

Payment Reform in the Commercial Sector

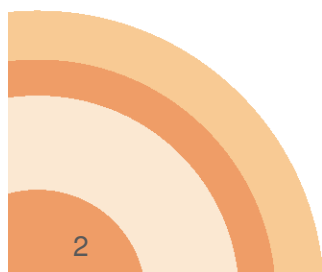
David Nace, MD
Vice President, Medical Director
McKesson Corporation





Agenda

- Primary Drivers of Value-Based Reimbursement (VBR)
- Commercial Market: Key Research Findings
 - Anticipated changes in payment model mix
 - Key obstacles to VBR
 - Anticipated data and technology needs
- Transition Challenges
- Summary and Final Thoughts

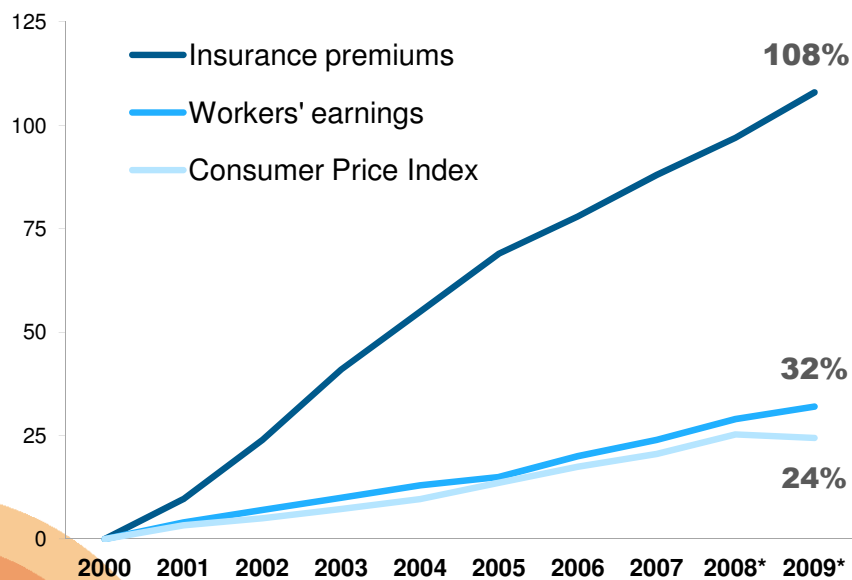




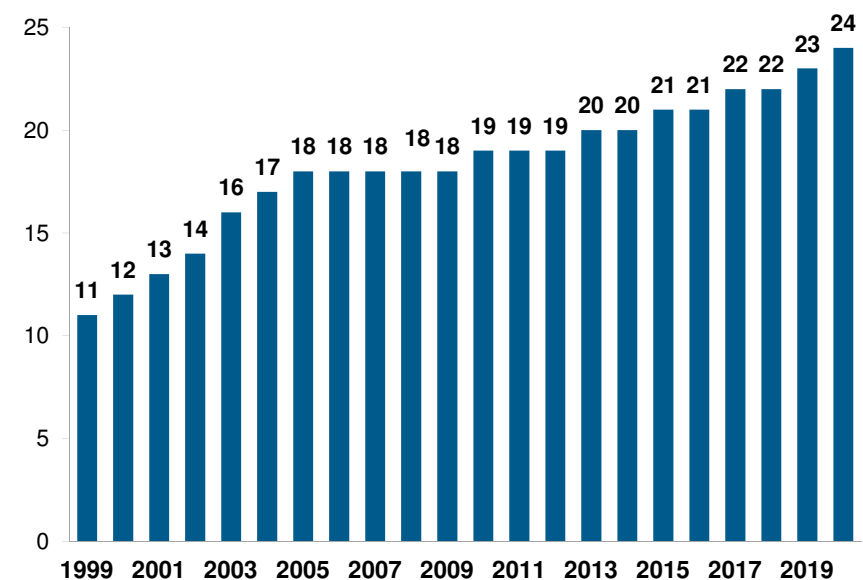
National Affordability Crisis

Premiums rising faster than inflation and wages

Cumulative Changes in Components of U.S. National Health Expenditures and Workers' Earnings, 2000–09



Projected Average Family Premium as a Percentage of Median Family Income, 2008–20

