

INTEGRATED PAYMENT INNOVATIONS: IMPLICATIONS FOR PHYSICIAN ALIGNMENT STRATEGIES

NEW YORK SOCIETY FOR HEALTH PLANNING WEBINAR
MARCH 16 , 2010

DANIEL M. GRAUMAN
PRESIDENT & CEO

Agenda

- > Drivers of Physician-Hospital Alignment
- > Accountable Care Organizations (ACOs)
- > Bundled Payments
- > Patient Centered Medical Homes

Health reform would change the payer marketplace

- > Limitations on underwriting
- > Health insurance exchange (HIE)
- > Near “universal” coverage
- > Increased federal regulatory involvement
- > Public option?
- > Self-insured market remains

What is driving physician-hospital alignment?

PHYSICIANS

- > Declining reimbursement
- > High malpractice costs
- > Increased regulatory/payer/IT burdens
- > Working hard, earning less
- > Need for succession
- > New graduates want lifestyle and security

HOSPITAL

- > Securing/growing medical staff
- > Responding to specific clinical market opportunities
- > Strengthening quality of care
- > Protecting services with high margin
- > Meeting coverage requirements
- > Prepare for health reform. ACOs, and bundled payments

Why payment innovations?

- > Broad consensus that FFS is not working
 - o Fragmented care, quality concerns
 - o Medicare Part A → bankrupt by 2017
 - o Sustainable Growth Rate formula failed
- > Likely to occur even if no health reform
- > When Medicare changes, commercial payers often follow

Medicare Sponsored Pilot Programs

Type	Project	Description
P4P	Hospital Quality Incentive Demonstration	Hospitals received payments for increasing overall quality for heart attack, coronary bypass graft, heart failure, pneumonia, and hip and knee replacements.;
P4P	Medicare Care Management Performance	Small and solo physicians were awarded compensation for quality measures, plus additional \$ for reporting using EHR.
P4P	Nursing Home Value-Based Purchasing Demonstration	Nursing homes receive incentive payments for improving quality in nurse staffing, resident outcomes, avoidable hospitalizations, and reduction of scope
Bundled Payments	Acute Care Episodes Demonstration - Includes Medicare Participating Heart Bypass Center demonstration (1990s)	CMS bundled physician and hospital payments for 15 days in 28 cardiac and 9 orthopedic procedures. Reduced nursing and pharmacy costs; improved patient outcome.
Bundled Payments	Medicare Cataract Alternative Payment Demonstration	The episode included physician and facility fees for cataract removal surgery, intraocular lens costs, and selected pre- and postoperative tests in outpatient setting.

Government Sponsored Pilot Programs

Type	Project	Description
ACO	Physician Group Practice Demonstration	Physicians increased quality points and received \$25.3 million out of shared \$32.3 million total savings.
ACO	Pediatric Accountable Care Organization Demonstration Project	Medicaid Sponsored; begin 2012.
Patient Centered Medical Home	Medicare Hospital Gainsharing Demonstration	CMS sees if hospital pays incentives to physician for internal hospital savings and quality improvement will work.
Physician-Hospital Alignment	Physician Hospital Collaboration Demonstration	Track patients from a 12 hospital consortium beyond a hospital episode to determine impact of hospital-physician collaboration.

Integrated payment will drive IDS growth

- > Easier to address within an IDS (hospital and physicians)
 - o Challenges still remain regarding aligning incentives
 - o Physicians are critical to successfully managing the overall cost of care
- > Can address contractually with independent physicians, but it is harder

“Show me the money”

