



Health Care Advisory Board

# Bundled Payments: Opportunities on the Road Ahead

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Chief Research Officer  
The Advisory Board Company

# Prices Under Immense Scrutiny

“Exposé” Shines Spotlight on Hospital Pricing

# TIME

## BITTER PILL

### WHY MEDICAL BILLS ARE KILLING US

BY STEVEN BRILL

“

“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.

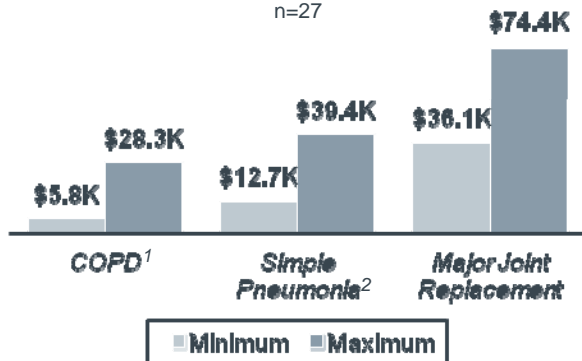
# CMS Opens the Lid on Hospital Pricing

## New Database Profiles Charges for Most Frequent Discharges

### Hospital Charge Variation

Chicago Hospital Referral Region

n=27



### Key Database Features

**163K** Individual charges

**3,337** Hospitals

**100** 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*

1) Chronic obstructive pulmonary disease.

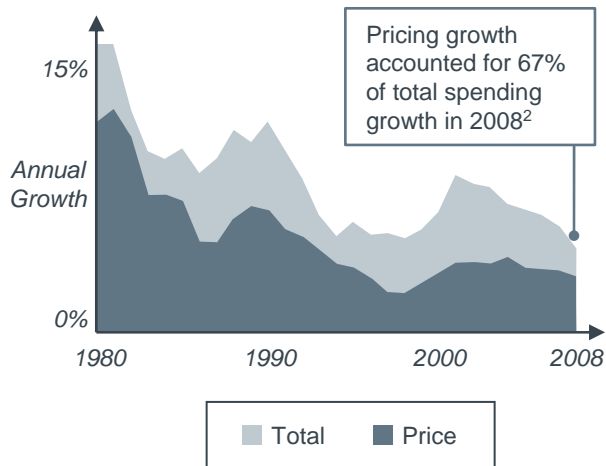
2) Simple Pneumonia and Pleurisy with complications and comorbidities.

# Price at the Heart of Spending Growth

## Price Inflation Surpassing Other Drivers

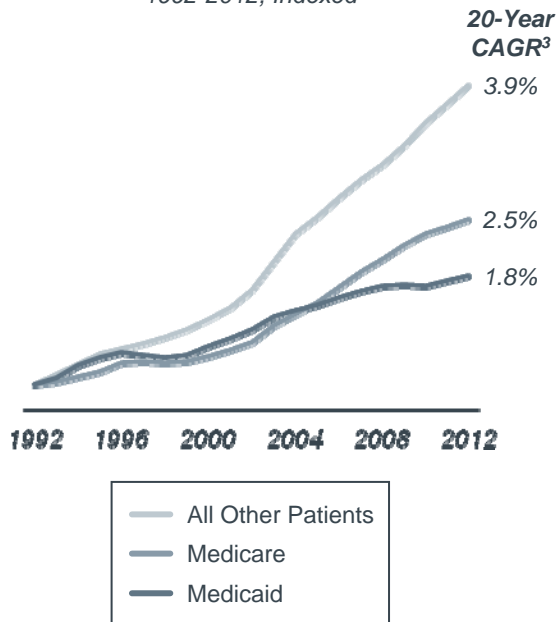
### Personal Health Care Spending<sup>1</sup>

1980-2008



### Hospital Inpatient Prices

1992-2012, Indexed



1) Subset of national health spending measuring the purchase of health care goods and services exclusively.

2) Remaining growth driven by non-price factors, such as changes in population, utilization, and intensity of services.

