

HEALTH REFORM, BUNDLED PAYMENTS, AND ACCOUNTABLE CARE ORGANIZATIONS – IMPLICATIONS FOR PHYSICIAN ALIGNMENT STRATEGIES

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Agenda

- > Drivers of Physician-Hospital Alignment
- > Health Reform or Not
- > Accountable Care Organizations (ACOs)
- > Bundled Payments and other Payment Innovations

Reform or not, healthcare is transforming

> Hospital employment of physicians

- o Employed but often not yet integrated at hospitals

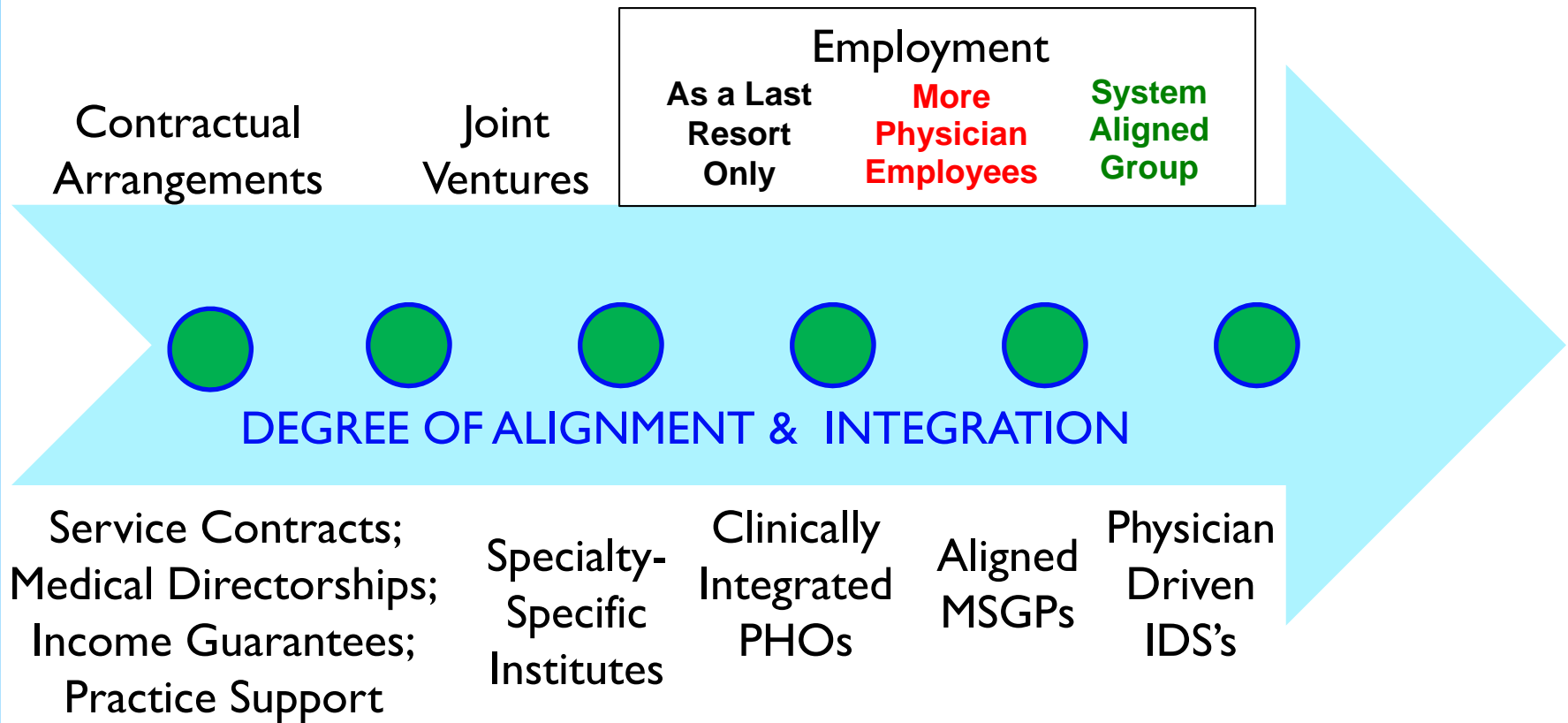
- > Compensation design is critical
- > Struggling to engage employed physicians
- > EHRs may help

