Episode of Care Payment

A Business Imperative Whose Time (and Technology) Has Come

2011 Pay for Performance Summit – March 24, 2011

TRIZETTO
Powering Integrated Healthcare Management

Company Overview

Powering Integrated Healthcare Management®

Health Care Technology Solutions – the leader in serving payer's needs

2,300+ Employees – in 12 offices across the country and offshore

~$500 million Revenue – for full year 2010

$70 million R&D – annual investment in product and service innovation

Deep Penetration – 60% of all commercial insurance is processed by TriZetto systems

CMS Disclaimer

The statements contained in this document are solely those of the authors and do not necessarily reflect the views or policies of CMS. The authors assume responsibility for the accuracy and completeness of the information contained in this document.

Payment Bundling

- **A group of providers agrees to accept <u>a single prospective payment</u> for all services in a well-defined unit of care**
- **Targeted units of care are selected based upon**
  - Ability to clearly define the unit of care operationally
  - Financial and quality impact

Involves multiple types of providers

Example:

In addition to the inpatient stay for a hip replacement, a provider group includes the rehab facilities, primary care, ER, and other providers to deliver all care related to a hip replacement

Payment Bundling is one form of Episodic Payment

Other forms also have incentives based on episodic care, but pay in different arrangements

Want to know more? Ask for a copy of "**Here Come [Payment Bundles]**"

Acute Care Episode Demonstration Project²

Overview

Program became operational in first two markets in 2009

38 DRGs included in cardiac and orthopedic surgery

Covers all costs during an inpatient stay from any part A or part B source

Payment goes to provider group (hospital) for further distribution among providers; gainsharing allowed

Acute Care Episode Demonstration Project

Goals

Stated Goal

To determine if improvements in quality and efficiency can result from greater alignment of the financial incentive that leads to care coordination on a case-by-case basis

Additional Goals

- Test steerage
  - Departure from any willing provider
  - Marketing
  - Patient Incentives
- Establish best practices
  - Bundled payments
  - Quality measurements

Acute Care Episode Demonstration Project: Design Lessons[2]

Payer Lessons

- **Work with well-defined bundle definitions**
- **Defined population – Excluded Medicare Advantage and dual eligibles**
- **Focus on quality**
  - Protect against unintended consequences
  - Commercial plans – Consider MLR opportunity
- **First-mover advantage**

Provider Group Lessons

- **What is the physician group?**
  - Who gets incentivized?
  - Legal structure and governance
- **Establish risk within group**
  - Both of my hospitals chose to indemnify the physicians and take on risk themselves
  - Physician Gainsharing Profit Sharing
    - Legal waver of statutory barriers
    - Overall program must be profitable
    - Physicians must meet higher quality standards
    - For qualifying physicians, 50% of savings shared (up to ceiling set by CMS)
    - Savings apportioned among qualifying physicians based on volume
- **Know what you intend to fix**
  - Bundled payment collaboration can reduce implant costs
    - Savings in the millions are available – with physician cooperation
  - But implants only part of the story
    - Length of stay, ICU utilization, etc
    - Quality – Joint Commission, protocol compliance

Acute Care Episode Demonstration Project: Operational Lessons - Payer²

Payer

Source of complete longitudinal data

Necessary for providers – payer is only good source

Claims processing a challenge – just ask Trailblazer

Steerage works

Plan to address outliers, patient liability collection

Commercial plans need to address business integration

Acute Care Episode Demonstration Project: Operational Lessons - Provider²

Provider

Collaboration between hospital and physicians essential – and challenging

- Leadership is critical
- You cannot communicate enough

Devote the correct resources

- During design and stand-up, multi-disciplinary resources needed
- Full-time coordinator/case manager

Administrative Issues

- Cost accounting challenges
  - Discrete implant tracking by patient
  - Pharmacy tracking by patient
- Claims Processing
  - One hospital processing approximately 10,000 part B claims per year for qualified procedures
  - Claim volume is cost prohibitive in typical health plan claims processing operation
  - Technology solution needs to be scalable in anticipation of additional bundled services or expanded product lines
- Data collection
- Processing and distributing payments

Why Episodic Payment Now?