> Chronic disease

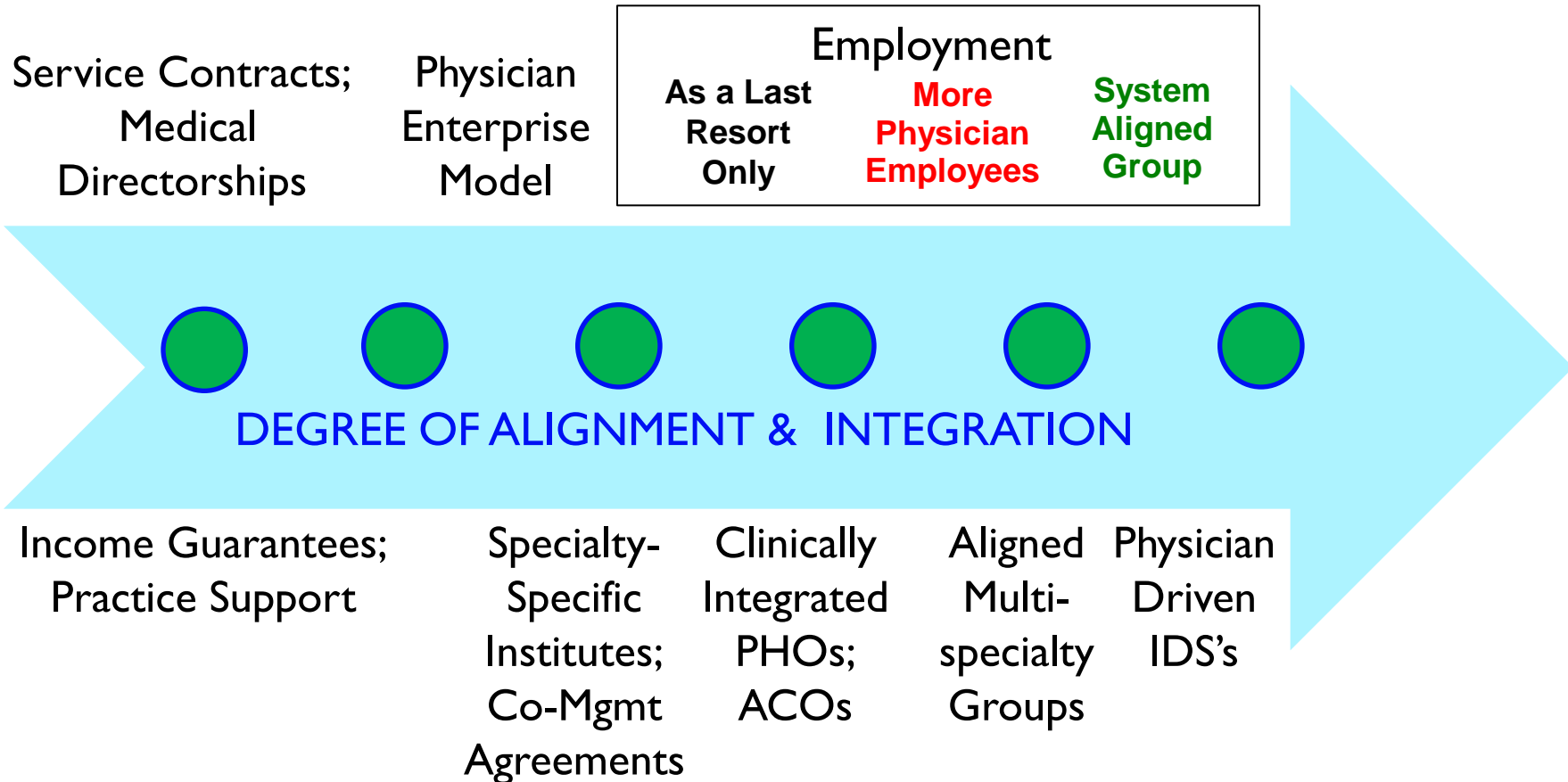
- Expenditures on chronic illness account for 75% of total US health spending
- Significant costs are preventable

