DESIGNING VALUE-BASED PAYMENTS THAT SUPPORT VALUE-BASED CARE

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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

- Lower Spending for Payers
- Worse Care & Access for Patients

<table>
<thead>
<tr>
<th>TOTAL HEALTH CARE SPENDING</th>
<th>CUT FEES DELAY/DENY CARE</th>
<th>SAVINGS</th>
</tr>
</thead>
</table>
A Better Way: Value-Based Care for Patients

TOTAL HEALTH CARE SPENDING

VALUE-BASED CARE DELIVERY

Lower Spending for Payers
Better Care for Patients
Most Value-Based Care Involves Reducing *Avoidable* Spending

- **AVOIDABLE SPENDING**
  - SPENDING ON NECESSARY SERVICES
  - SAVINGS
- **SPENDING ON NECESSARY SERVICES**
  - Better Care for Patients
  - Lower Spending for Payers
Avoidable Spending is Bad for Both Patients and Payers

Avoidable Spending

<table>
<thead>
<tr>
<th>Spending on Necessary Services</th>
<th>CHRONIC DISEASE</th>
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<tbody>
<tr>
<td>Unnecessary C-Sections</td>
<td>ED visits for exacerbations</td>
</tr>
<tr>
<td>Early elective deliveries</td>
<td>Hospital admissions and readmissions</td>
</tr>
<tr>
<td>Underuse of birth centers</td>
<td>Preventable progression of disease</td>
</tr>
<tr>
<td></td>
<td>Preventable chronic conditions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MATERNITY CARE</th>
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<tr>
<th>CANCER TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of unnecessarily-expensive drugs</td>
</tr>
<tr>
<td>ED visits/hospital stays for dehydration and avoidable complications</td>
</tr>
<tr>
<td>Fruitless treatment at end of life</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SURGERY</th>
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<tbody>
<tr>
<td>Unnecessary surgery</td>
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<tr>
<td>Use of unnecessarily-expensive implants</td>
</tr>
<tr>
<td>Infections and complications of surgery</td>
</tr>
<tr>
<td>Overuse of inpatient rehabilitation</td>
</tr>
</tbody>
</table>
Barriers in the Payment System
Create a Win-Lose for Providers

<table>
<thead>
<tr>
<th>Spending on Necessary Services</th>
<th>Avoidable Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARRIERS TO VALUE IN THE CURRENT PAYMENT SYSTEM</td>
<td></td>
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</tbody>
</table>

Lower Spending for Payers
Better Care for Patients

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Barrier #1: Inadequate Payments for Higher-Value Services

Avoidable spending often occurs because payments are inadequate (or non-existent) for alternative, higher-value services:

- Services other than office visits, such as phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Communication between physicians to ensure accurate diagnosis & coordinate care
- Non-medical services, e.g., transportation
- Palliative care for patients at end of life

Delivering these services improves value for payers and patients, but causes financial losses for healthcare providers.
Barrier #2: “Avoidable Spending” is Revenue for Providers

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

$ $

Payer Provider

PROVIDER REVENUE
Providers Use the Revenue to Pay for the Costs of Services

- Avoidable Spending
- Spending on Necessary Services
- Provider Revenue
- Cost of Service Delivery
- Margin

Payer

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

- Avoidable Spending
- Spending on Necessary Services
- Provider Revenue
  - Variable Cost of Services
  - Fixed Cost of Service Delivery
  - Margin

$
When Healthcare Providers Reduce Avoidable Services…

$\,$

$\,$

Payer

Provider

SPENDING ON NECESSARY SERVICES

PROVIDER REVENUE

FIXED COST OF SERVICE DELIVERY

SPENDING ON NECESSARY SERVICES

AVOIDABLE SPENDING

AVOIDABLE SPENDING

MARGIN
...Variable Costs Decrease, But Fixed Costs Do Not
...Plus Added Costs of Delivering New High-Value Services

- **Avoidable Spending**
- **Spending on Necessary Services**
- **Variable Cost of Services**
- **Fixed Cost of Service Delivery**
- **Marginal**
- **New SVCS Variable Cost**
- **Fixed Cost of Service Delivery**

