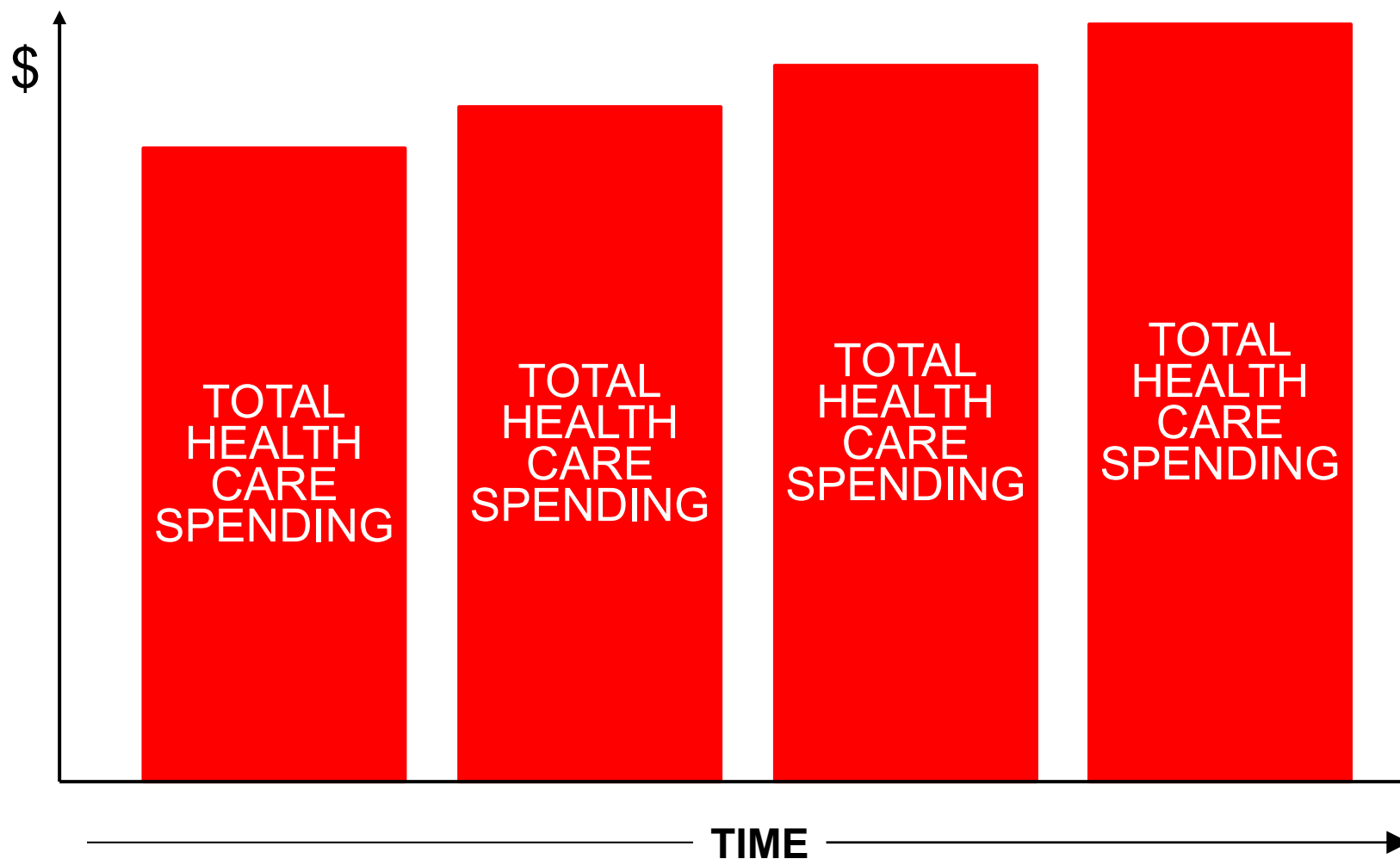
ValueBased | *Prize*
HealthCare | *2020*

**DESIGNING
VALUE-BASED PAYMENTS
THAT SUPPORT
VALUE-BASED CARE**

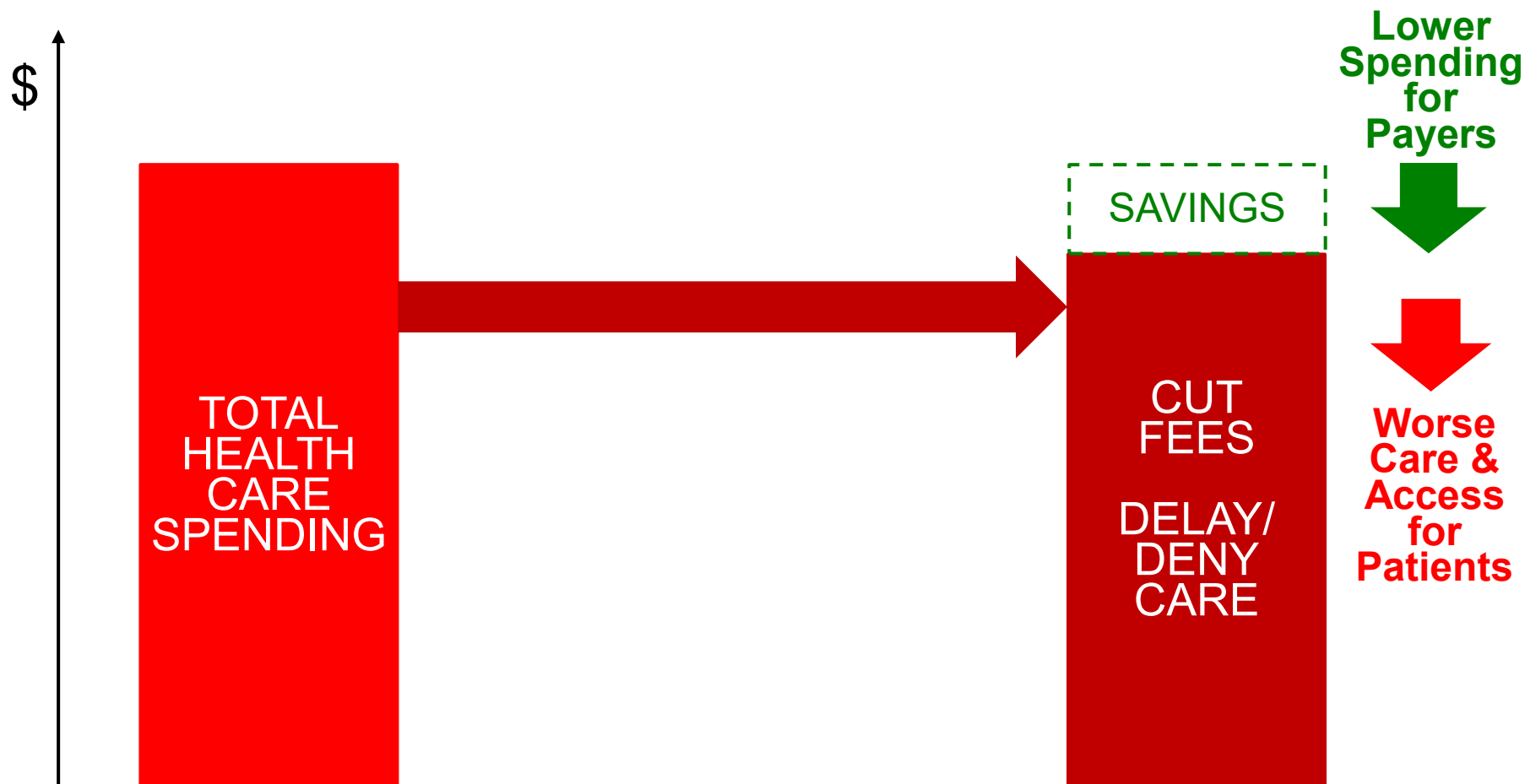
Harold D. Miller
President and CEO
Center for Healthcare Quality and Payment Reform

www.CHQPR.org

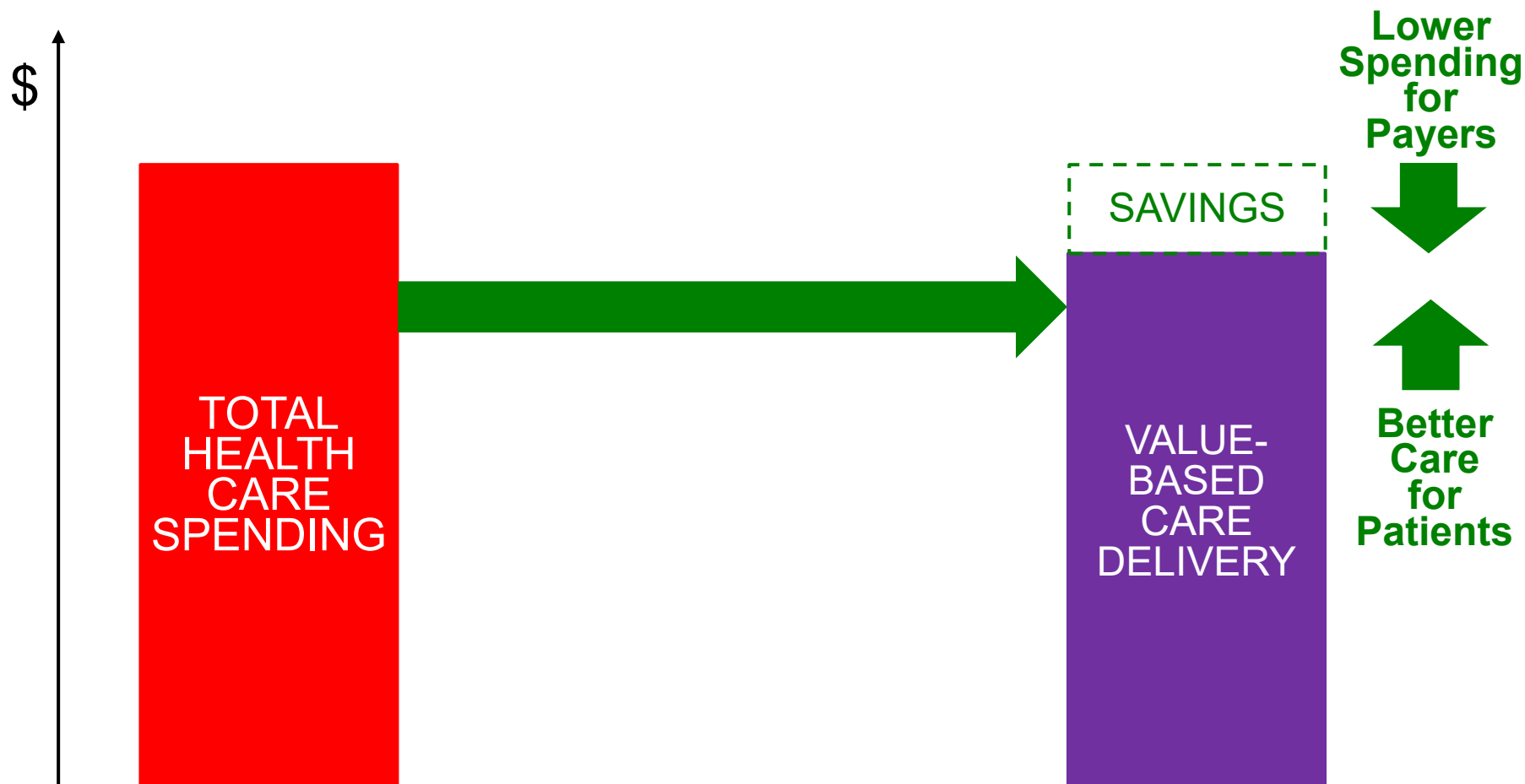
How Do You Control the Growth in Healthcare Spending?



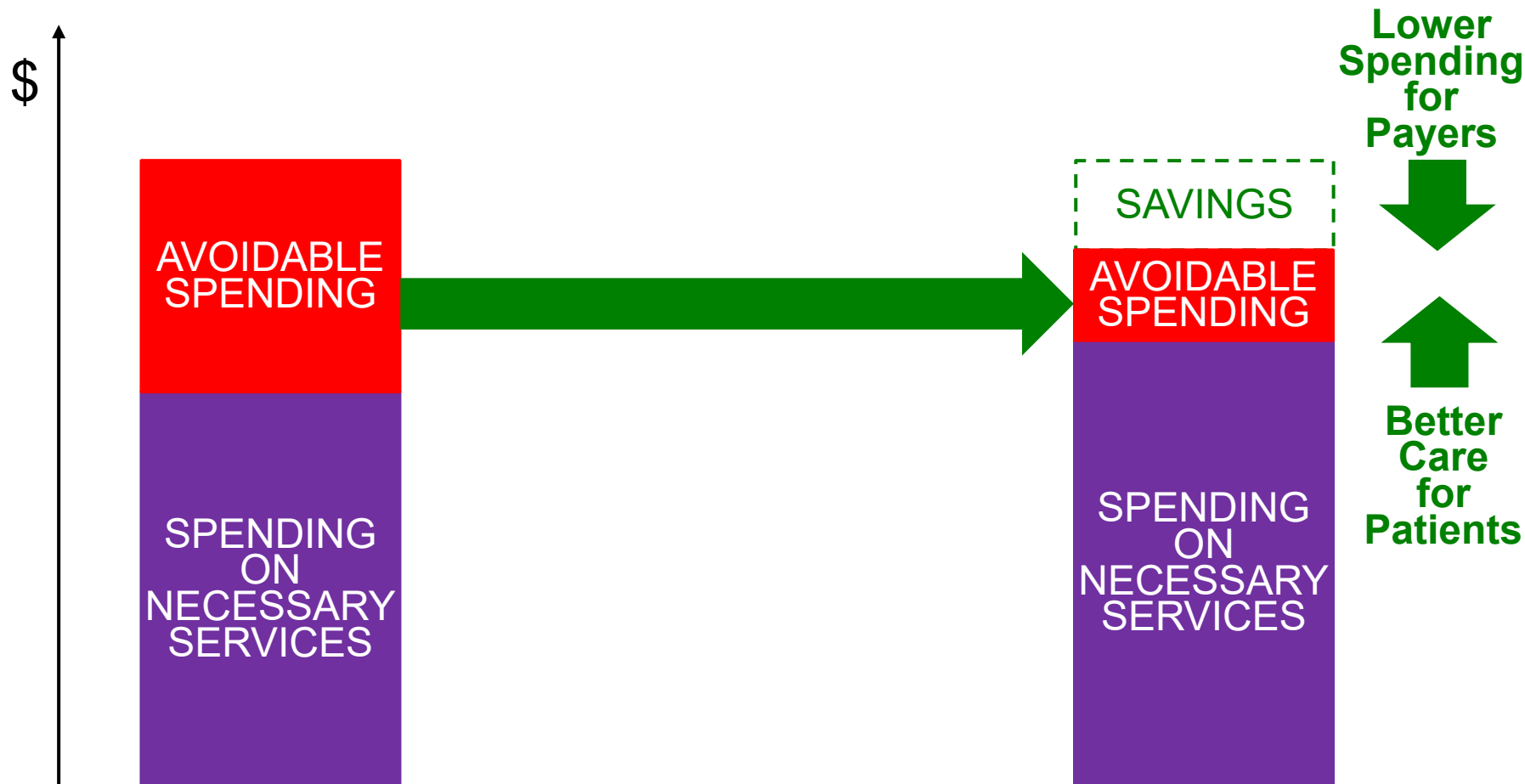
Bad Ways: Cut Fees to Providers or Delay/Deny Services to Patients



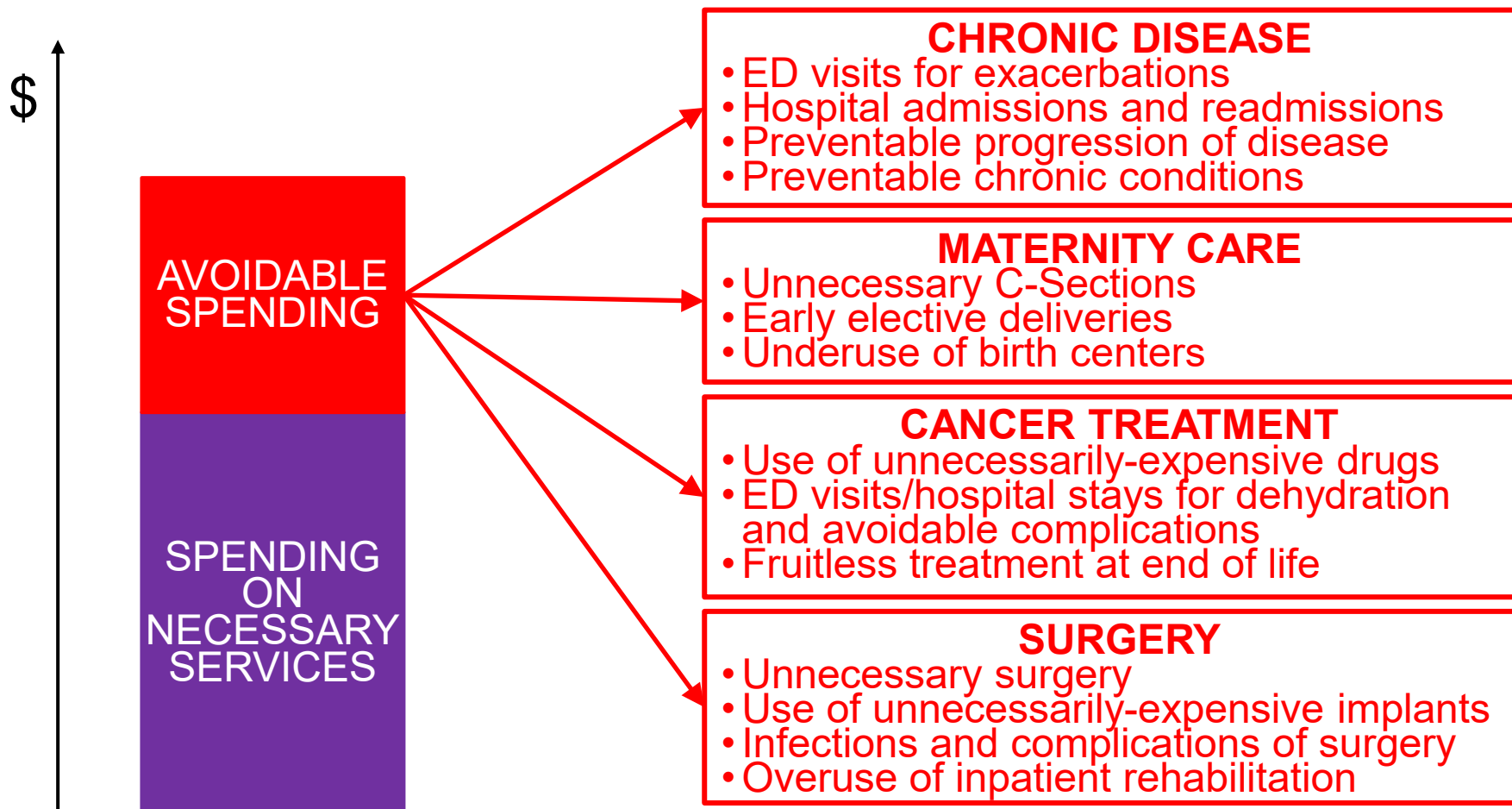
A Better Way: Value-Based Care for Patients



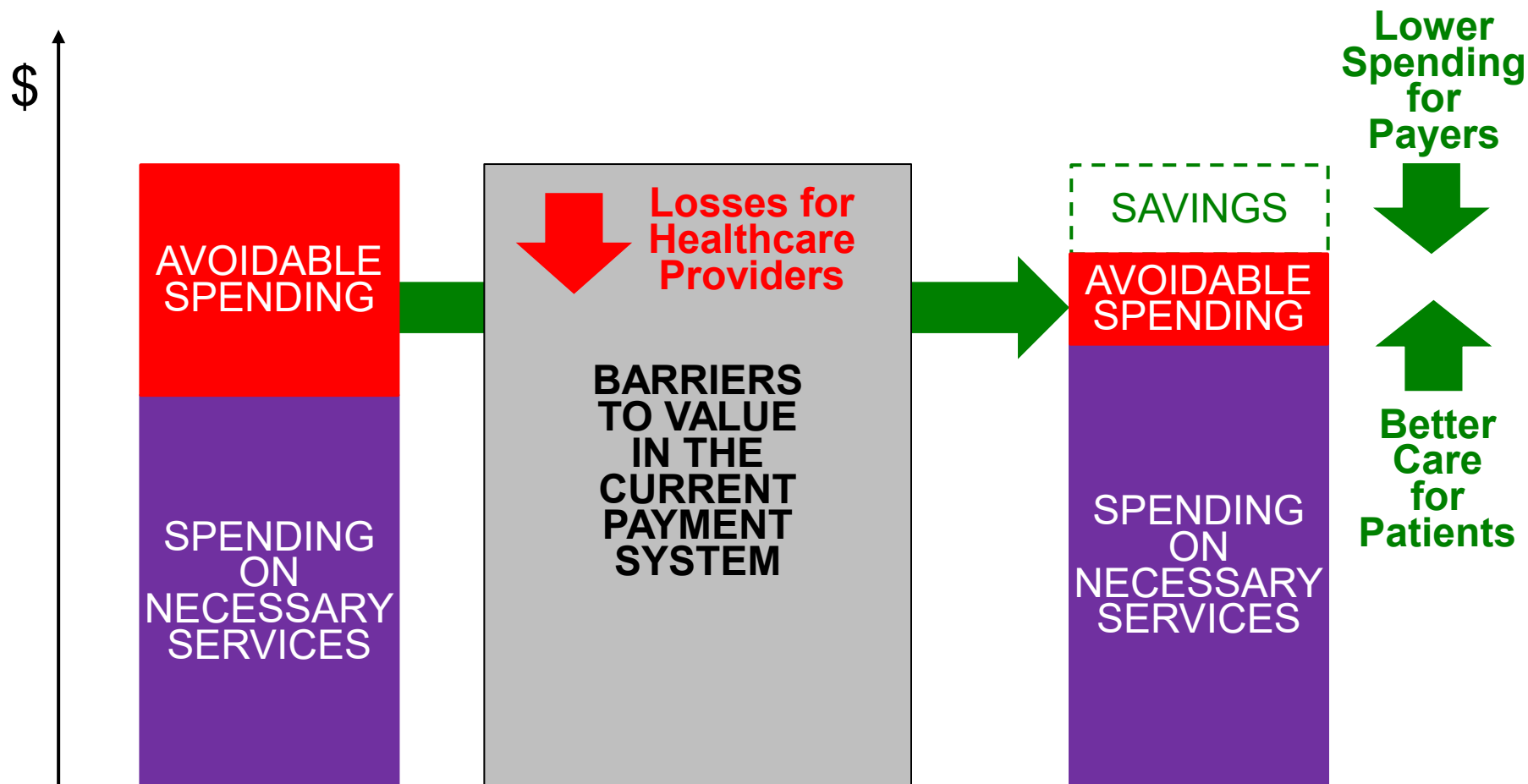
Most Value-Based Care Involves Reducing *Avoidable* Spending