- o Hospital challenge: Living with a mix of employed and independent physicians

- > Must still engage independent physicians
- > Some powerful physician groups

> A push for value and quality

Physician-Hospital alignment models



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

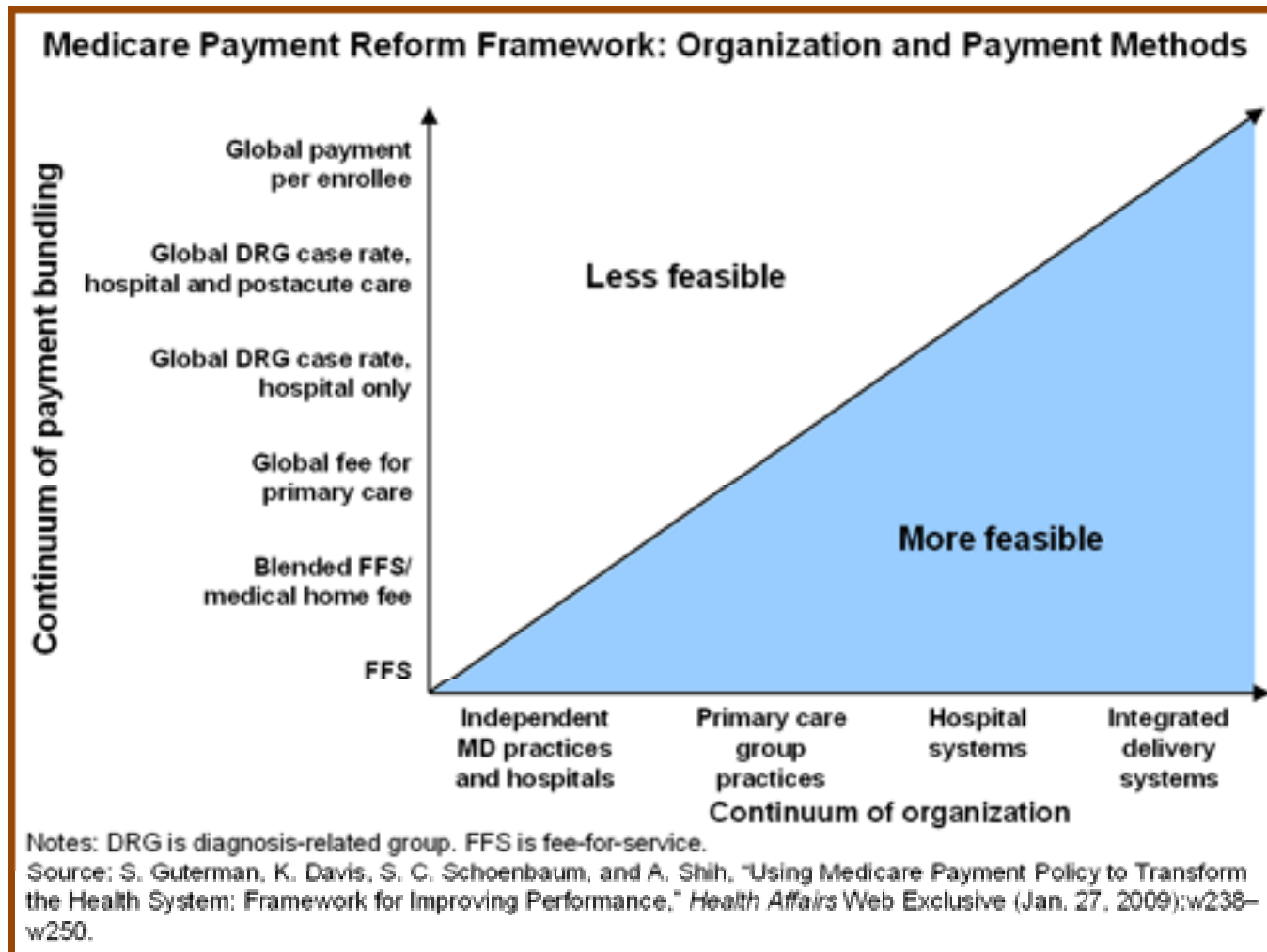
HOSPITAL

- > 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

Integrated payment methods may drive integrated system growth

- > Easier to address within one Integrated Delivery System (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

Integrated payment methodologies may drive integration of delivery systems



How would health reform affect Physician-Hospital alignment?

