Value-based Purchasing of Drugs, Biologics, and Medical Devices
OVERVIEW

- Expanding pay-for-performance
- Principles of value-based purchasing
- Insurer strategies for managing new technologies
  - Benefit design, networks, coverage policy
- Hospital strategies for managing new technologies
  - Physician alignment, price transparency, service lines
- Common ground for producers and purchasers?
Beyond P4P to VBP

- First generation P4P targeted those dimensions of performance that could be measured and rewarded, but the basic principles of performance-based payment extend much further
- From quality to include efficiency
- From private insurers to include Medicare
- From services (physicians and hospitals) to include products (drugs, biologics, devices)
Value-based Purchasing

- Biomedical innovation is a major source of improved health
- It is expensive and risky and needs high value-based prices to motivate continued investment and appropriate priorities
- However, the extra value created by innovation should be shifted as soon as possible from producers to consumers, taking into account producers’ needs for ROI
- This requires changes on the demand side of the market
- Value-based pricing meets value-based purchasing
Value-based Purchasing

New Roles for Hospitals and Insurers

- Sophisticated purchasers reward innovative producers
- The biomedical industries have long enjoyed unsophisticated purchasers (hospitals and insurers) and price-unconscious demand (patients and physicians)
- This has permitted extensive innovation but also inefficiency and unjustified variation in use
- There is an important role for hospitals and insurers in evaluating performance, stimulating price competition, increasing cost-consciousness among patients, physicians
Value-based Purchasing

Insurers and Biologics

1. Coverage policy and medical management
2. Price negotiations with manufacturers
3. Consumer benefit design
4. Network design and contracting
5. Episode pricing?
1. Coverage and Medical Management

- Insurers have limited latitude to deny coverage altogether but can pursue conditional coverage
  - “Coverage with evidence development” (CED)
  - Prior authorization, step therapy
  - Case management for patients using biologics
  - Disease management often centers on drugs used
  - Patient education programs prior to surgery

- Each of these has its limits 😊
2. Negotiate Prices with Producers

- Health plans negotiate prices for drugs and selected biologics (in future, for devices?) based on volume, distribution features (specialty pharmacy)
- Comparative efficacy data are important as basis for “value-based pricing” for drugs and biologics

\[ V = R + D \]

- What is R? What is D?
3. Benefit Design for Consumers

- After years of paternalism, we see a trend towards consumer financial accountability
- Tiered formularies for prescription drugs
- Coinsurance for in-office biologics
- Leading insurers seek “value-based benefits” with cost sharing keyed to relative efficacy and risk, not just to price
- Consumers need transparency as they choose therapies in partnership with physicians
1. Insurers seek to influence physician decisions
   - Biologics: from “buy and bill” to specialty pharmacy
   - Struggle against device carve-outs in hospital contracts
   - “High performance networks” based on total costs or total resource utilization rather than unit prices?
   - Extend pay-for-performance from quality to efficiency?

2. Each of these has its limits 😊
5. Episode Pricing

- Care is delivered in episodes; it needs to be organized, measured, and paid in episodes
- Single payment for physician, facility, devices, pre-operative tests, post-operative rehab, etc.
- A point of balance between capitation and FFS
- Payments must be adjusted for patient severity
- Payments must be updated for introduction of (appropriate) new cost-increasing technologies
Value-based Purchasing
Hospitals and Medical Devices

1. Negotiate device prices on basis of volume
2. Tech assessment and adoption committees
3. Incentive alignment with physicians
4. Clinical services lines
5. Organizational coordination with physicians
1. Supply Chain Management

• Hospitals seek to manage costly drugs and devices according to supply chain principles
  – Difficult for “physician preference items” (PPI)

• Volume discounts are key
  – Narrow the range of vendors
  – Negotiate price caps by level of function
  – Ensure that devices are charged at contracted rate

