Bundled Payments: Opportunities on the Road Ahead

Chas Roades
Chief Research Officer
The Advisory Board Company
Prices Under Immense Scrutiny

“Exposé” Shines Spotlight on Hospital Pricing

“When you look behind the bills that Sean Recchi and other patients receive, you see nothing rational—no rhyme or reason—about the costs they faced in a marketplace they enter through no choice of their own. The only constant is the sticker shock for the patients who are asked to pay.”

Steven Brill
Time Magazine
March 2013

Cited Examples of Hospital Pricing

- $1.50 Single pill of acetaminophen
- $18 One diabetes test strip
- $77 Box of sterile gauze pads
- $1.2M-$5.2M Annual hospital CEO compensation

Source: Brill S, “Bitter Pill: Why Medical Bills Are Killing Us,” Time, March 4, 2013; Advisory Board interviews and analysis. The TIME logo is the registered trademark of Time, Inc.
CMS Opens the Lid on Hospital Pricing

New Database Profiles Charges for Most Frequent Discharges

"Our purpose for posting this information is to shine a much stronger light on these practices. What drives some hospitals to have significantly higher charges than their geographic peers? I don’t think anyone here has come up with a good economic argument."

Jonathan Blum
Deputy Administrator, CMS

Key Database Features

163K Individual charges
3,337 Hospitals
100 Most frequent discharges

Hospital Charge Variation

Chicago Hospital Referral Region
n=27


1) Chronic obstructive pulmonary disease.
2) Simple Pneumonia and Pleurisy with complications and comorbidities.
Price at the Heart of Spending Growth

Price Inflation Surpassing Other Drivers

**Personal Health Care Spending**

1980-2008

Pricing growth accounted for 67% of total spending growth in 2008.

**Hospital Inpatient Prices**

1992-2012, Indexed

20-Year CAGR:
- All Other Patients: 3.9%
- Medicare: 2.5%
- Medicaid: 1.8%

New Responsibilities of Accountable Care

Emerging Payment Models Calling Old Imperatives Into Question

Accountable Payment Models

<table>
<thead>
<tr>
<th>Performance Risk</th>
<th>Utilization Risk</th>
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<tbody>
<tr>
<td>Cost of Care</td>
<td>Quality of Care</td>
</tr>
<tr>
<td>Volume of Care</td>
<td></td>
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</tbody>
</table>

- **Bundled Payments**
  - Bundled Payments for Care Improvement program
  - Commercial bundled contracts

- **Pay-for-Performance**
  - Value-Based Purchasing
  - Readmissions penalties
  - Quality-based commercial contracts

- **Shared Savings**
  - Medicare Shared Savings Program
  - Pioneer ACO Program
  - Commercial ACO contracts

Source: Advisory Board interviews and analysis.
Bundled Payments Answering the Call for Value

Initial Pilots Successfully Reducing Episode Price

**Average Cost for Outpatient Back Surgery**

*South Dakota State Employee Health Plan*

- **Standard Fee-for-Service Arrangement:** $1,400
- **Bundled Payment Product:** $1,200
- **$500**

**BPCI¹ Initiative’s Minimum Discount Rates**

*Per Bundled Episode of Care*

- **Model 1:** 2%
- **Model 2:** 2%–3%
- **Model 3:** 3%
- **Model 4:** 3%–3.5%

**Case in Brief: South Dakota State Employee Health Plan**

- Negotiated bundled rate for back surgeries at Black Hills Surgical Hospital in 2011
- Bundled payment covers professional and facility fees, ancillaries, and limited follow-up at a single rate

**Program in Brief: CMMI’s Bundled Payments for Care Improvement**

- CMMI² initiative offering four voluntary bundled payment models
- 450+ providers selected to participate
- Requires minimum discount on all bundled episodes of care, ranging from 2% to 3.5%

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1) Bundled Payments for Care Improvement,
2) Center for Medicare and Medicaid innovation.

Source: Advisory Board interviews and analysis.
Large Purchasers Exploring Bundling

Walmart Steering Employees to Preferred Providers for Surgical Care

Walmart Centers of Excellence Partners

- Cleveland Clinic
- Geisinger Medical Center
- Mayo Clinic
- Mercy Hospital Springfield
- Scott & White Memorial Hospital
- Virginia Mason Medical Center

Case in Brief: Walmart Centers of Excellence

- Walmart entered into bundled payment agreements with six health systems covering heart, spine, and transplant surgeries
- Program launched in January 2013; includes 1.1 million covered lives
- Providers selected based on convenience, quality, and potential for cost savings

Providers Anticipating Rapid Adoption

Most Providers Expect Bundled Payment Within Three Years

Source: 2013 Accountable Payment Survey, Advisory Board interviews and analysis.