> Hospitalizations and care transitions

- Engaging physicians to manage hospital costs
- Avoiding readmissions

Much is driven by physician decisions

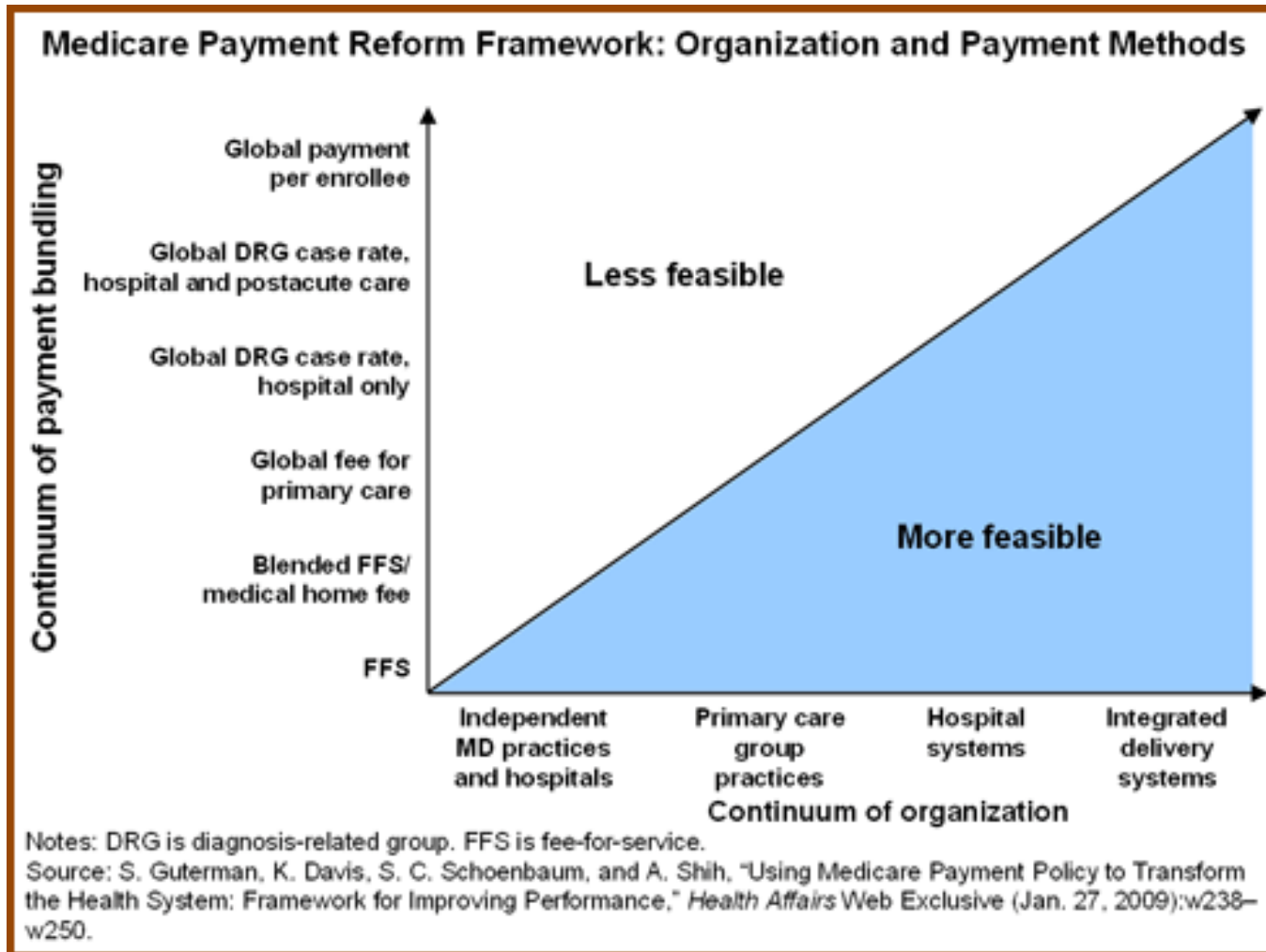
Physician-Hospital Alignment Models



Reform or not, healthcare is transforming

- > Hospital employment of physicians increasing
 - o Employment does not ensure integration
 - > Compensation design is critical
 - > Struggling to engage employed physicians
 - > EHRs may help
 - o Challenge: Living with a mix
 - > Must still engage independent physicians
 - > Some powerful physician groups
- > Push for value and quality driving integration across physicians, not just with hospital