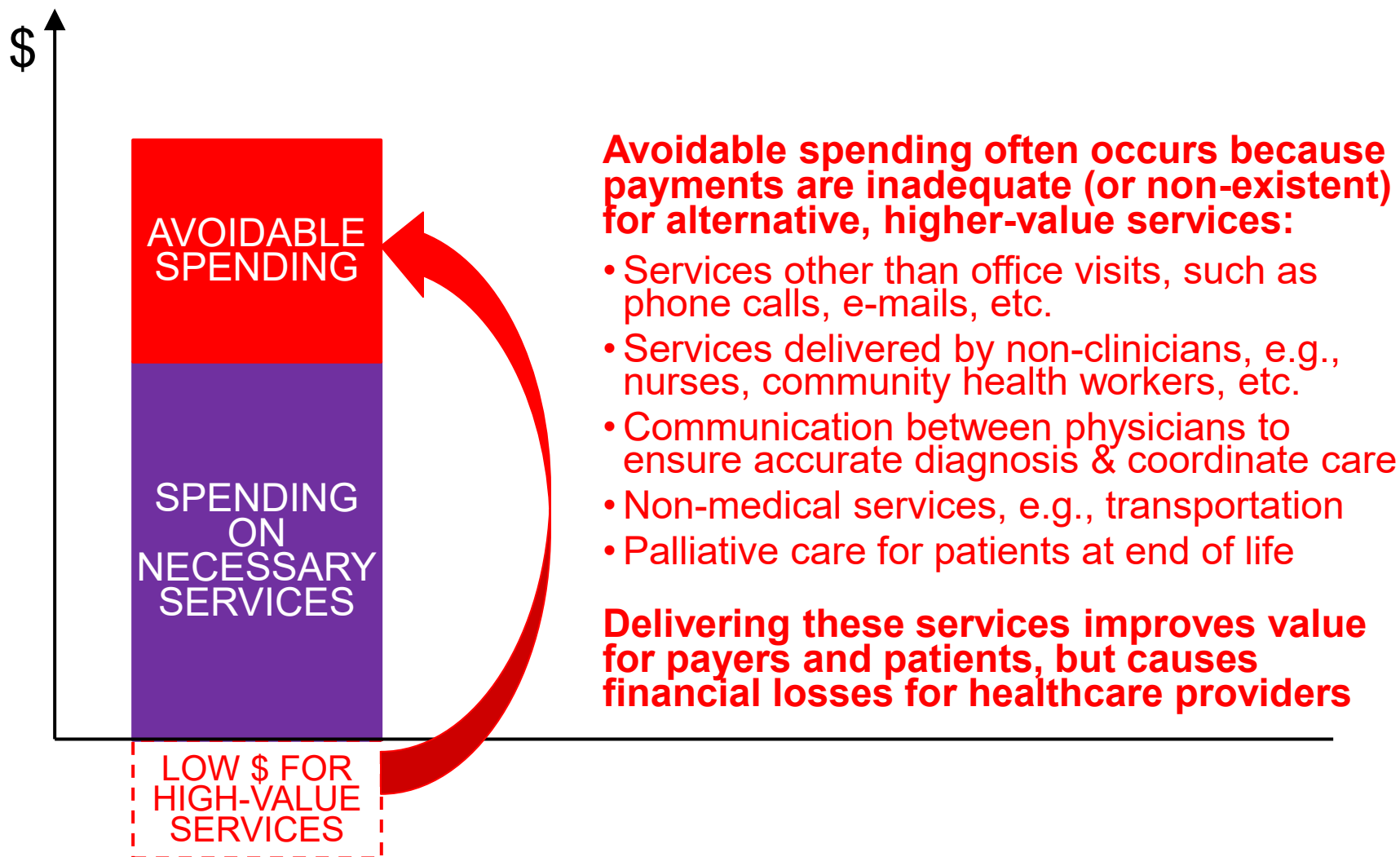
Avoidable Spending is Bad for Both Patients and Payers



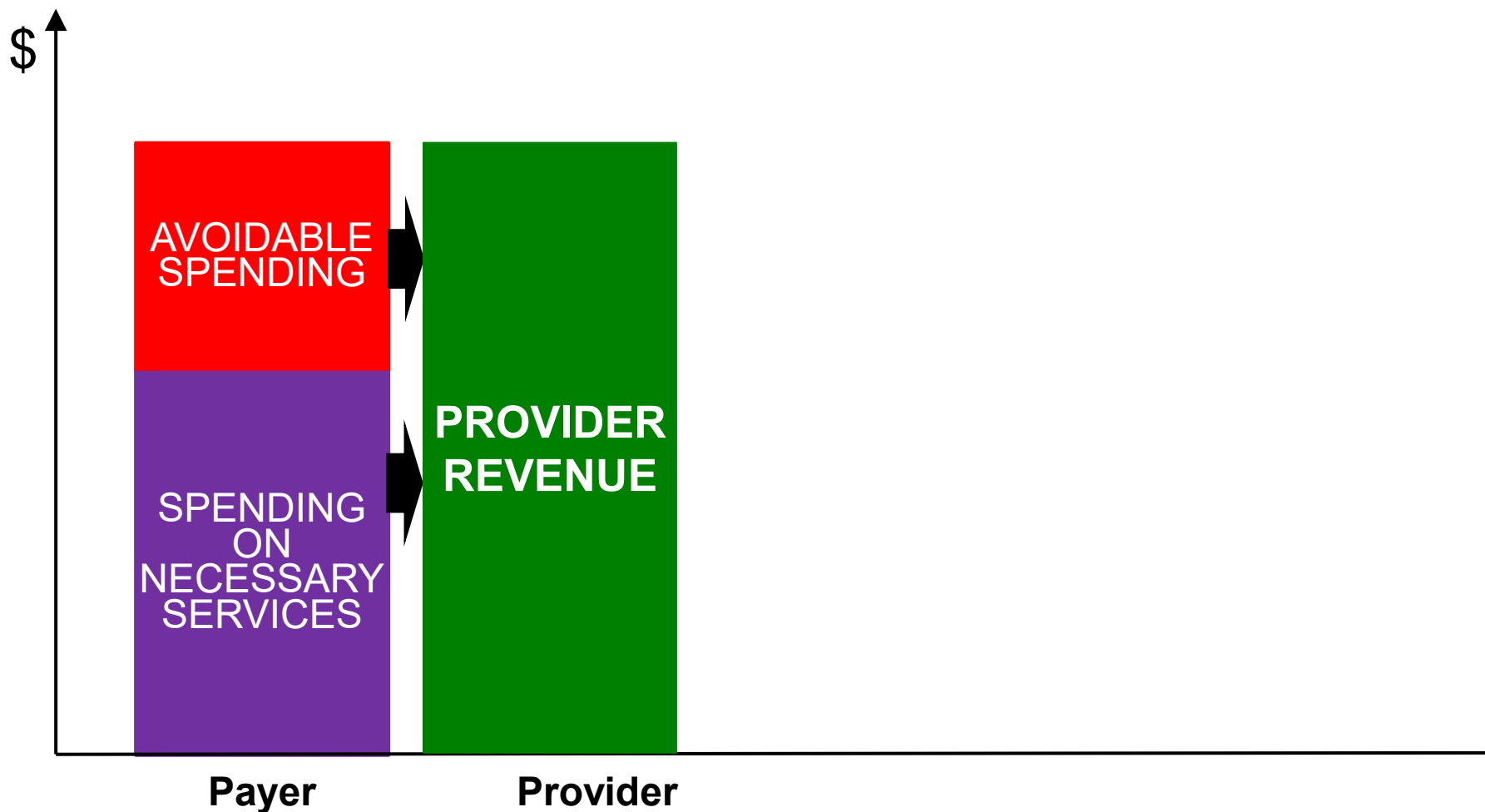
Barriers in the Payment System Create a Win-Lose for Providers



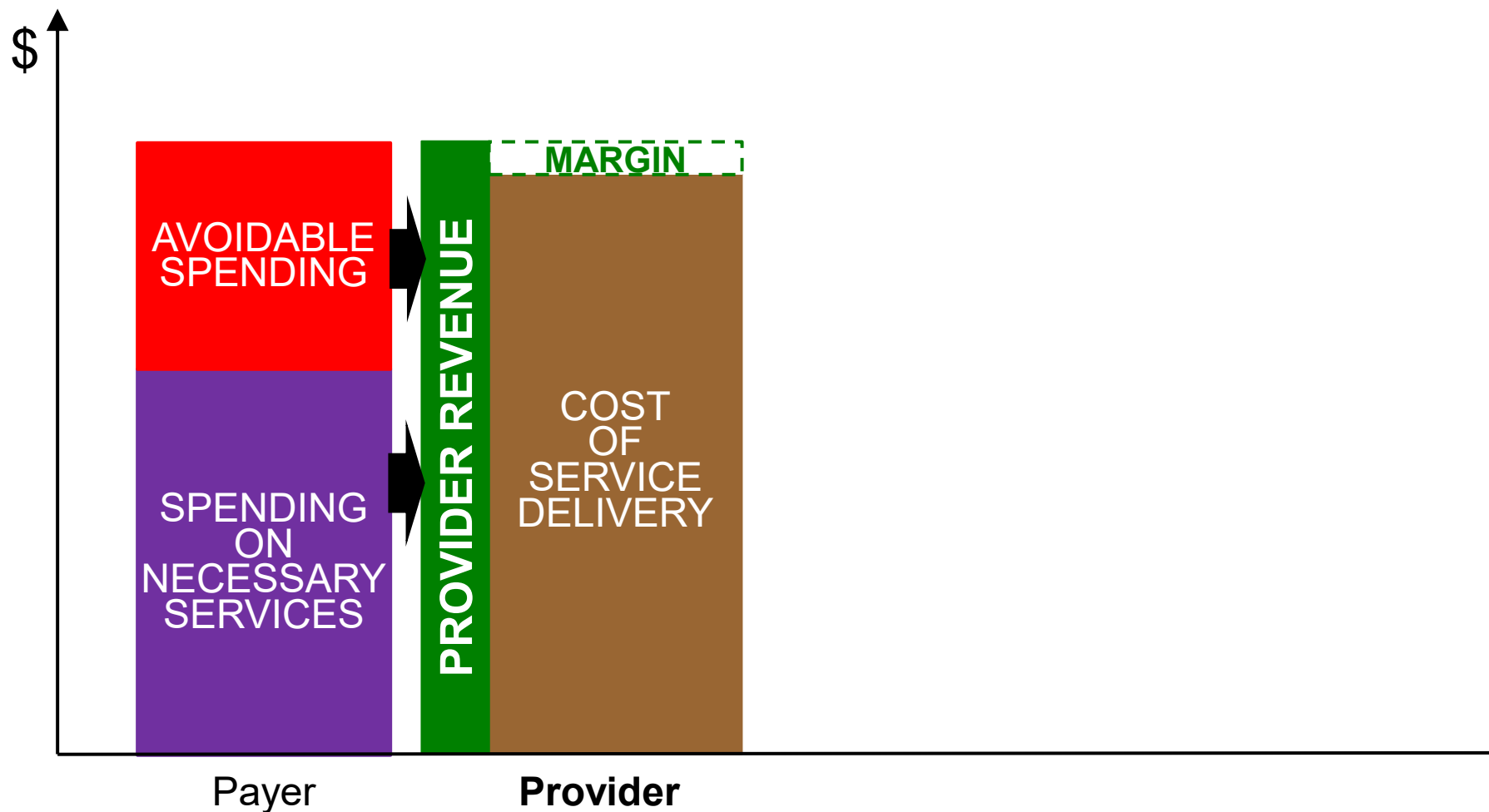
Barrier #1: Inadequate Payments for Higher-Value Services



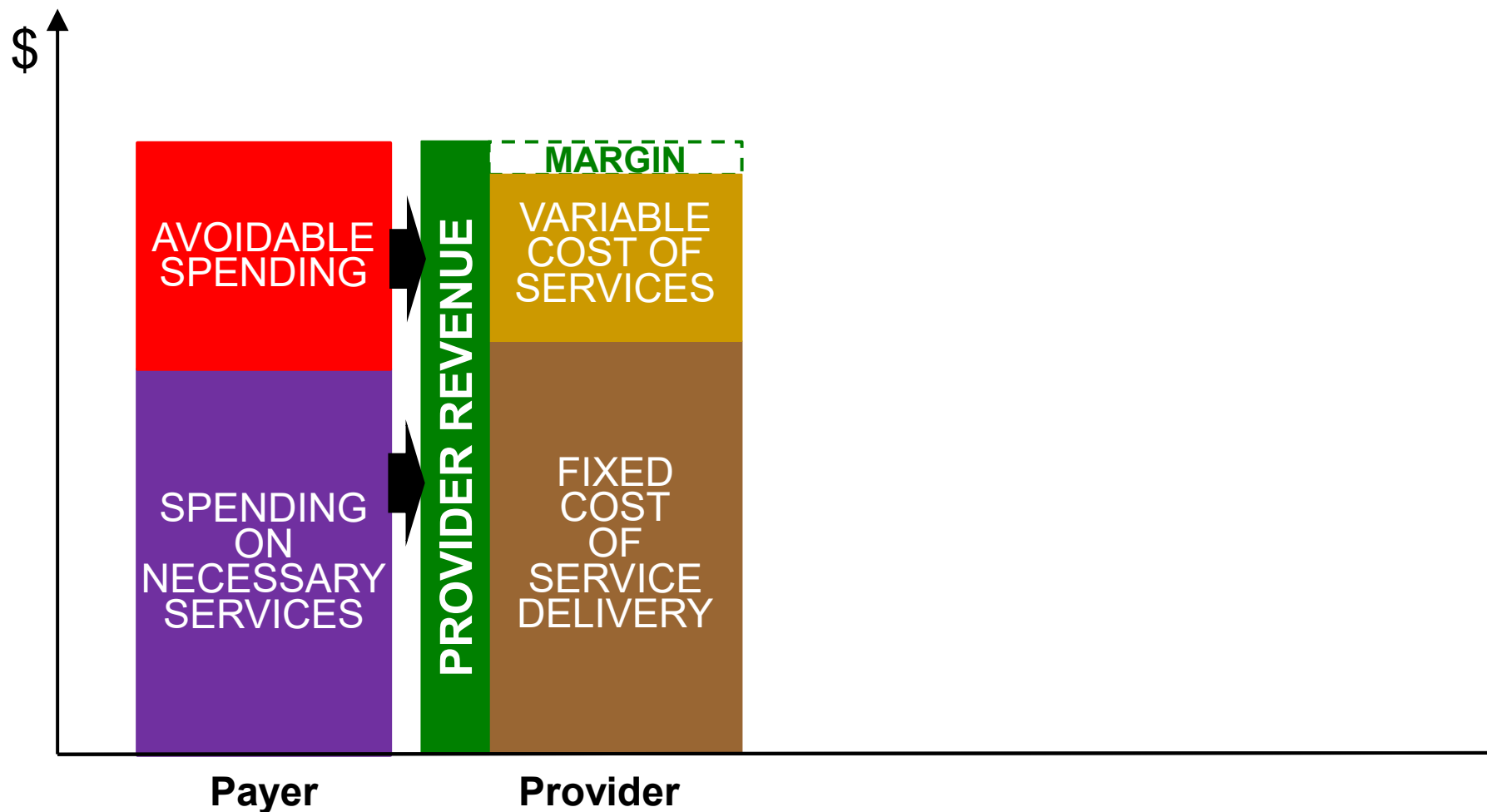
Barrier #2: “Avoidable Spending” is *Revenue* for Providers



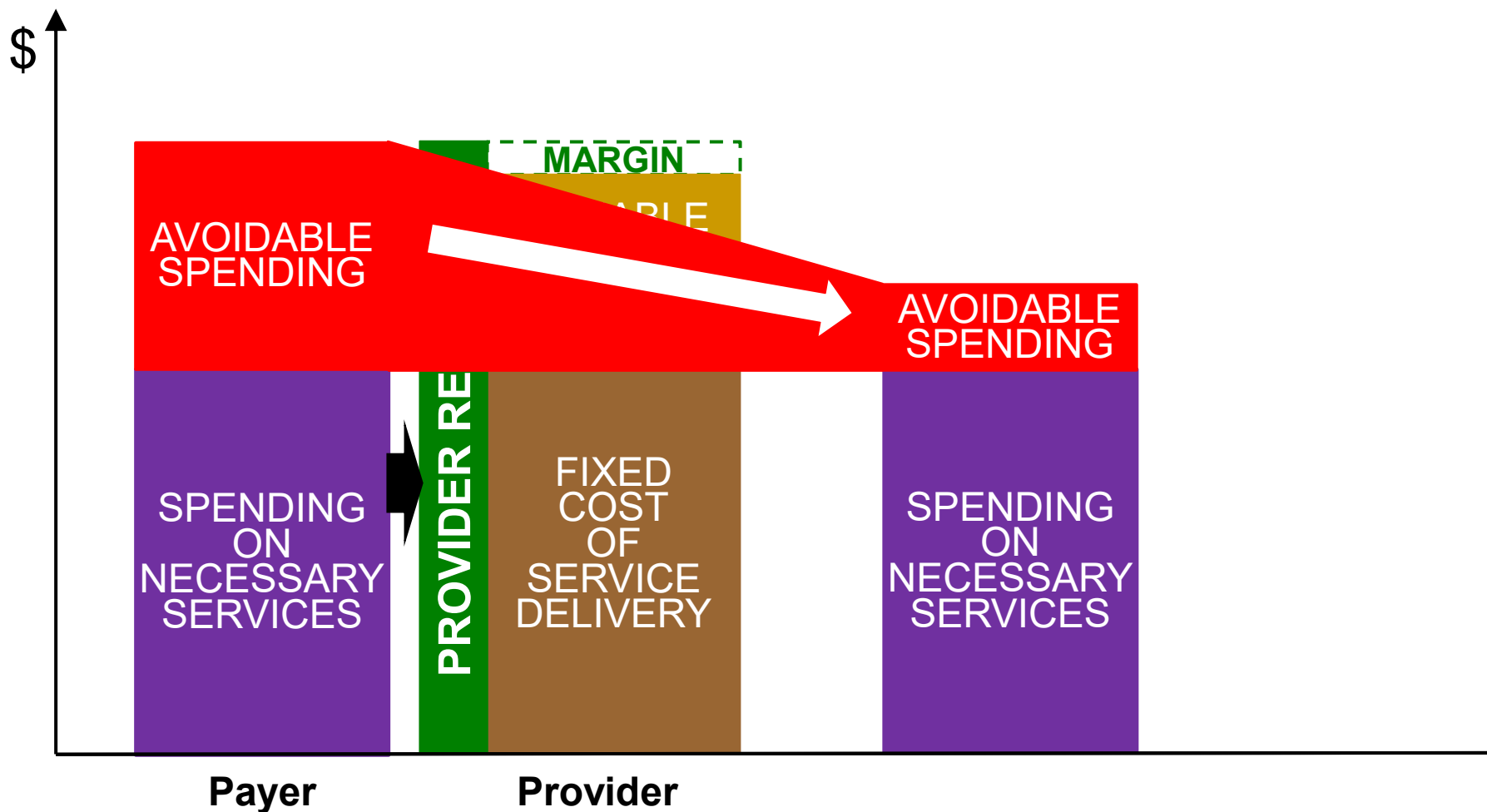
Providers Use the Revenue to Pay for the Costs of Services



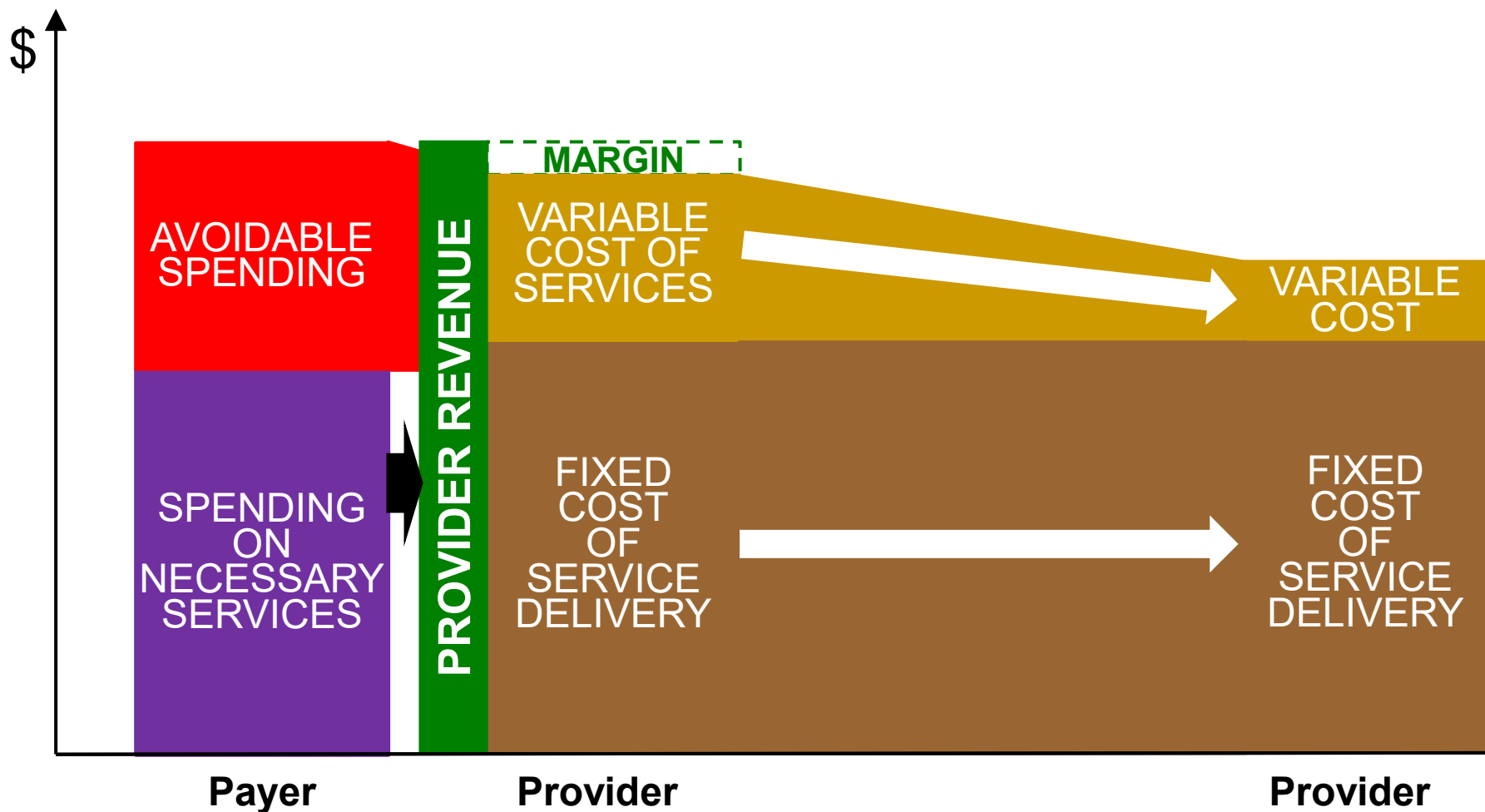
The Majority of Costs May Be Fixed (in the Short Term)



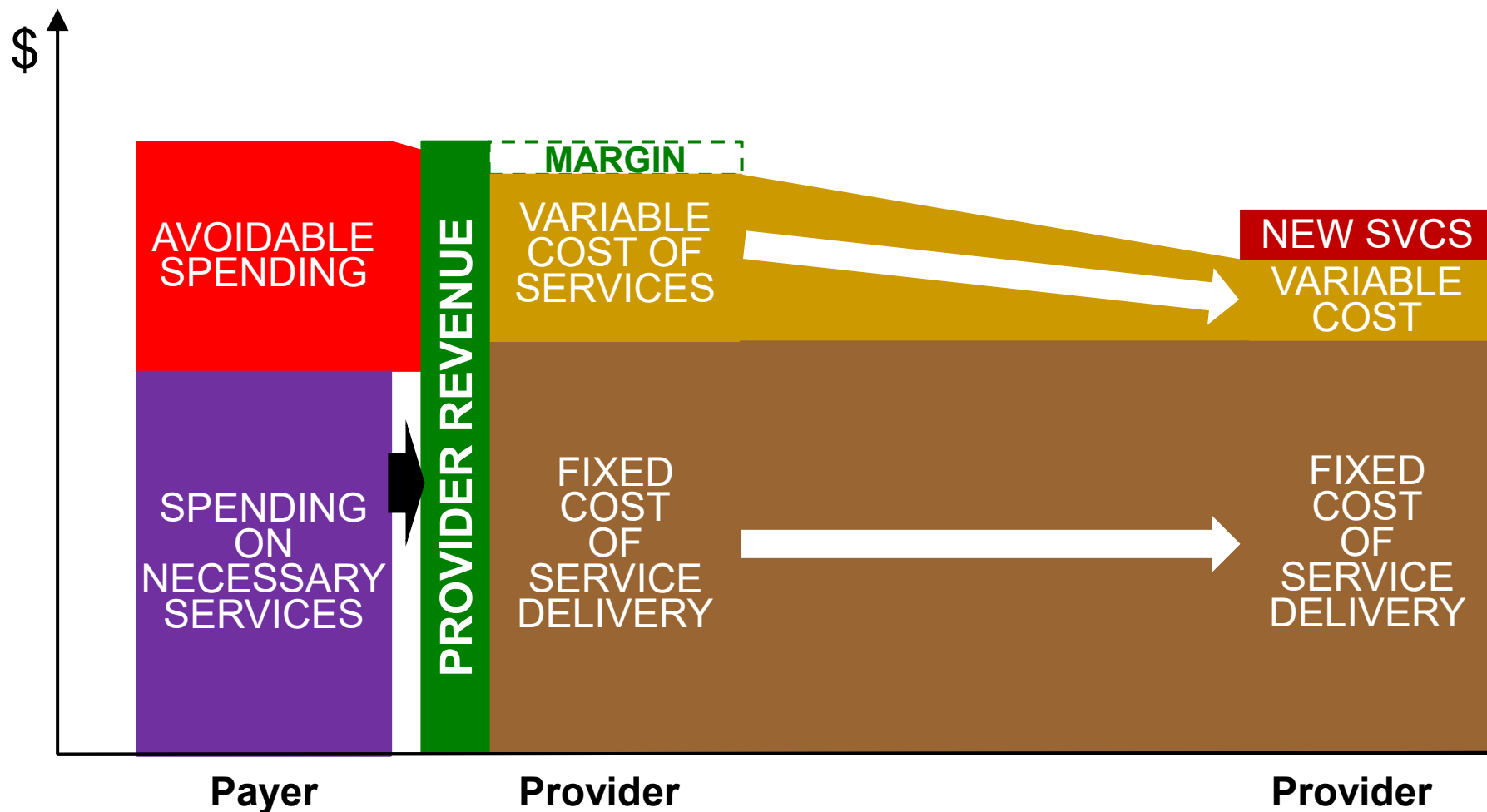
When Healthcare Providers Reduce Avoidable Services...



