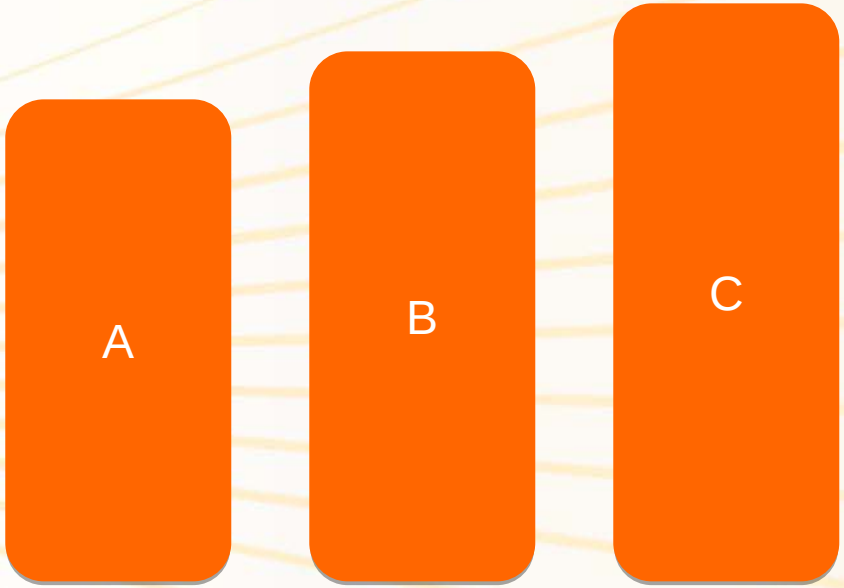
A Piece of the Puzzle: PROMETHEUS Payment