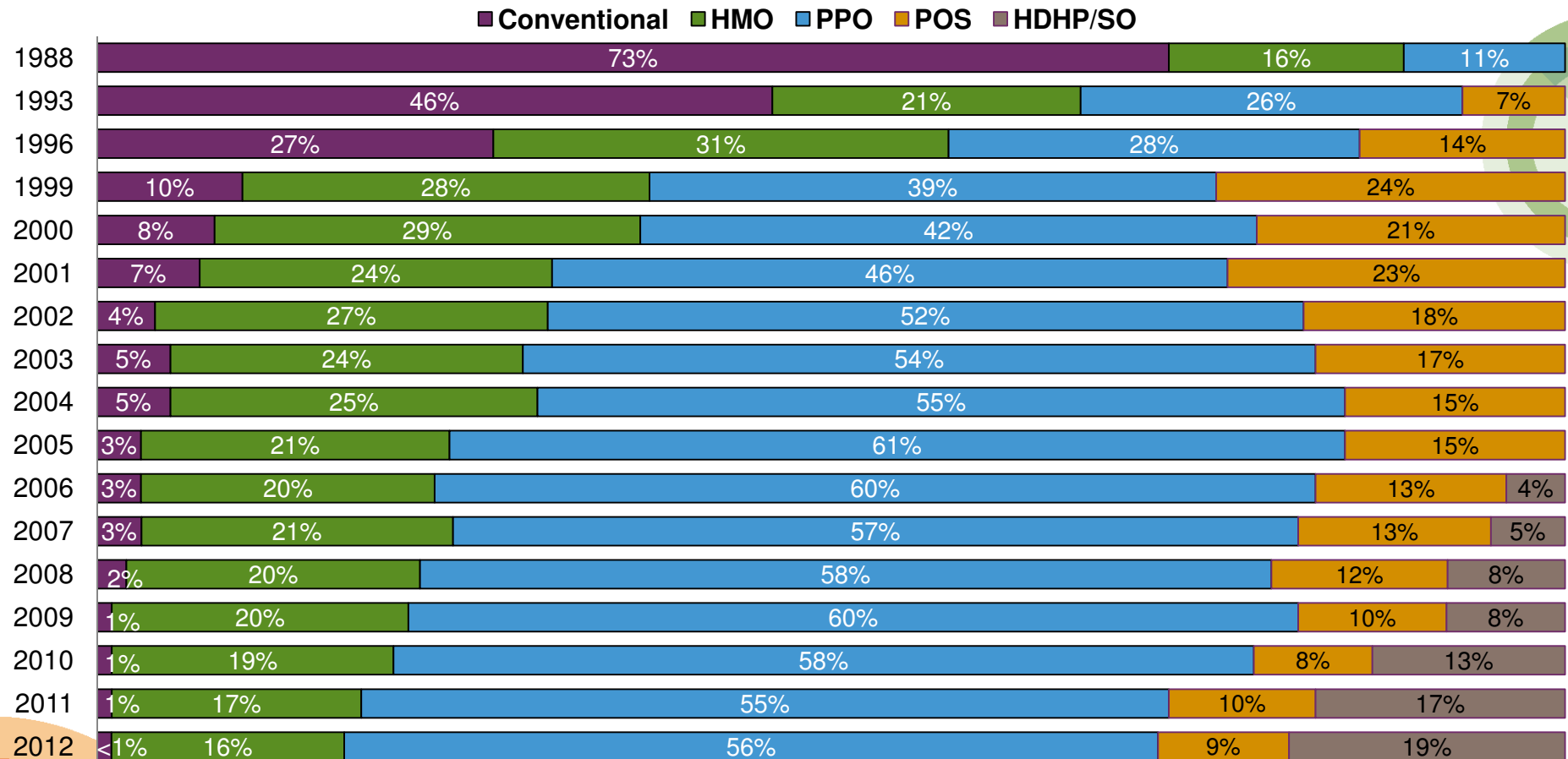


* 2008 and 2009 NHE projections.

Source: K. Davis, *Why Health Reform Must Counter the Rising Costs of Health Insurance Premiums* (New York: The Commonwealth Fund, Aug. 2009).



Employer Benefit Plans Have Changed Dramatically

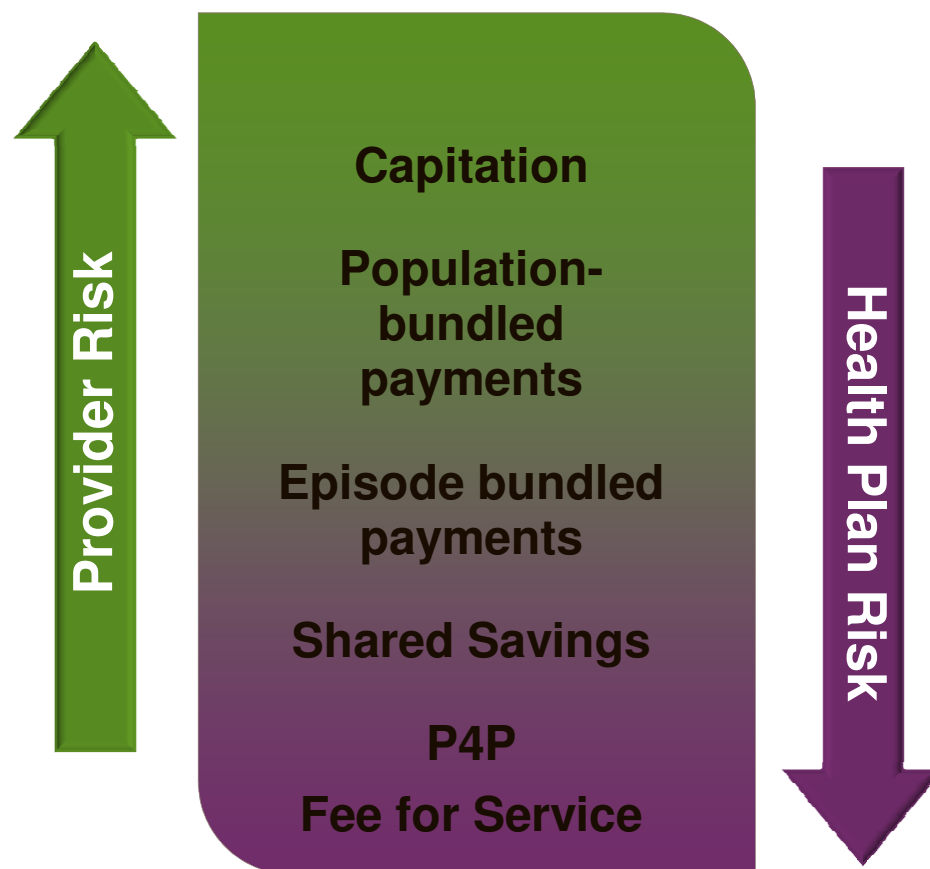


NOTE: Information was not obtained for POS plans in 1988. A portion of the change in plan type enrollment for 2005 is likely attributable to incorporating more recent Census Bureau estimates of the number of state and local government workers and removing federal workers from the weights. See the Survey Design and Methods section from the 2005 Kaiser/HRET Survey of Employer-Sponsored Health Benefits for additional information.
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012; KPMG Survey of Employer-Sponsored Health Benefits, 1993, 1996; The Health Insurance Association of America (HIAA), 1988.