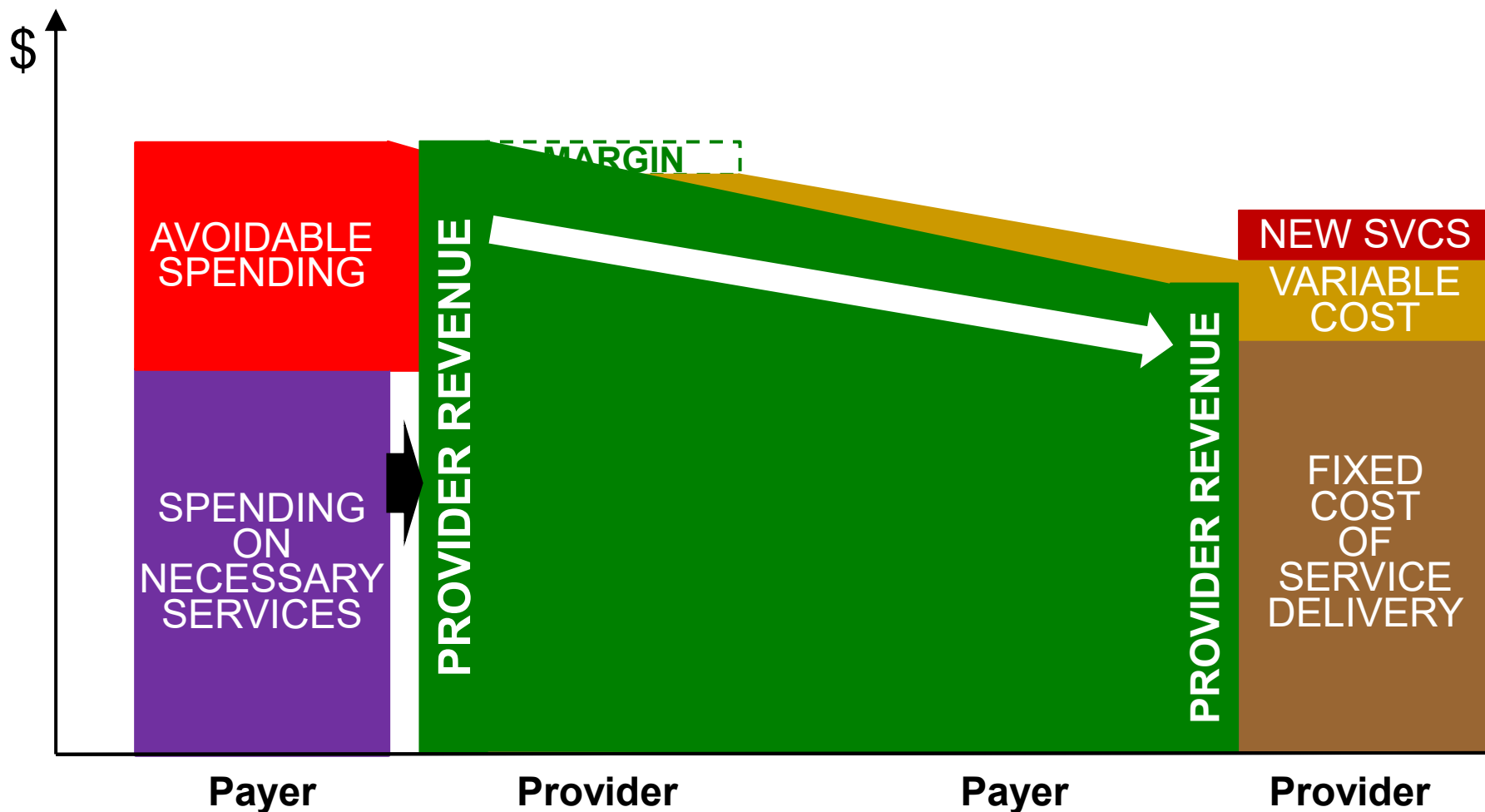
... Variable Costs Decrease, But Fixed Costs Do Not



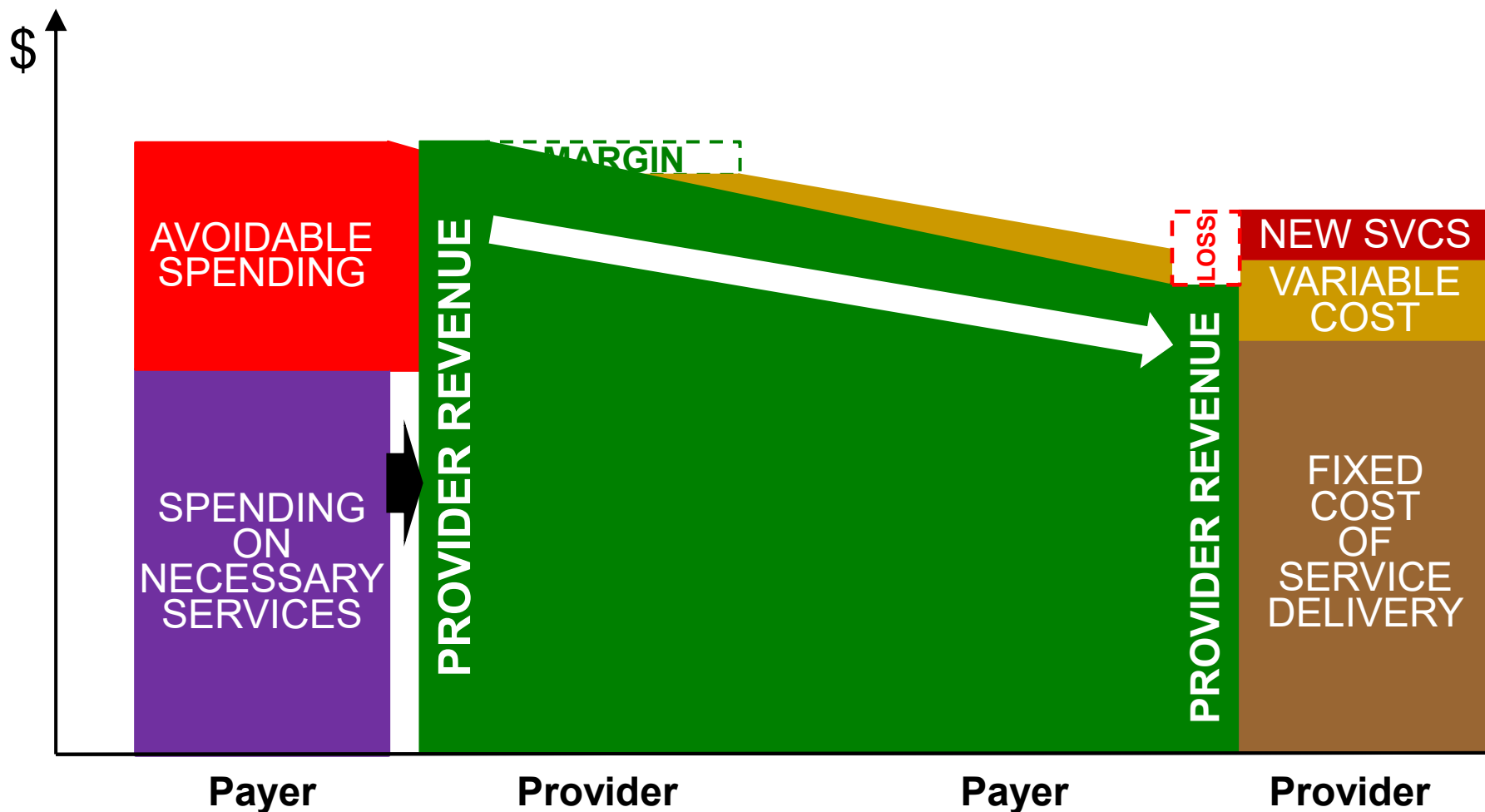
...Plus Added Costs of Delivering New High-Value Services



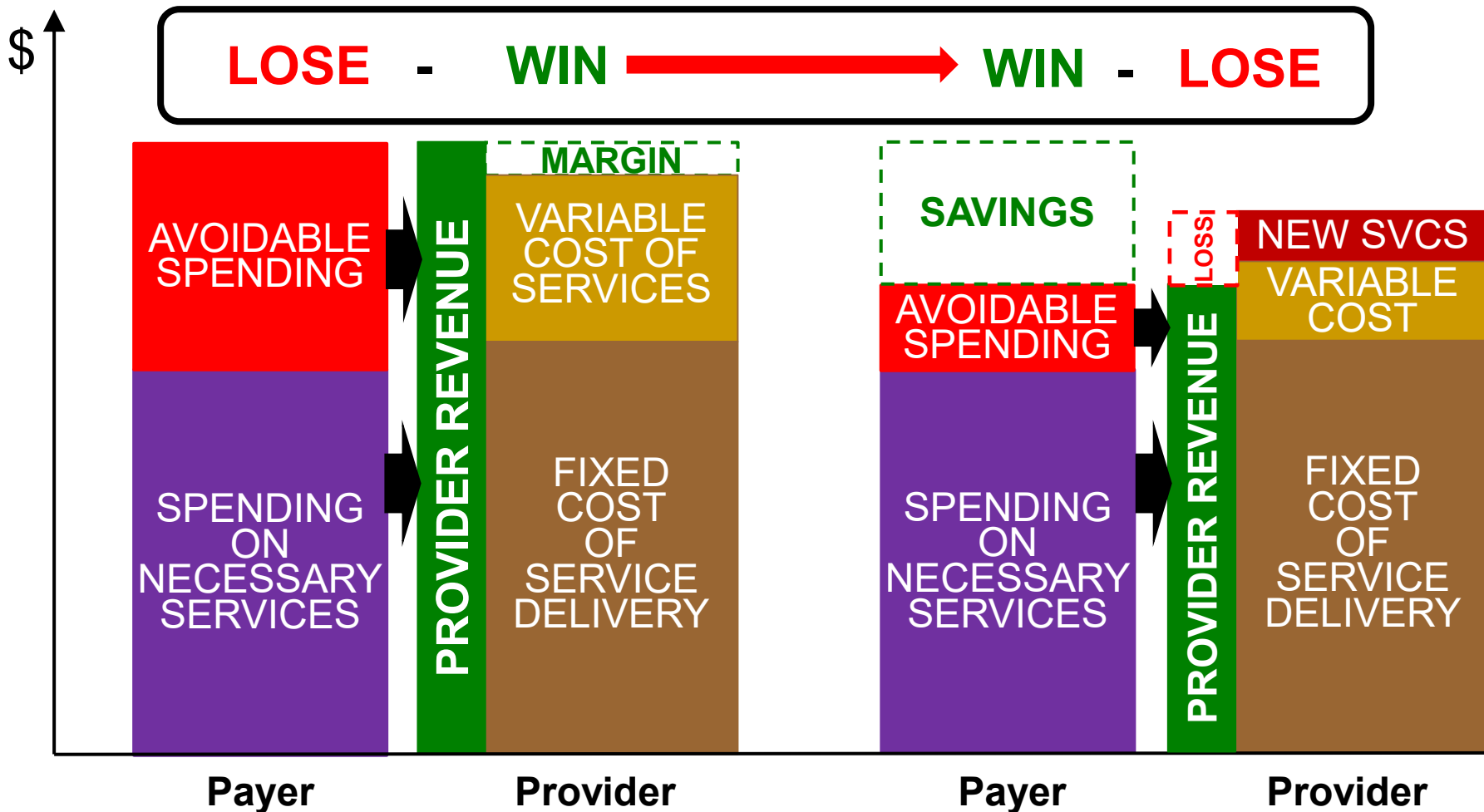
Revenues Decrease in Direct Proportion to Service Volume...



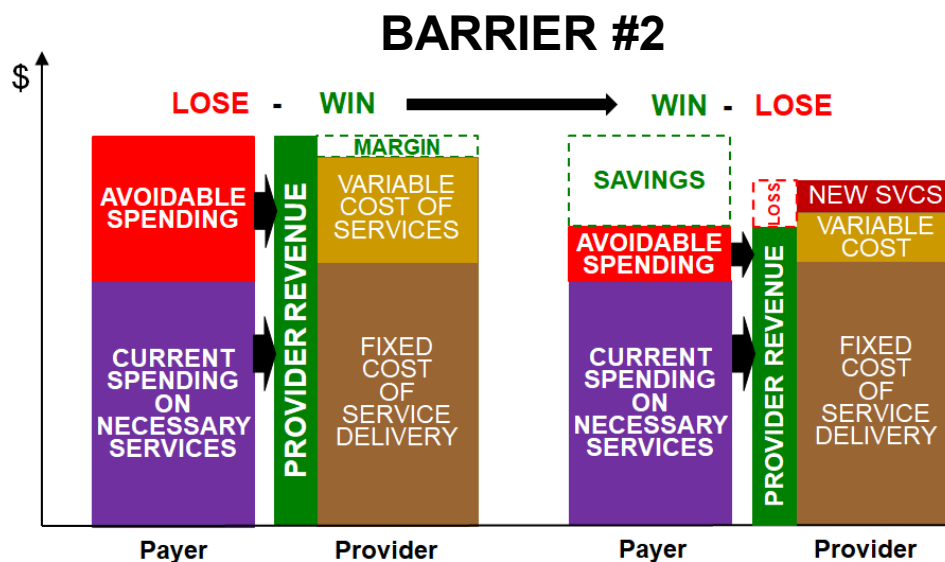
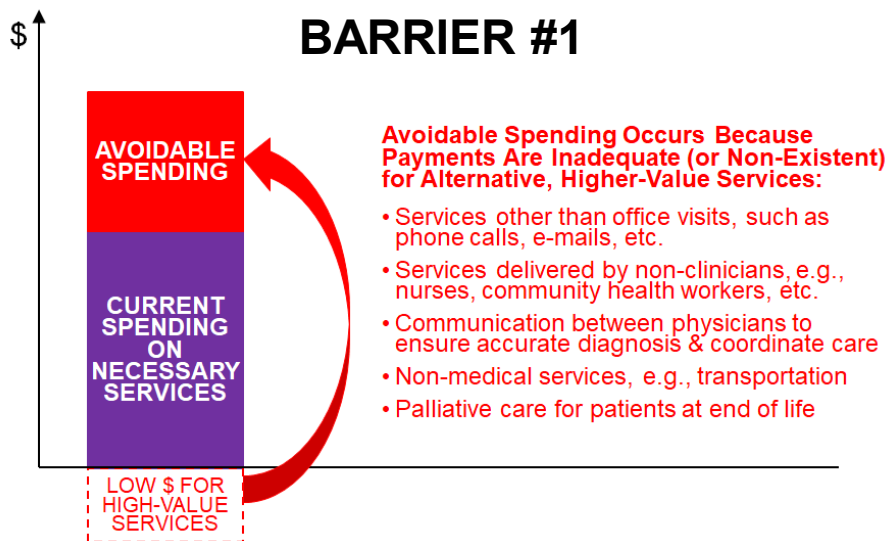
...Resulting in Financial Loss for Healthcare Providers



Win-Lose: Savings for Payers, Losses for Providers



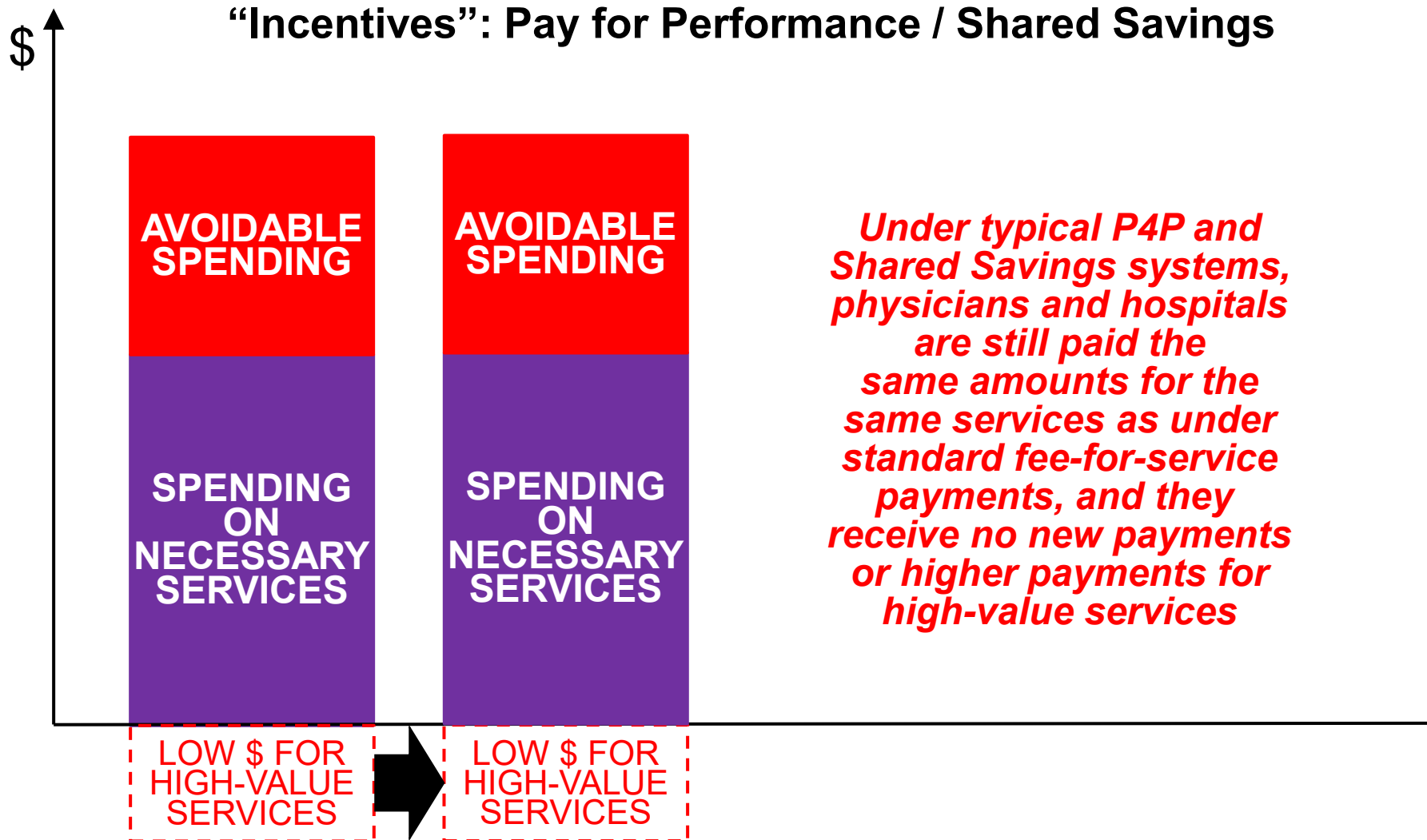
Value-Based Payment Must Remove the Barriers to Better Care



Will “Incentives” for
Healthcare Providers
Remove the Barriers
to Value-Based Care?