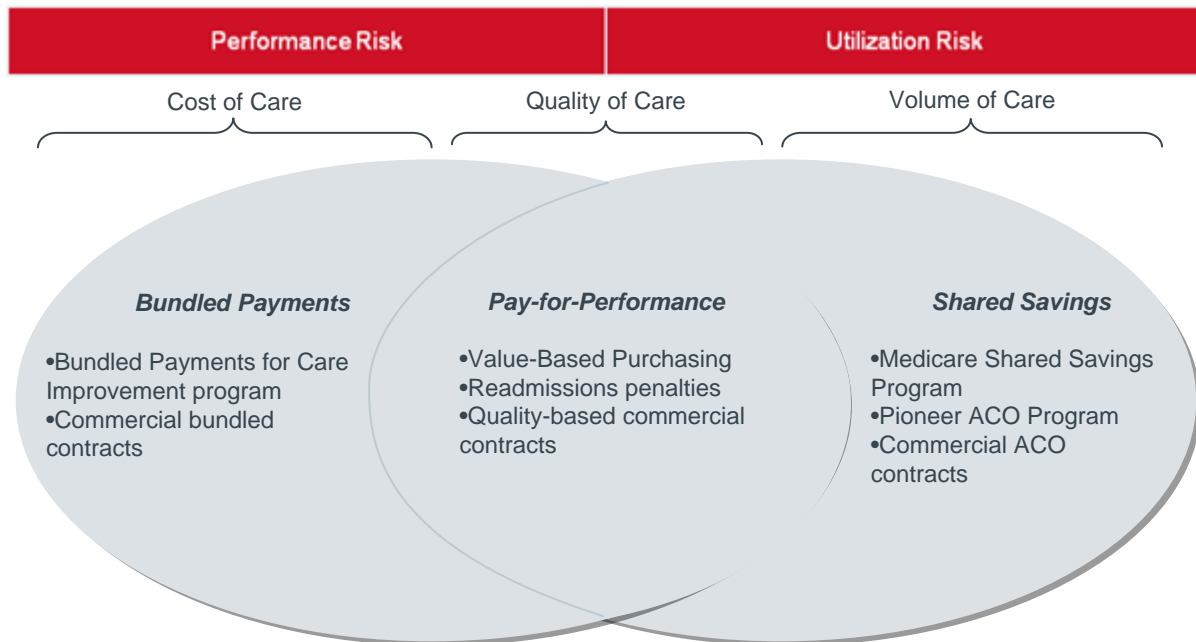
3) Compound Annual Growth Rate.

Source: Hartman M, et al., "Health Spending Growth at a Historic Low in 2008," *Health Affairs*, 2010, 29: 147-155; Bureau of Labor Statistics, Producer Price Indexes, 2013, available at: [www.bls.gov/ppi](http://www.bls.gov/ppi); Advisory Board interviews and analysis.

# New Responsibilities of Accountable Care

Emerging Payment Models Calling Old Imperatives Into Question

## Accountable Payment Models

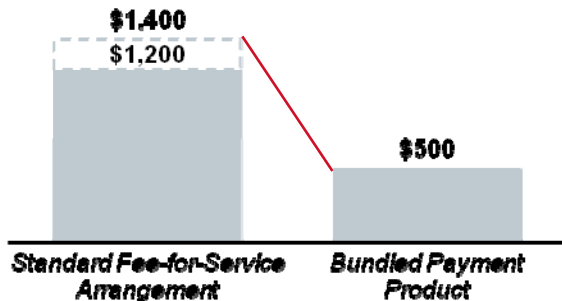


# Bundled Payments Answering the Call for Value

## Initial Pilots Successfully Reducing Episode Price

### Average Cost for Outpatient Back Surgery

*South Dakota State Employee Health Plan*

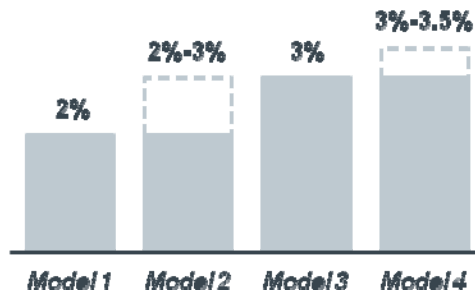


#### Case in Brief: South Dakota State Employee Health Plan

- 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

### BPCI<sup>1</sup> Initiative's Minimum Discount Rates

*Per Bundled Episode of Care*



#### Program in Brief: CMMI's Bundled Payments for Care Improvement

- CMMI<sup>2</sup> 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%

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

# 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

Source: "Walmart Expands Health Benefits to Cover Heart and Spine Surgeries at No Cost to Associates," Walmart News, October 12, 2012, available at: <http://news.walmart.com>; Advisory Board interviews and analysis.