Integrated payment methodologies will drive integration of delivery systems



Payment models under discussion

- > Accountable Care Organization (ACO)
- > Bundled Payments
- > Patient Centered Medical Homes
- > Pay for Performance
- > Also hope for savings from
 - o Comparative Effectiveness Research
 - o EHRs

Déjà vu..... all over again

THEN	NOW
Global Capitation	ACO
Global Fees or Packaged Prices	Bundled Payments
Episode of Care	Bundled Payments
Primary Care Capitation	Medical Home

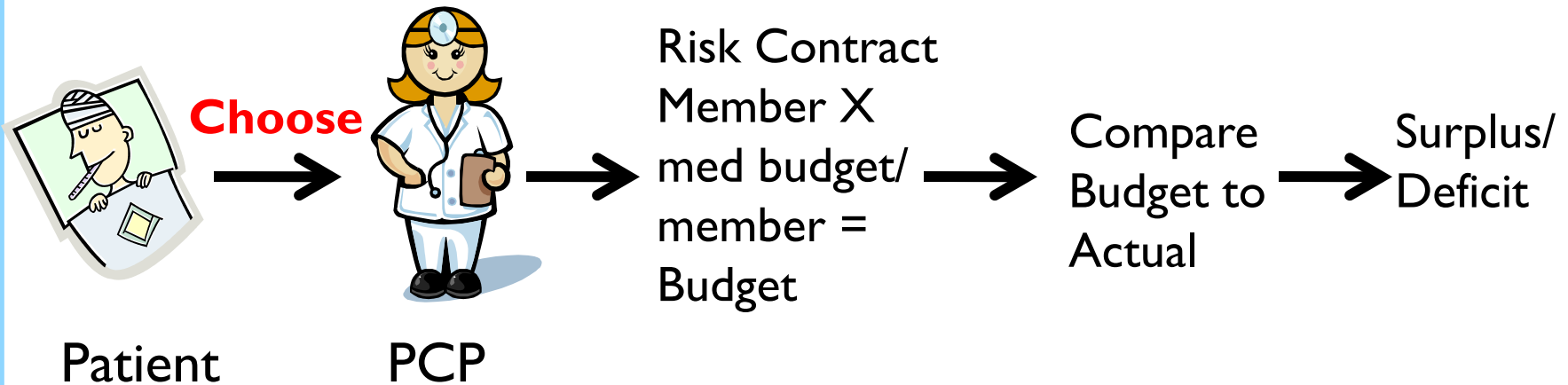
- > May work better this time
 - Hospitals and physicians are more integrated
 - Information technology
 - Medicare creates critical mass

Accountable Care Organizations (ACOs)

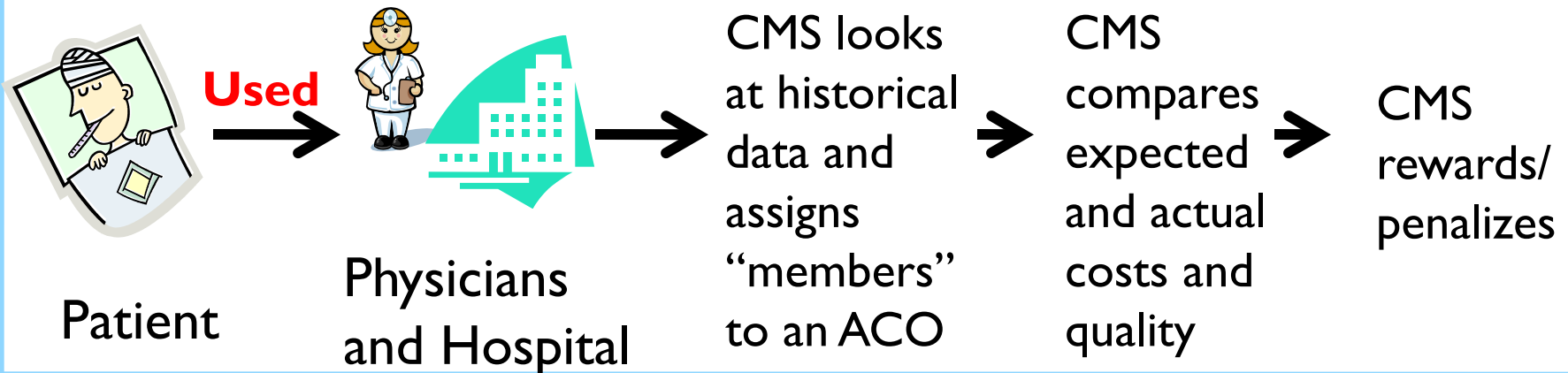
- > An ACO is an organization of providers that takes collective responsibility for improving patient care
 - o Includes physicians, hospitals, other providers
- > Two payment approaches
 - o Bonuses on top of FFS
 - o Global capitation
- > Medicare is a focus