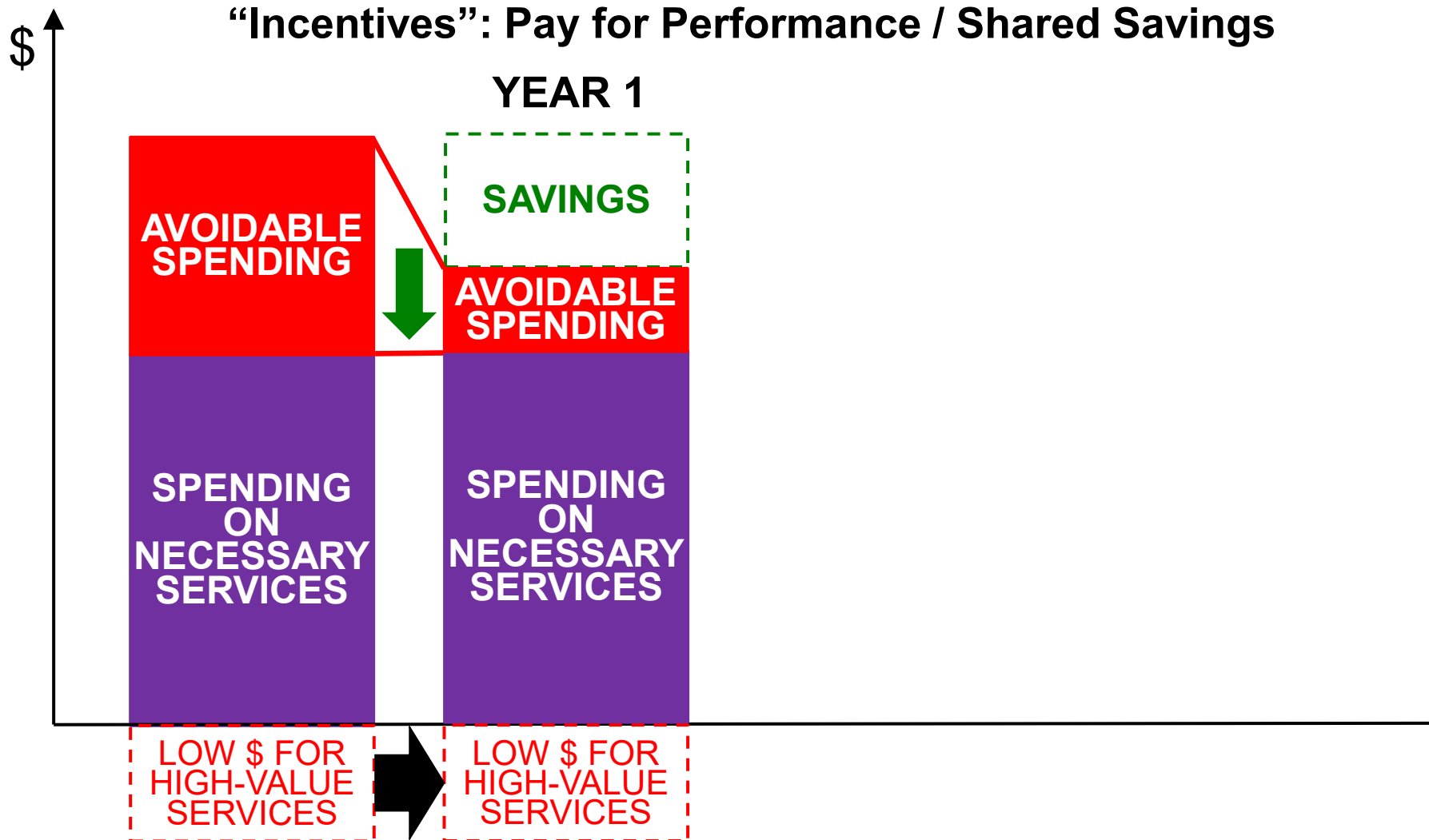
“Shared Savings” & P4P: No Change in FFS Payment

“Incentives”: Pay for Performance / Shared Savings



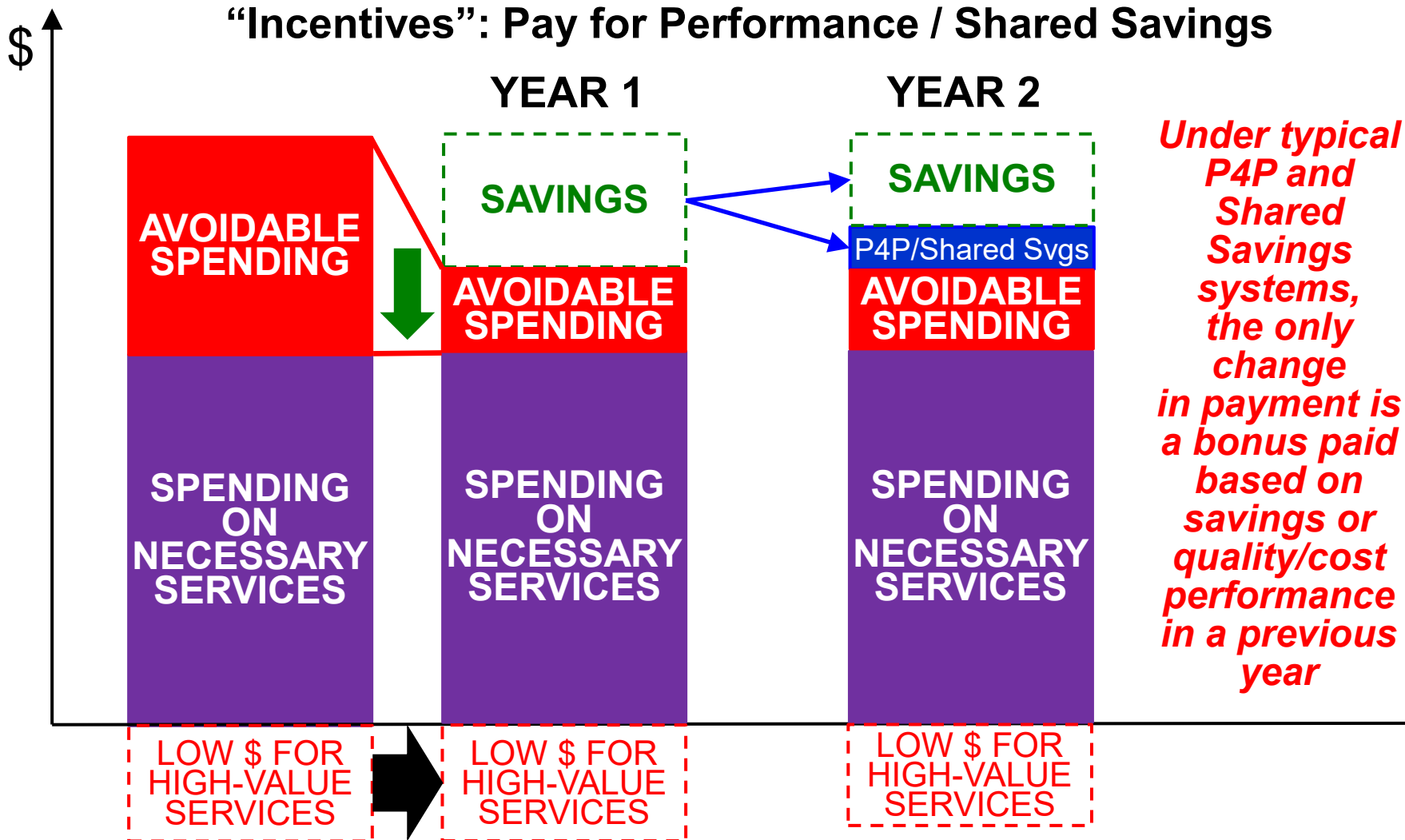
If Payers Save \$\$ This Year...

“Incentives”: Pay for Performance / Shared Savings



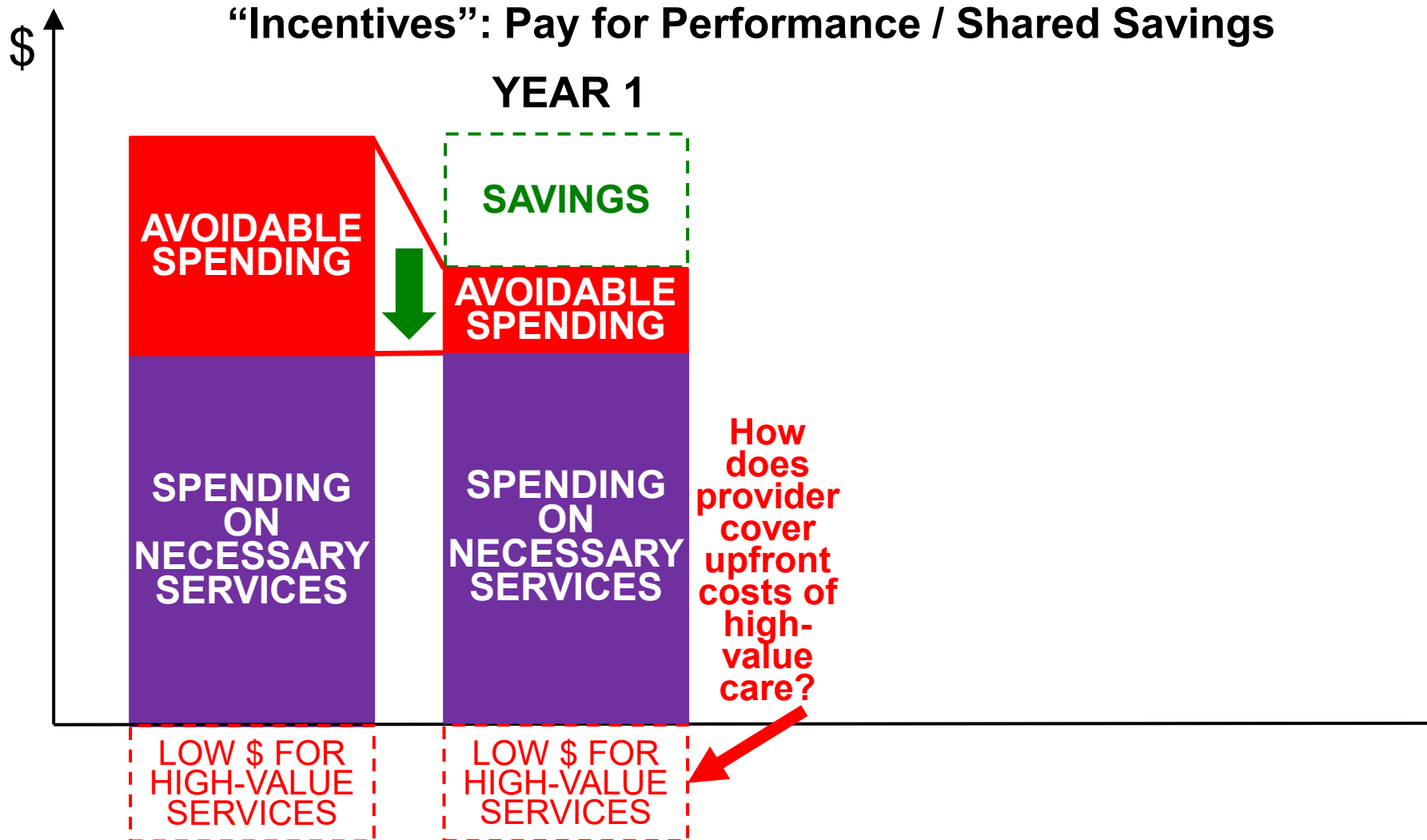
If Payers Save \$\$ This Year... Providers (May) Get \$ Next Year

“Incentives”: Pay for Performance / Shared Savings



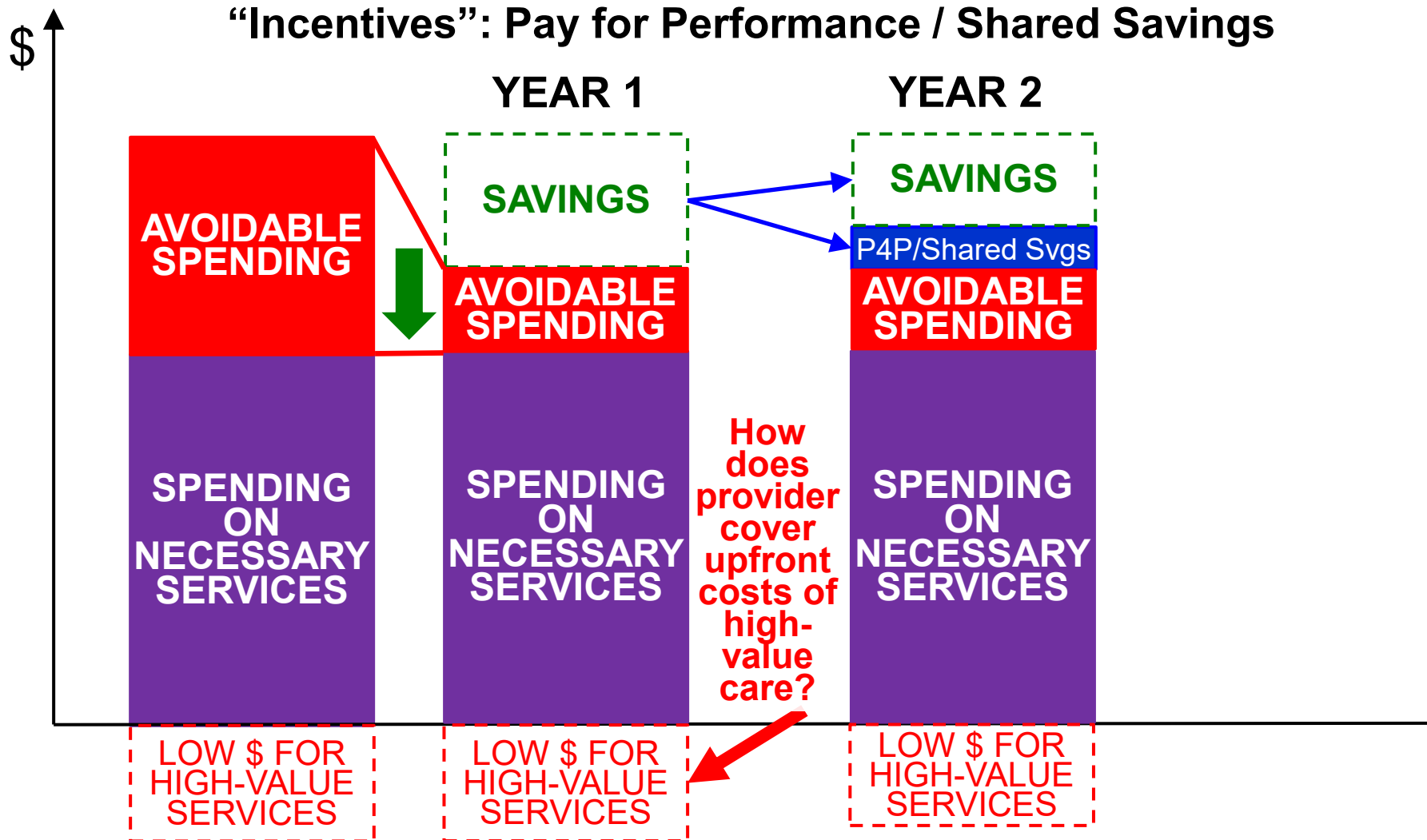
No Additional Payments for New High-Value Services

“Incentives”: Pay for Performance / Shared Savings

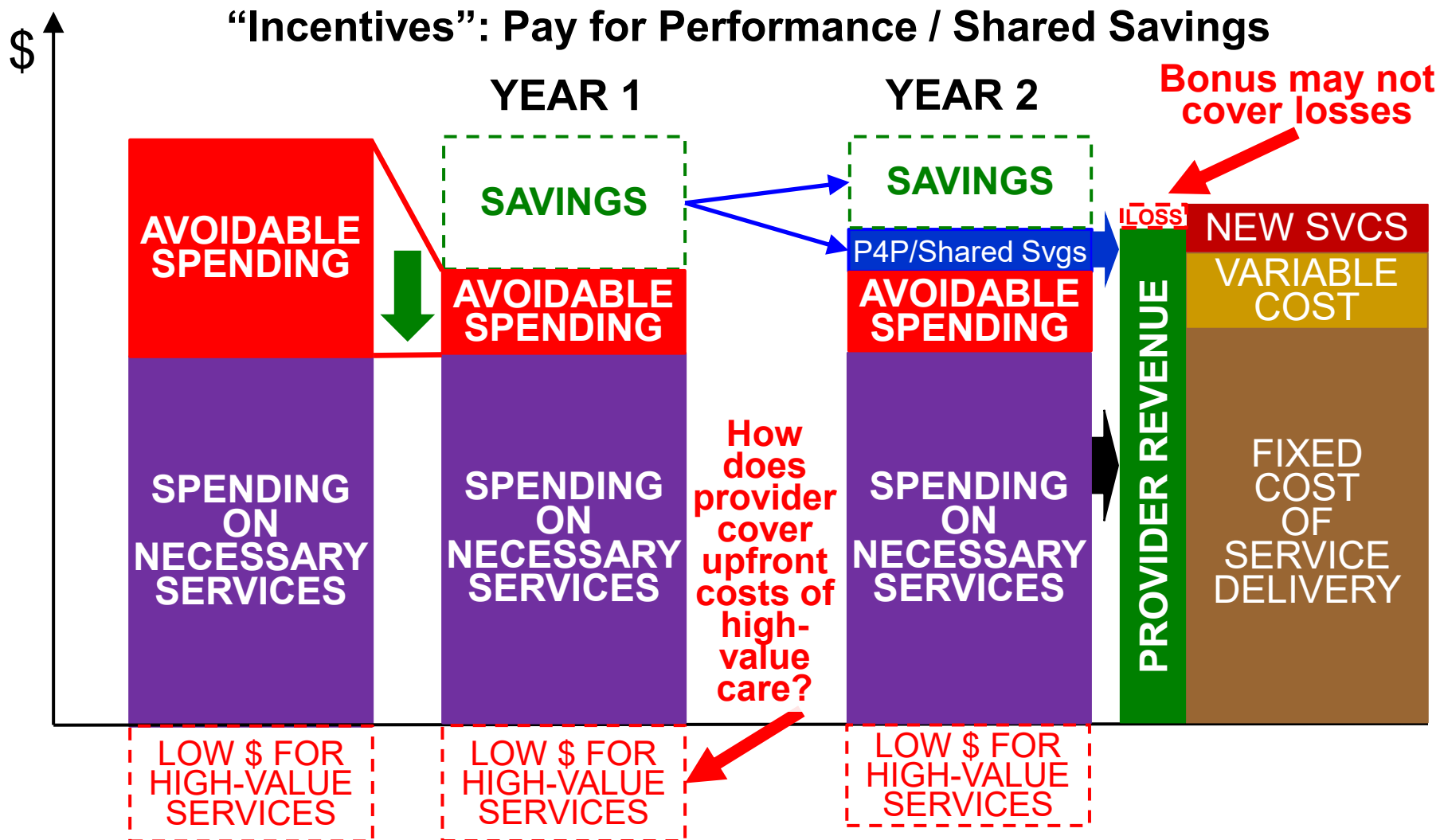


If Provider Qualifies for an Incentive Payment...

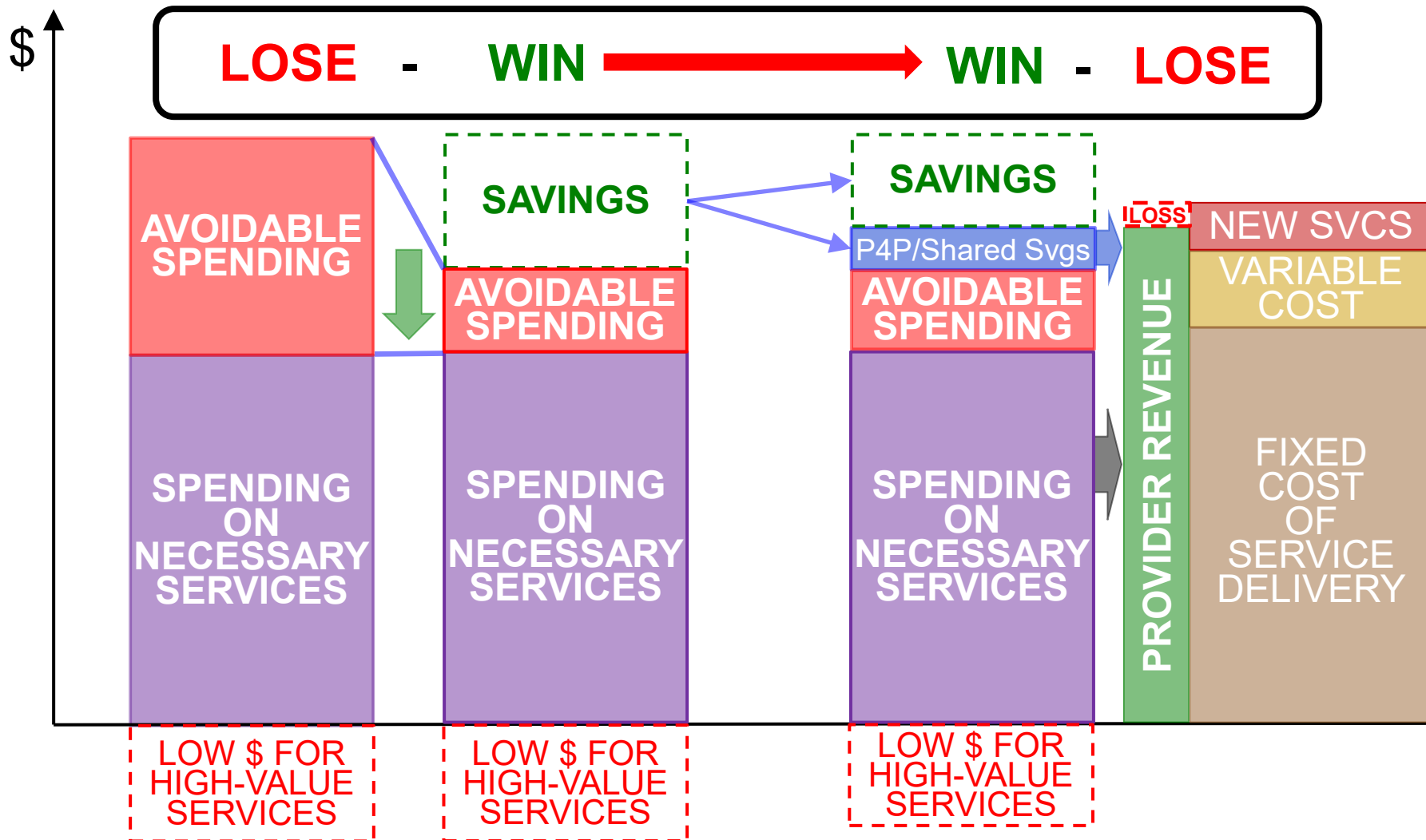
“Incentives”: Pay for Performance / Shared Savings



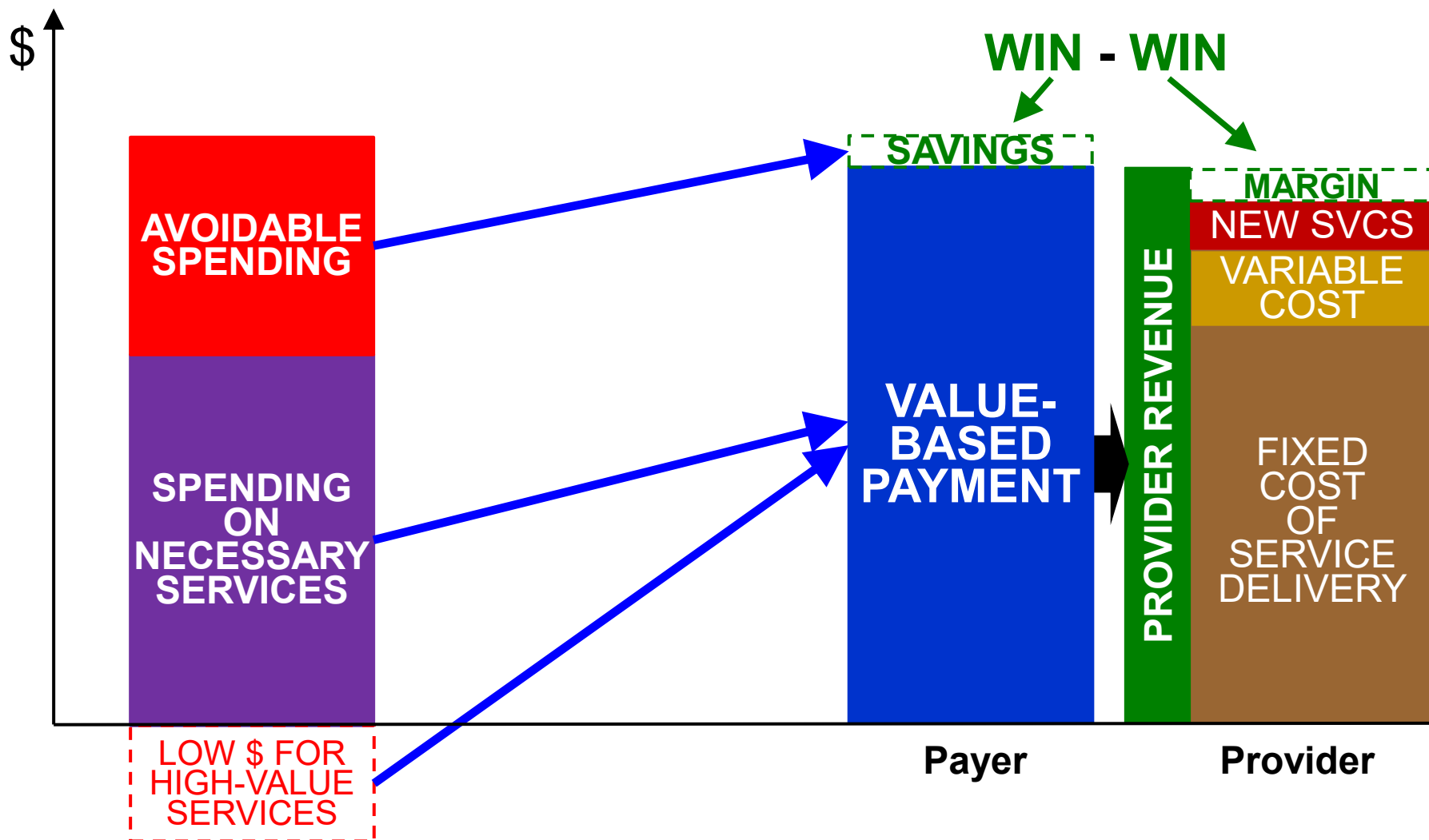
...Incentive Payment is Generally Less Than Added Costs & Losses



