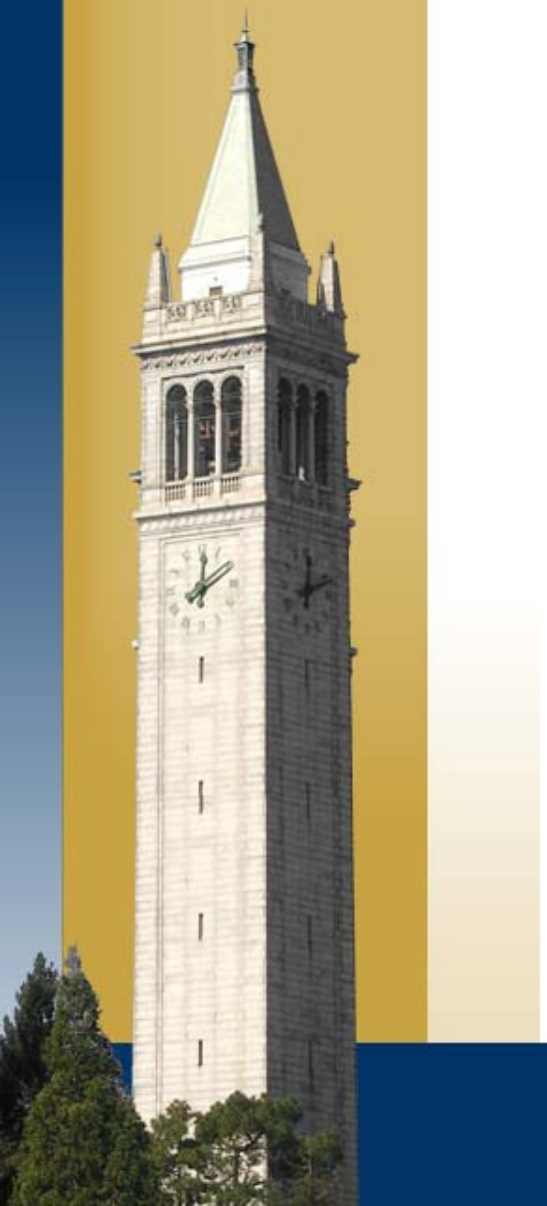

BERKELEY CENTER
FOR HEALTH TECHNOLOGY

Provider Payment Incentives and Consumer Cost Sharing Incentives: The Need for Alignment