Harvard Quality Colloquium

August 17th 2011

Our “end game”: True value-based purchasing

Episode of CABG

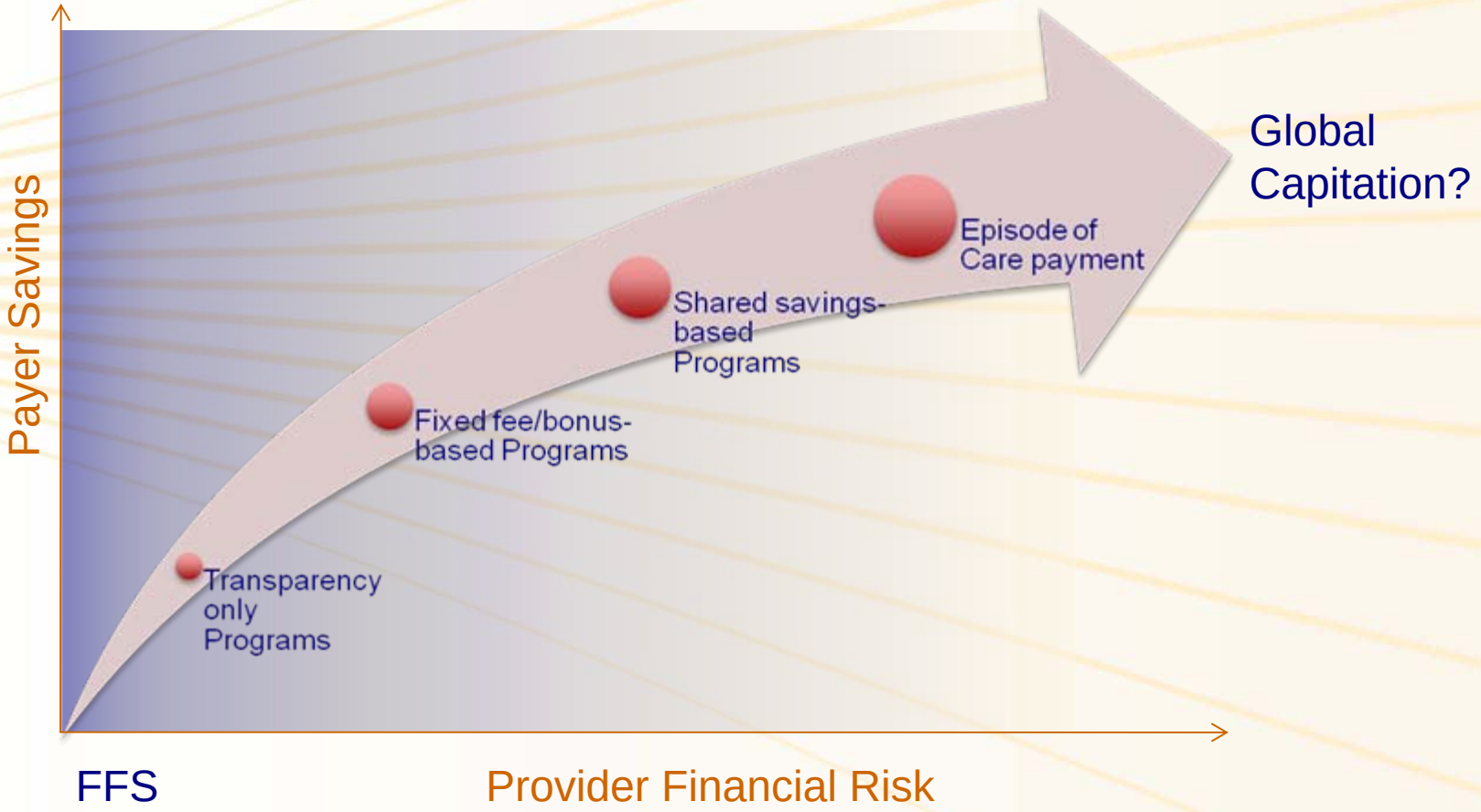


Each “team” can improve by (1) increasing their quality score, (2) decreasing their episode price – provided they meet the min Q score of 80

Episode Cost	**$45,500**	**$47,500**	**$55,000**
Quality Score	82	90	92
Value Index	555	528	598
Co-pay	$2,439	$0	$6,304

Value Index =
Episode Price / Quality Score
Co-pay A = (555-528) * 90
Co-pay C = (598-528) * 90

A glide path for provider management of financial risk



Barriers to-date to broadly implementing EOC payment

- Lack of standard definitions for Episodes – PPACA mandates a Public Domain Episode of Care logic for 2012. NQF launched a process to endorse EOC approaches by year's end.
- Lack of operational infrastructure – two vendors – MedAssets and TriZetto – have operational solutions developed.
- No play by CMS – PPACA mandates a number of EOC approaches, and more are possible through the Center for Innovation. Private sector plans may become the laggards.
- Little appetite by commercial plans – Employers are putting pressure on their plans to move away from FFS.
- Lack of entities to contract with for prospective payment implementations – the momentum around ACOs is creating new legal entities to accept financial risk, although there is still lots of legitimate hesitation from providers to accept insurance risk.