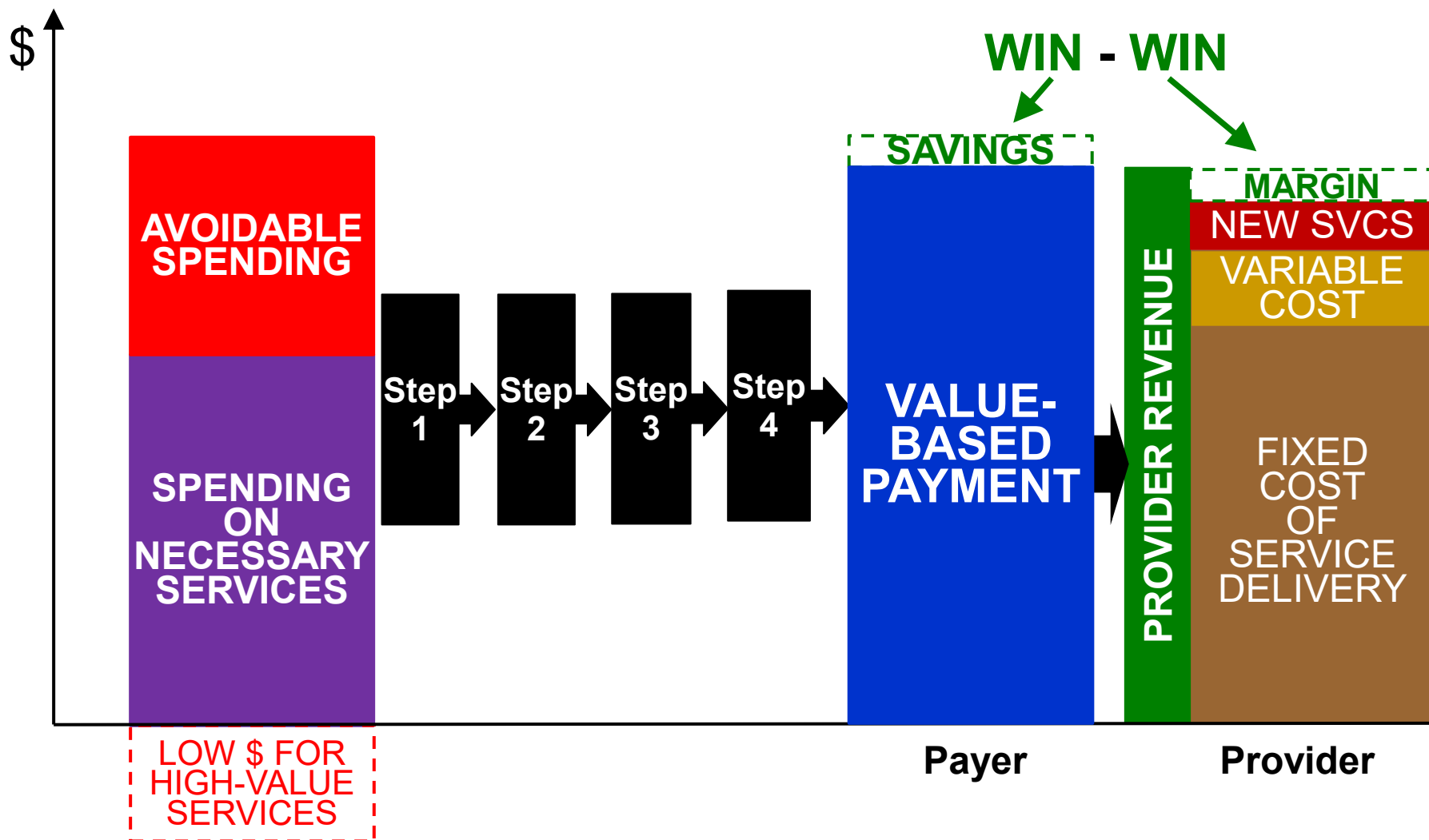
Result: Incentive Payments Are Typically Still a Win-Lose



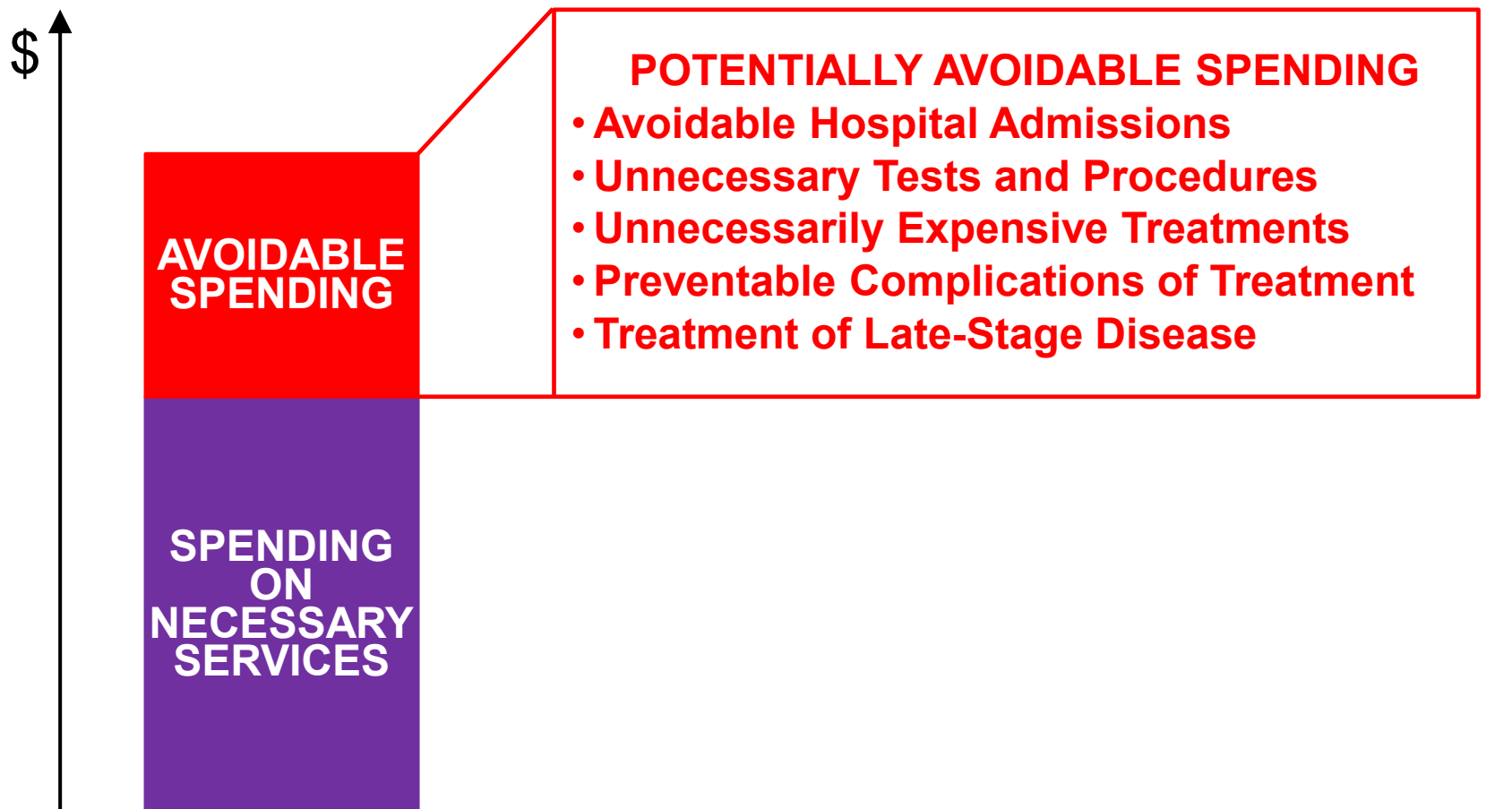
Win-Win Requires Payment Reform, Not Just Incentives



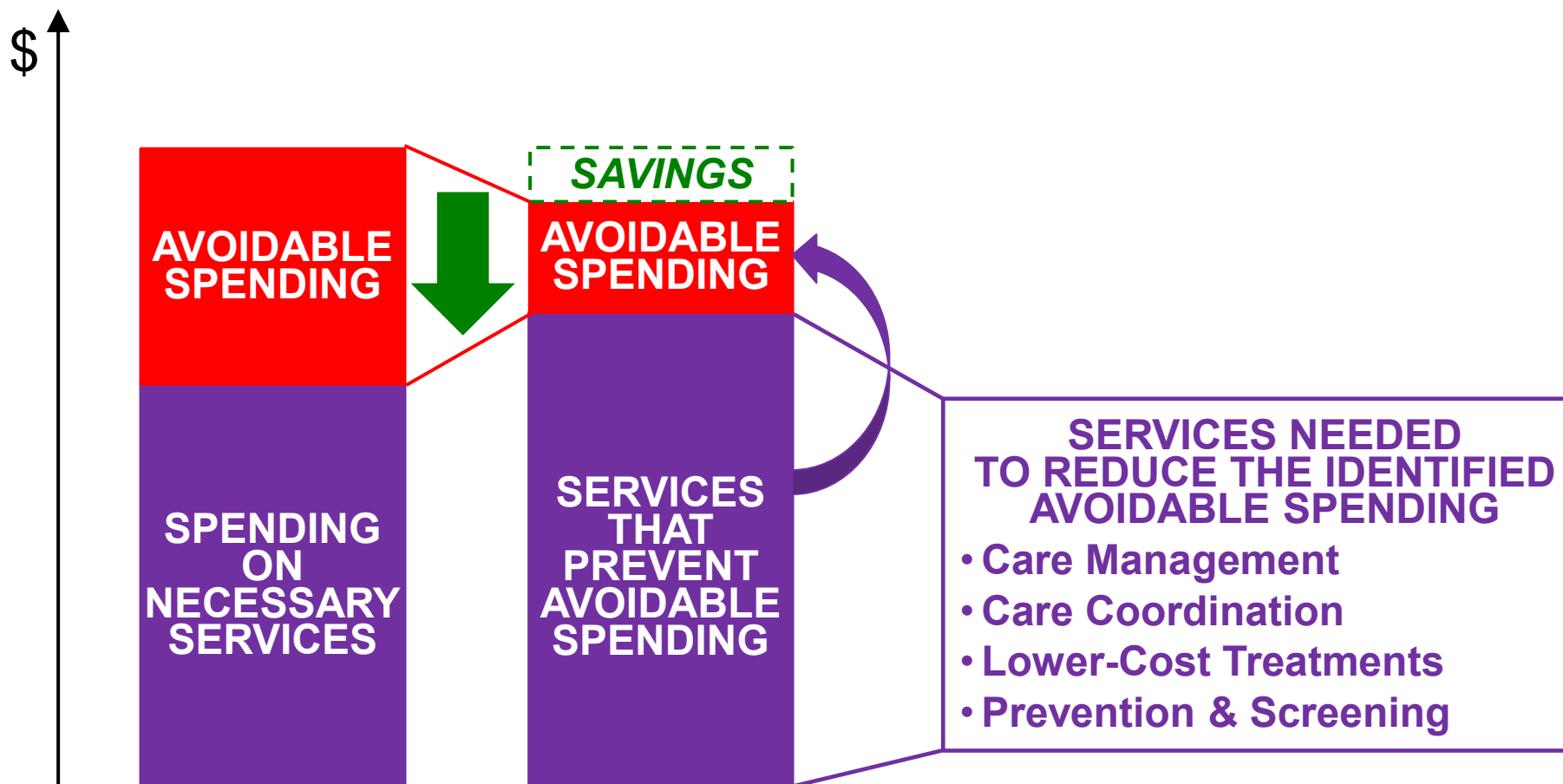
4 Steps for Creating *Successful* Value-Based Payments



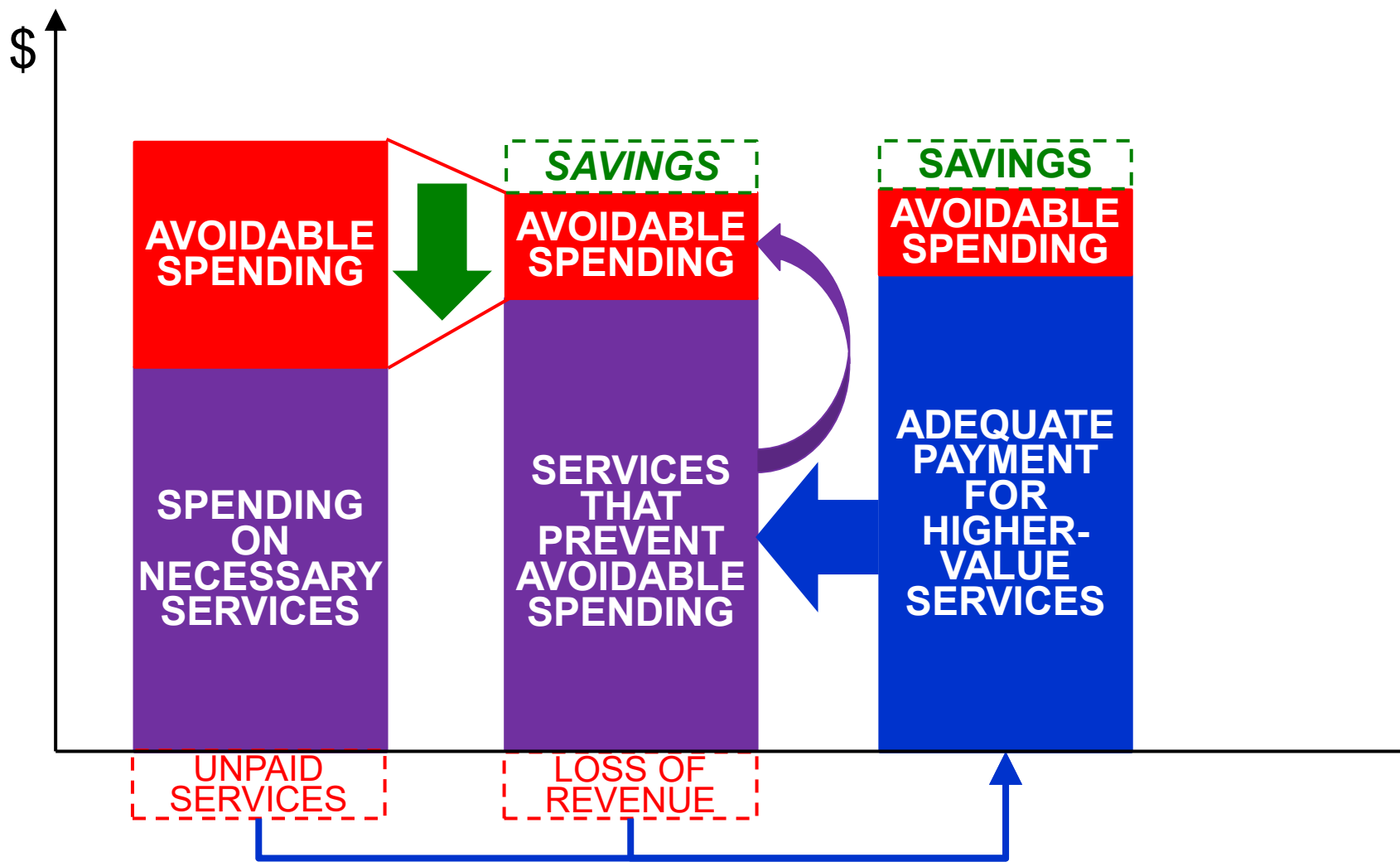
Step 1: Identify *Specific* Areas of Potentially Avoidable Spending



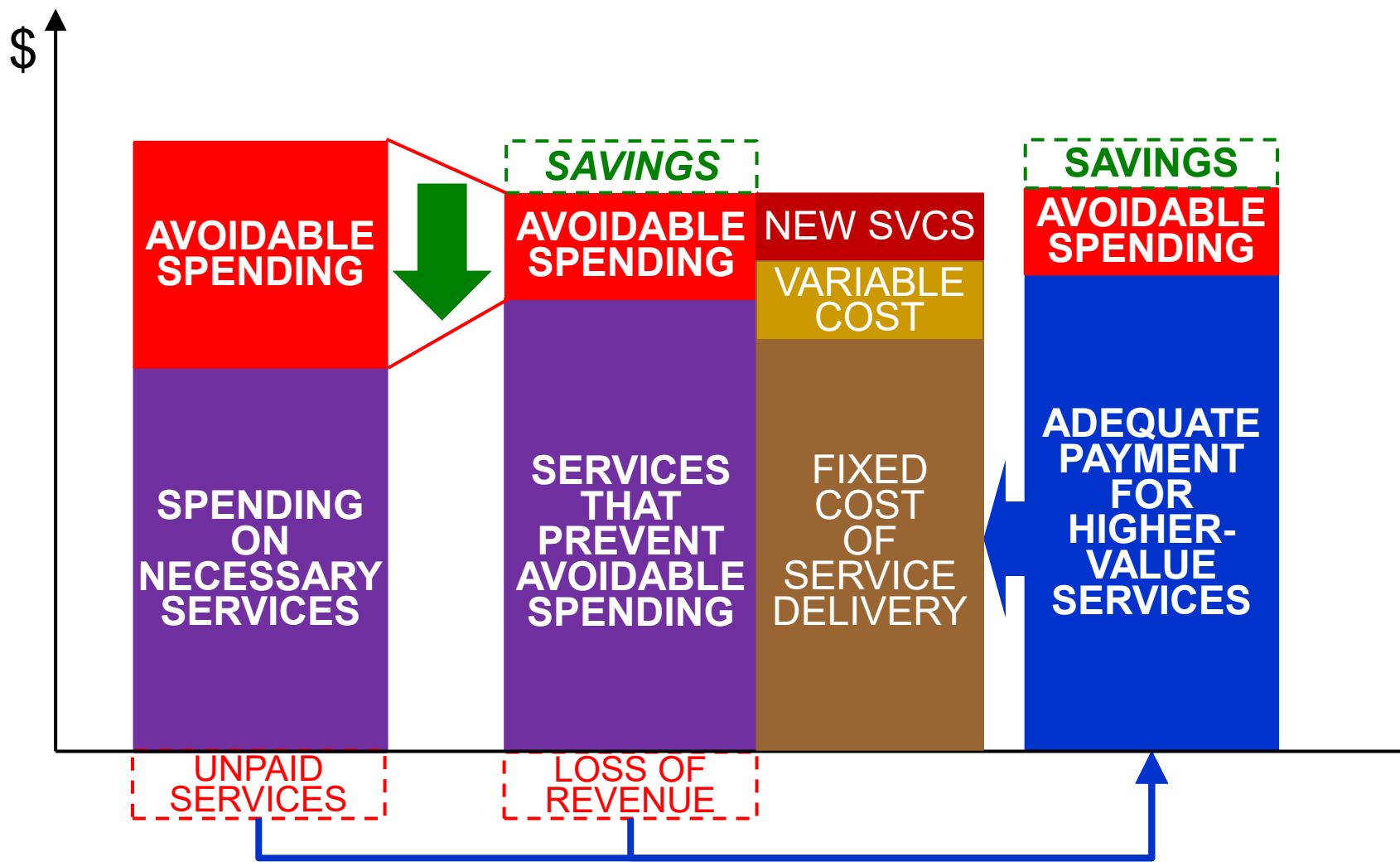
Step 2: Design Services That Will Reduce the Avoidable Spending



Step 3: Pay Adequately to Support Higher-Value Services



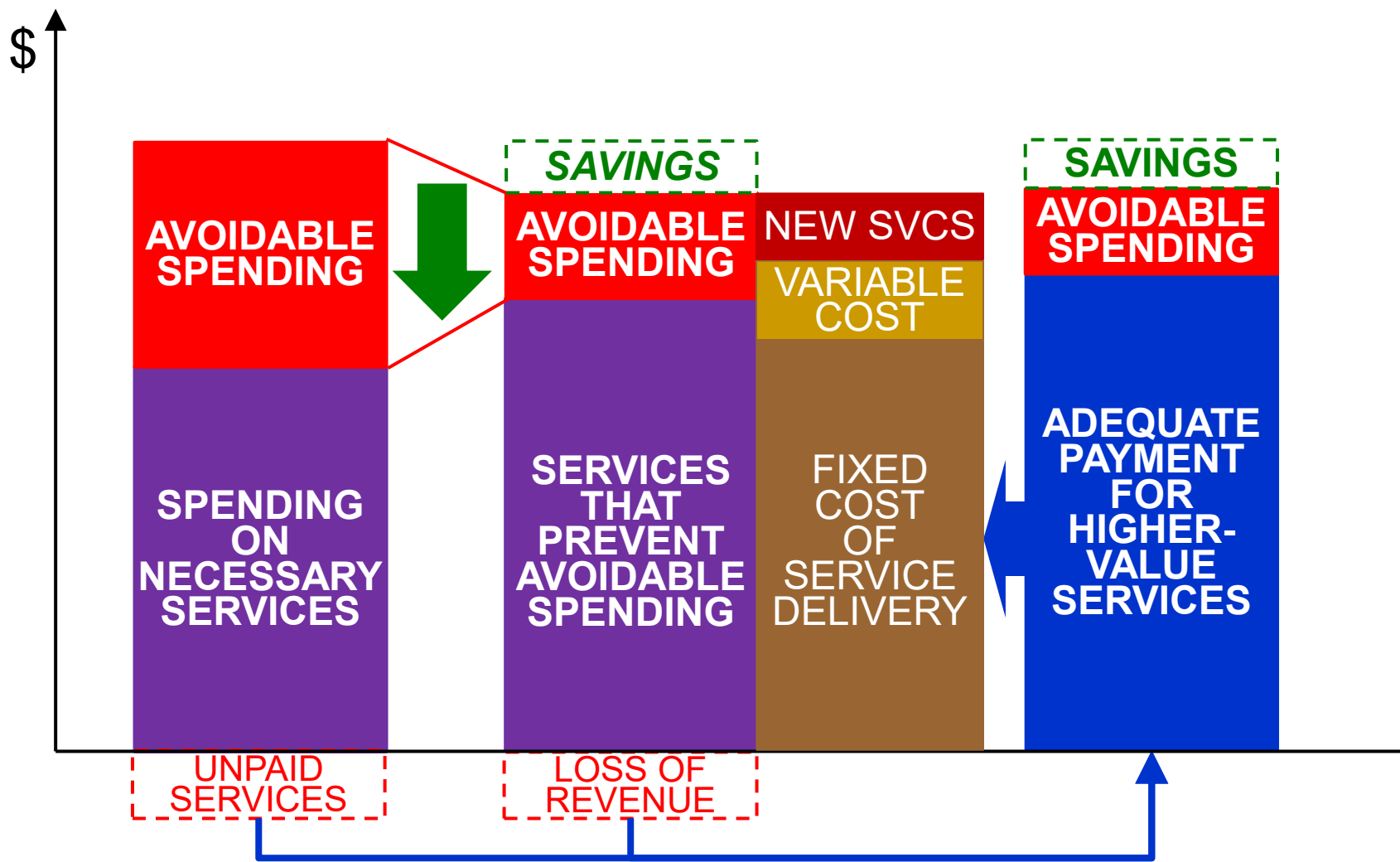
Adequacy Requires Knowing the Cost of Higher-Value Care