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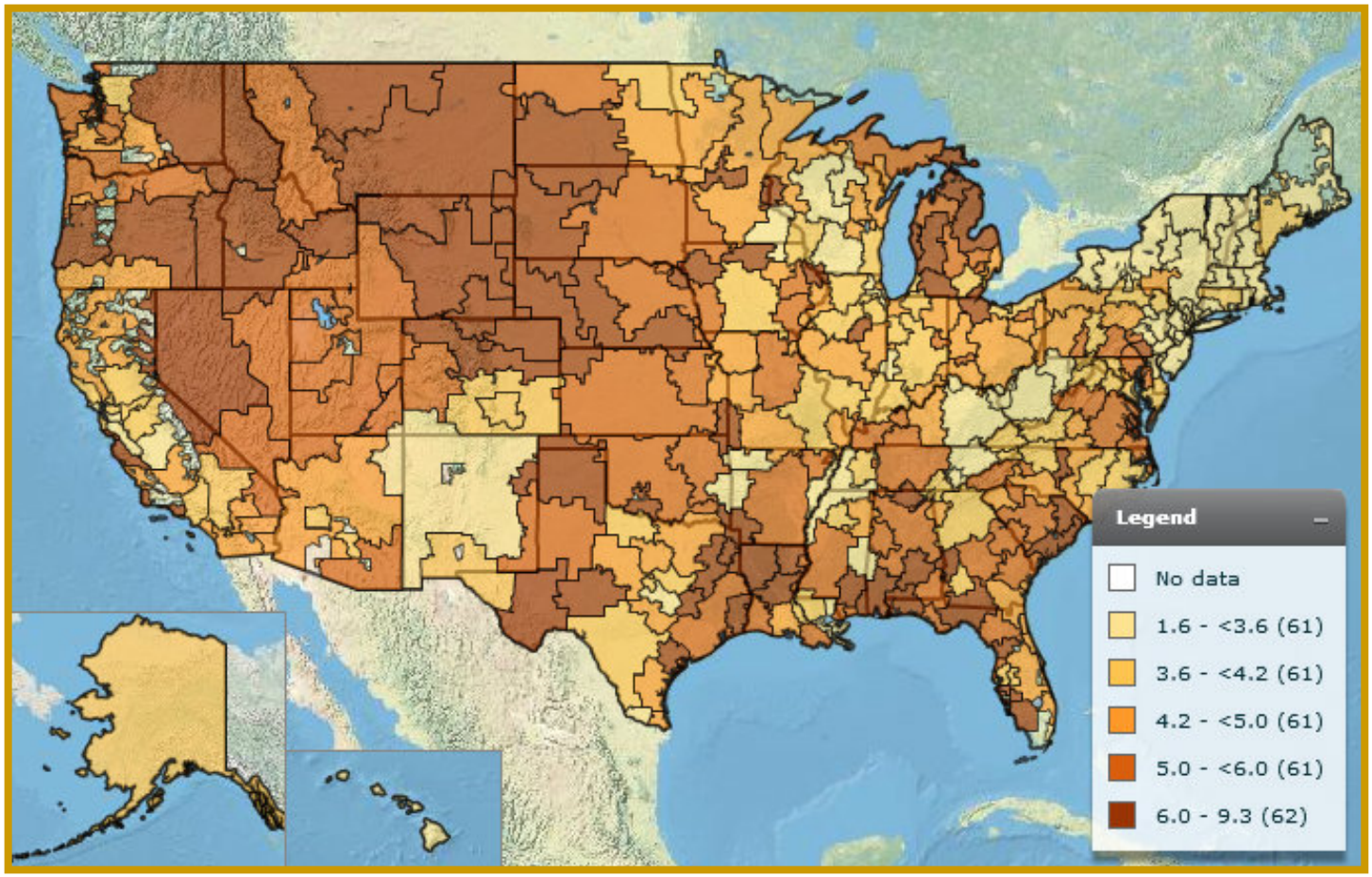
Overview

- An Example of THE PROBLEM
  - Unjustified variations for lumbar spine surgery: Rates of use, device & procedure costs, complications
- Strategic choices and instruments
- Episode of care payment for providers and reference pricing for consumers
- The need for alignment

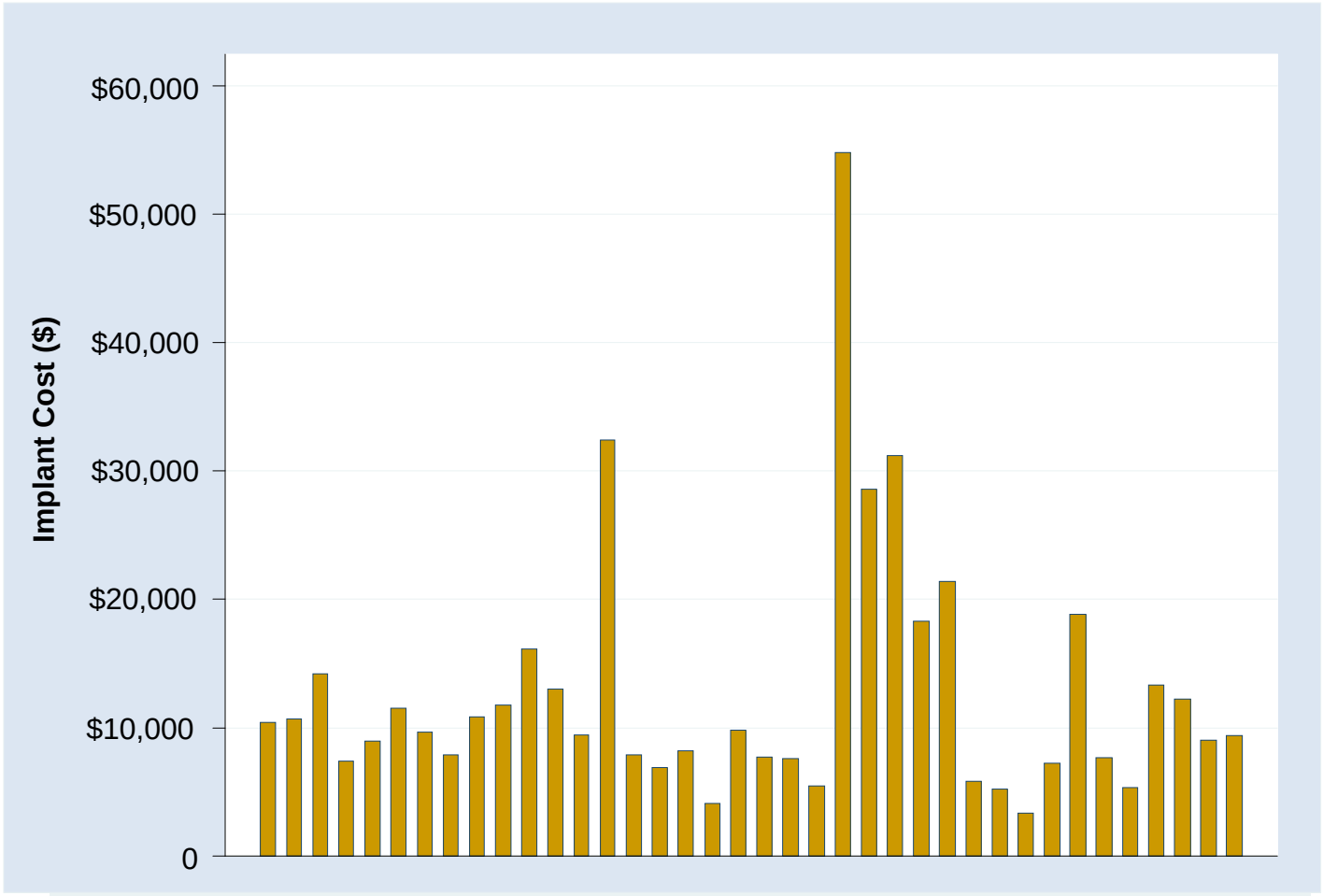
An Example of THE PROBLEM: Lumbar Spine Surgery