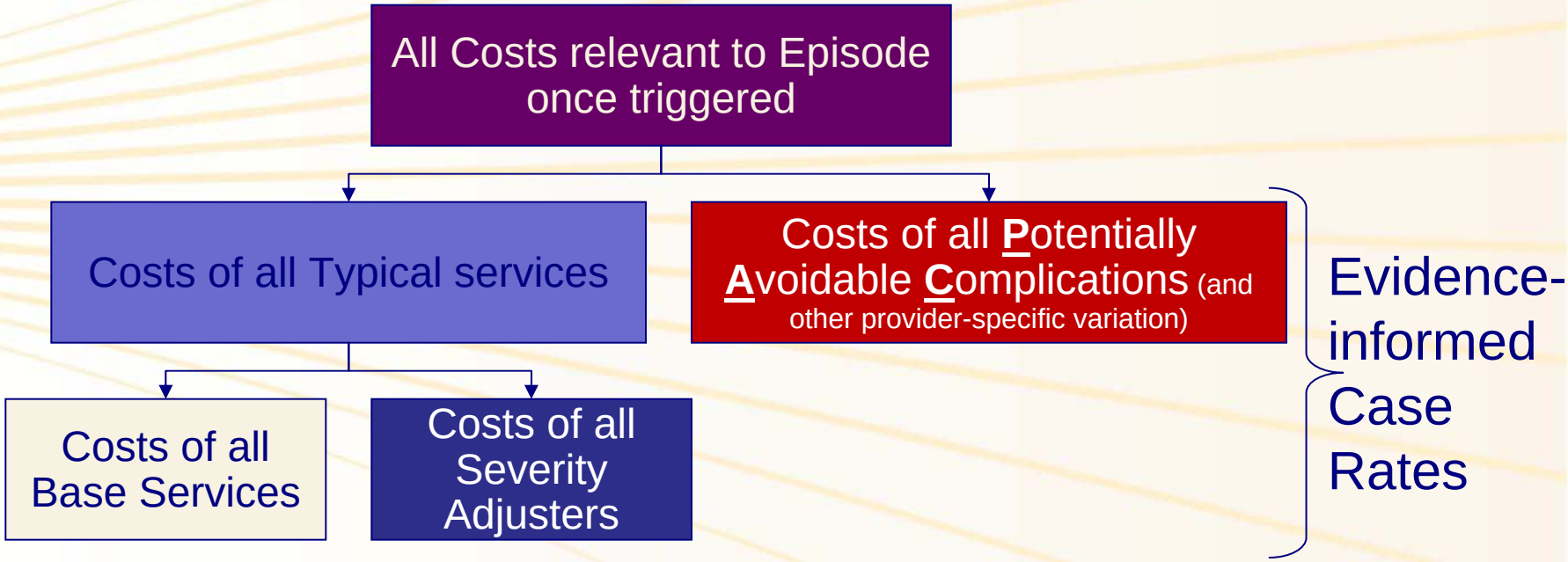
From unit of service to PMPM

- Each episode is the sum of all services used for the episode multiplied by the cost of each service
  - Some services are appropriate, some are not
  - Some services are caused by lack of provider competence, lack of patient compliance, or a combination of both
- Total PMPM is simply the sum of all episodes divided by total population served
  - PMPM will vary based on the frequency of each episode and its cost
  - Some episodes are appropriate, some are not

Causes of cost variation within episodes

- Provider performance/competence
- Provider practice patterns
- Provider pricing
- Patient severity

ECRs split a standard episode into its component parts



Sizing the opportunities in episodes

- Chronic – it's all about reducing avoidable complications
- Procedural – it's a mix
  - Cardiac procedures continue to have high rates of avoidable complications
  - Ortho and gastro procedures have high variability in typical costs that can be reduced
- Overall, there is significant variation and the variation can and should be decreased