Distribution of Health Plan Enrollment, by Plan Type, 1988-2012

Payer Contracts are Changing Rapidly

- Current rate of healthcare inflation is not sustainable
- Risk is transitioning from payers to providers
- Providers are taking responsibility for managing population risk for both cost & quality



Healthcare Transformation Task Force

Aggressive Commitment to Value Based Reimbursement



Industry consortium committed to having 75% of their businesses operating in value-based payment arrangements by 2020:

- **Providers**
 - Advocate Healthcare, Aledade, Ascension, Atrius Health, Dartmouth-Hitchcock Health, Dignity Health, Evolent Health, Heritage Provider Network, Optum, OSF HealthCare, Partners HealthCare, Premier, Inc., Providence Health & Services, SCL Health, SSM Health, Trinity Health, and Tucson Medical Center Healthcare
- **Payers and Purchasers**
 - Aetna, BCBS of Massachusetts, Blue Shield of California, Ceasars International, Healthcare Service Corporation, and the Pacific Business Group on Health
- **Advisors**
 - Mark McClellan, Brookings Institution, Dartmouth Institute for Health Policy and Clinical Practice, PatientPing, Remedy Partners, National Partnership for Woman and Families
- **Implementation Partner**
 - Leavitt Partners



ORC International Market Study of Payers & Providers

Value-based reimbursement taking off more **quickly** than anticipated

Varies by
Regional characteristics

IT systems not aligned with VBR

Clinician **Engagement**
Is Critical

Payers & providers anticipate 2/3 of payments will be in a value based model by 2020

Value-Oriented Payment
40% of Commercial Market
(11% in 2013)
Catalyst for Payment Reform 2014

Source: The State of Value-Based Reimbursement & the Transition from Volume to Value in 2014, McKesson 2014, www.MHSvbrstudy.com

About the Survey

Background

- Goal : Determine the state of the industry's transition from volume to value, specifically:
 - what models they are using
 - what is working and not- and why
 - what stakeholders expect to roll out in the next few years
- Inform the healthcare community to drive longer-term success

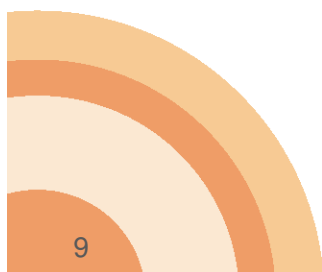
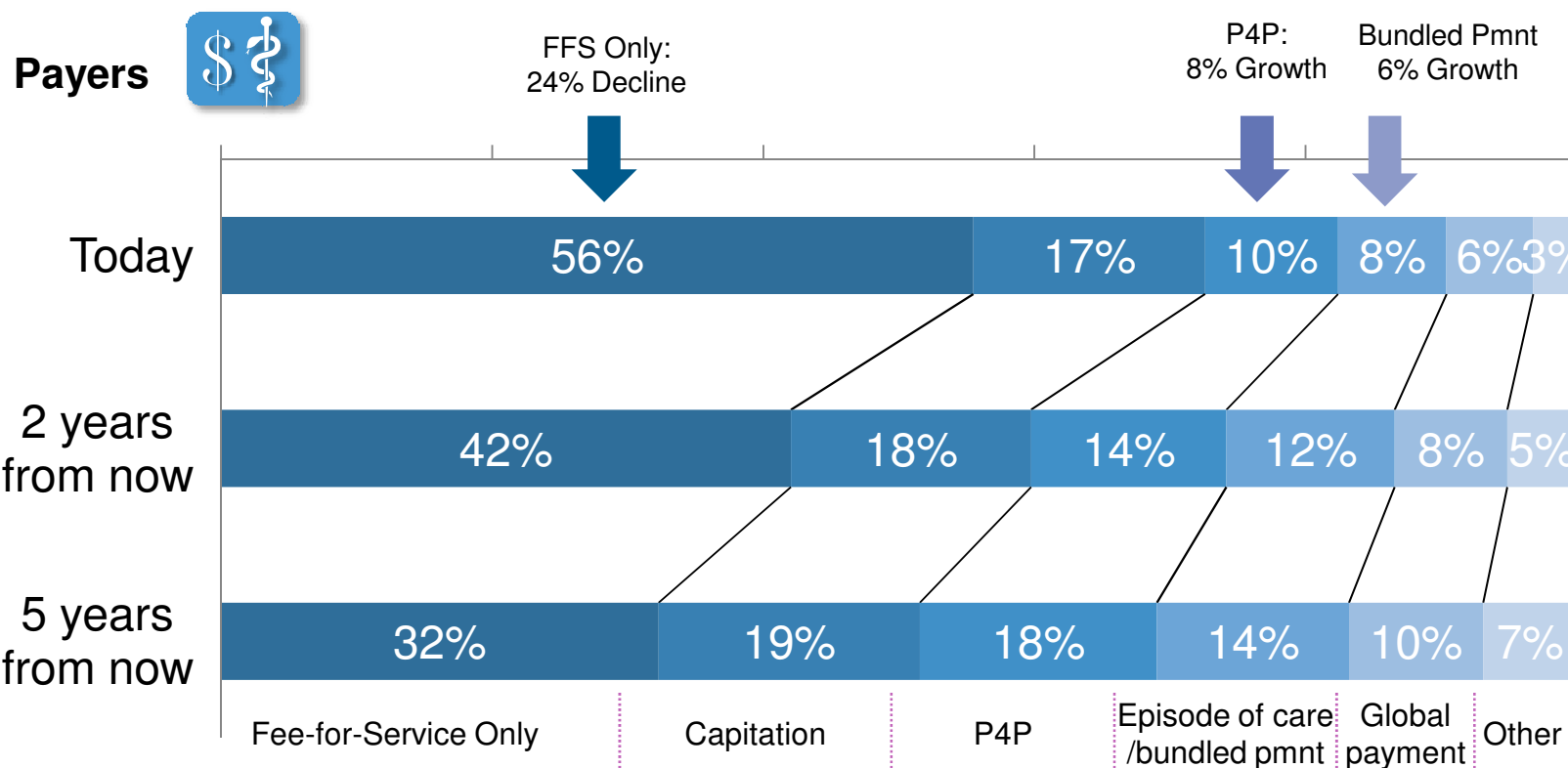
Methodology