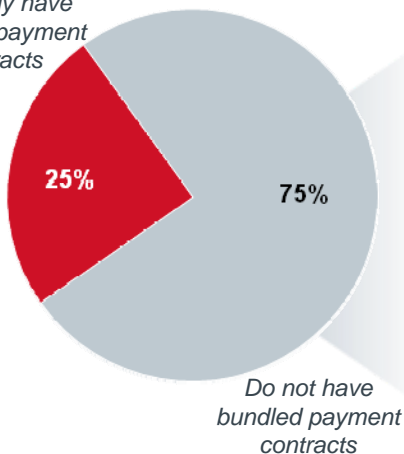
# Providers Anticipating Rapid Adoption

Most Providers Expect Bundled Payment Within Three Years

**Providers with Bundled Payment Contracts**

n=85

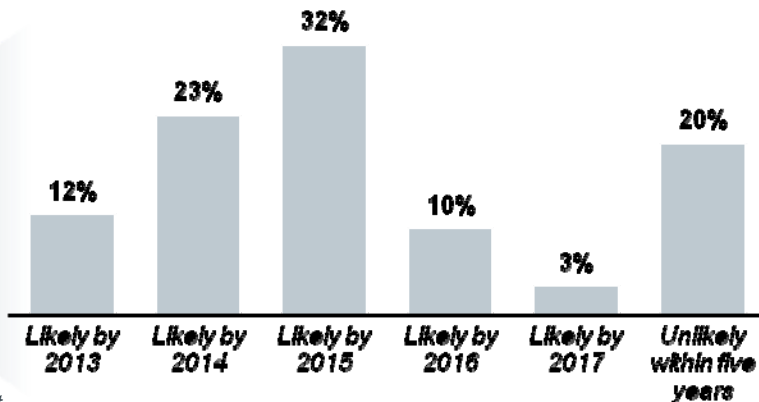
Currently have  
bundled payment  
contracts