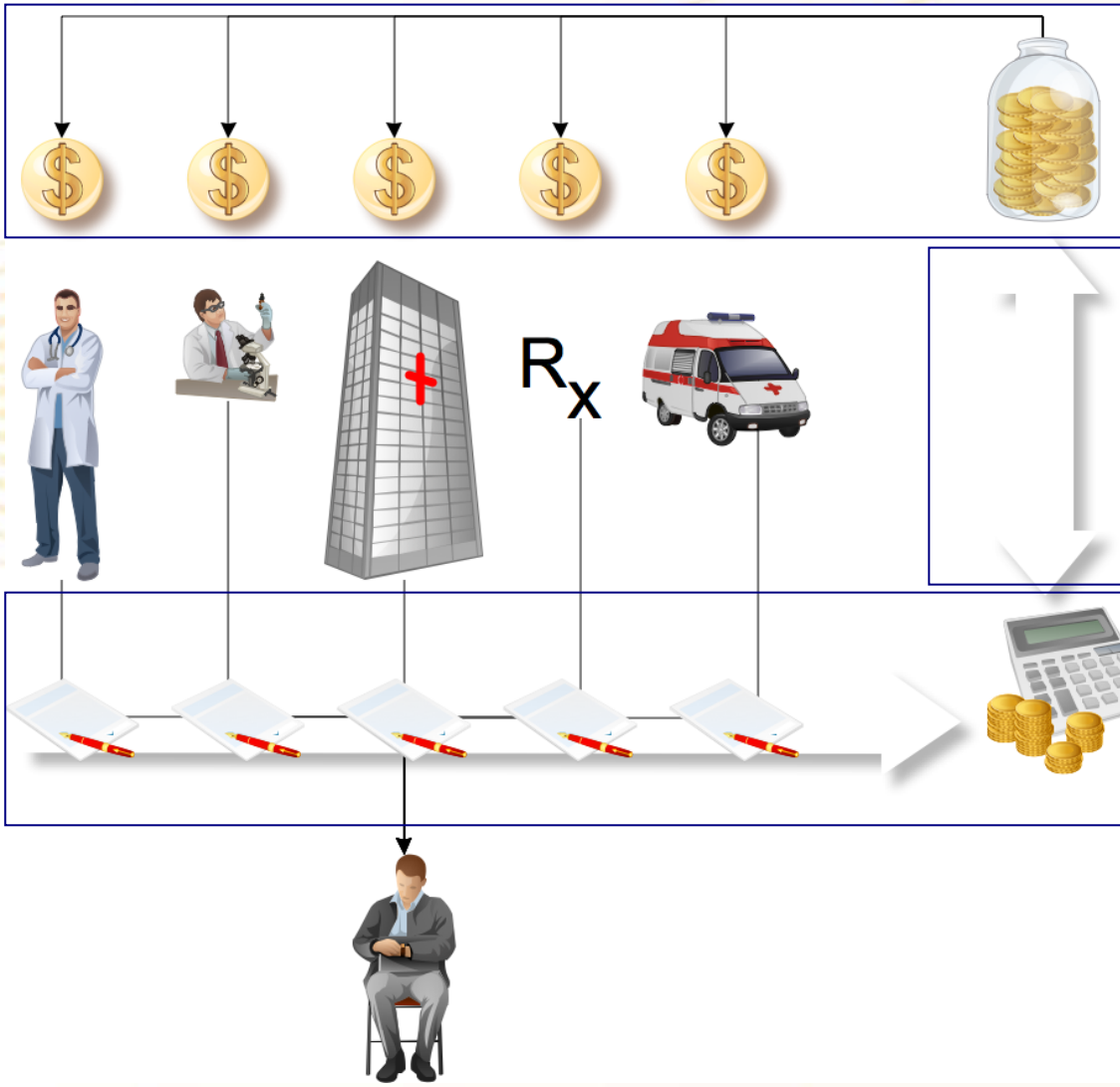
Unique features of the PROMETHEUS model

- Margins improve as potentially avoidable complications are reduced – change the industry focus from chasing volume to chasing margin/value.
- Patient-level severity adjustment to minimize the potential for cherry-picking.
- Operational in any provider setting – no need for financial, administrative or legal integration.

Managing financial risk in an Episode of Care contract

- The provider is at risk for the excess costs over the prospective budget, up to the stop loss per episode
- There can also be an aggregate stop loss
- In an “upside only” model, the EOC stop loss = budget