- ORC International conducted an on-line 20 minute study across the United States
- Interviewees included director-level and above representatives from:
 - 114 payer organizations
 - 350 provider (hospital or hospital system) organizations



Future State: Payers

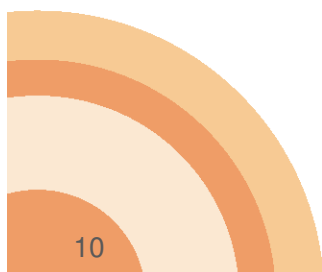
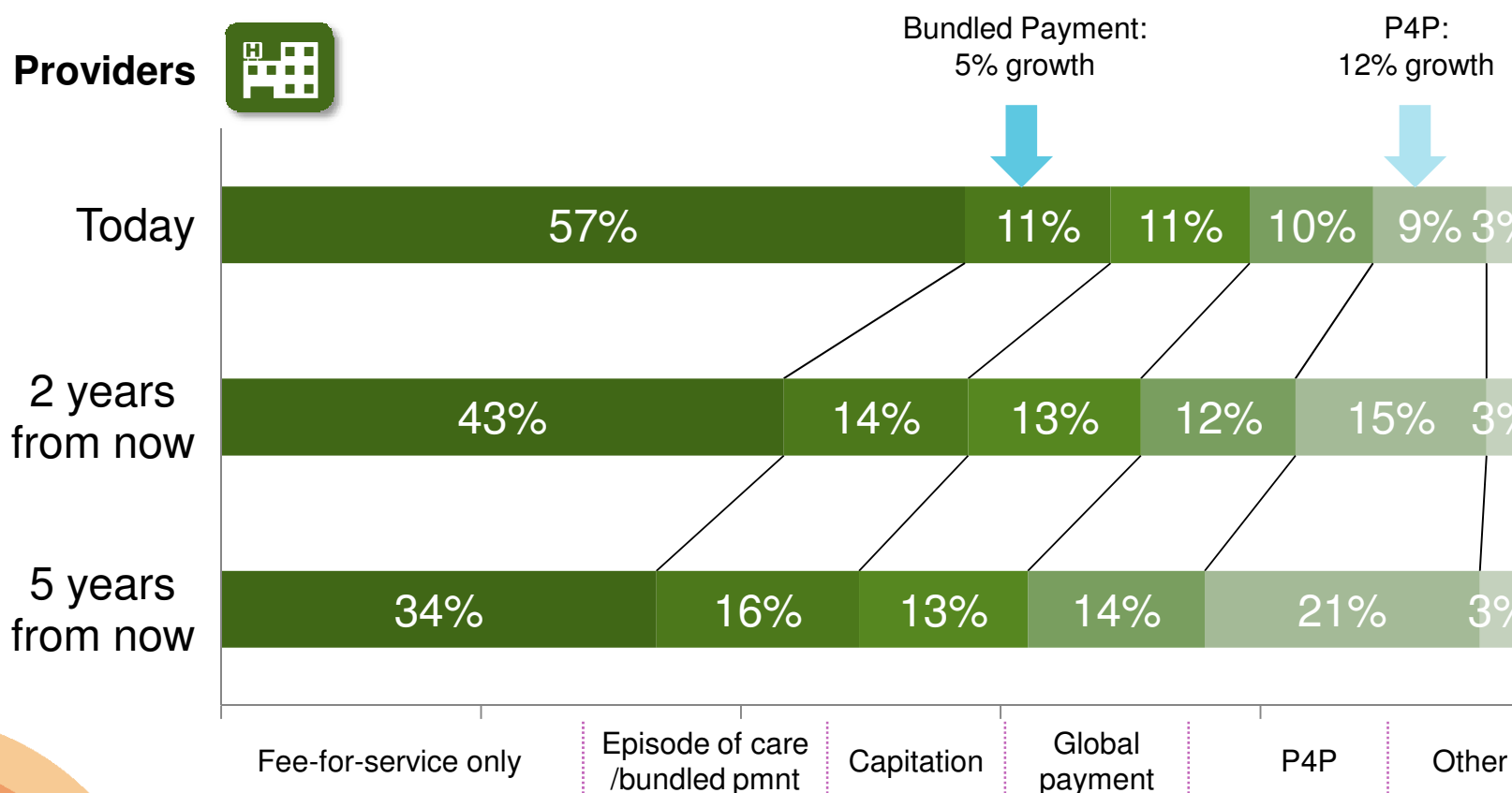
Payers anticipate P4P will experience the highest growth over the next 5-years, followed by bundled payment





Future State: Providers

Providers & payers aligned in payment model mix projections, anticipating significant decline in FFS and growth in P4P