Changing the
payer
marketplace

Promoting
payment
innovations

Accelerating
integrated
delivery
system
development

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

Why payment innovations?

- > Broad consensus 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

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
Case Rates	Bundled Payments
Episode of Care	Bundled Payments
Primary Care Capitation	Medical Home

- > Translation isn't perfect, but you get the idea
- > May work better this time
 - o Hospitals and physicians are more integrated
 - o Information technology
 - o Medicare creates critical mass

Because “that’s where the money is”

> 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

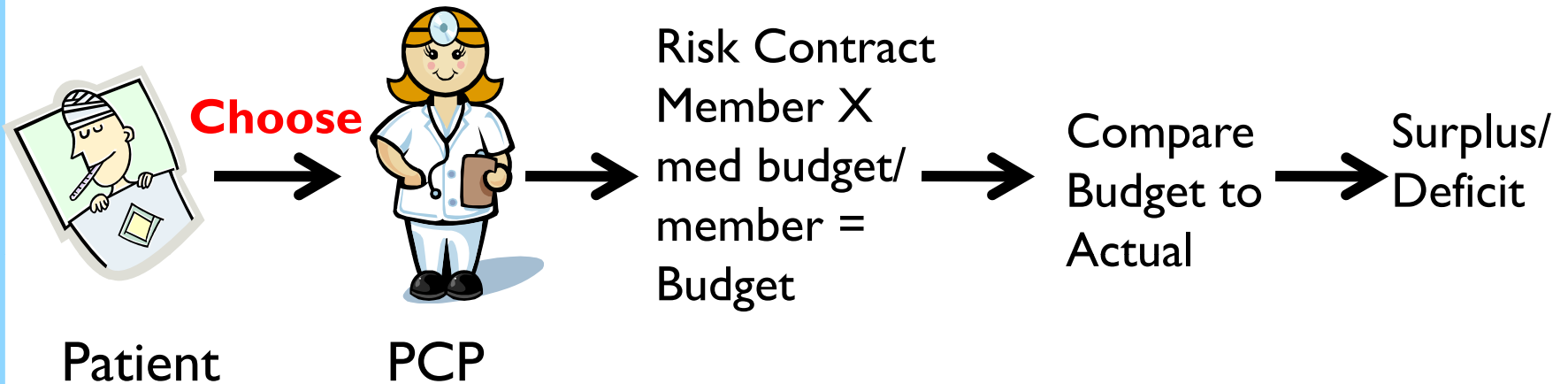
Much is driven by physician decisions

Accountable Care Organizations (ACOs)