• Price benchmarks from GPO and consultants
2. Technology Assessment

- Hospitals seek to understand and manage the introduction of new technologies into the facility
  - Often they hear of something only when billed

- Technology assessment committees
  - MDs must present proposed new device to committee
    - Data may be required
    - Financial conflicts of interest must be disclosed
  - These committees serve as peer review and education
3. Incentive Alignment with Physicians

- Gainsharing and indirect incentives
  - Share with MDs savings from lower input costs
  - This is very difficult due to legal hurdles (banned for Medicare)
  - Re-invest savings into equipment, staffing
  - A potential role for hospital “risk pools” under capitation

- Transparency on conflicts of interest
  - Consulting, CME, MD-owned distributors
  - Bans rather than merely disclosure for conflicts of interest?

- *This is easier said than done* 😊
4. Clinical Service Lines

- Improvements in hospital quality, efficiency and service require focus on particular service lines
  - Data, staffing, measurement, accounting, accountability
  - Joint, spine, cardiac surgery, cardiology, neurosurgery

- Physician participation (leadership) is key
- Appropriate use of devices in key
- Device firms potentially have a positive role to play as partners (rather than vendors)
5. Organizational Alignment with Physicians

- Care is shifting to settings where physicians can serve as owners/investors as well as clinicians
  - Orthopedic and heart hospitals
  - Ambulatory surgery and diagnostic centers

- Hospitals seek to align rather than compete
  - Joint ventures, hospitals-within-hospital, cathlab outsourcing, renewed interest in physician employment

- Coordinated organization will permit coordinated evaluation and purchasing of drugs and devices
Common Ground?
VB Pricing meets VB Purchasing

- As a practical matter, there is no socially ideal price for new drugs, biologics, and medical devices
- Technology firms push high launch prices, which gradually erode under competition from me-too and generic drugs, follow-on biologics, imitator devices
- Hospitals seek lower prices in exchange for market share
- Insurers use cost-sharing, payment incentives, medical management to push for lower prices
- The outcome of this mud-wrestling match is not the worst that can be imagined, even if it does not fit a pundit’s ideal
Common Ground?

Products and Services

- Biomedical products are just one (albeit major) component of the process of care

- Common ground between technology producers and purchasers may be found if products are integrated into services in a better manner
  - Pharmaceuticals and disease management
  - Biologics and case management
  - Medical devices and service lines
Innovation in Organization and Care Processes

- The **health care system** is highly innovative in technologies but rigid in organization, payment, and processes of care.

- **Service lines, episode pricing, case management**, and other initiatives hold promise to promote innovation.

- **Technology firms** can be part of the solution to extent they help purchasers integrate products into larger care processes and to measure cost and quality.
A Business Case for Innovation in Devices that Lower Costs?

- Reform of market demand will change incentives and strategies for the supply side (device firms)
- There will always exist a market for cost-increasing breakthrough products supported by strong data
- Value-based purchasing will create a additional business case for the development of new devices that offer not higher performance at higher prices but a better balance of performance and affordability
- Me-too products at lower price shift the value of breakthrough products from producers to consumers
Value-based Purchasing: Basic Principles

1. Value (efficiency, quality, innovation) is enhanced by sophisticated users and purchasers.
2. Sophisticated purchasers will pay premium rates for breakthrough products.
3. They will encourage the substitution of lower-priced, well-performing products as these emerge.
4. Sophisticated producers and sophisticated purchasers together generate a dynamic health care system.
Value-based Purchasing: Key Components

1. Integrated data systems that measure performance across the care continuum

2. Payment methods that align incentives among all contributors and reduce conflicts of interest

3. Organizational structures that support coordination and foster a culture of cooperation
Value-based Purchasing: At the IHA

- Data benchmarking for hospitals
- Rethinking payment methods
  - IPA capitation risk pools; episode pricing
- Identify and diffuse best practices with CHA
- Conference in Orange County: May 21-22, 2008
- Your suggestions are most welcome