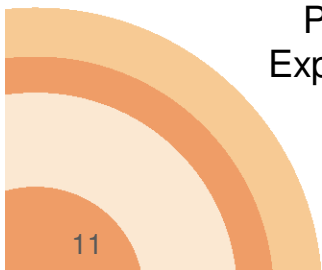
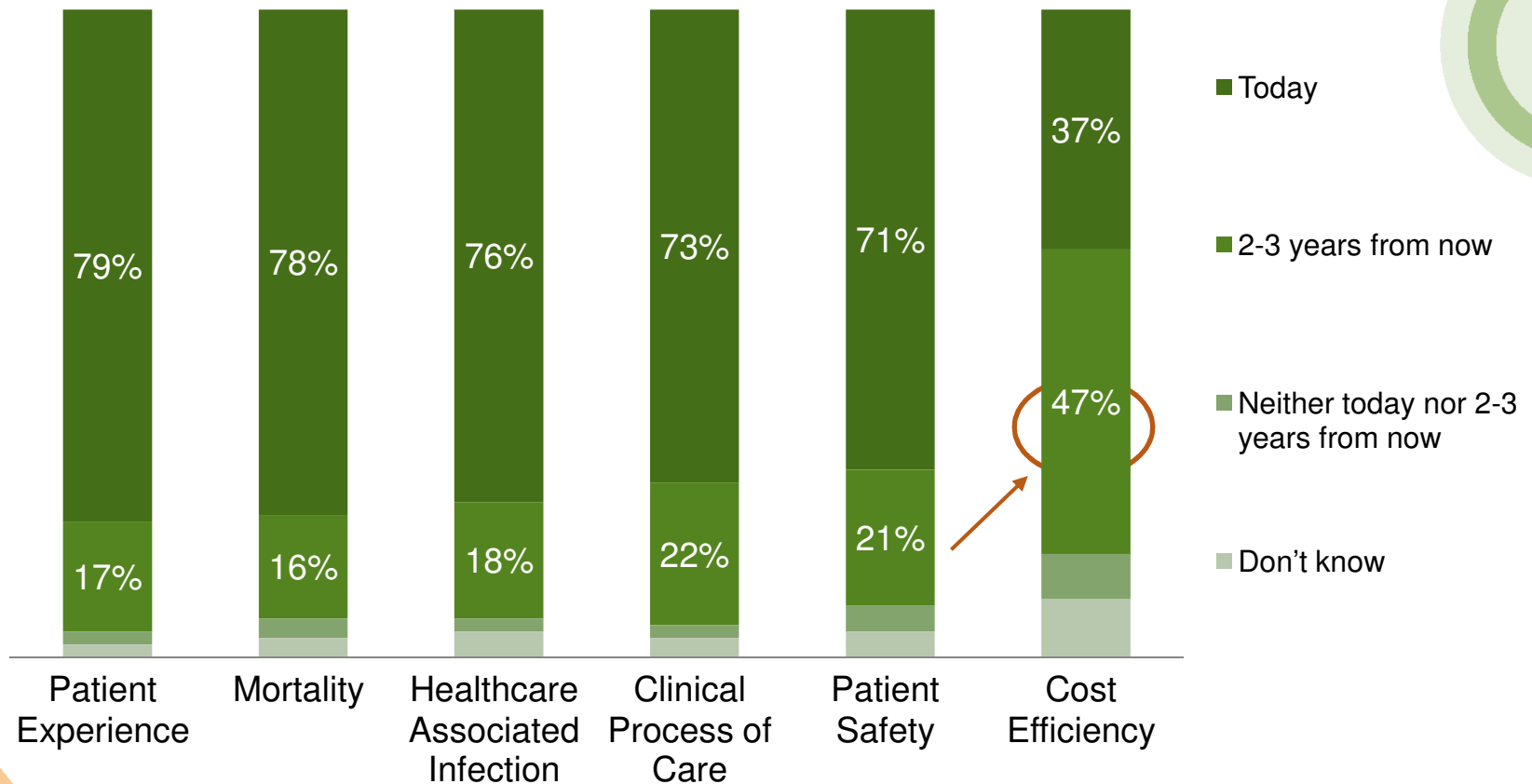




Majority of providers anticipate implementing cost metrics within 2-3 years



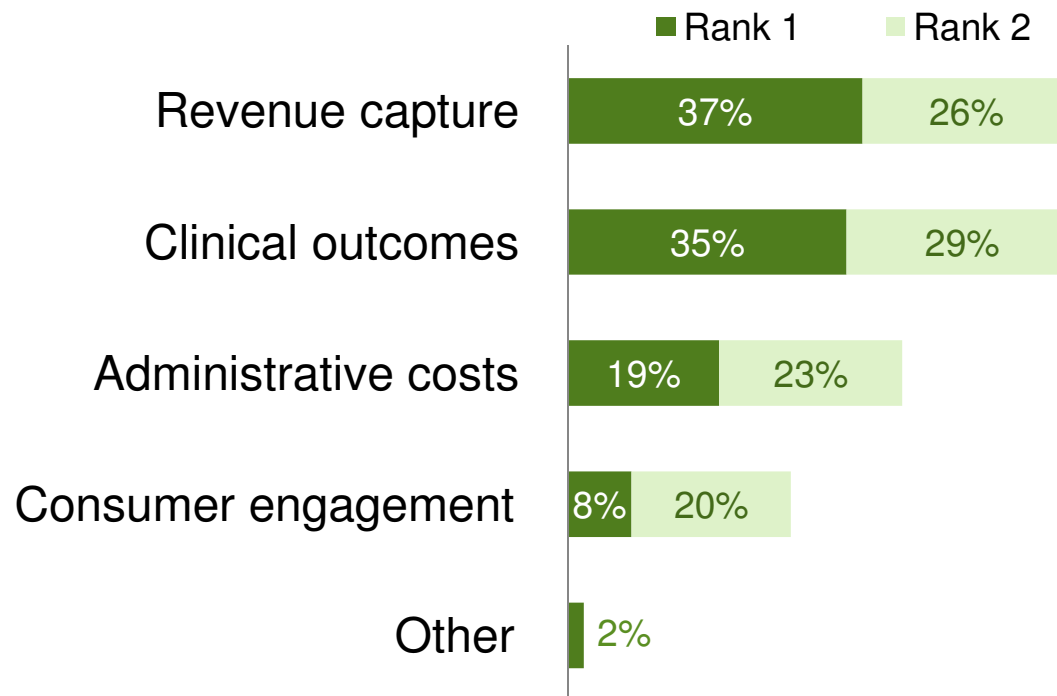
Value-Based Metrics Measured in Provider Organizations



Providers View Clinical Outcomes as a Top Priority for Financial Performance

Total Providers
(N=350)

My Organization's Top 3 Areas of Focus to Improve Overall Financial Performance



McKesson Sponsored Research Conducted February 2014 by ORC International with 350 providers and 114 payers participating



Sharing Clinical & Financial Data is Critical to Collaboration



Total Payers



Total Providers

Currently share today

Expect to share 2-3 yrs from now

Currently share today

Expect to share 2-3 yrs from now

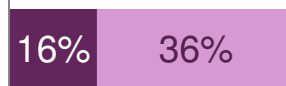
Sharing clinical data with providers/other providers