- **It may be the answer to "What do we do to reduce medical expense?"**

What the Evidence says…

- **Two CMS demonstration projects demonstrate 5-6% top-line reductions in medical cost[1, 2]**
- **Rand study (2009) examined published results about numerous methods to reduce medical cost and found that payment bundling had the greatest proven ability to reduce costs[3]**
- **92% of payers surveyed in 2011 believe that payment bundling will reduce medical costs or slow the trend of increasing costs[4]**

Why Episodic Payment Now?

- It may be the answer to “What do we do to reduce medical expense?”
- **It may be the answer to “How do we start operating as an Accountable Care Organization?”**

What the Evidence says…

- **Almost all (80-94%) of physicians, hospitals, and integrated delivery networks (IDNs) believe that Payment Bundling is a stepping stone toward ACO transformation[4]**
- **Most payers (62%) believe that Payment Bundling is a stepping stone toward ACO transformation[4]**

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- **It may be an ideal way to shift risk from payers to providers in an intelligent manner**

What the Evidence says…

- **Payers and providers both view payment bundling as an acceptable way to transfer some risk to the providers[4]**
- **Bundling arrangements are effective in holding providers collectively responsible for the services provided[5]**

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- **It is one of very few “win-win-win-win” opportunities for payers, providers, and clients**

What the Evidence says…

HCFA Health Care Financing Administration

CMS (HCFA) project from 1990s[5]

- **Payer** saved $50m in 5 years at one hospital
- **Hospital** had a 9-13% reduction in cost per episode, 2.8 reduction in length of stay, and a 80-111% increase in variable margin
- **Physicians** had a 25% increase in their revenue
- **Patients** had improved satisfaction scores and reduced morbidity

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What the Evidence says…

CMS
CENTERS for MEDICARE & MEDICAID SERVICES

CMS Acute Care Episodes Demo[2]

Early Results

- **Payer** reduced top line cost by 5.5% average
- **Hospital** had a 9-13% reduction in cost per episode, 2.8 reduction in length of stay, and a 80-111% increase in variable margin
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What the Evidence says…

Commercial Insurance

All of the following have reported benefits for payer, patient, hospital, and physicians

- Texas Heart Institute package pricing
- Ingram Regional Medical Center – knee arthroscopy bundle and warranty
- Oxford Health Plan Care Teams – multidisciplinary teams incentivized on episodic care delivery
- Geisinger ProvenCare – CABG warranty[6]

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- **The government may require it**

What the Evidence says…

Patient Protection and Affordable Care Act:

- Section 10308, National Pilot Program on Payment Bundling
- Section 2705, Medicaid Global Payment System Demonstration Project
- Sections 2704, 3023, Integrated Care Around a Hospitalization (bundled payments for Medicaid)
- Section 10336, End Stage Renal Failure
- Section 3134, new coding for bundled payments

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- **The technology is developing to administer it on a wide scale**

What the Evidence says…

TriZetto and other vendors are delivering new technology solutions for both payers and providers to administer payment bundling methodology at full scale