**Bundled Payment Implementation Timeline**

*Among Providers without Bundled Payment Contracts*

n=60





# 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



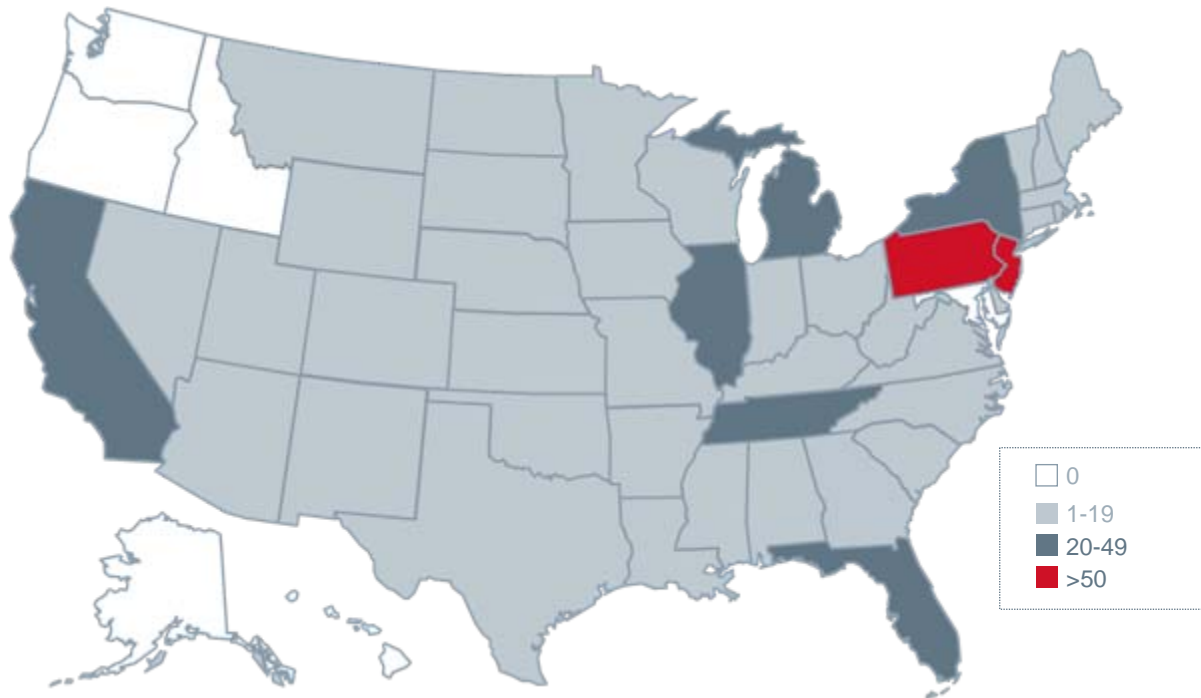
**\$356**

Incremental cost per bundled claim at Baptist Health System<sup>1</sup>

<sup>1</sup> First year of ACE Demonstration participation.

# Looking to CMMI to Enable Scale...

More than 450 Providers Participating in BPCI<sup>1</sup>

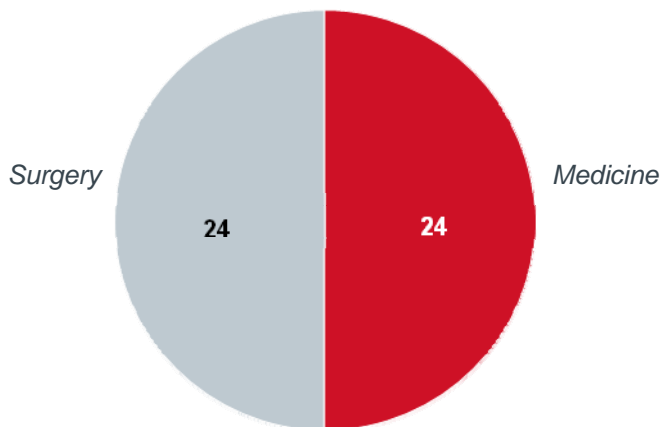


1) Bundled Payments for Care Improvement initiative

# ...And Expand Bundling Beyond Surgery

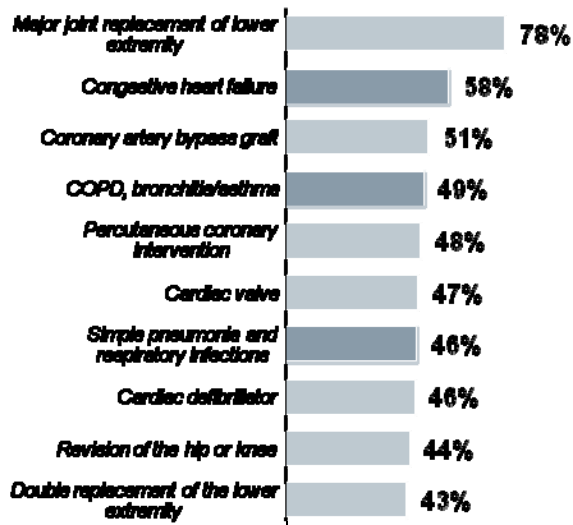
## CMMI Applying Bundling to Medical Admissions

### Half of BPCI Bundles Are Medical<sup>1</sup>



### Most Popular CMMI Bundles

Percentage of Participants Selecting Episode



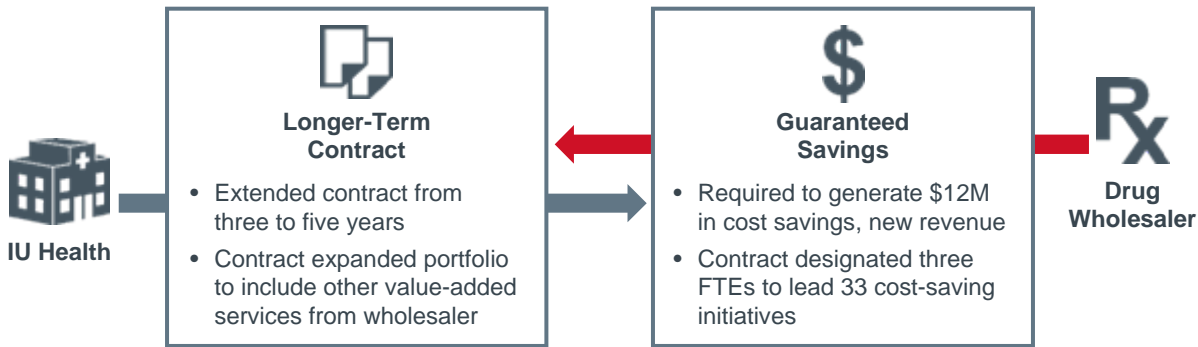
■ Surgical bundle ■ Medical bundle

<sup>1</sup> Based on medical/surgical classification of first anchor DRG.