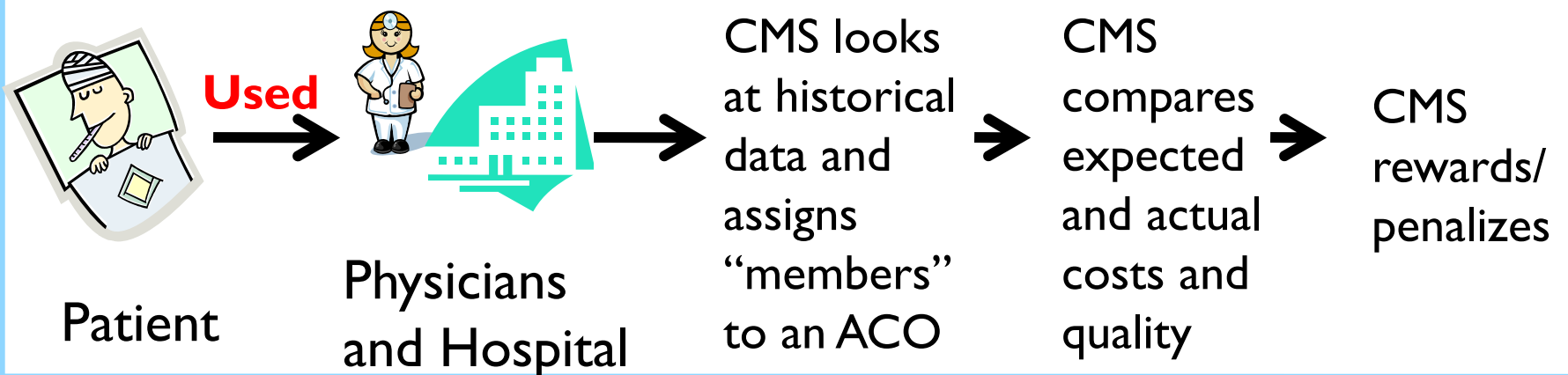
- > An ACO is an organization of providers that takes collective responsibility for improving patient care
 - o Includes physicians, hospitals, other providers
- > Two payment approaches
 - o Bonuses on top of FFS
 - o Global capitation
- > Medicare is a focus

Financing ACOs

Risk Contract



ACO

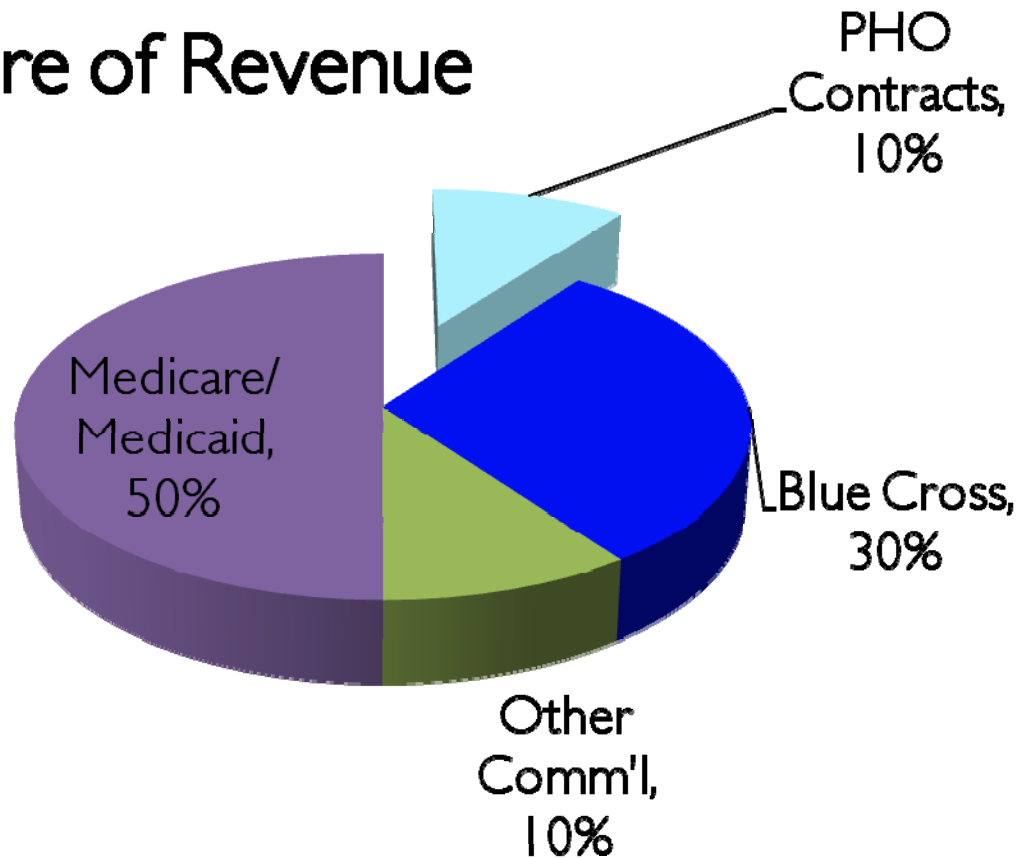


This sounds like a PHO risk contract, Why would it work this time?