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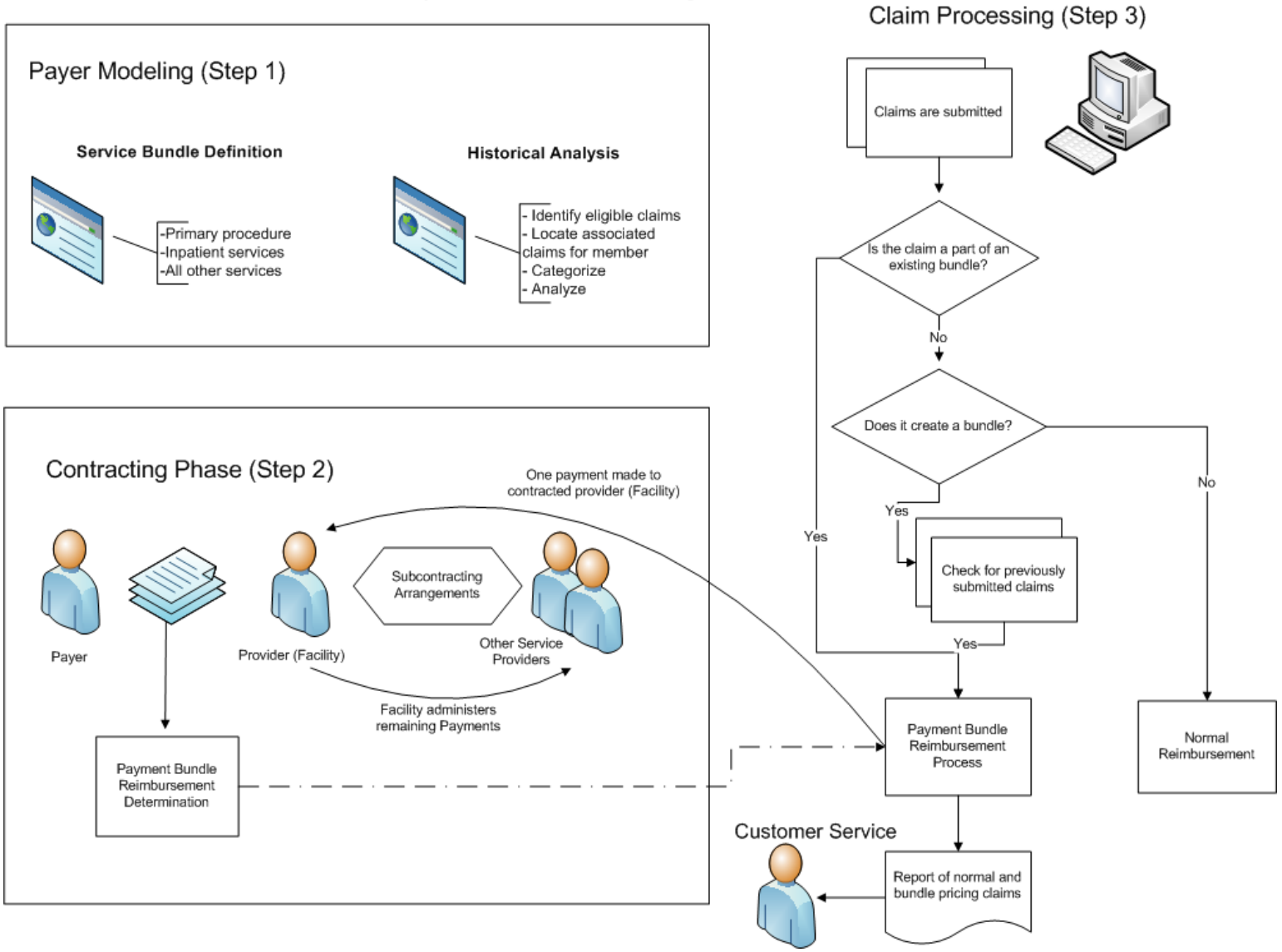
Powering Integrated Healthcare Management

Payment Bundling Process



When to Bundle and When to Make Payments?

Processing Mode

- **Pre-adjudication repricing**
- **Prospective episode creation during adjudication**
- **Post-adjudication, pre-payment episode creation**
- **Retrospective**

Payment Timing

- **Retrospectively, 3-12 months after care**
  - This is a supplement or an adjustment made to fee-for-service (FFS)
  - Typically a population-based payment
- **Prospectively, at the time the care is delivered**
  - This replaces the individual fee-for-service payments made to all the providers
  - Typically, a payment for an individual patient
  - This method is preferred by providers (85%) and payers (74%)[4]
  - Better associates the incentive directly to providers in order to change provider (physician) behavior

Basic Requirements for Payment Bundle Technology

Many sources of bundle definitions *Technology should be flexible to handle different bundle designs*	**Many different rules** *Technology should allow bundle definitions to be different for different provider groups*
Integrates with existing systems	**Can be used during early (small) implantations**
Can scale up as utilization and complexity increase	**Support both payer and provider group**

Desirable Technology Features to Support Payment Bundling

Works with any (and multiple) claims systems	▶ Purchasers and Providers do not want different rules based on different core claims systems ▶ Robust system integration is essential for scalable capability
Recognizing Bundles with different methods	▶ Create Bundles from Approved authorizations, pre-event notifications, or pure claims feed
Altering Pricing	▶ Can pay more than requested or authorized claim amount – pay provider group in single payment ▶ Can pay zero and keep claim as encounter data ▶ Can pay 100% of allowed or some other percentage) and include in the bundle, for seepage or warranty ▶ Can support reference pricing payments, where there is differential pricing once a budget figure is exceeded
Pre and Post Admission Care and Warranties	▶ Can include services pre and post inpatient or other “typical” date window ▶ Can conditionally change what is included based upon a warranty occurring ▶ Can change pricing based upon warranty occurring
Non-Facility Bundles	▶ Chronic care ▶ Outpatient care