# Creating Sources of Shared Value with Vendors

## Fostering Performance Risk and Accountability with Suppliers

### Crafting a True Win-Win Partnership



#### 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

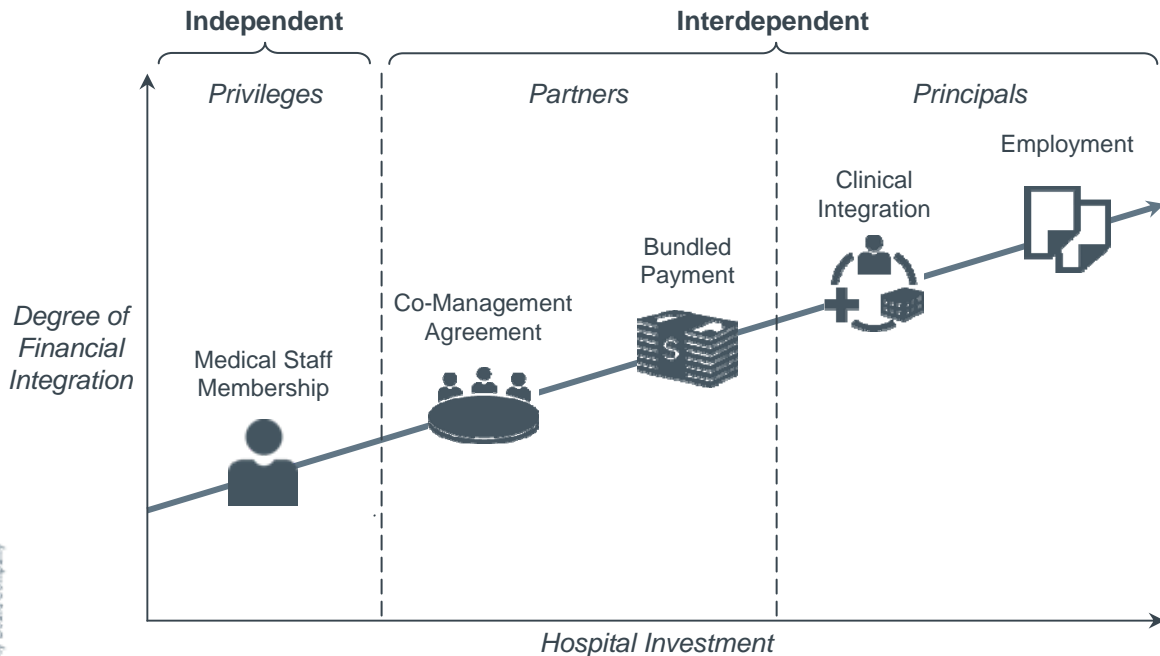


“Everybody talks about being a partner, but they’re not; they don’t have anything at risk. True partnership occurs when goals and incentives are aligned. Both partners are at risk and have something to gain by moving in the same direction.”