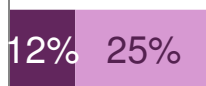
Sharing financial data with providers/other providers



Sharing clinical data with other payers/payers



Sharing financial data with other payers/payers



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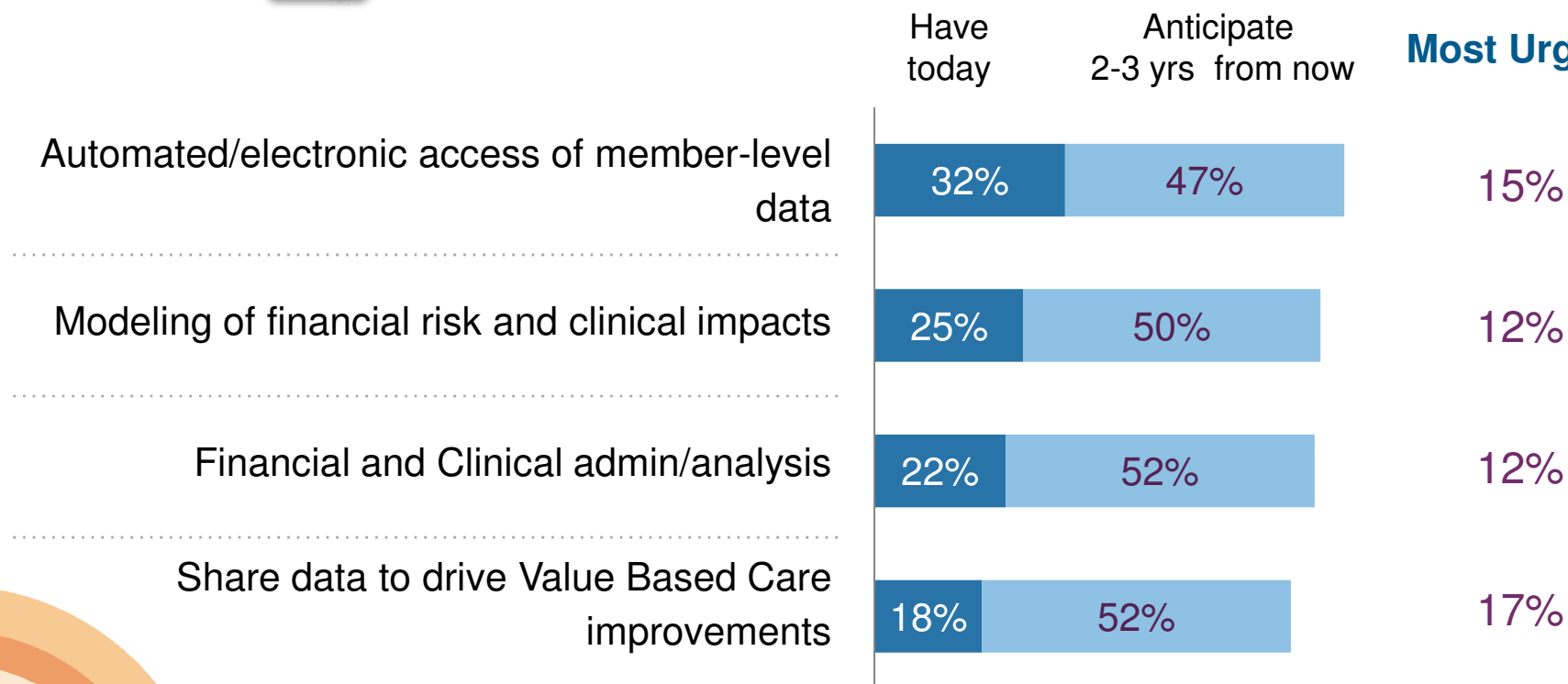


Payers Are Adopting New Technology



VBR Technology Investment Among Payers

Most Urgent



Slide 14

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DO WE NEED THSI SLIDE??