Desirable Technology Features to Support Payment Bundling - Continued

Ability to Fix Problems Automatically	▶ Update previous bundle decisions based on revised information ▶ Ability to terminate the bundle based on logic ▶ Address unanticipated eligibility changes or mortality
Utilization and Quality Measurement	▶ Used to measure performance and support modeling ▶ These events can be used by the system to further change the way bundles are created and what is included or not
Associated Provider Management and Seepage	▶ Can keep lists of affiliated providers by administrative provider ▶ Can reuse lists across multiple bundles ▶ Can handle seepage in various ways
Sophisticated Business Rule Logic	▶ Allows many variables, not just CPT and ICD9, to be used
Modeling	▶ Ability to recalculate historical FFS claims into bundles for comparison ▶ Compare different payment bundle designs to determine best outcome
Benefits	▶ Adjust benefit structure based on payment bundle logic (such as singe co-pay) ▶ Keep members in provider group (sub-network)
Severity Adjustment Logic	▶ Balance between provider acceptance and complexity

Provider Technology for Payment Bundling

Ability to develop a business case	▶ Modeling capability ▶ Payer data (perhaps supplemented with Provider data)
Technology to improve care collaboration and coordination	▶ Care transformation is the goal, not just moving money around
Solution to distribute the bundled payment within the provider group	▶ Uses utilization and quality information to determine what is owed to each provider in the group ▶ Able to receive the bundled payment from the payer and pay it out to the providers, including the distribution of savings/bonuses

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- It is one of very few “win-win-win-win” opportunities for payers, providers, and clients
- The government may require it
- The technology is developing to administer it on a wide scale
- **The industry is heading this way**

What the Evidence says…

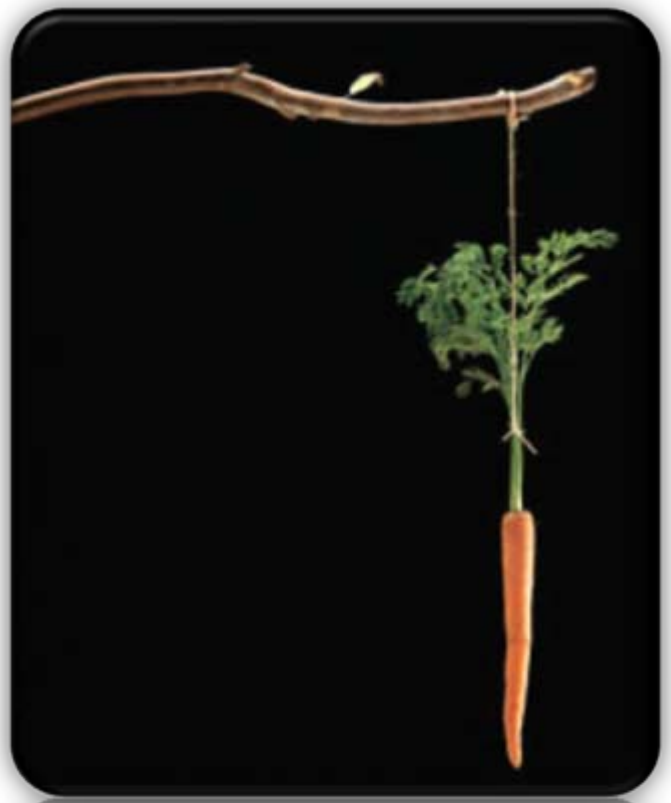
- **80% of payers will adopt payment bundling by the end of 2012**
- **52% of providers will adopt payment bundling by the end of 2012**
  - 74% of large hospitals[4]

Is there more industry research available?

Yes

…but that is another presentation

Questions?



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- [4]Industry survey research conducted by TriZetto using a professional research company, unpublished
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- [6]GAO-11-126R Private Sector Initiatives for Bundled Payments, January 31, 2011