*Jim Jorgenson  
Chief Pharmacy Officer*

# Transitioning from Independent to Interdependent

## Bundling Presents Viable Hospital-Physician Relationship Model

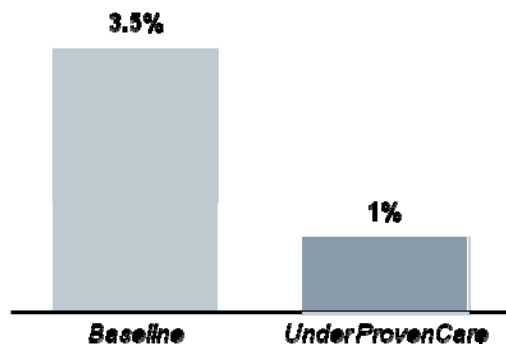


# A Clear Boon to Clinical Quality

## Bundling Programs Successfully Improving Outcomes

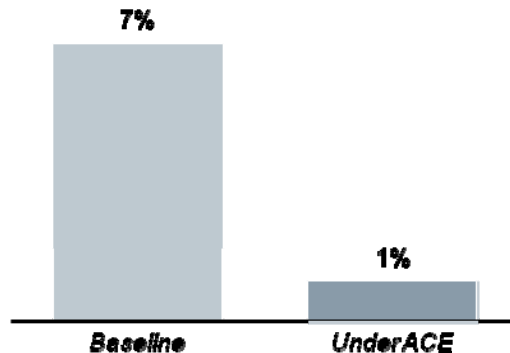
### Marked Drop in Morbidity

*Patients with at Least One Complication  
at Geisinger Health System*



### CABG<sup>1</sup> Patients Returned to OR During Stay

*Hillcrest Medical Center*

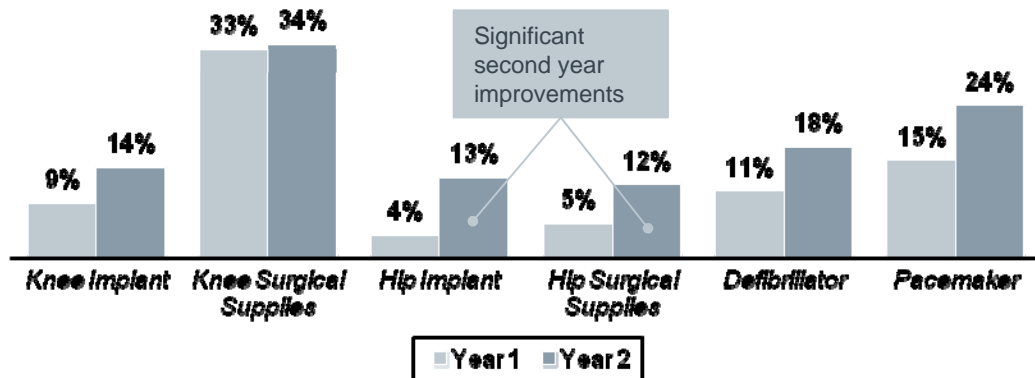


# Advancing the Hospital Cost Control Agenda

## Significant Supply Savings in the ACE Demonstration

### Materials Cost Savings at Hillcrest Medical Center

*Percentage Cost Reduction Relative to Baseline Year*



### 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

# Engaging Population Health Managers

## Bundling Programs Offer Low-Cost Care to ACOs

### 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<sup>1</sup>

- 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.”

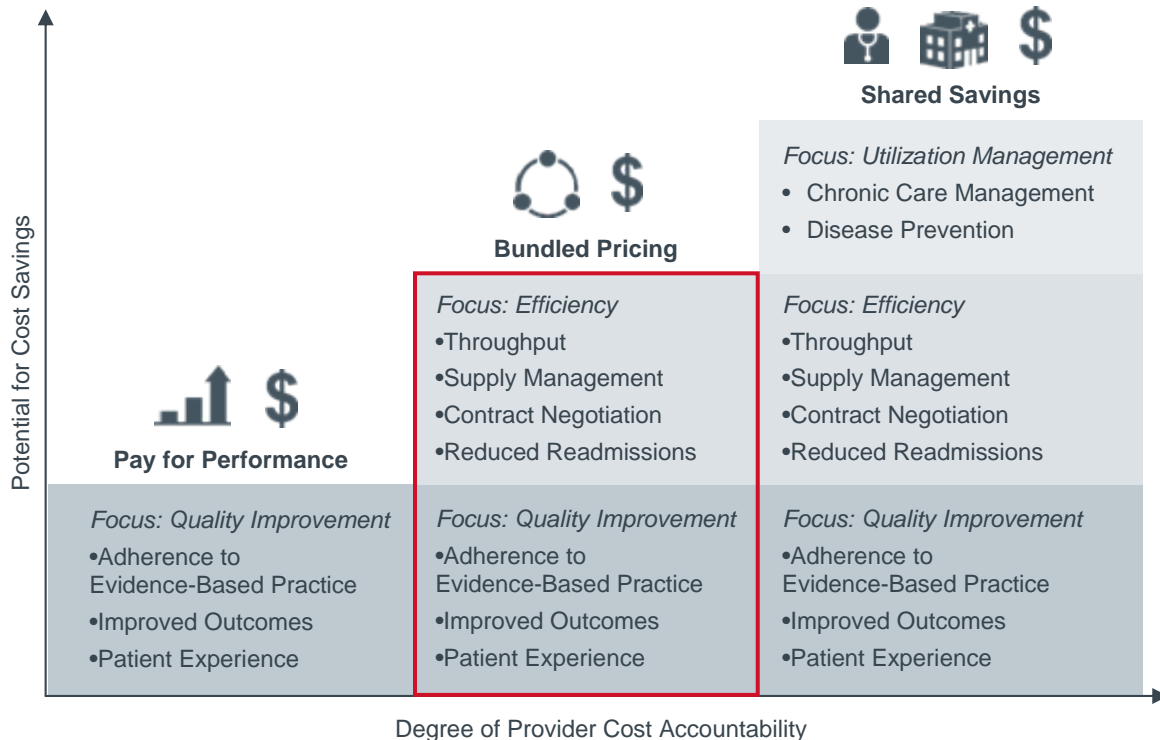
*Director of Clinical Integration, Parker Heart Center*