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

Typical PHO involvement in local market

Share of Revenue



- > Large payers often bypass PHOs
- > PHO is a small percentage of physician practice and hospital revenue

Should we reinvigorate our PHO?

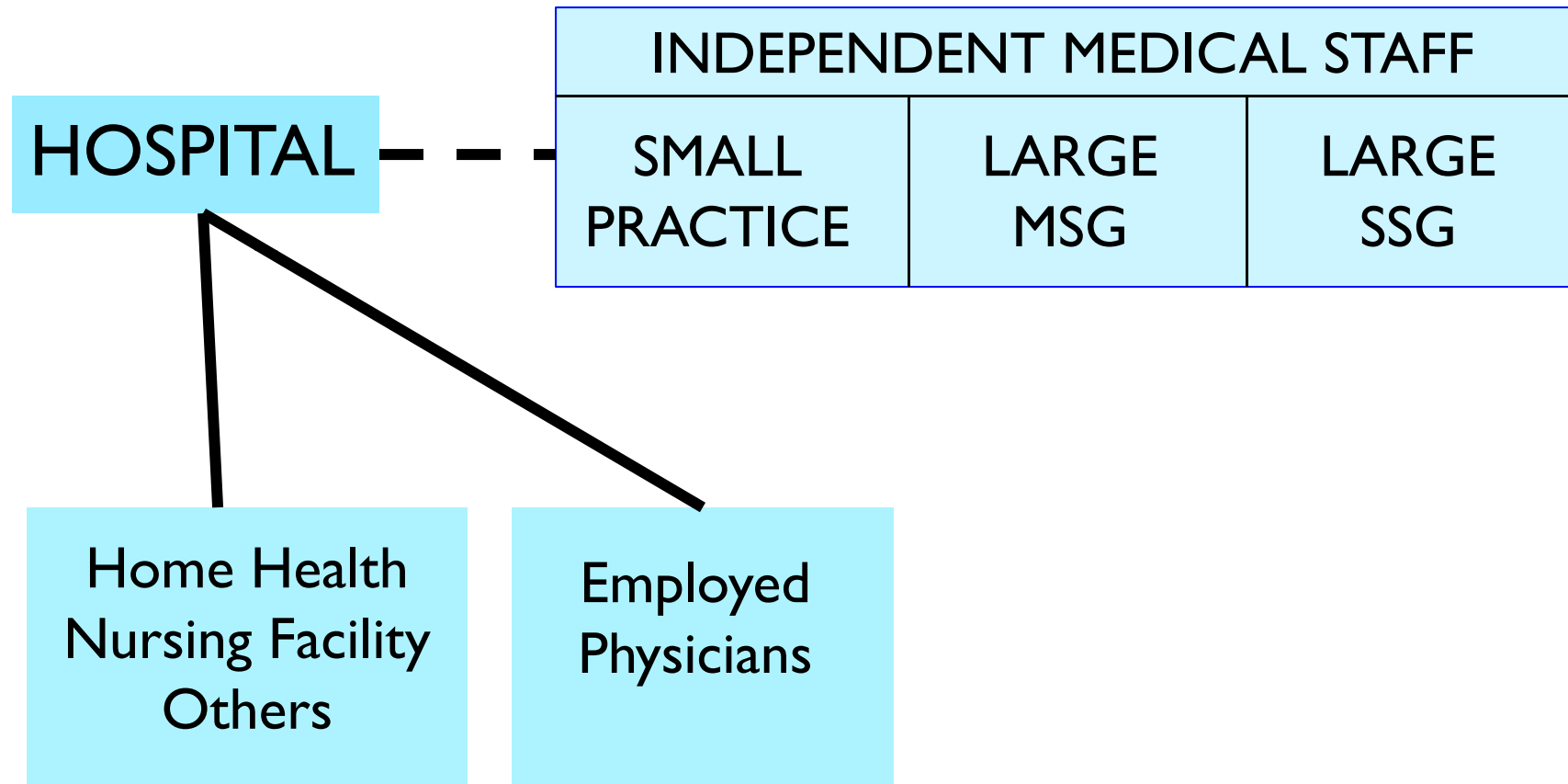
> The answer is “maybe”