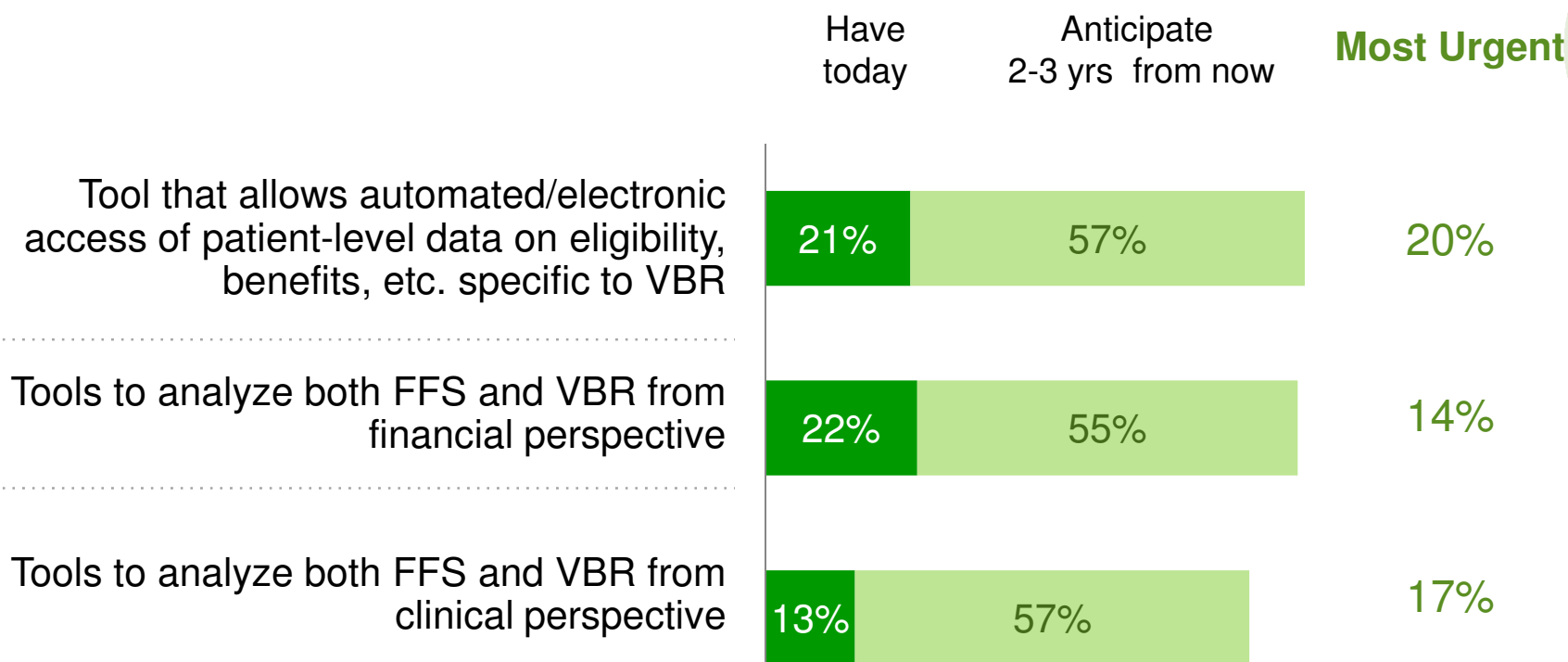
David Nace, 12/3/2014



As Are Providers.....

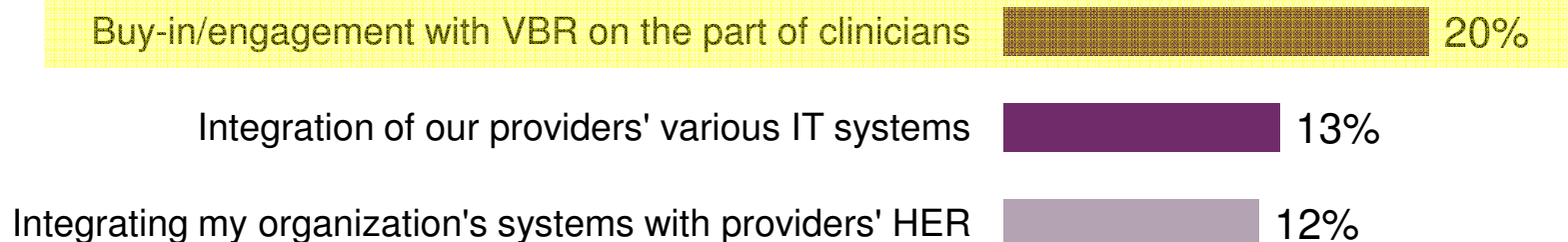


VBR Technology Investment Among Providers

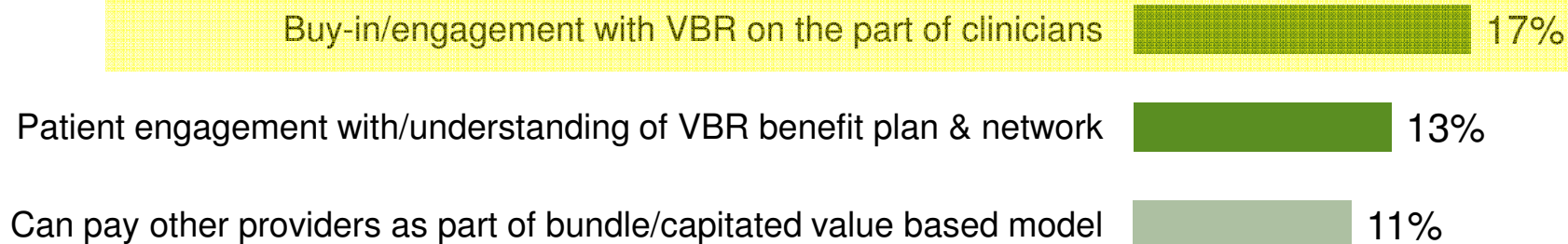


Top Challenge : Clinician Buy-in and Engagement

Payers: Top Challenges to Implementing VBR



Providers: Top Challenges to Implementing VBR



% Respondents Who Rated Issue the Highest (Most Significant Obstacle to the Success of VBR)

McKesson Sponsored Research Conducted February 2014 by ORC International with 350 providers and 114 payers participating

Key Provider Obstacles Identified



Changing physician behavior: Engaging physicians in VBR.



Need for real-time data: To support utilization and quality care. Institutions are still getting months in arrears



Lack of outpatient measures & tools: Most of growth and focus is on the outpatient side; however, ambulatory systems are not as developed or lacking.



Lack of VBR in workflow: Not having workflow support cost and quality measurement. Also, interoperability among systems is commonly cited as a major barrier.





Value-Based Reimbursement *Goals and Implications*

Goal is to reward providers & health systems that deliver better outcomes in health & health care at a lower cost to the patients & communities they serve