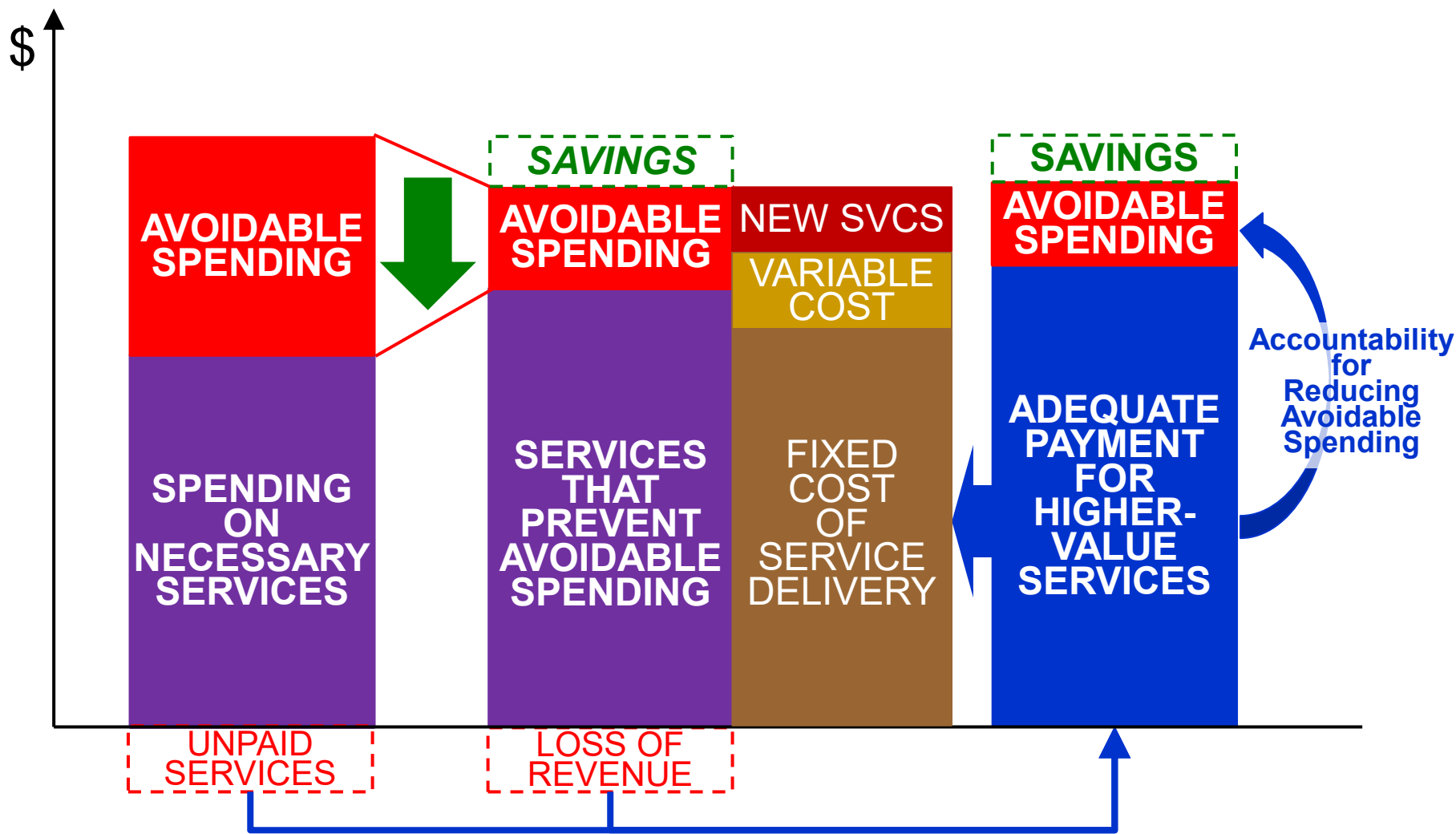
Knowing Your *Current* Costs Is Not Enough

- Time-Driven Activity-Based Costing and other cost-accounting systems can tell you what it *currently* costs to deliver *non-value-based care*, but not what it *will* cost to deliver *value-based care*.
- A *Cost Model* is needed to determine how costs will *change* as value-based care is implemented:
 - What will it cost to deliver *new*, high-value services?
 - How much of the cost of *current* services is:
 - Variable, i.e., it will change with each unit change in services (e.g., drugs, disposable items)
 - Semi-Variable, i.e., it will change only with large changes in volume (e.g., personnel, equipment)
 - Fixed, i.e., it can only be changed over a longer time horizon

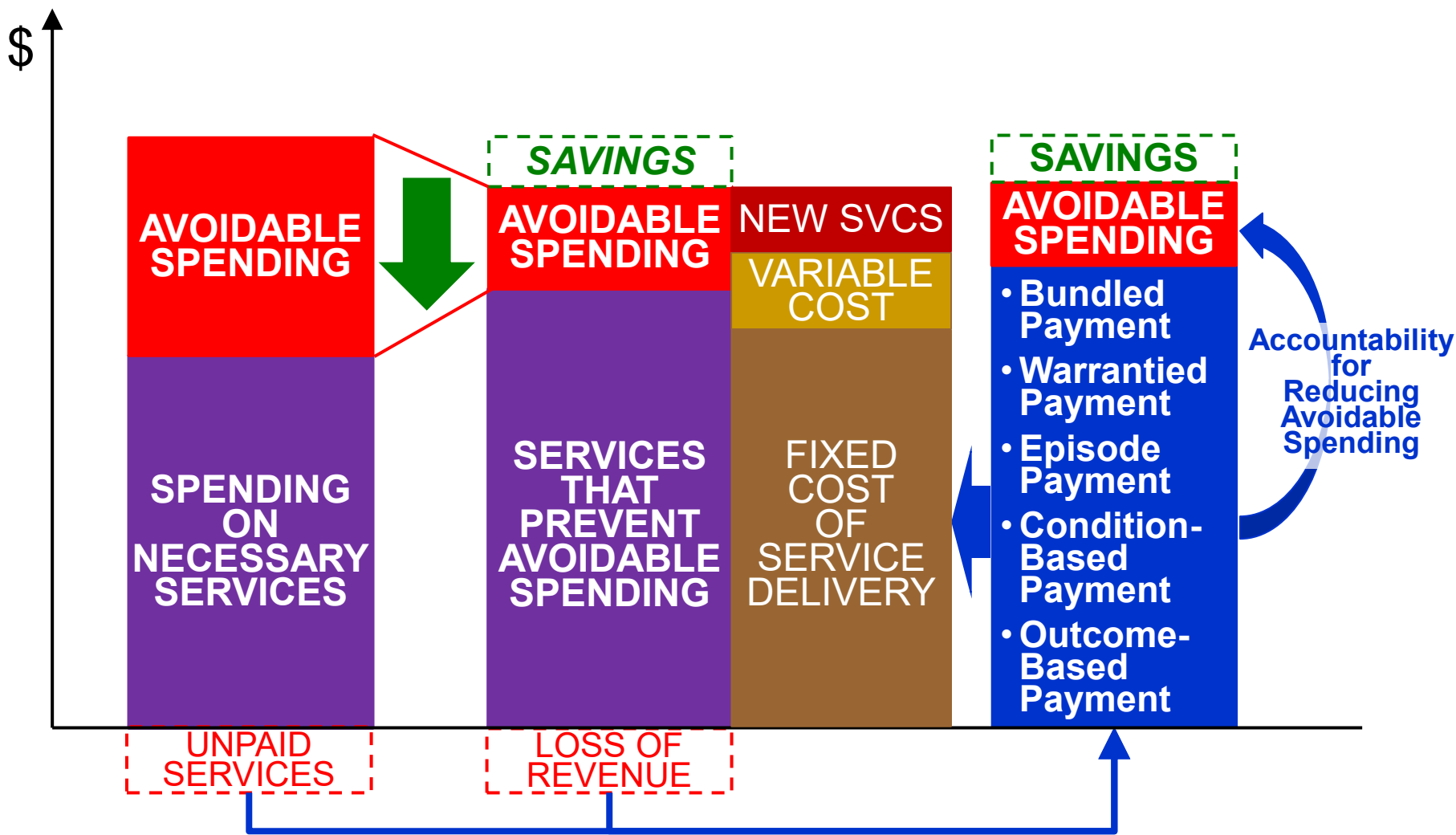
Step 3: Pay Adequately for Cost of Higher-Value Services



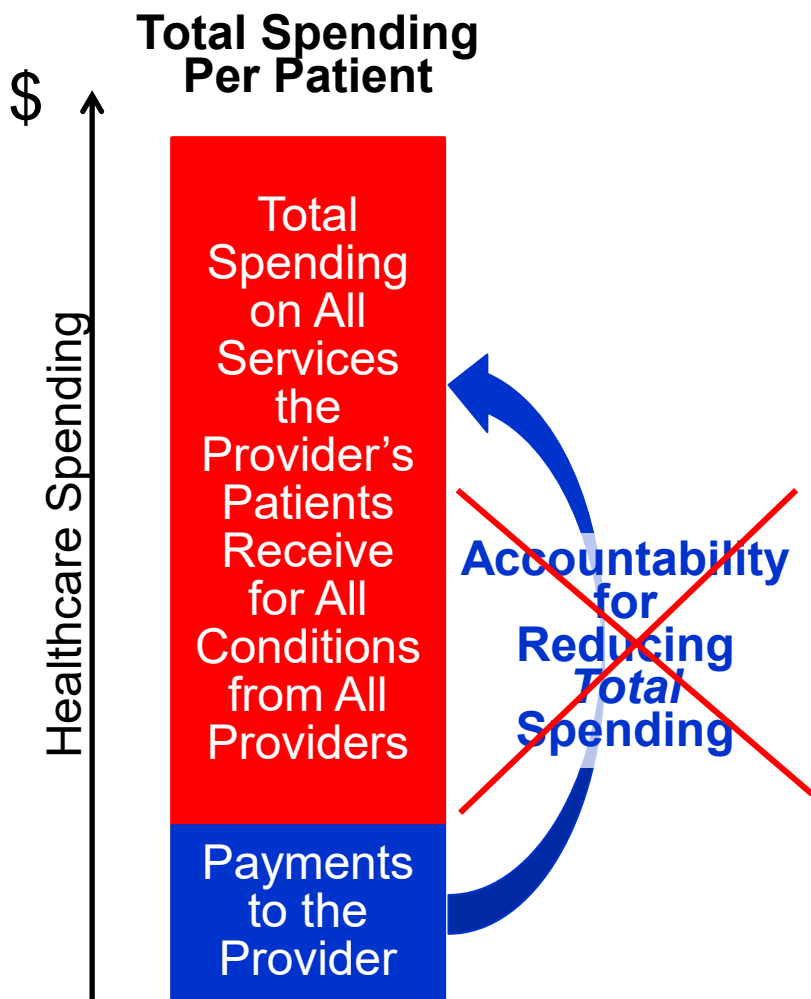
Step 4: Hold Providers Accountable for Results



No One “Right” Way to Structure Payment + Accountability

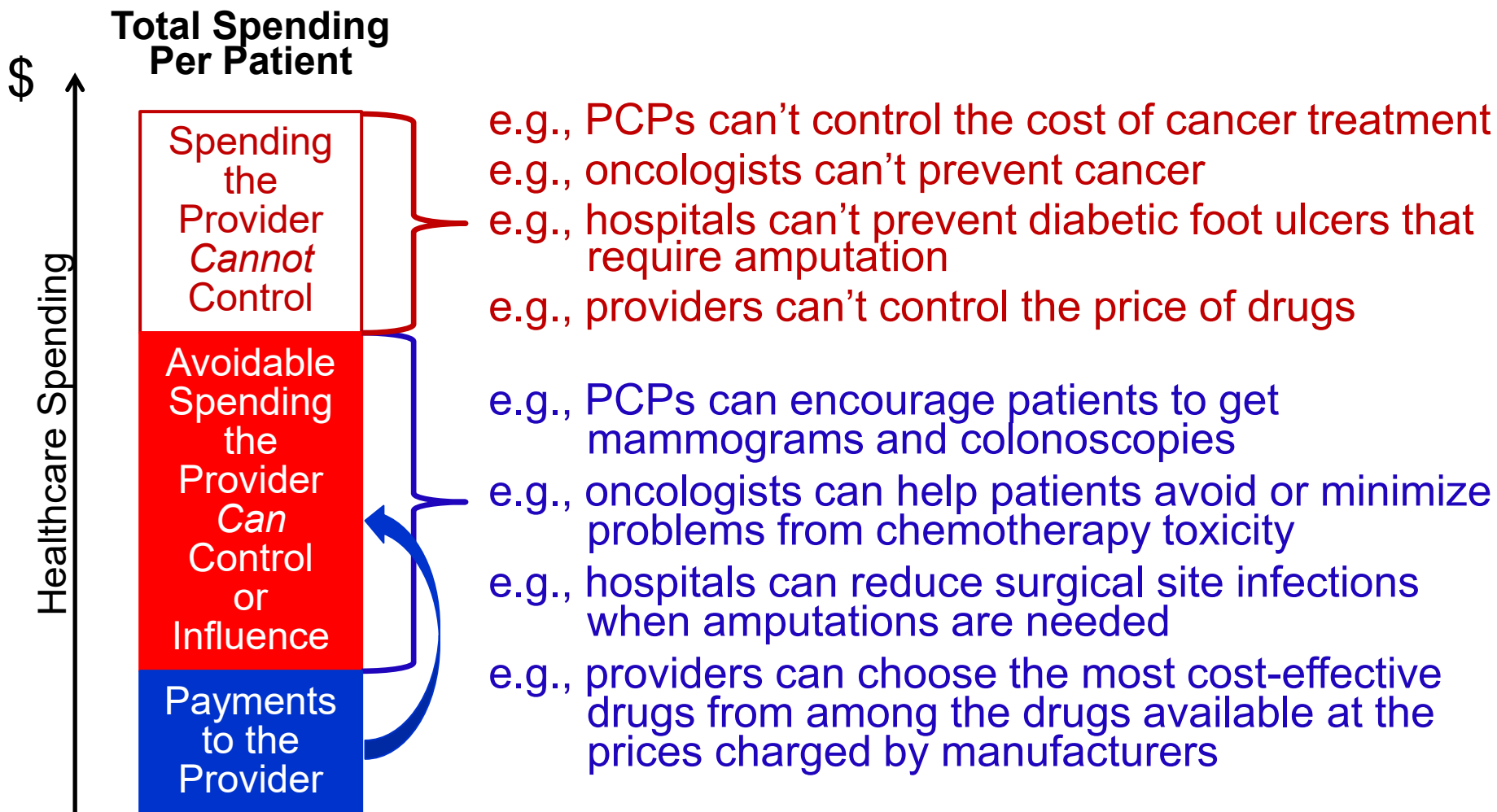


A Wrong Way: Holding Providers Accountable for Total Cost of Care

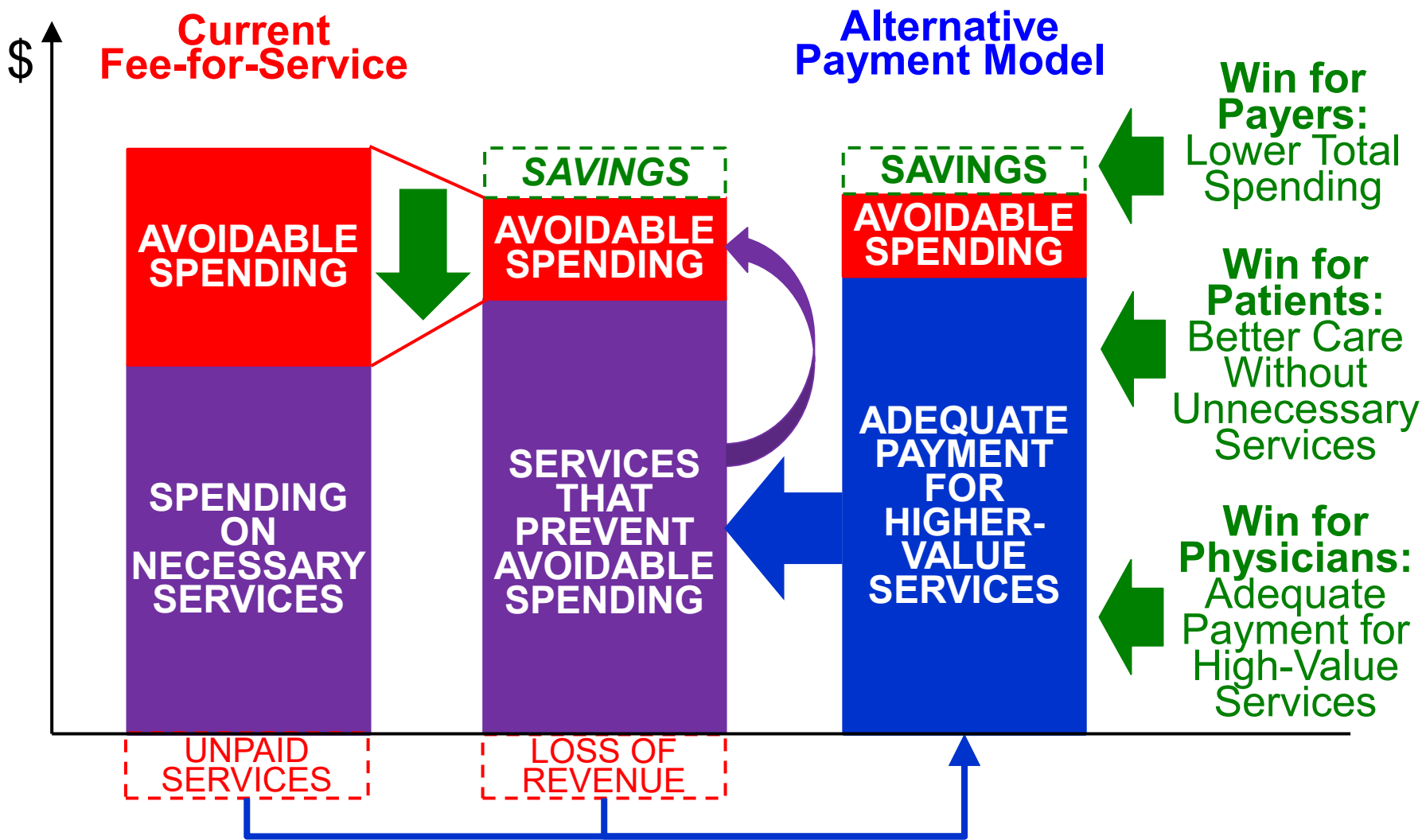


Many “value-based” payment systems put a physician or hospital at financial risk for total healthcare spending on patients, including spending on services for unrelated health problems and increases in spending due to higher prices of drugs and medical devices that the providers cannot control

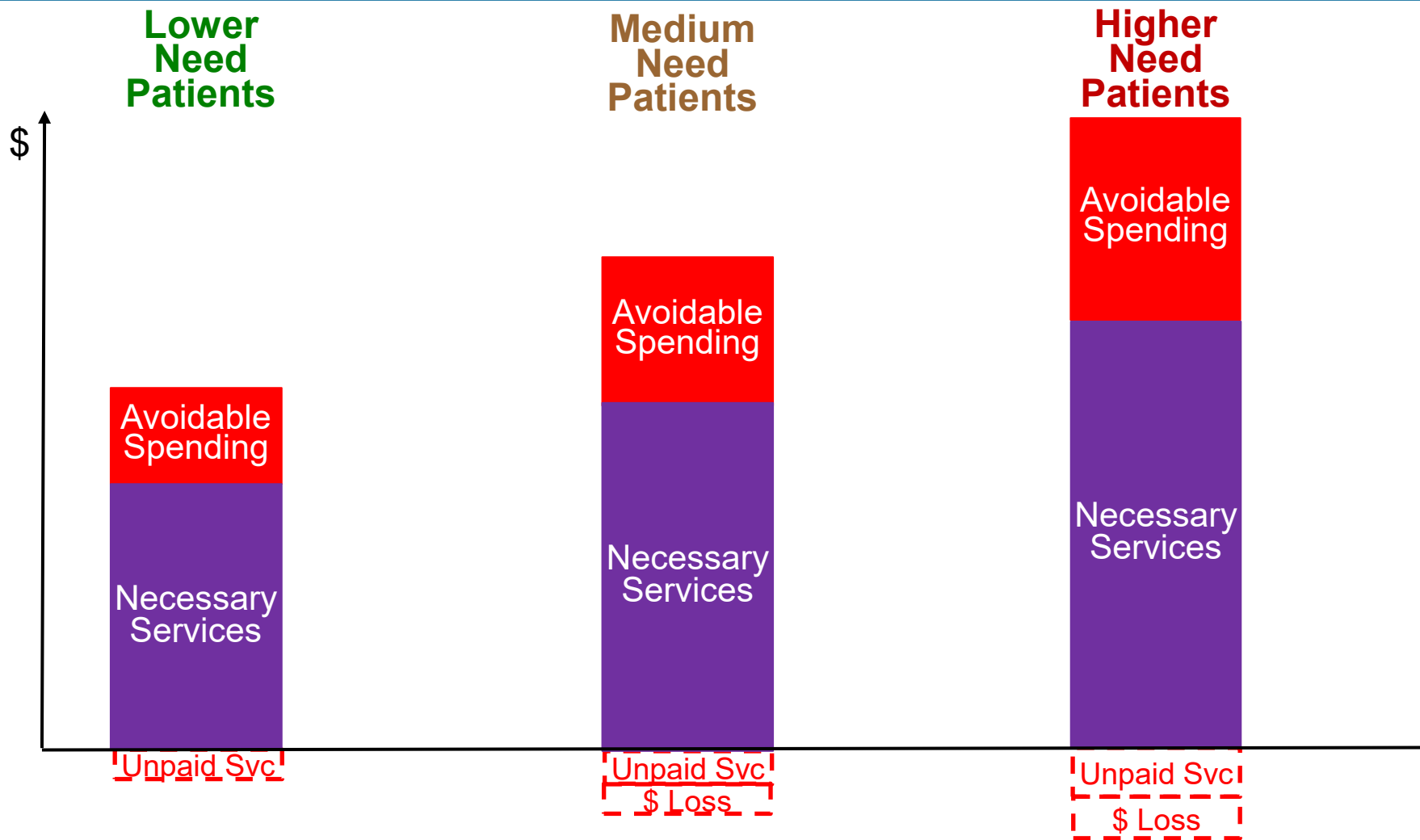
Accountability Must Be Focused on What Each Provider Can Influence