Bundled Payment Implementation Timeline
Among Providers without Bundled Payment Contracts
n=60

Providers with Bundled Payment Contracts
n=85

Currently have bundled payment contracts

Do not have bundled payment contracts

<table>
<thead>
<tr>
<th>Likely by</th>
<th>2013</th>
<th>Likely by</th>
<th>2014</th>
<th>Likely by</th>
<th>2015</th>
<th>Likely by</th>
<th>2016</th>
<th>Likely by</th>
<th>2017</th>
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<td>%</td>
<td>12%</td>
<td>%</td>
<td>23%</td>
<td>%</td>
<td>32%</td>
<td>%</td>
<td>10%</td>
<td>%</td>
<td>3%</td>
<td>%</td>
</tr>
</tbody>
</table>

Source: 2013 Accountable Payment Survey, Advisory Board interviews and analysis.
A Challenging Path Ahead

Key Stakeholders Must Address Substantial Barriers to Adoption

Health Systems

- Identify attractive conditions for bundled payment
- Accept risk for post-acute, out-of-network utilization
- Absorb incremental costs for case management, claims adjudication
- Calculate and disburse physician gainsharing bonuses

Physicians

- Design clinical pathways to support high-quality outcomes
- Standardize device utilization
- Improve coordination with other clinicians
- Meet quality standards to receive gainsharing bonuses

Payers

- Develop mechanisms to provide lump sum bundled payment, if required
- Aggregate claims across continuum to determine bundle cost
- Provide timely utilization data to health systems
- Upgrade IT systems to distinguish bundled payment and fee-for-service claims

$356
Incremental cost per bundled claim at Baptist Health System$^{1}$

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Source: Advisory Board interviews and analysis.

$^{1}$ First year of ACE Demonstration participation.
Looking to CMMI to Enable Scale…

More than 450 Providers Participating in BPCI¹

Source: Centers for Medicare and Medicaid Services; Advisory Board interviews and analysis.

¹ Bundled Payments for Care Improvement initiative
...And Expand Bundling Beyond Surgery

CMMI Applying Bundling to Medical Admissions

Half of BPCI Bundles Are Medical\(^1\)

Most Popular CMMI Bundles

\[
\begin{array}{c|c}
\text{Percentage of Participants Selecting Episode} \\
\text{Surgical bundle} & \text{Medical bundle} \\
\hline
\text{Major joint replacement of lower extremity} & 78\% \\
\text{Congestive heart failure} & 58\% \\
\text{Coronary artery bypass graft} & 51\% \\
\text{COPD, bronchitis/asthma} & 49\% \\
\text{Percutaneous coronary intervention} & 48\% \\
\text{Cardiac valve} & 47\% \\
\text{Simple pneumonitis and respiratory infections} & 46\% \\
\text{Cardiac defibrillator} & 46\% \\
\text{Revision of the hip or knee} & 44\% \\
\text{Double replacement of the lower extremity} & 43\% \\
\end{array}
\]

\(^1\) Based on medical/surgical classification of first anchor DRG.

Source: Advisory Board interviews and analysis.
Creating Sources of Shared Value with Vendors

Fostering Performance Risk and Accountability with Suppliers

Opportunity #1: Align Health Care Value Chain

Crafting a True Win-Win Partnership

**Longer-Term Contract**
- Extended contract from three to five years
- Contract expanded portfolio to include other value-added services from wholesaler

**Guaranteed Savings**
- Required to generate $12M in cost savings, new revenue
- Contract designated three FTEs to lead 33 cost-saving initiatives

**Case in Brief: IU Health**
- 18-hospital, 1380-bed health system headquartered in Indianapolis, Indiana
- Risk-based contract holds wholesaler accountable for producing $12M in spendable cash after first 36 months
- Identified 33 initiatives to generate savings, revenue, many centered around wholesaler’s retail programs

“Everybody talks about being a partner, but they’re not; they don’t have anything at risk. True partnership occurs when goals and incentives are aligned. Both partners are at risk and have something to gain by moving in the same direction.”

Jim Jorgenson
Chief Pharmacy Officer

Source: Advisory Board interviews and analysis.
Transitioning from Independent to Interdependent

Bundling Presents Viable Hospital-Physician Relationship Model

Opportunity #2: Strengthen Hospital-Physician Relationships

Degree of Financial Integration

Independent
- Privileges
- Medical Staff Membership

Interdependent
- Partners
- Co-Management Agreement
- Bundled Payment

Principals
- Clinical Integration
- Employment

Hospital Investment

Source: Advisory Board interviews and analysis.
A Clear Boon to Clinical Quality

Bundling Programs Successfully Improving Outcomes

Marked Drop in Morbidity
*Patients with at Least One Complication at Geisinger Health System*

- Baseline: 3.5%
- Under ProvenCare: 1%

CABG¹ Patients Returned to OR During Stay
*Hillcrest Medical Center*

- Baseline: 7%
- Under ACE: 1%

¹ Coronary artery bypass graft.