1) Pseudonym.



# Offering a Bridge To Population Health

## Bundled Payment Helps Drive Cultural Transformation



# 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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# Toward an Economics of Value

## Adapting to New Rules of Competition

	Health System Strategy, c. 2003	Health System Strategy, 2013-2023
	 <p><i>"Price-Extractive Growth"</i></p>	 <p><i>"Value-Based Growth"</i></p>
<b>Description</b>	<b>Grow by being bigger:</b> Leverage market dominance to secure prime pricing, network status	<b>Grow by being better:</b> Leverage cost, quality, service advantage to attract key decision makers
<b>Key Success Factors</b>	<ul style="list-style-type: none"> <li>Expand market share</li> <li>Strengthen service lines</li> <li>Exert pricing leverage</li> <li>Solidify referrals</li> <li>Secure physicians</li> <li>Increase utilization</li> </ul>	<ul style="list-style-type: none"> <li>Expand covered lives</li> <li>Compete on outcomes</li> <li>Minimize total cost</li> <li>Assemble network</li> <li>Offer convenience</li> <li>Expand access</li> </ul>
<b>Target of Strategy</b>	<ul style="list-style-type: none"> <li>Commercial payers</li> <li>Government purchasers</li> <li>Physicians</li> </ul>	<ul style="list-style-type: none"> <li>Employers</li> <li>Individuals</li> <li>Population health managers</li> </ul>
<b>Performance Metrics</b>	<ul style="list-style-type: none"> <li>Discharges</li> <li>Service line share</li> <li>Fee-for-service revenue</li> <li>Pricing growth</li> <li>Occupancy rate</li> <li>Process quality</li> </ul>	<ul style="list-style-type: none"> <li>Share of lives</li> <li>Geographic reach</li> <li>Risk-based revenue</li> <li>Share of wallet</li> <li>Outcomes quality</li> <li>Total cost of care</li> </ul>
<b>Competitive Dynamics</b>	<ul style="list-style-type: none"> <li>Service line competition</li> <li>Centers of excellence</li> <li>Referral channels</li> <li>Physician loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive care</li> <li>Patient engagement</li> <li>Clinical quality</li> <li>Service quality</li> </ul>
<b>Critical Infrastructure</b>	<ul style="list-style-type: none"> <li>Inpatient capacity</li> <li>Outpatient imaging centers</li> <li>Clinical technology</li> <li>Ambulatory surgery centers</li> </ul>	<ul style="list-style-type: none"> <li>Primary care capacity</li> <li>Care management staff and systems</li> <li>IT analytics</li> <li>Post-acute care network</li> </ul>
<b>Key Leaders</b>	<ul style="list-style-type: none"> <li>CEO</li> <li>CFO</li> <li>COO</li> <li>CMO</li> <li>CNO</li> <li>Board</li> </ul>	<ul style="list-style-type: none"> <li>CEO</li> <li>CFO</li> <li>COO</li> <li>CMO</li> <li>CNO</li> <li>Board</li> <li>CPE<sup>1</sup></li> <li>CTO<sup>2</sup></li> <li>CIO<sup>3</sup></li> </ul>

1) Chief Physician Executive.

2) Chief Transformation Officer.

3) Chief Integration Officer.

# Succeeding at Population Health



IMAGE CREDIT: FUTUREATLAS.COM, FLICKR

“

## 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*