- Unjustified variation in rates of procedures
- Unjustified variation in cost per device
- Unjustified variation in cost per procedure
- Unjustified variation in patient outcomes

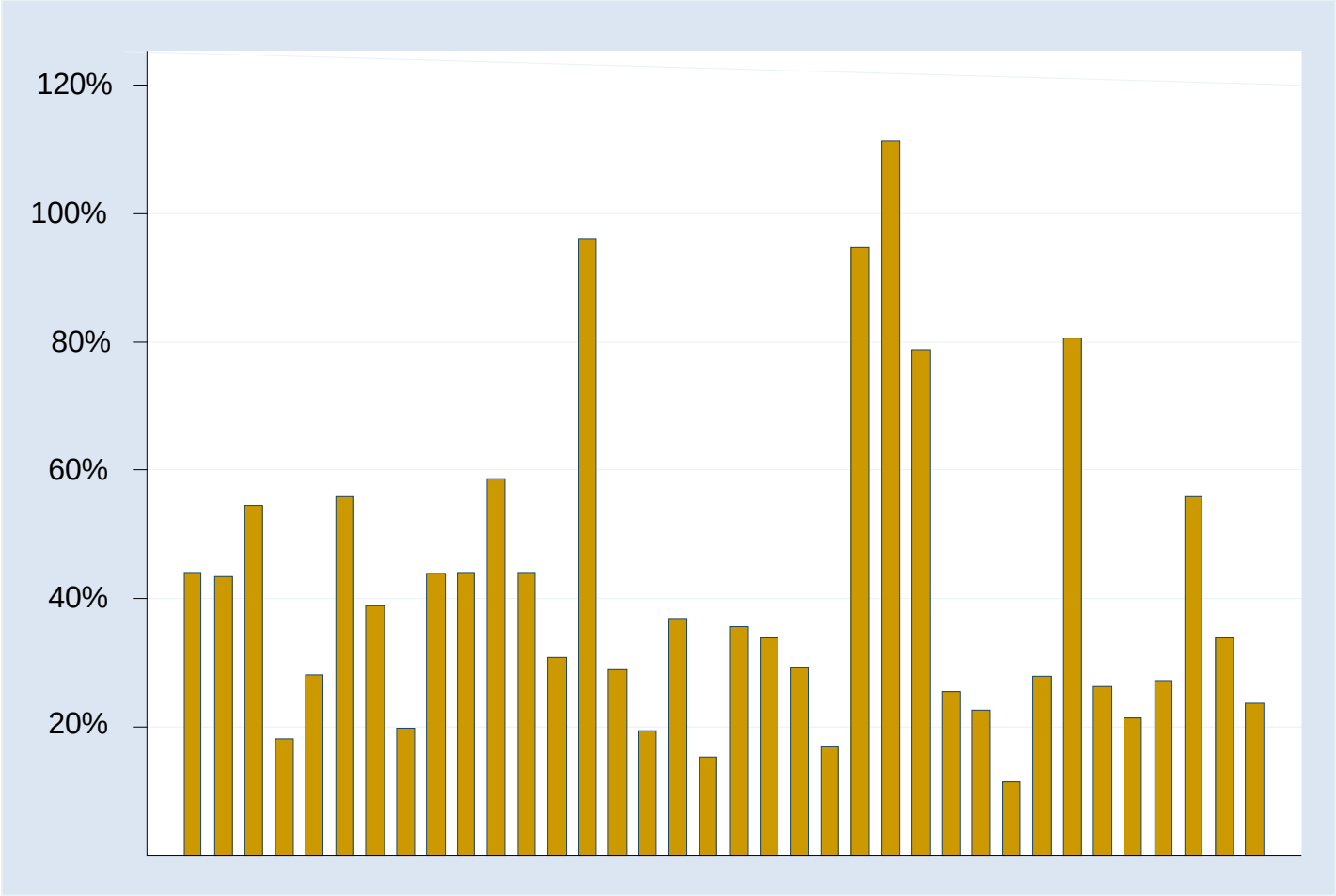
Rate of Back Surgery per 1,000 Medicare Enrollees, by Hospital Referral Region, 2007 (Dartmouth Atlas)