Risk contract revisited?

Risk Contract



ACO



This sounds like an old PHO risk contract, Why would it work this time?

- > Critical Mass (Medicare)
- > Better physician integration
- > IT tools
- > Leaders are paying attention
 - o Hospital, physician, payer, and policymakers
- > More limited risk (and return)

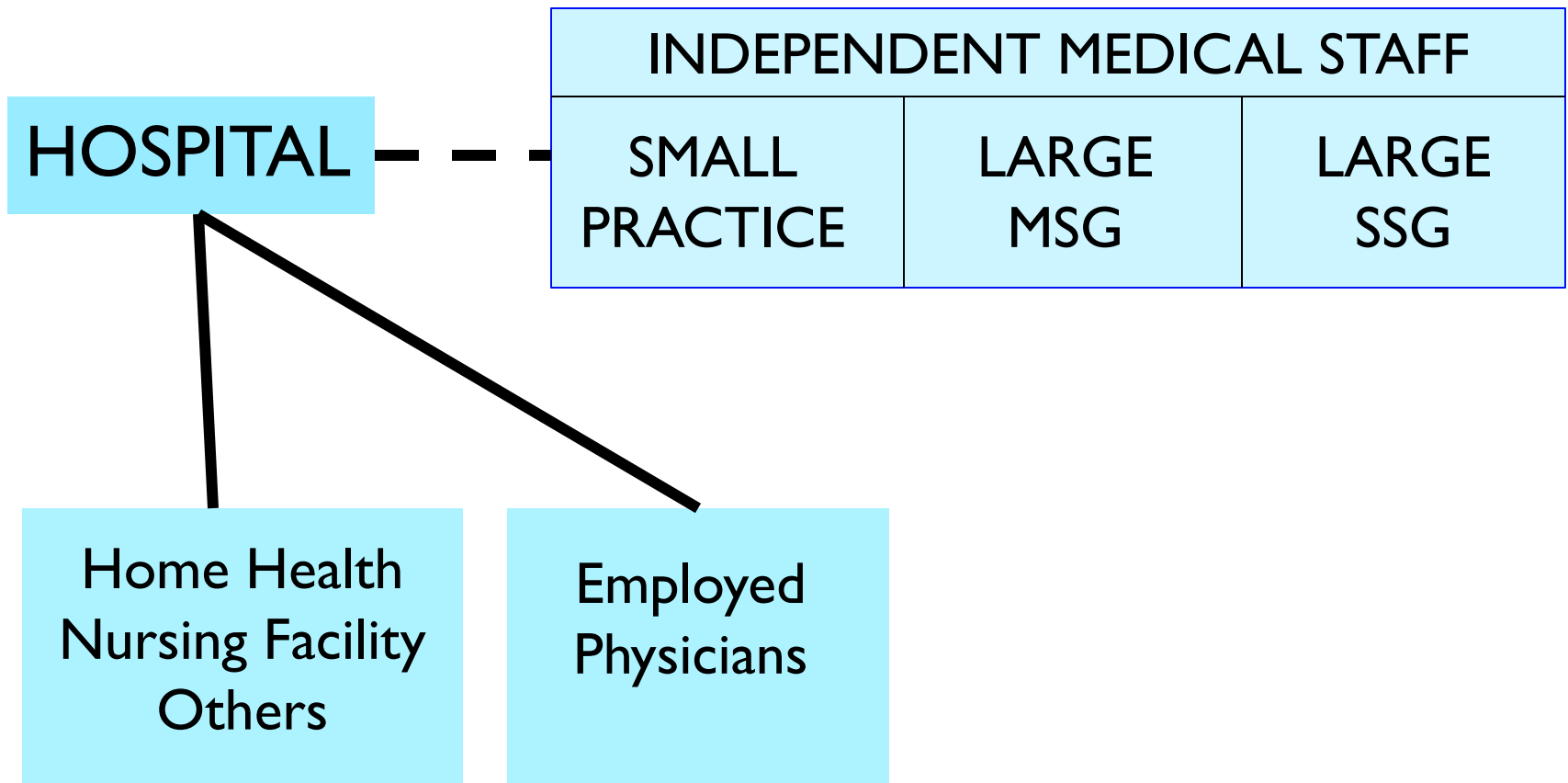
Should we reinvigorate our PHO?