Payer | Provider | Provider
Revenues Decrease in Direct Proportion to Service Volume…
…Resulting in Financial Loss for Healthcare Providers
Win-Lose: Savings for Payers, Losses for Providers

- **Avoidable Spending**
- **Variable Cost of Services**
- **Fixed Cost of Service Delivery**
- **Marginal**
- **Savings**
- **New Services**
- **Fixed Cost of Service Delivery**

**Payer**
- **Provider Revenue**

**Provider**
- **Variable Cost of Services**
- **Fixed Cost of Service Delivery**
- **Marginal**

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Value-Based Payment Must Remove the Barriers to Better Care

BARRIER #1

Avoidable Spending Occurs Because Payments Are Inadequate (or Non-Existential) for Alternative, Higher-Value Services:

- Services other than office visits, such as phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Communication between physicians to ensure accurate diagnosis & coordinate care
- Non-medical services, e.g., transportation
- Palliative care for patients at end of life

BARRIER #2

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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

Under typical P4P and Shared Savings systems, physicians and hospitals are still paid the same amounts for the same services as under standard fee-for-service payments, and they receive no new payments or higher payments for high-value services.
If Payers Save $$ This Year…

“Incentives”: Pay for Performance / Shared Savings

YEAR 1

- AVOIDABLE SPENDING
- SPENDING ON NECESSARY SERVICES

SAVINGS

LOW $ FOR HIGH-VALUE SERVICES

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

“Incentives”: Pay for Performance / Shared Savings

Under typical P4P and Shared Savings systems, the only change in payment is a bonus paid based on savings or quality/cost performance in a previous year.
No Additional Payments for New High-Value Services

“Incentives”: Pay for Performance / Shared Savings

YEAR 1

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

SAVINGS

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

How does provider cover upfront costs of high-value care?
If Provider Qualifies for an Incentive Payment...

“Incentives”: Pay for Performance / Shared Savings

SPENDING ON NECESSARY SERVICES

YEAR 1

AVOIDABLE SPENDING

SAVINGS

YEAR 2

SAVINGS

LOW $ FOR HIGH-VALUE SERVICES

P4P/Shared Svgs

AVOIDABLE SPENDING

How does provider cover upfront costs of high-value care?

LOW $ FOR HIGH-VALUE SERVICES

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Incentive Payment is Generally Less Than Added Costs & Losses

“Incentives”: Pay for Performance / Shared Savings

YEAR 1

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

YEAR 2

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

Bonus may not cover losses

NEW SVCS

VARIABLE COST

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

How does provider cover upfront costs of high-value care?

P4P/Shared Svgs

LOSS

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

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Result: Incentive Payments Are Typically Still a Win-Lose

- AVOIDABLE SPENDING ON NECESSARY SERVICES: LOW $ FOR HIGH-VALUE SERVICES
- SPENDING ON NECESSARY SERVICES: LOW $ FOR HIGH-VALUE SERVICES
- SAVINGS
- SAVINGS
- NEW SVCS
- VARIABLE COST
- FIXED COST OF SERVICE DELIVERY
- PROVIDER REVENUE

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Win-Win Requires Payment Reform, Not Just Incentives

*Win-Win* Requires Payment Reform, Not Just Incentives

- Avoidable Spending
- Spending on Necessary Services
- Low $ for High-Value Services
- Payer
- Provider
- Value-Based Payment
- Provider Revenue
- Margin
- New Services
- Variable Cost
- Fixed Cost of Service Delivery
- Savings
- Win - Win
4 Steps for Creating Successful Value-Based Payments

- **Step 1**: Avoidable Spending
- **Step 2**: Spending on Necessary Services
- **Step 3**: Fixed Cost of Service Delivery
- **Step 4**: Variable Cost

<table>
<thead>
<tr>
<th>Payer</th>
<th>Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>VALUE-BASED PAYMENT</td>
<td>MARGIN</td>
</tr>
<tr>
<td>SAVINGS</td>
<td>NEW SVCS</td>
</tr>
</tbody>
</table>

WIN - WIN

LOW $ FOR HIGH-VALUE SERVICES

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Step 1: Identify Specific Areas of Potentially Avoidable Spending