Source: Advisory Board interviews and analysis.
Advancing the Hospital Cost Control Agenda

Significant Supply Savings in the ACE Demonstration

Materials Cost Savings at Hillcrest Medical Center

Percentage Cost Reduction Relative to Baseline Year

Significant second year improvements

Case in Brief: Hillcrest Medical Center

- 727-bed hospital in Tulsa, Oklahoma, participating in the ACE Demonstration for cardiac and orthopedic services
- Worked closely with specialists to standardize care pathways and device usage
- Achieved substantial reductions in supply costs over first two full years of the program

Source: Advisory Board interviews and analysis.
Engaging Population Health Managers

Bundling Programs Offer Low-Cost Care to ACOs

**Opportunity #4: Supporting Transition to Population Health**

**Optimizing Care Processes for CABG Episodes**

- Hardwiring 40 clinical process steps for CABG; aiming for 80% of patients to receive all recommended steps
- Developing protocol for blood product use in CABG procedures to bring red cell transfusion rates below 34%
- Using rigorous readiness assessment to minimize perioperative complications

**Case in Brief: Parker Heart Center**

- Cardiovascular service within multi-hospital system in the northeast
- Participating in CMMI's Bundled Payments for Care Improvement (BPCI) program for select cardiovascular procedures

**Fitting into the Bigger Picture**

“We think there will be a role for bundled payment for specialists. ACOs are going to refer to the highest-quality, lowest-cost specialists they can find—whether or not we’re a part of their system.”

*Director of Clinical Integration, Parker Heart Center*

Source: Advisory Board interviews and analysis.
Offering a Bridge To Population Health

Bundled Payment Helps Drive Cultural Transformation

Focus: Quality Improvement
- Adherence to Evidence-Based Practice
- Improved Outcomes
- Patient Experience

Focus: Efficiency
- Throughput
- Supply Management
- Contract Negotiation
- Reduced Readmissions

Focus: Utilization Management
- Chronic Care Management
- Disease Prevention

Degree of Provider Cost Accountability

Potential for Cost Savings

Pay for Performance

Bundled Pricing

Shared Savings

Source: Advisory Board interviews and analysis.
Engaging Patients in their Care

Bundling Programs Successfully Connecting Patients to Care Process

Engaging Patients in Follow-Up

- Document patient responsibilities after discharge
- Involve family and caregivers in follow-up
- Discuss broader health and wellness issues
- Encourage treatment for complications at proper site of care

Geisinger’s ProvenCare Compact

My Role in Proven Heart Care

The Geisinger heart surgery team has your health and safety as its chief concern. Your active participation is one of the most important parts of the Geisinger ProvenCare® Heart Program. Medical research has shown that the more involved you are in your own care—and the stronger the partnership between you and your caregivers—the better your results will be...[Y]ou will get the best result when you, your family and your Geisinger heart surgery team are all active partners in your care.

Contents:

I. Commitment to Communicate as a Team
II. Commitment to Involve My Family and Loved Ones
III. Commitment to Complete Important Care Steps
IV. Commitment to Improved Health and Prevention

Signed,

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Source: Casale et al., “ProvenCare: A Provider-Driven Pay-for-Performance Program for Acute Episodic Care,” Annals of Surgery, October 2007. Advisory Board interviews and analysis.
# Toward an Economics of Value

## Adapting to New Rules of Competition

### Health System Strategy, c. 2003

**“Price-Extractive Growth”**

**Description**

- Grow by being bigger: Leverage market dominance to secure prime pricing, network status

**Key Success Factors**

- Expand market share
- Strengthen service lines
- Exert pricing leverage
- Solidify referrals
- Secure physicians
- Increase utilization

**Target of Strategy**

- Commercial payers
- Government purchasers
- Physicians

**Performance Metrics**

- Discharges
- Service line share
- Fee-for-service revenue
- Pricing growth
- Occupancy rate
- Process quality

**Competitive Dynamics**

- Service line competition
- Centers of excellence
- Referral channels
- Physician loyalty

**Critical Infrastructure**

- Inpatient capacity
- Outpatient imaging centers
- Clinical technology
- Ambulatory surgery centers

**Key Leaders**

- CEO
- CFO
- COO
- CMO
- CNO
- Board

### Health System Strategy, 2013-2023

**“Value-Based Growth”**

**Description**

- Grow by being better: Leverage cost, quality, service advantage to attract key decision makers

**Key Success Factors**

- Expand covered lives
- Compete on outcomes
- Minimize total cost
- Assemble network
- Offer convenience
- Expand access

**Target of Strategy**

- Employers
- Individuals
- Population health managers

**Performance Metrics**

- Share of lives
- Geographic reach
- Risk-based revenue
- Share of wallet
- Outcomes quality
- Total cost of care

**Competitive Dynamics**

- Comprehensive care
- Patient engagement
- Clinical quality
- Service quality

**Critical Infrastructure**

- Primary care capacity
- Care management staff and systems
- IT analytics
- Post-acute care network

**Key Leaders**

- CEO
- CFO
- COO
- CMO
- CNO
- Board

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**Source:** Advisory Board interviews and analysis.

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1) Chief Physician Executive.
2) Chief Transformation Officer.
3) Chief Integration Officer.
Core of the Mission

I was recently reminded that our founders didn’t come to our community to fill hospital beds, they came to serve people in need. And I want to know that decades from now, even hundreds of years now … people [will] look back and say “the [leaders] who were running these Catholic ministries at the turn of the century made the right decisions to put us on a path moving forward.”

Kevin Lofton
CEO
Catholic Health Initiatives

Source: Advisory Board interviews and analysis.