- > The answer is “maybe”
 - o Evaluate capabilities
 - o Consider history and trust

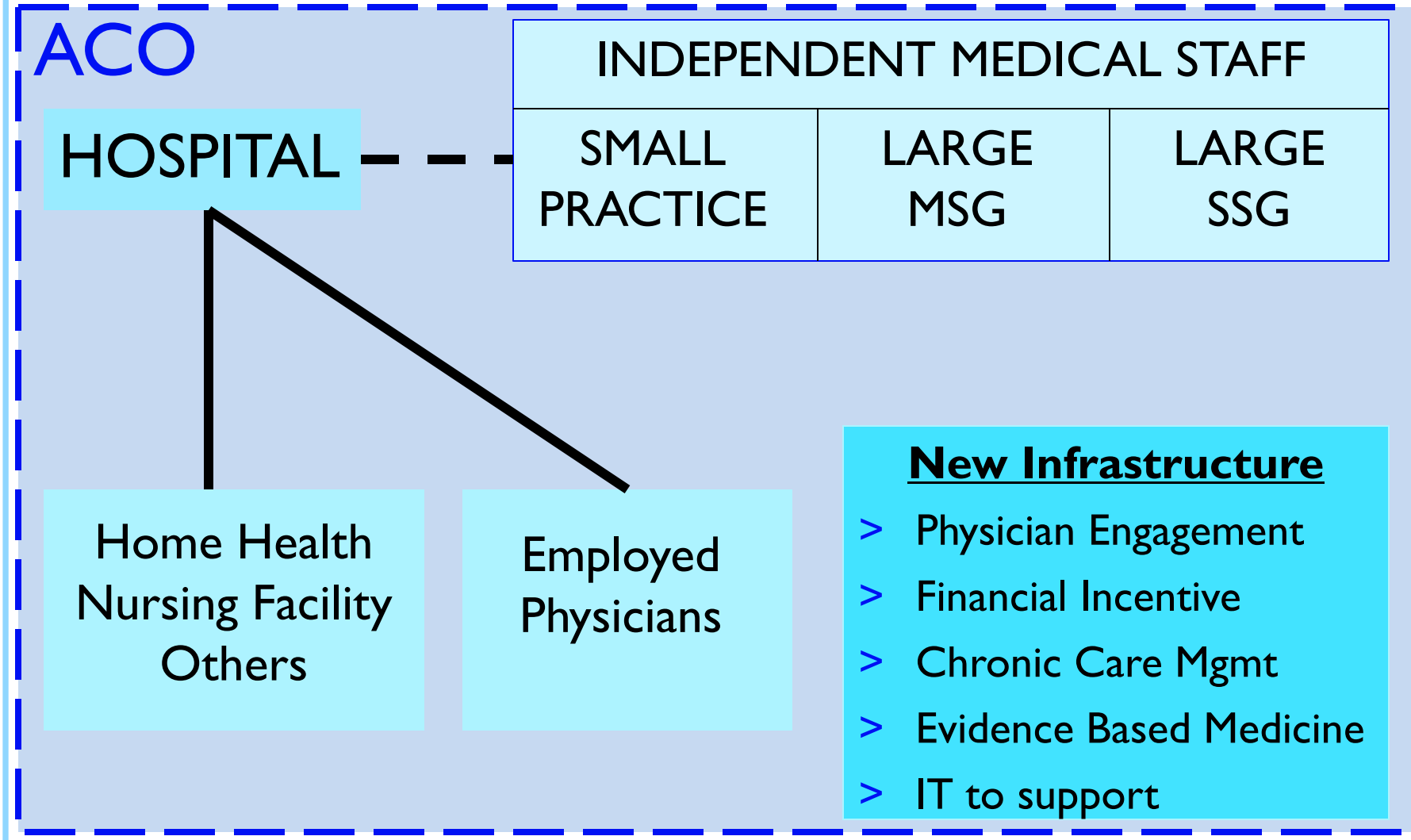
ACO prognosis

- > Could be a major game-changer
- > Still in infancy
- > Assignment of lives may be an issue
- > Risk adjustment must be fair
- > Will drive providers to integrate more

Typical hospital structure



ACO infrastructure



Bundled Payments – two types

- > Case Rate: Hospital/PHO receive a pre-set amount per admission; divide with physicians
 - o Savings through better inpatient cost management
- > Episode of Care: Hospital/PHO receive a pre-set amount for admission and post-acute care; split payment between hospital, physicians and post-acute providers
 - o Savings through reduced readmissions/redundancy and better inpatient cost management