POTENTIALLY AVOIDABLE SPENDING
- Avoidable Hospital Admissions
- Unnecessary Tests and Procedures
- Unnecessarily Expensive Treatments
- Preventable Complications of Treatment
- Treatment of Late-Stage Disease
Step 2: Design Services That Will Reduce the Avoidable Spending

$\text{AVOIDABLE SPENDING}$

$\text{SPENDING ON NECESSARY SERVICES}$

$\text{AVOIDABLE SPENDING}$

$\text{SERVICES THAT PREVENT AVOIDABLE SPENDING}$

$\text{SAVINGS}$

$\text{SERVICES NEEDED TO REDUCE THE IDENTIFIED AVOIDABLE SPENDING}$

- Care Management
- Care Coordination
- Lower-Cost Treatments
- Prevention & Screening
Step 3: Pay Adequately to Support Higher-Value Services

- Avoidable Spending
- Services That Prevent Avoidable Spending
- Adequate Payment for Higher-Value Services

- Spending on Necessary Services
- Unpaid Services
- Loss of Revenue
- Savings

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Adequacy Requires Knowing the Cost of Higher-Value Care

- Avoidable Spending
- Spending on Necessary Services
- Unpaid Services
- Loss of Revenue
- Savings
- Services that Prevent Avoidable Spending
- Variable Cost
- New Services
- Fixed Cost of Service Delivery
- Adequate Payment for Higher-Value Services

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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

$\hspace{2cm}$

- **AVOIDABLE SPENDING**
  - SPENDING ON NECESSARY SERVICES
  - UNPAID SERVICES

- **SAVINGS**
  - SERVICES THAT PREVENT AVOIDABLE SPENDING
  - LOSS OF REVENUE

- **NEW SVCS**
  - VARIABLE COST
  - FIXED COST OF SERVICE DELIVERY

- **AVOIDABLE SPENDING**
  - ADEQUATE PAYMENT FOR HIGHER-VALUE SERVICES
Step 4: Hold Providers Accountable for Results

Avoidable Spending: Services that prevent avoidable spending. Fixed cost of service delivery.

Avoidable Spending: New SVCS, variable cost.

Avoidable Spending: ADEQUATE PAYMENT for higher-value services.

Spending on necessary services: Unpaid services, loss of revenue.

Savings: Accountability for reducing avoidable spending.
No One “Right” Way to Structure Payment + Accountability

- Bundled Payment
- Warrantied Payment
- Episode Payment
- Condition-Based Payment
- Outcome-Based Payment
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

- Spending the Provider Cannot Control:
  - e.g., PCPs can’t control the cost of cancer treatment
  - e.g., oncologists can’t prevent cancer
  - e.g., hospitals can’t prevent diabetic foot ulcers that require amputation
  - e.g., providers can’t control the price of drugs

- Avoidable Spending the Provider Can Control or Influence:
  - e.g., PCPs can encourage patients to get mammograms and colonoscopies
  - e.g., oncologists can help patients avoid or minimize problems from chemotherapy toxicity
  - e.g., hospitals can reduce surgical site infections when amputations are needed
  - e.g., providers can choose the most cost-effective drugs from among the drugs available at the prices charged by manufacturers
Good Alternative Payment Models Can Be Win-Win-Wins

Current Fee-for-Service

- Avoidable Spending
- Spending on Necessary Services
- Unpaid Services
- Loss of Revenue

Avoidable Spending

Savings

Services That Prevent Avoidable Spending

Win for Payers:
Lower Total Spending

Win for Patients:
Better Care Without Unnecessary Services

Win for Physicians:
Adequate Payment for High-Value Services

Alternative Payment Model

- Avoidable Spending
- Savings
- Adequate Payment for Higher-Value Services

$
Necessary & Avoidable Services Differ Among Patients

- **Lower Need Patients**
  - Necessary Services
  - Avoidable Spending
  - Unpaid Svc
  - $ Loss

- **Medium Need Patients**
  - Necessary Services
  - Avoidable Spending
  - Unpaid Svc
  - $ Loss

- **Higher Need Patients**
  - Necessary Services
  - Avoidable Spending
  - Unpaid Svc
  - $ Loss
A Wrong Way: Paying the Same Amount for Every Patient