Retrospectively reconciled prospective episode budgets

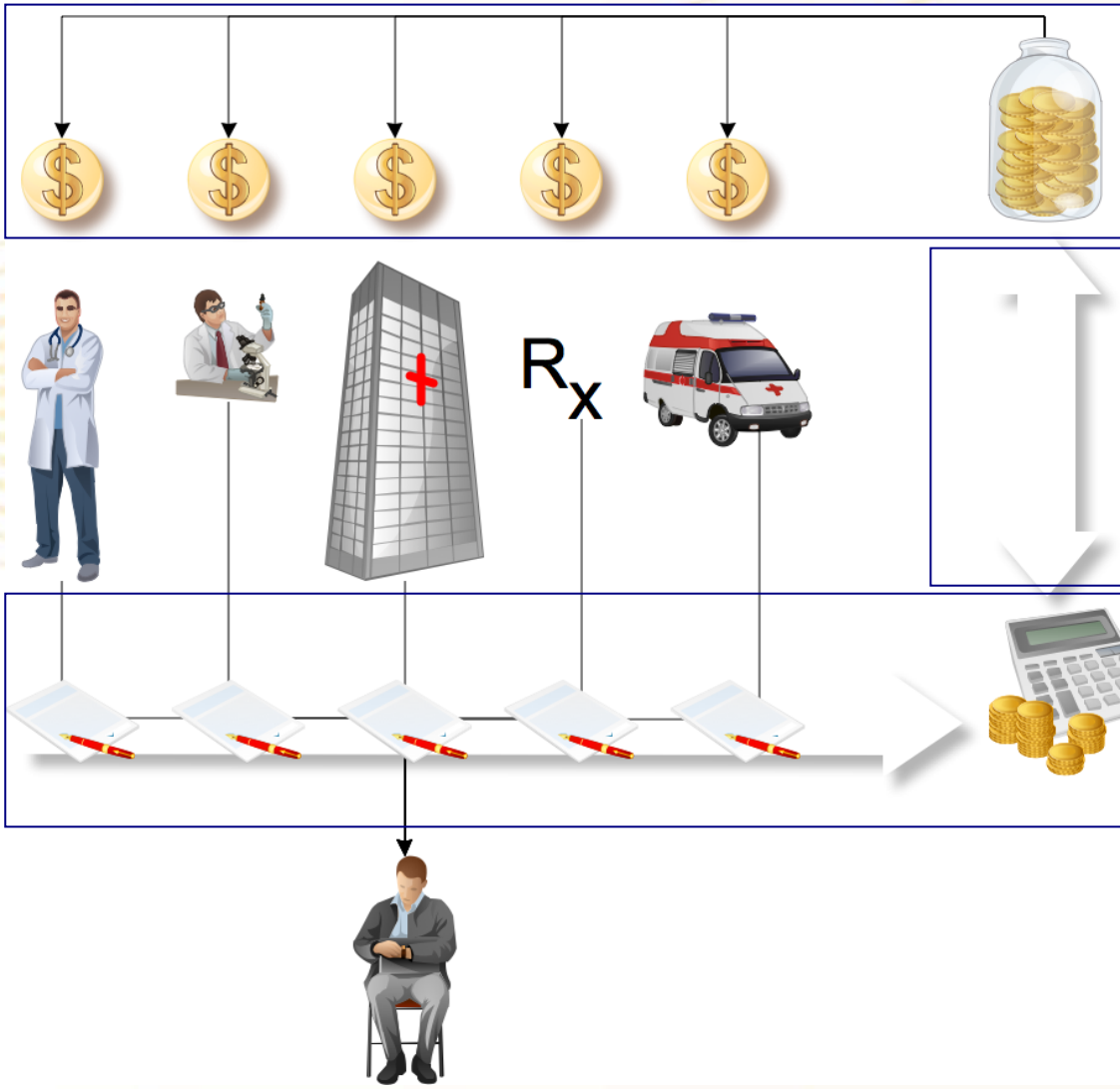


Episode budget is established upon trigger and not paid out, but allocated 1

Accumulated claims are compared to budgeted episode, and reconciled, to determine upside/ downside 3

Claims incurred are paid FFS by the plan and accumulated, split between typical and PAC 2

Prospectively paid episode budgets with reconciliation



Episode budget is established upon trigger and paid out to “ACO” or fiscal intermediary 1

Claims incurred compared against budget to provide guidance on prospective budgets/payments 3

Claims incurred are zeroed out, but accumulated against budget 2

Lessons learned from Implementations

- 5 ingredients to success:
  - Full CEO engagement
  - Commitment by willing plan AND provider
  - Clean and complete claims and eligibility data
  - EMR systems
  - Sense of urgency
- We've actually made the operations relatively easy.

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