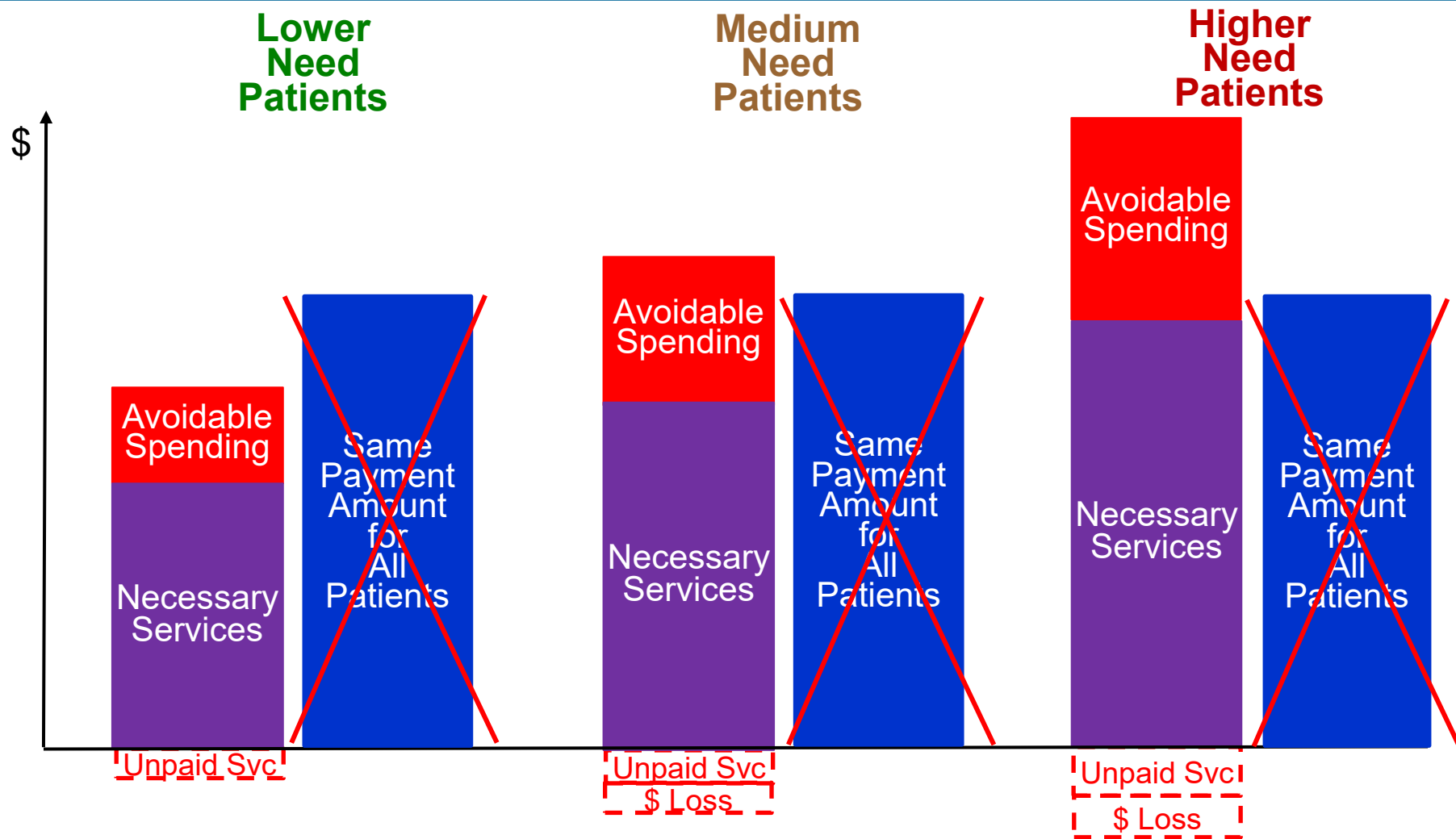
Good Alternative Payment Models Can Be Win-Win-Wins



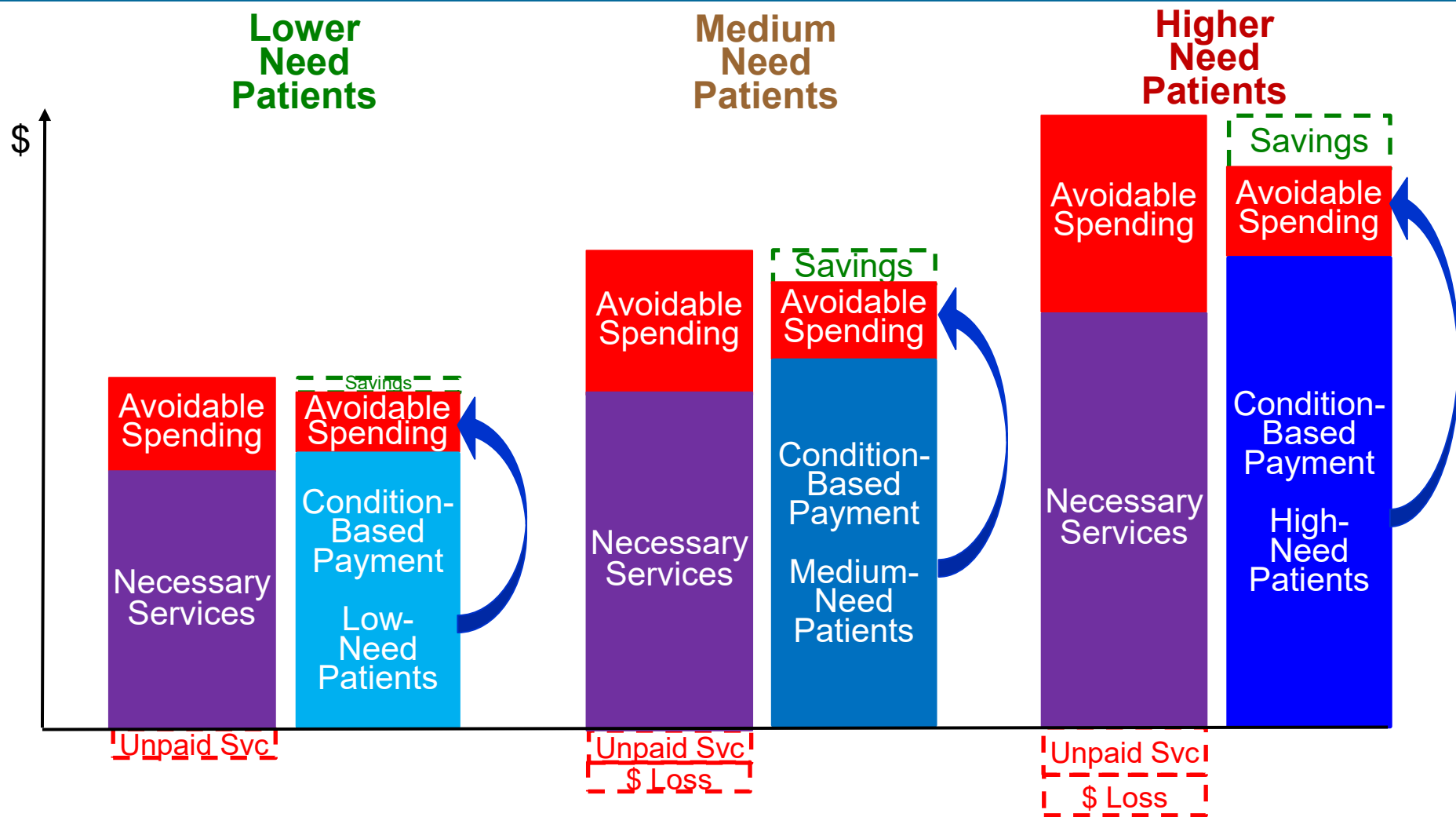
Necessary & Avoidable Services Differ Among Patients



A Wrong Way: Paying the Same Amount for Every Patient

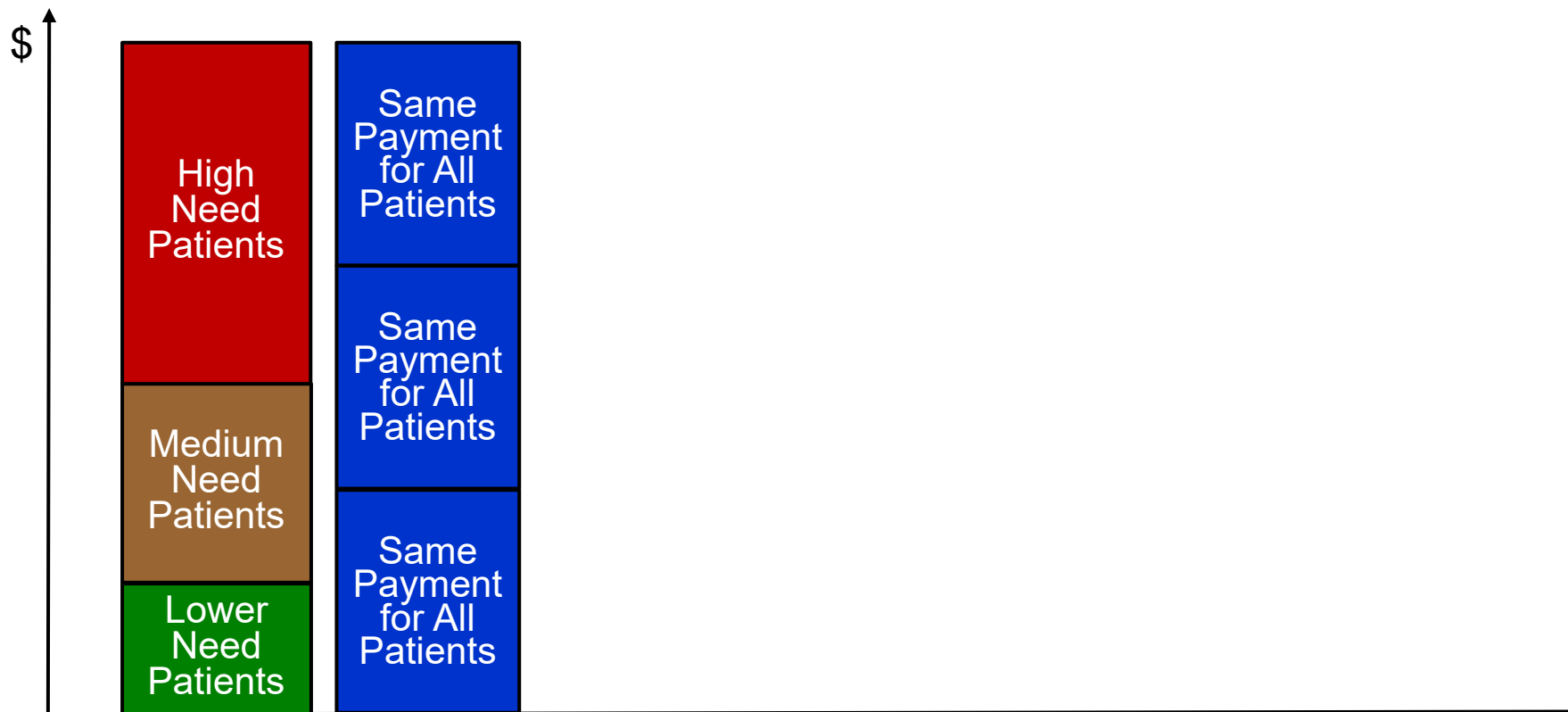


Condition-Based Payments Adjust for Differences in Patient Needs

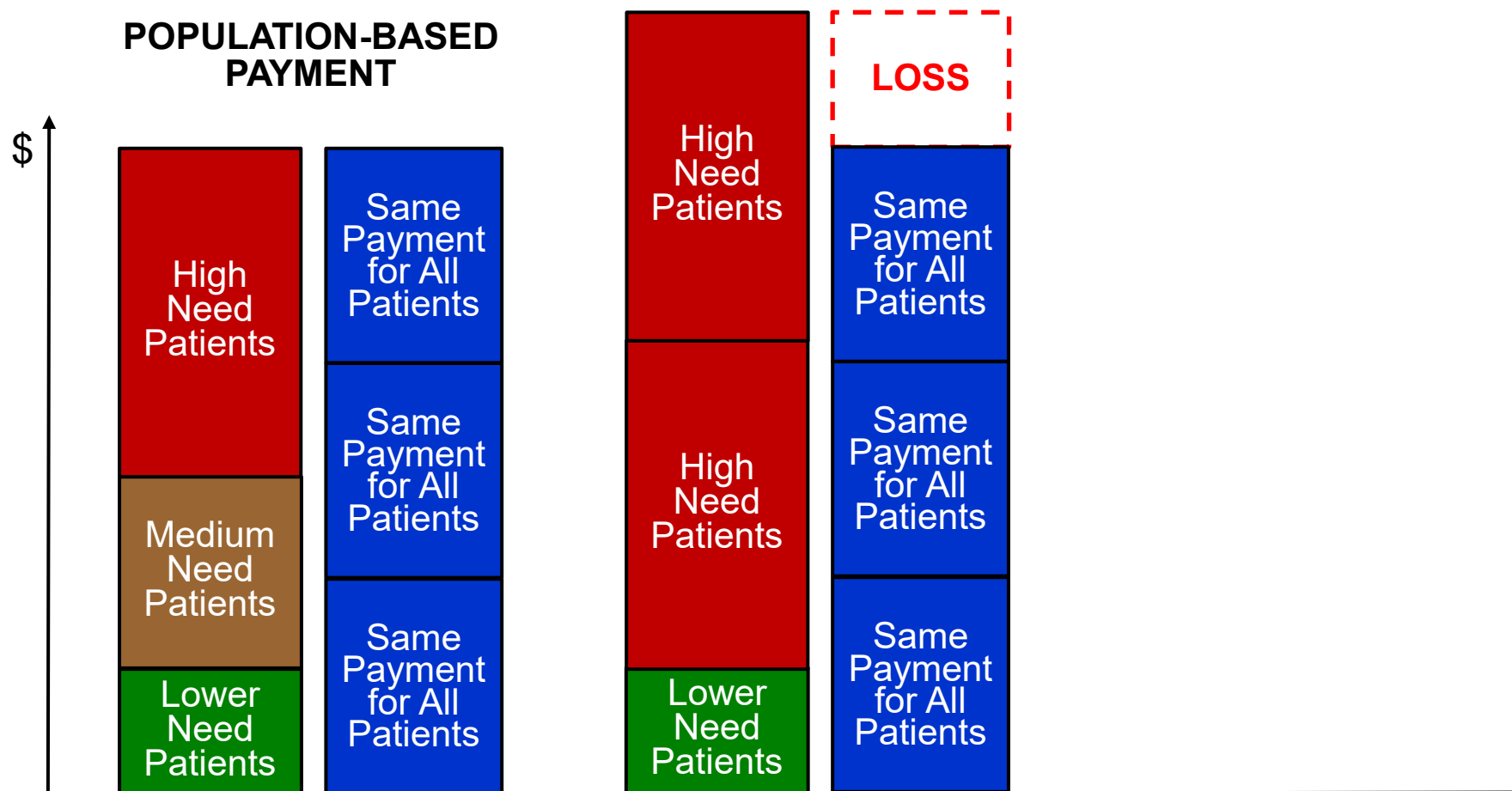


Under Population-Based Payment: Will It All Average Out?