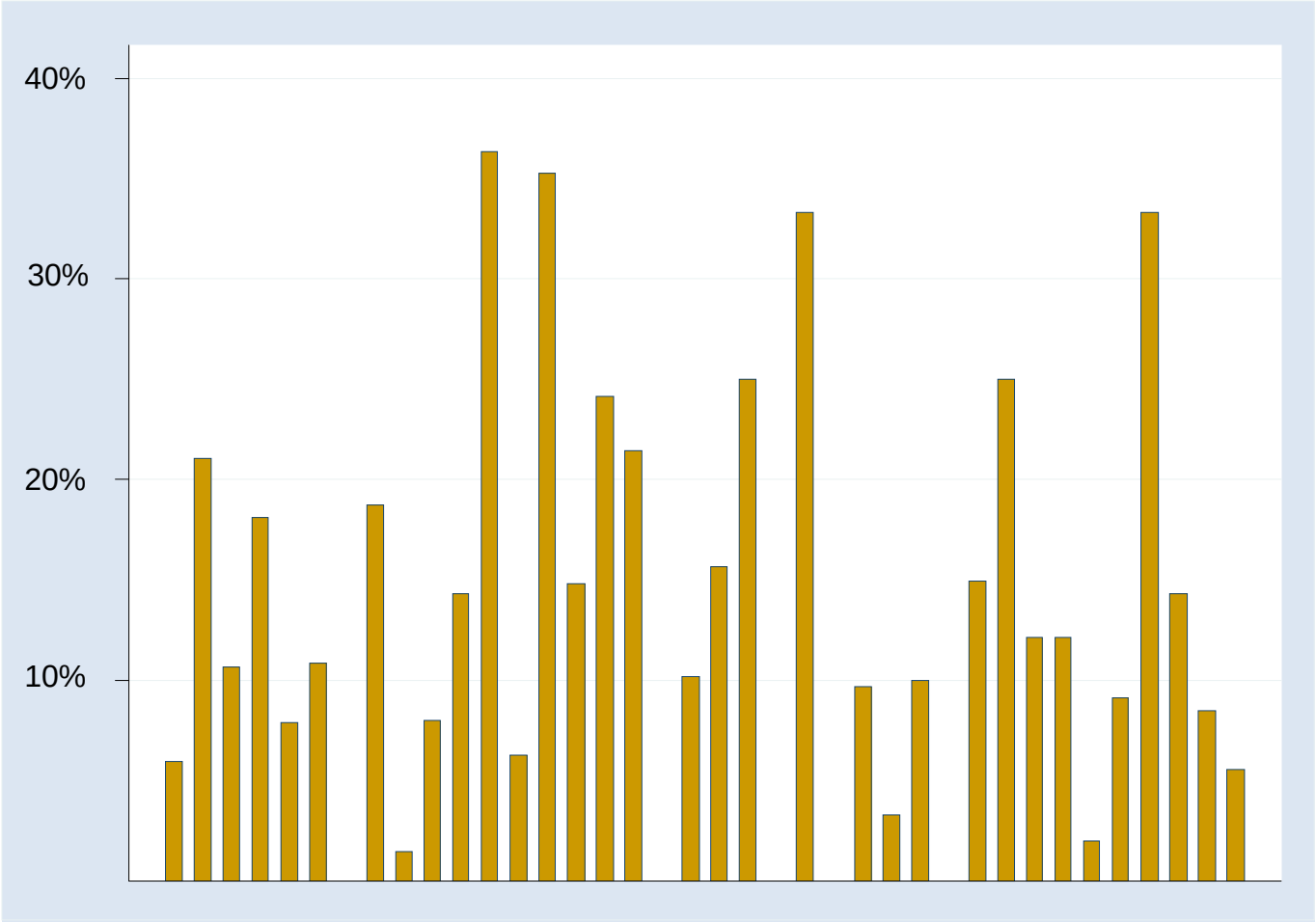
Average Implant Cost for Lumbar Fusion: California Hospitals, 2008