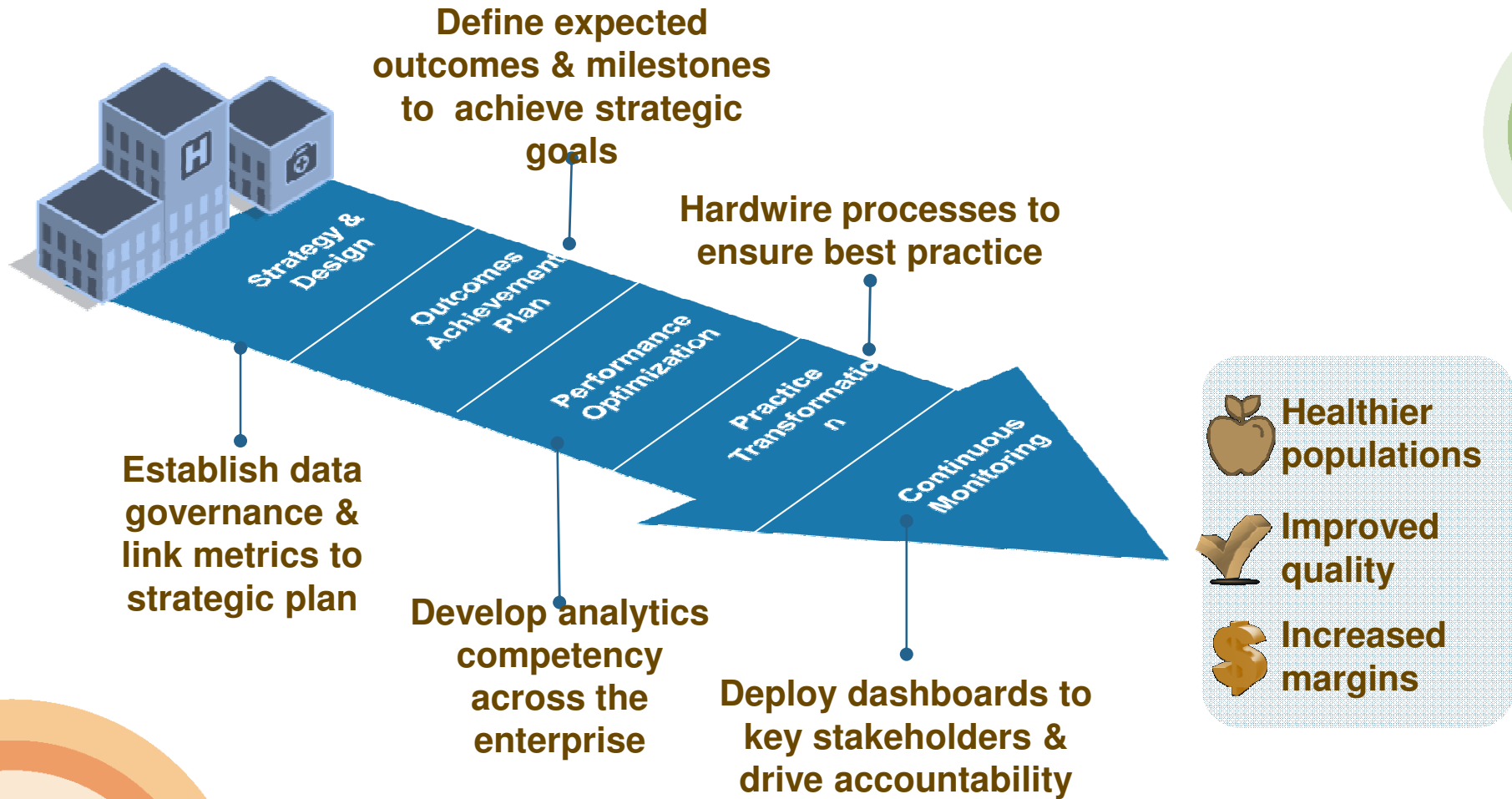
Measuring, Reporting & Rewarding Excellence in Health Care Delivery

1. Standardized Performance Measurement
2. Transparency & Public Reporting
3. Care Delivery and Payment Innovation
4. Informed Consumer Choice



Information-driven Behaviors

Guided Outcomes Along the Journey



Challenges

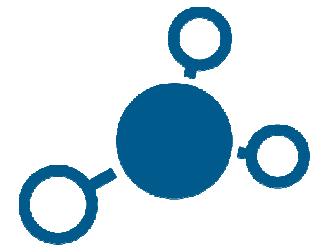
Living in Two Worlds

Conflicting contract models → Conflicting incentives



FFS

Long-term investments
in bricks and mortar



ACO

Challenge: At the beginning, the ACO business is a small percentage of the whole business

Challenges

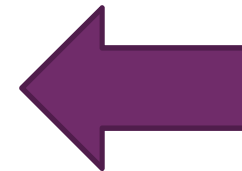
Engaging Clinicians

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What Providers Want from VBR

- High quality of care / great outcomes
- Preferred/exclusive referrals
- Gain-sharing opportunities
- Minimal risk; manage only what they control
- Reduced bureaucracy
- Predictable and timely reimbursement



Q - Why Should I Participate?

Need to understand the value proposition – why risk contracts are good for them

- May be only opportunity to increase revenue per service
- May be only way to maintain and/or grow market share
- May be only way to avoid exclusion from payer networks

Requires education and leadership



Summary

- Both public and private payers are shifting risk to providers through value based payments.
- The transition is taking off more quickly than anticipated
- Over the next 4-5 years value based payments will become the dominant payment model
- Providers will take a more active role in managing risk. (An increased understanding of big picture will be required - not just the price per service, but the overall cost)
- Lowering overall costs while achieving or exceeding quality thresholds will be paramount to provider success

Final Thoughts

- Collaboration is the path to mutual success
 - Between providers within integrated networks
 - Between payers and providers, all stakeholders in a region
- Reliable data, analytics, and tools are the keys to success
 - Without data & analytics you are blind
 - Need a view across the service continuum & time
 - Need support for multiple interrelated strategies
 - Population, Care, Utilization & Performance management
- Physician acceptance & adoption is critical
 - Show them the value (to them)
 - Make it easy for them
 - Provide timely & transparent access to credible data & methodology
 - Prioritize, measure, reward & celebrate success

For technology to be successful:
It's about the programs you wrap around it & the leadership to guide it

Appendix

At-Risk/Value-based Care Framework

Connect

- Acquisition and aggregation of clinical & financial data to create a holistic view of the patient

Analyze

- Financial and clinical quality analytics to risk stratify patients
- Gap in care identification and patient registries for actionable workflows
- Provider practice pattern analysis
- Cost, utilization management across key contract success drivers
- Network management to drive consistent care
- Advanced payment modeling and risk contract performance

Intervene

- Rules-driven outreach workflow to address patient gaps in care
- Dynamic care plans and assessments to guide patient interactions

Tools and Services to Support Transformation and Adoption