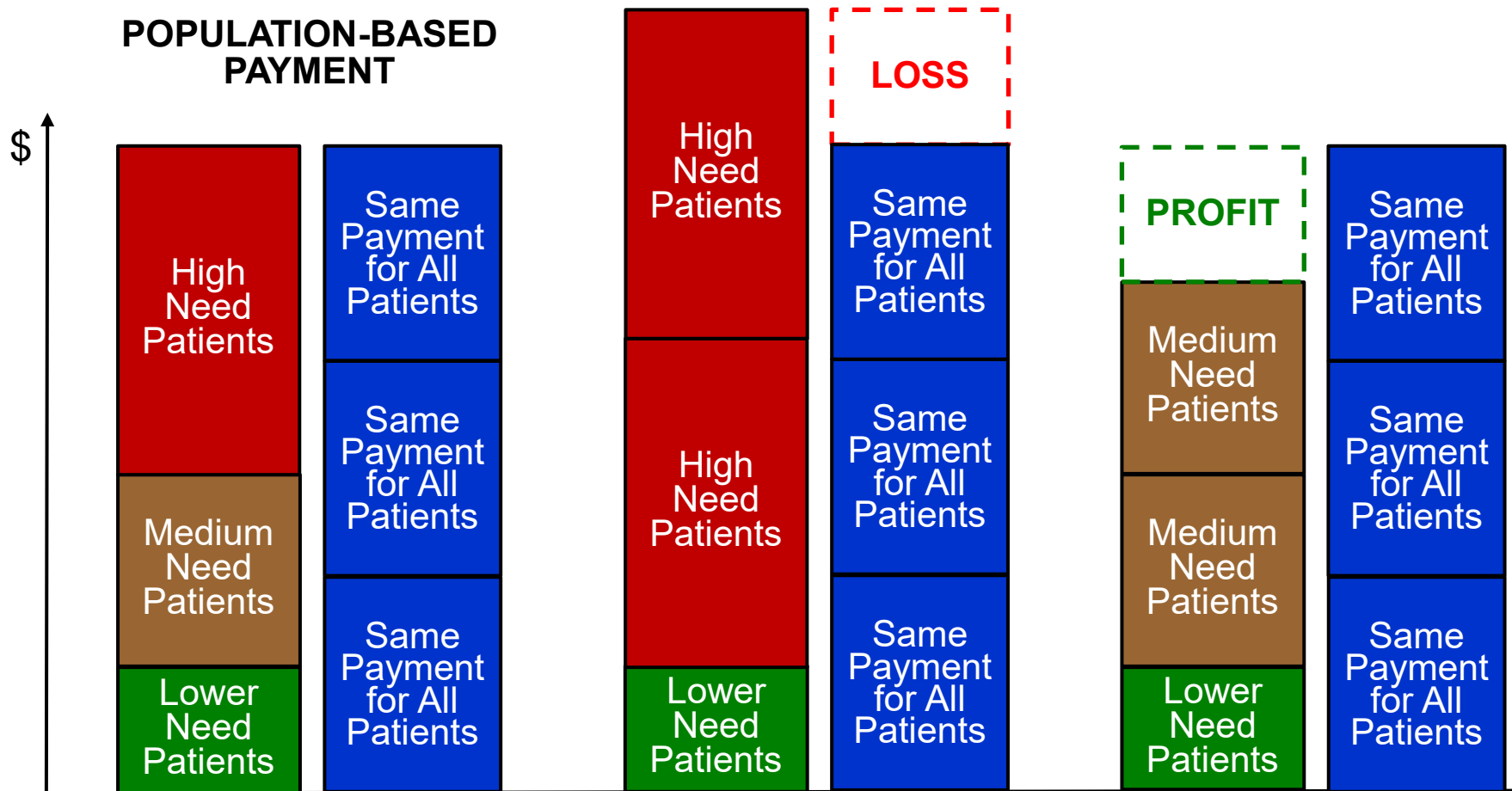
POPULATION-BASED PAYMENT



Under Population-Based Payment: More High-Need Patients = Losses

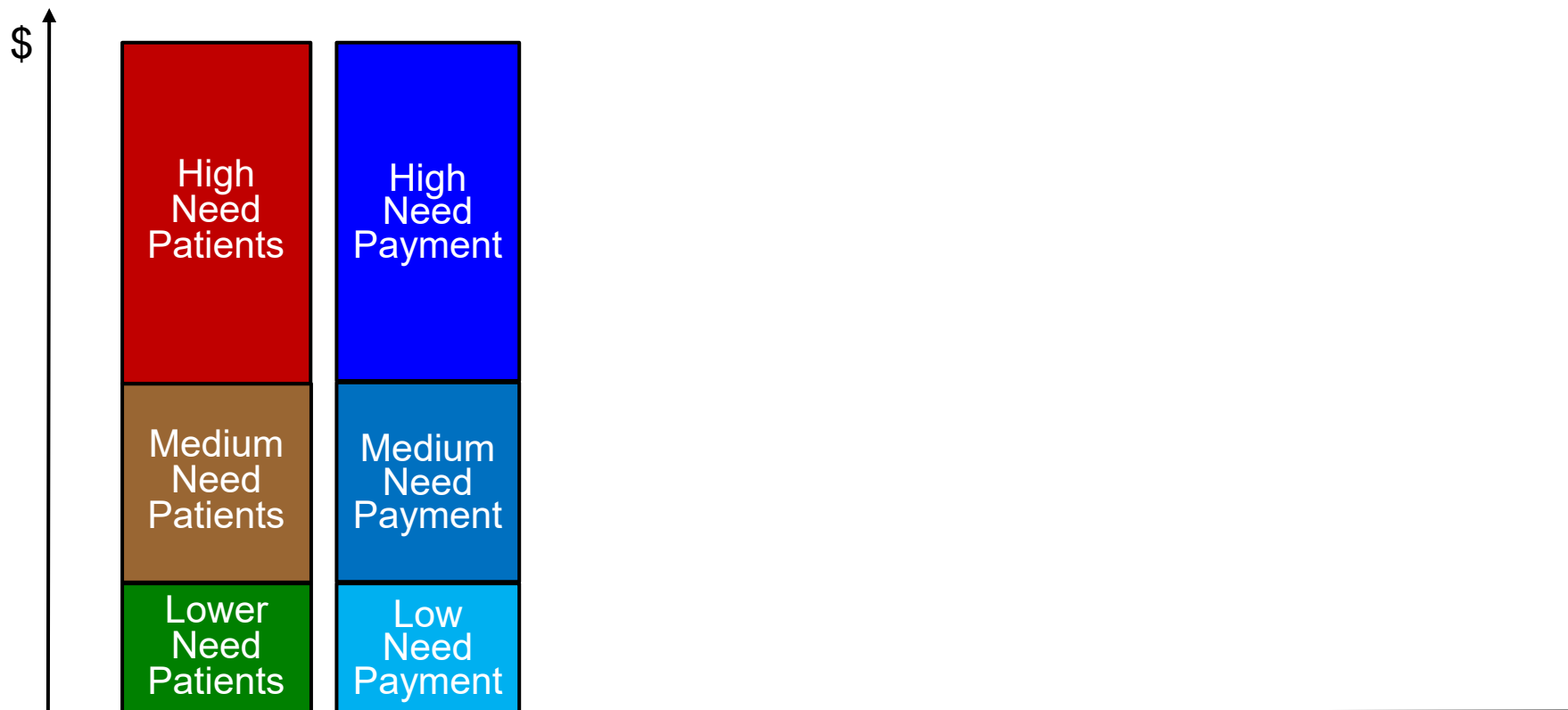


Under Population-Based Payment: Cherry-Picking Patients = Profits

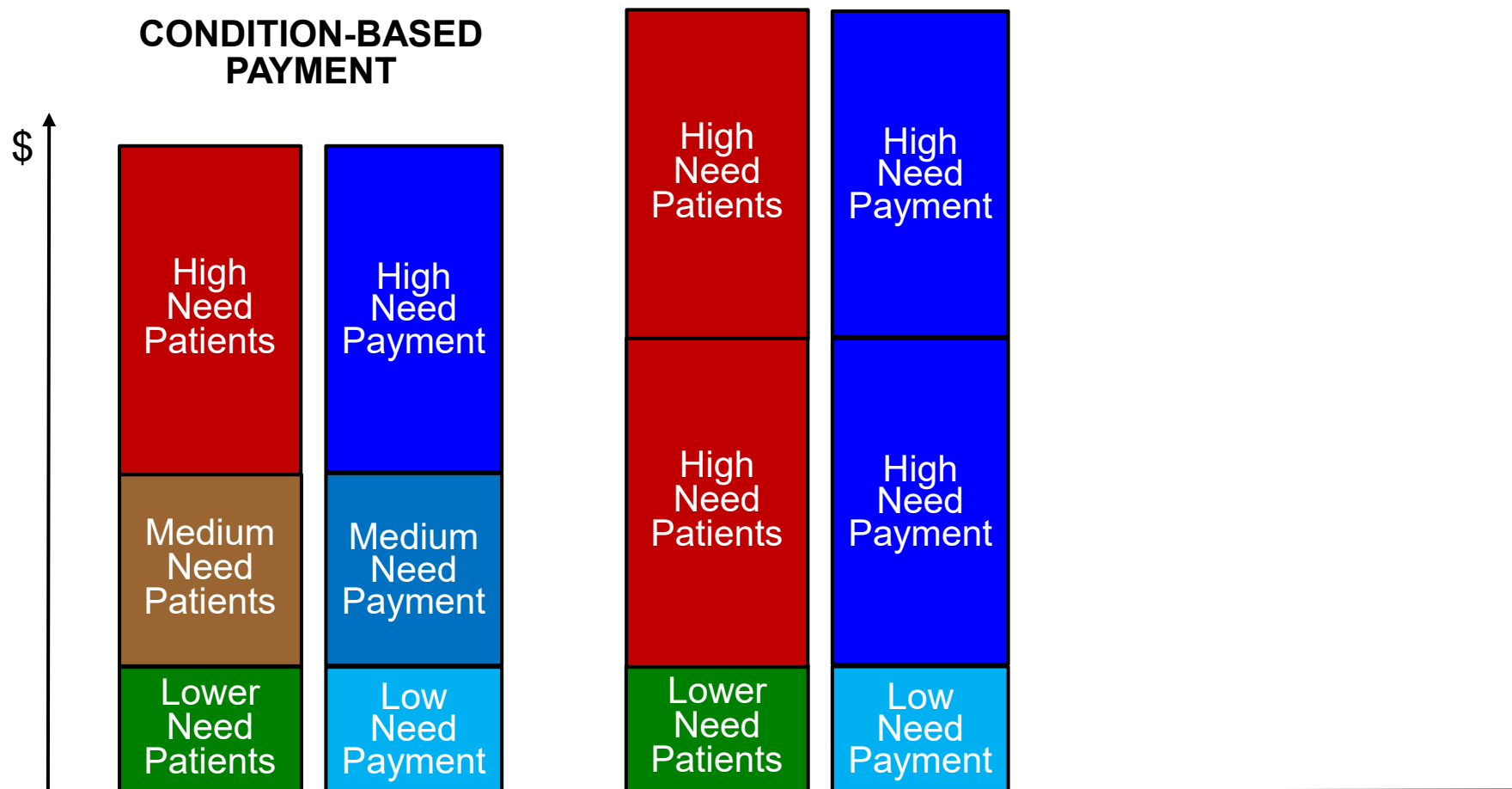


Under Condition-Based Payment: Payment Differs by Patient Need

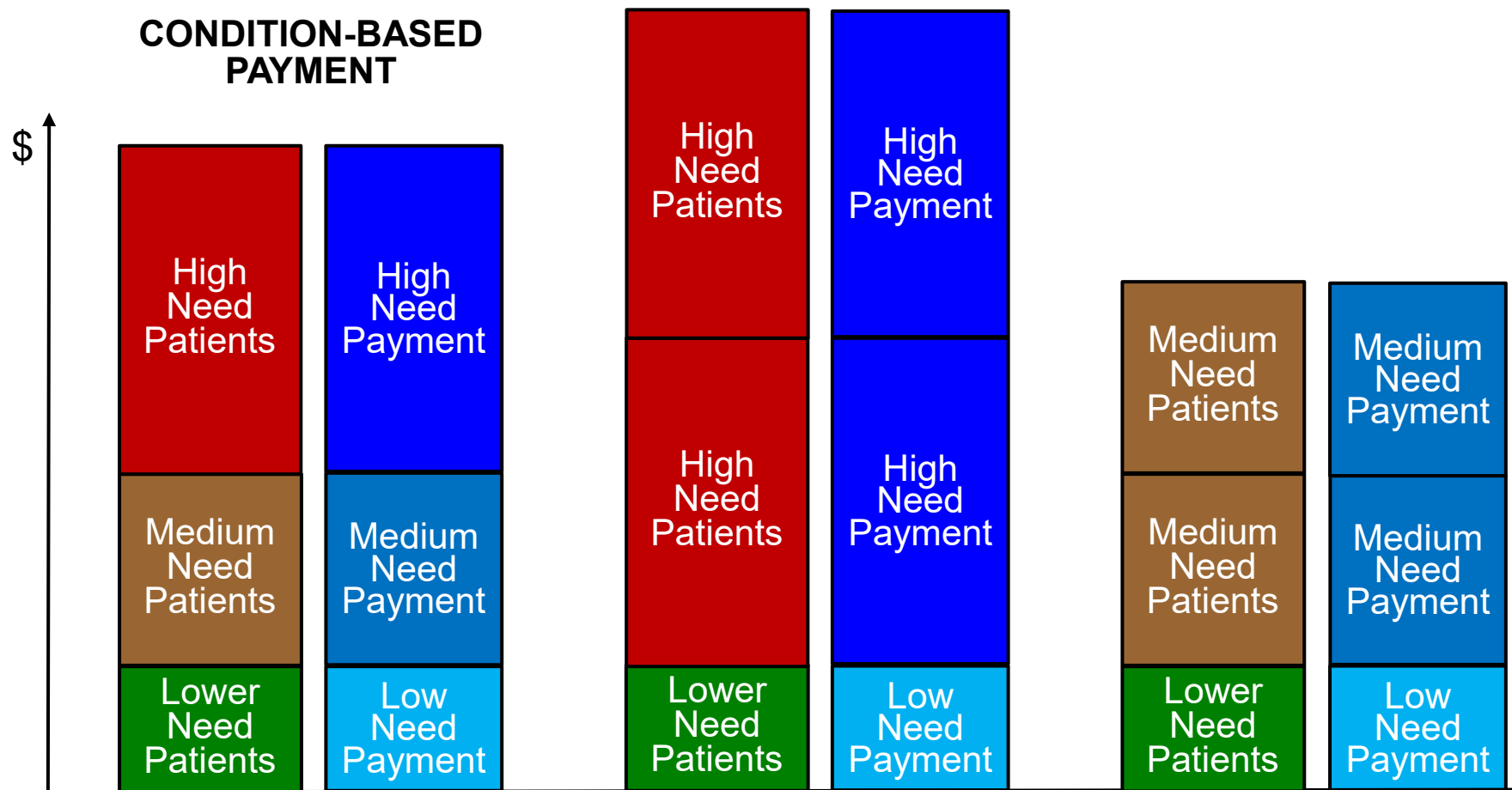
CONDITION-BASED PAYMENT



Under Condition-Based Payment: No Losses for Serving High Needs



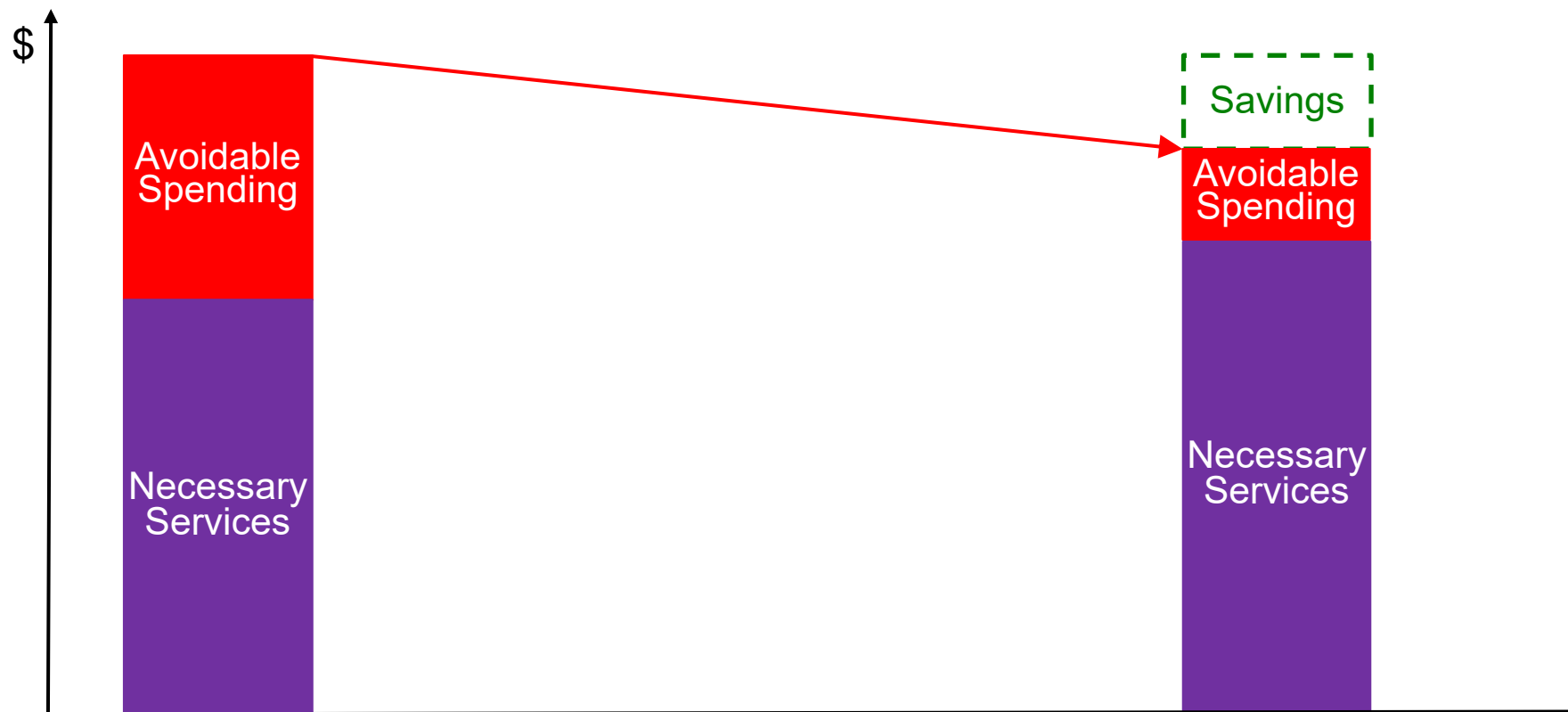
Under Condition-Based Payment: No Profits from Cherry-Picking



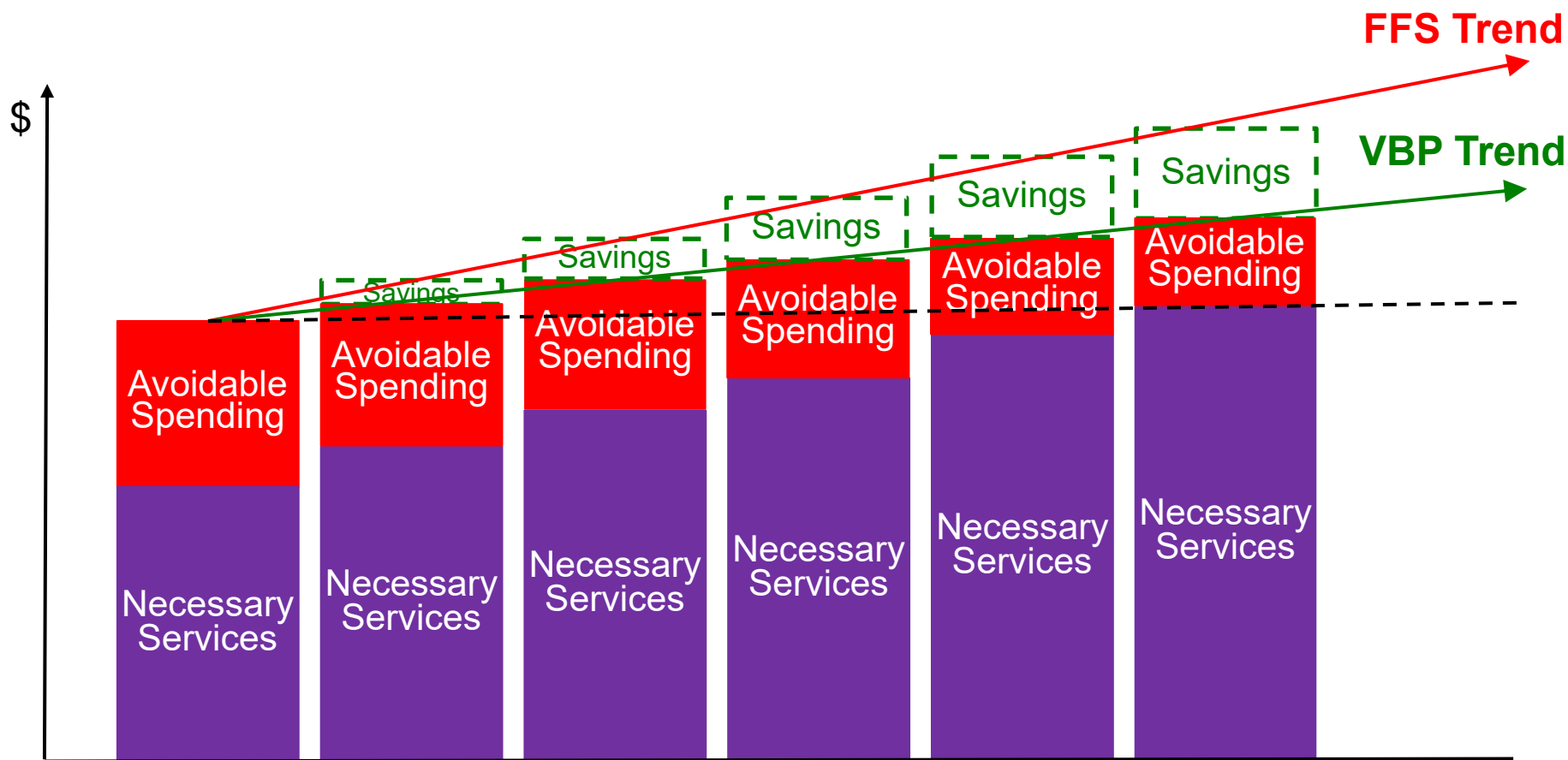
Population-Based Payment Can Worsen Health Disparities

	Fee-for-Service Payment (Fixed payment for each service, regardless of whether service is needed)	Condition-Based Payment (Fixed payment for all services that are related to a specific condition)	Population-Based Payment (Fixed payment for all services, regardless of patient's needs)
Rewards over-treatment?	Yes	No	No
Rewards under-treatment?	No	No	Yes

How Can It Be “Win-Win-Win” When Spending is Being Cut?

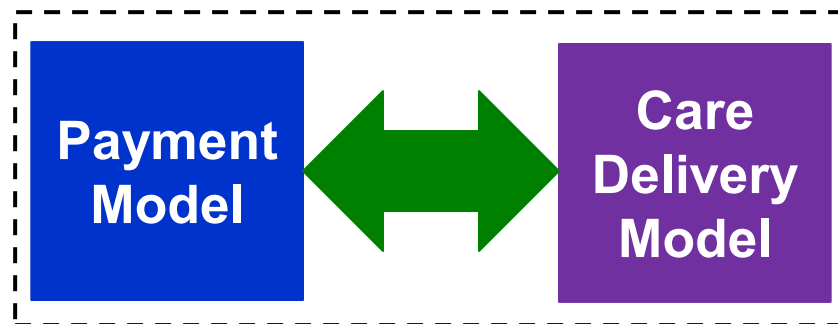


“Savings” Doesn’t Mean *Cuts*, It Means *Smaller Increases*



How Do We Get to
Win-Win-Win
Value-Based Payment?

Payment & Care Delivery Must Be Designed *Together*



By Themselves, Payers Will Design Things So *Payers* Win

PAYER PREFERENCE:

- Maximum reduction in total spending
- Minimum change in payment methods and administrative costs
- Shift in financial risk from payer to provider

Payer

Payer

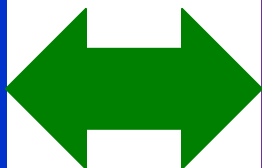
Payer

Payer

Payer

Design

Payer
Payment
Model



Care
Delivery
Model

By Themselves, Providers Will Design Things so *Providers* Win

PAYER PREFERENCE:

- Maximum reduction in total spending
- Minimum change in payment methods and administrative costs
- Shift in financial risk from payer to provider

Payer

Payer

Payer

Payer

Payer

Design

PROVIDER PREFERENCE:

- Higher payments for existing services
- New payments for new services
- No accountability for outcomes
- No financial risk

Provider

Provider

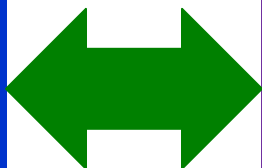
Provider

Provider

Provider

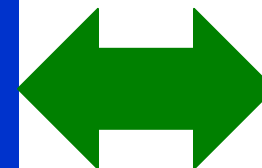
Design

Payer
Payment
Model



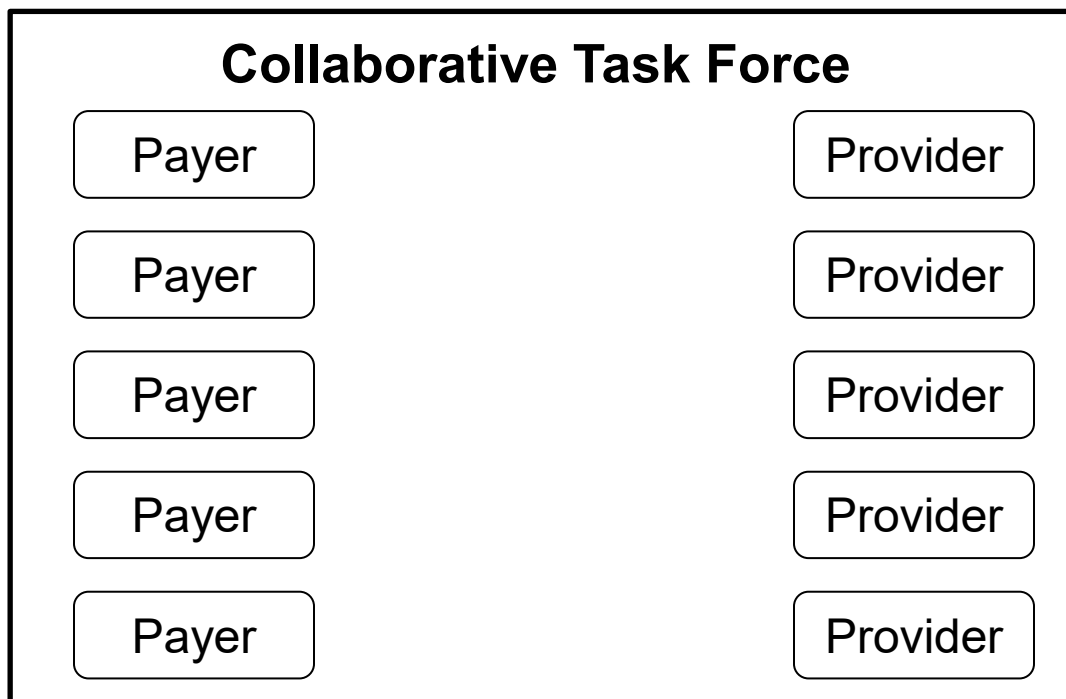
Care
Delivery
Model

Payment
Model

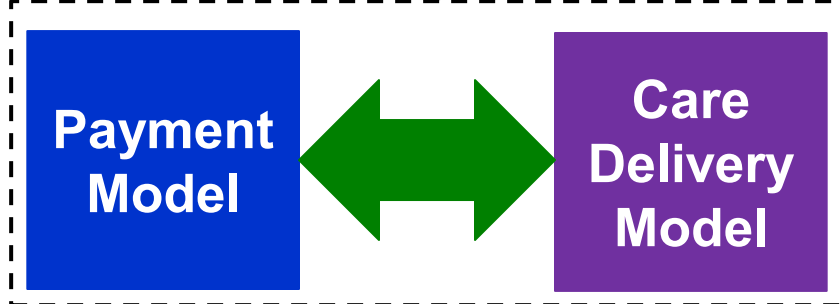


Provider
Care
Delivery
Model

Payers & Providers Must Collaborate for a *Win-Win* Design



- Savings based on avoidable spending
- Adequate payment for services
- Risk for number & type of conditions



- Delivery of services using most efficient, effective methods
- Accountability for controllable cost & outcomes of care

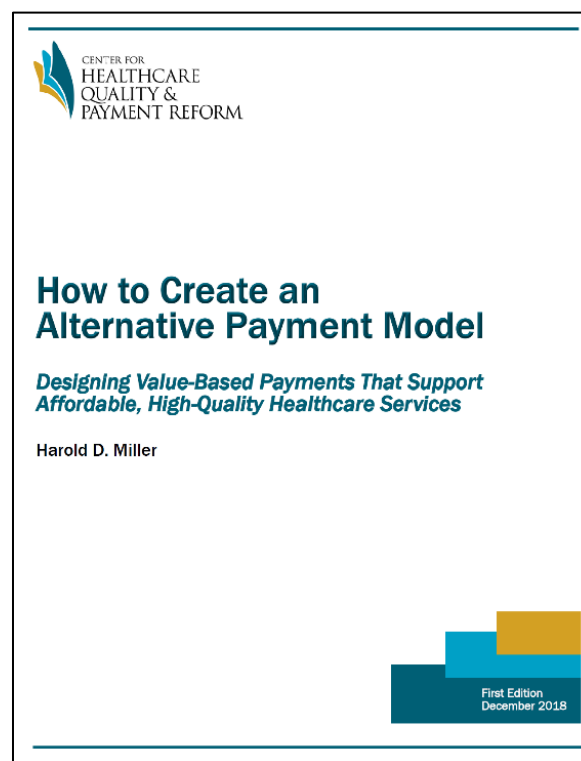
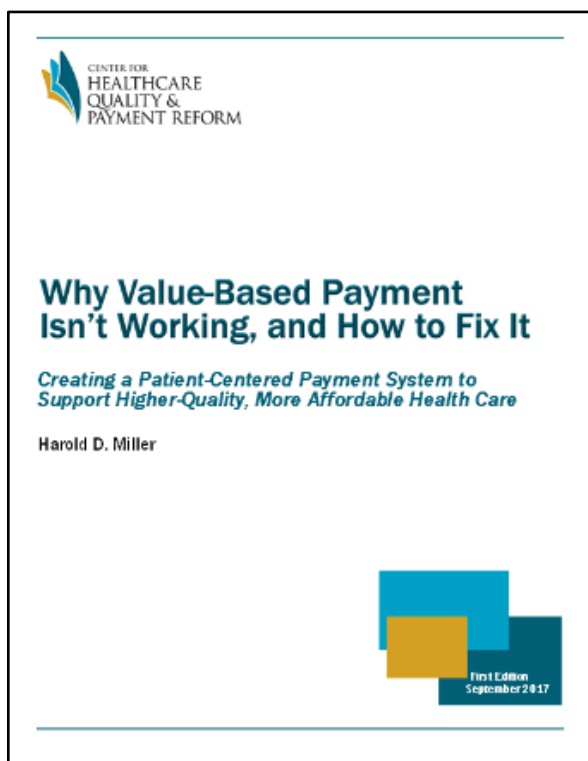
Summary

- **Steps to Design Value-Based Payment**
 1. Identify opportunities to reduce avoidable spending
 - Opportunities differ for different patients and in different communities
 2. Design services that will reduce avoidable spending
 - Payments must enable the specific changes in services needed for higher value
 3. Pay adequately to support higher-value services
 - Payment adequacy requires understanding costs of services *after* volume changes
 4. Hold providers accountable for results
 - Accountability should only be for aspects of costs/services providers can control

- **Key Elements for Success**
 - Payer-provider collaboration to design payment + care delivery
 - Cooperation among physicians, hospitals, & other providers
 - Protection for providers against taking inappropriate risk
 - Assurance for patients of higher quality as well as savings
 - Patience – don't expect large savings immediately

More Details on Creating Value-Based Payment Models

www.PaymentReform.org





Harold D. Miller

President and CEO

Center for Healthcare Quality and Payment Reform

Miller.Harold@CHQPR.org

(412) 803-3650

@HaroldDMiller

www.CHQPR.org

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