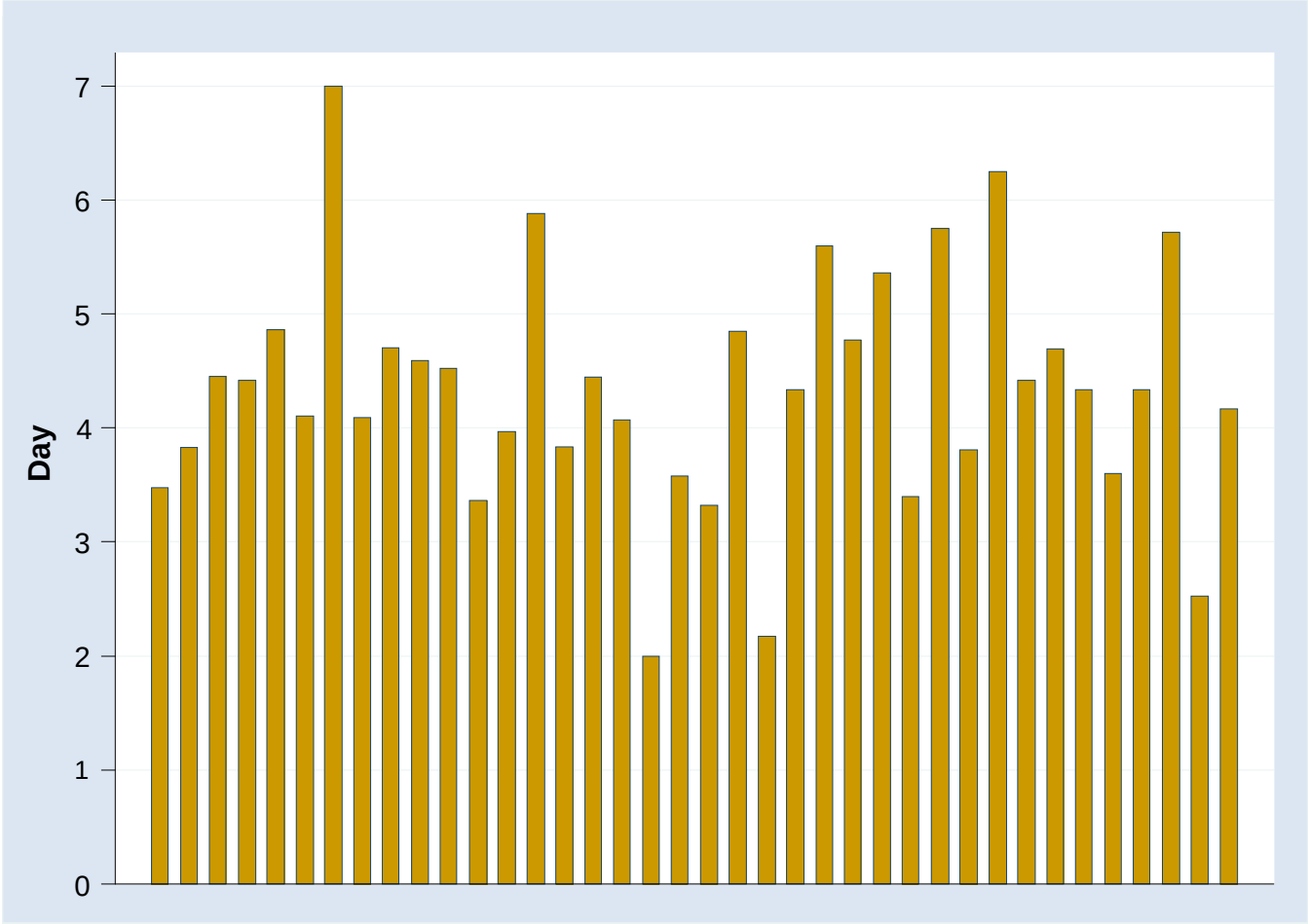
Lumbar Surgery Implant Cost as a Percentage of Total Reimbursement for Medicare FFS Patients, California Hospitals, 2008