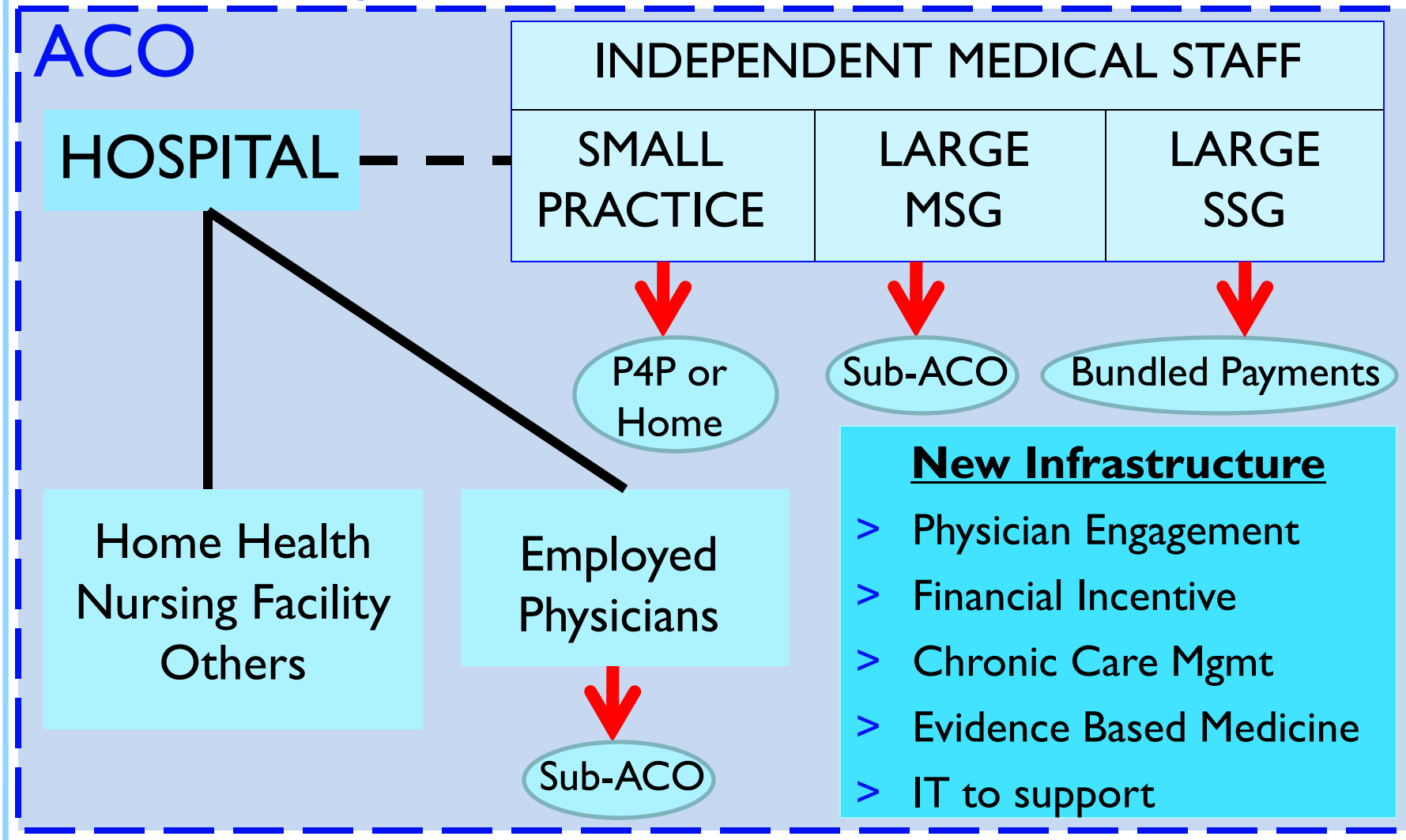
Bundled Payment prognosis

- > Potential to generate savings
- > For now, more suitable for acute episodes that are straightforward to define and measure for cost-savings
- > Potential opportunity to partner with specialists, especially large groups
- > Risk adjustment is key
- > CMS lead may encourage commercial payers
- > Need clarification of existing regulations (e.g. Stark and Anti-Kickback)














Patient Centered Medical Homes

- > Patient care is coordinated from one physician practice under a capitated (or partially capitated) payment
 - o True care planning with allied professionals
 - o “Work at the top of your license”
- > Prognosis
 - o Focused on PCP side of healthcare
 - o Still under observation
 - o Issues regarding practicality in small practices
 - o Maybe overkill for non-chronically ill
 - o Focused care management models may win out

Over time, physicians will shift to employment or closer alignment



Impact of ACOs and payment innovations on physician organizational models

		Independent Medical Staff				
Payment Innovation	Employed	Solo/Small Practice		Large Single Specialty Group	Large PCP Group	Large Multispecialty Group
		PCP	Specialist			
Bundled Payments * - with bonuses or risk sharing						
Patient Centered Medical Homes						
Pay for Performance						
ACO – separate bonus pool	Pool A	Pool B				Pool C

* Bundled payments typically apply to limited case types that are predictable (e.g. hip replacements or bypass surgery)

Which providers will win in the end?

Traditional

- > Independent medical staff
- > Fee for service payments
 - o Incentive for volume
- > Providers focus on market share

Integrated

- > Aligned physicians & hospital
- > Bundled/integrated payments
 - o Incentive for value
- > Providers focus on delivering value to purchasers

Requirements of the future

- > Integrating physician offices physically or virtually
- > Streamlining and capturing specialty referral patterns
- > Advances in IT tools and implementation integrating reimbursement, quality/safety indicators, and patient care management
- > Ability to reprice services under different payment scenarios and global budgeting

Things to watch out for

- > Payer initiatives linking in-patient events or outcomes with primary care
- > Reimbursement shifts favoring certain care settings
- > Pressure to reduce utilization of some “avoidable” services
- > Demonstration projects

Conclusion

- > Future Medicare payment increases will be in the performance-driven bucket
- > ACO models are a potential game-changer
- > Integrated payment methodologies are likely to drive integration of providers and their facilities under one umbrella

To continue the discussion.....

Dan Grauman, President & CEO

dgrauman@dgapartners.com

800-241-5268 ext. 222