- **Lower Need Patients**: Avoidable Spending to Necessary Services
- **Medium Need Patients**: Avoidable Spending to Necessary Services
- **Higher Need Patients**: Necessary Services to Same Payment Amount for All Patients

$ Loss

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Condition-Based Payments Adjust for Differences in Patient Needs

- **Lower Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Unpaid Svc

- **Medium Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Unpaid Svc

- **Higher Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Condition-Based Payment
  - High-Need Patients
  - Savings
  - $ Loss

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

POPULATION-BASED PAYMENT

$\uparrow$

- **High Need Patients**: Same Payment for All Patients
- **Medium Need Patients**: Same Payment for All Patients
- **Lower Need Patients**: Same Payment for All Patients
Under Population-Based Payment:
More High-Need Patients = Losses

POPULATION-BASED PAYMENT

$\uparrow$

High Need Patients

Medium Need Patients

Lower Need Patients

Same Payment for All Patients

Same Payment for All Patients

Same Payment for All Patients

High Need Patients

High Need Patients

Lower Need Patients

Same Payment for All Patients

Same Payment for All Patients

Same Payment for All Patients

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

- Higher Need Patients: Same Payment for All Patients
- Medium Need Patients: Same Payment for All Patients
- Lower Need Patients: Same Payment for All Patients

- High Need Patients: Loss
- Medium Need Patients: Profit
- Lower Need Patients: Profit

$
Under Condition-Based Payment: Payment Differs by Patient Need
Under Condition-Based Payment: No Losses for Serving High Needs

CONDITION-BASED PAYMENT

<table>
<thead>
<tr>
<th>High Need Patients</th>
<th>Medium Need Patients</th>
<th>Lower Need Patients</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Need Payment</td>
<td>Medium Need Payment</td>
<td>Low Need Payment</td>
</tr>
</tbody>
</table>

High Need Patients

High Need Payment

Low Need Payment

Lower Need Patients

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

CONDITION-BASED PAYMENT

$\uparrow$

High Need Patients

Medium Need Patients

Lower Need Patients

High Need Payment

Medium Need Payment

Low Need Payment

High Need Payment

High Need Payment

High Need Payment

Medium Need Payment

Medium Need Payment

Low Need Payment

Lower Need Payment

Lower Need Payment

Lower Need Payment
## Population-Based Payment Can Worsen Health Disparities

<table>
<thead>
<tr>
<th></th>
<th>Fee-for-Service Payment (Fixed payment for each service, regardless of whether service is needed)</th>
<th>Condition-Based Payment (Fixed payment for all services that are related to a specific condition)</th>
<th>Population-Based Payment (Fixed payment for all services, regardless of patient’s needs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rewards over-treatment?</strong></td>
<td><strong>Yes</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
</tr>
<tr>
<td><strong>Rewards under-treatment?</strong></td>
<td><strong>No</strong></td>
<td><strong>No</strong></td>
<td><strong>Yes</strong></td>
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How Can It Be “Win-Win-Win” When Spending is Being Cut?

- Avoidable Spending
- Necessary Services

$ Savings

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

Avoidable Spending  
Necessary Services

Avoidable Spending  
Necessary Services

Avoidable Spending  
Necessary Services

Avoidable Spending  
Necessary Services

Avoidable Spending  
Necessary Services

FFS Trend

VBP Trend

Savings

Savings

Savings

Savings

Savings

$
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

Design

Payer Payment Model  Care Delivery Model

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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

**PROVIDER PREFERENCE:**
- Higher payments for existing services
- New payments for new services
- No accountability for outcomes
- No financial risk

---

**Payer Payment Model**

**Care Delivery Model**

**Payment Model**

**Provider Care Delivery Model**

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

**Collaborative Task Force**

- Payer
- Payer
- Payer
- Payer

- Provider
- Provider
- Provider
- Provider

**Payment Model**

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

**Care Delivery Model**

- 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

Why Value-Based Payment Isn’t Working, and How to Fix It
Creating a Patient-Centered Payment System to Support Higher-Quality, More Affordable Health Care
Harold D. Miller

How to Create an Alternative Payment Model
Designing Value-Based Payments That Support Affordable, High-Quality Healthcare Services
Harold D. Miller