Lumbar Fusion: In-Hospital Complication Rate, California Hospitals 2008



Lumbar Fusion:
Average Length of Stay
California Hospitals, 2008



Strategy: Key Choices

1. Choice among **therapeutic alternatives**
   - Medical v. surgical (appropriateness)
2. Choice among **sites of care**
   - Inpatient v. outpatient v. freestanding ASC
3. Choice among **provider organizations**
   - Where should it be performed?
4. Choice among **service line designs**
   - How is the process of surgery and recovery to be structured?
5. Choice among **clinical inputs (devices)**
   - Drugs, devices, diagnostics, imaging

Incentive Instruments

1. Improved information
   - Patient and/or device registry
2. Improved patient education, engagement
   - Shared decision-making
3. Aligned physician-hospital incentives
   - Episode of care (EOC) payment
4. Aligned patient-provider incentives
   - Benefit design: reference pricing

Matching Instruments to Choices

	Device Registry	Shared Decision Making	Episode of care payment	Consumer cost sharing
Appropriateness	X	XX	0	0
Hospital channeling	0	0	0	XX
Site of care channeling	0	X	0	XX
Selection of implant	X	0	XX	?
Process efficiency	0	0	XX	0

Episode of Care Payment: Principles

- Incentives for **physician-hospital alignment**
  - Single payment to providers makes physician responsible for efficiency as well as quality
    - Physician payment includes ‘gain-sharing’
  - This creates new MD interest in procedure and device cost and efficiency
  - Physician-hospital cooperation with device evaluation and purchasing
    - Reduce ‘conflicts of interest’ for physicians and medical device firms
  - Cooperation in improving process of care (OR turnaround, patient LOS, staffing, discharge planning and follow-up)

Episode of Care Payment: Limits

- Why should providers charge a low rather than a high EOC price? Won't EOC payment encourage consolidation and price increases?
  - There needs to be price transparency so that consumers understand prices
  - There needs to be cost sharing so that consumer pays the difference between the high and low-priced provider
  - This will shift market share to providers with best value (alignment of price and quality) in eyes of consumer
  - This will motivate providers to reduce cost & raise quality
- Reference pricing incentives to consumer as complement to EOC payment to providers

Reference Pricing: Principles

- Employer/insurer sets a maximum payment limit for particular procedures
  - Limit set high enough to ensure that there are sufficient providers with price below limit
- Extensive communication to employees/enrollees on which providers charge above/below the limit
- If enrollee chooses provider above limit, he pays 100% of difference (no out-of-pocket maximum)
  - Contrast with coinsurance and OOP maximum
  - Contrast with deductible and copayment

Reference Pricing: Limits

- How can employer/insurer set a reference price if the provider payments are fragmented?
  - Hospital, surgeon, anesthesia, nursing home, PT, ….
  - And how can employee/enrollee understand prices and make price-conscious choices?
- Reference pricing needs simple prices that can be compared, in order for it to stimulate competition
- Otherwise reference pricing is just risk shifting
- Episode-of-care payment to providers as complement to reference pricing

Conclusion

- There exists considerable unjustified variation in use, costs, and outcomes for spine surgery and for much of medicine
- Strategy: matching instruments to choices
- Episode payment and reference pricing
- Provider and consumer incentives work best when designed and implemented together