- Evaluate capabilities
- Consider history and trust

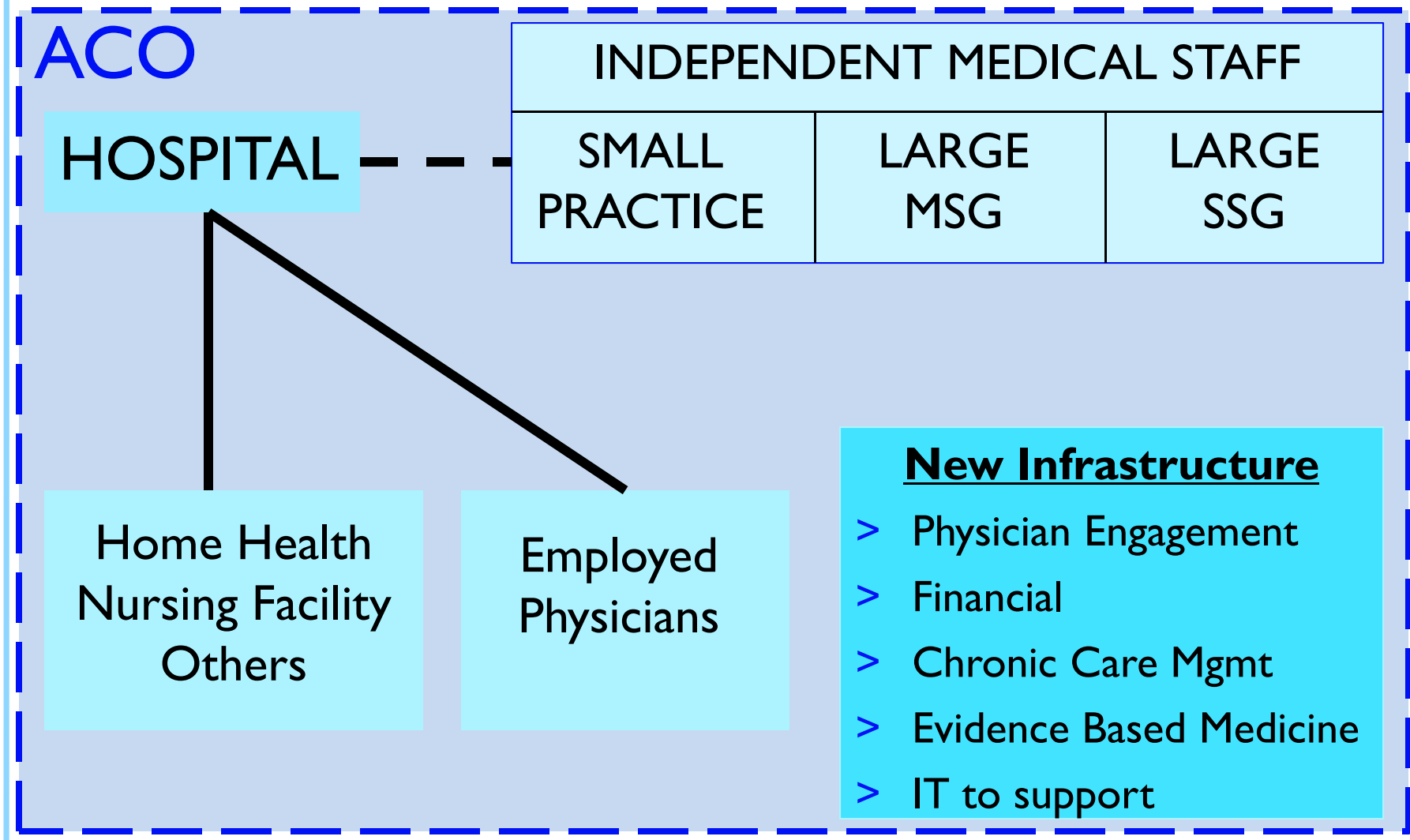
ACO prognosis

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

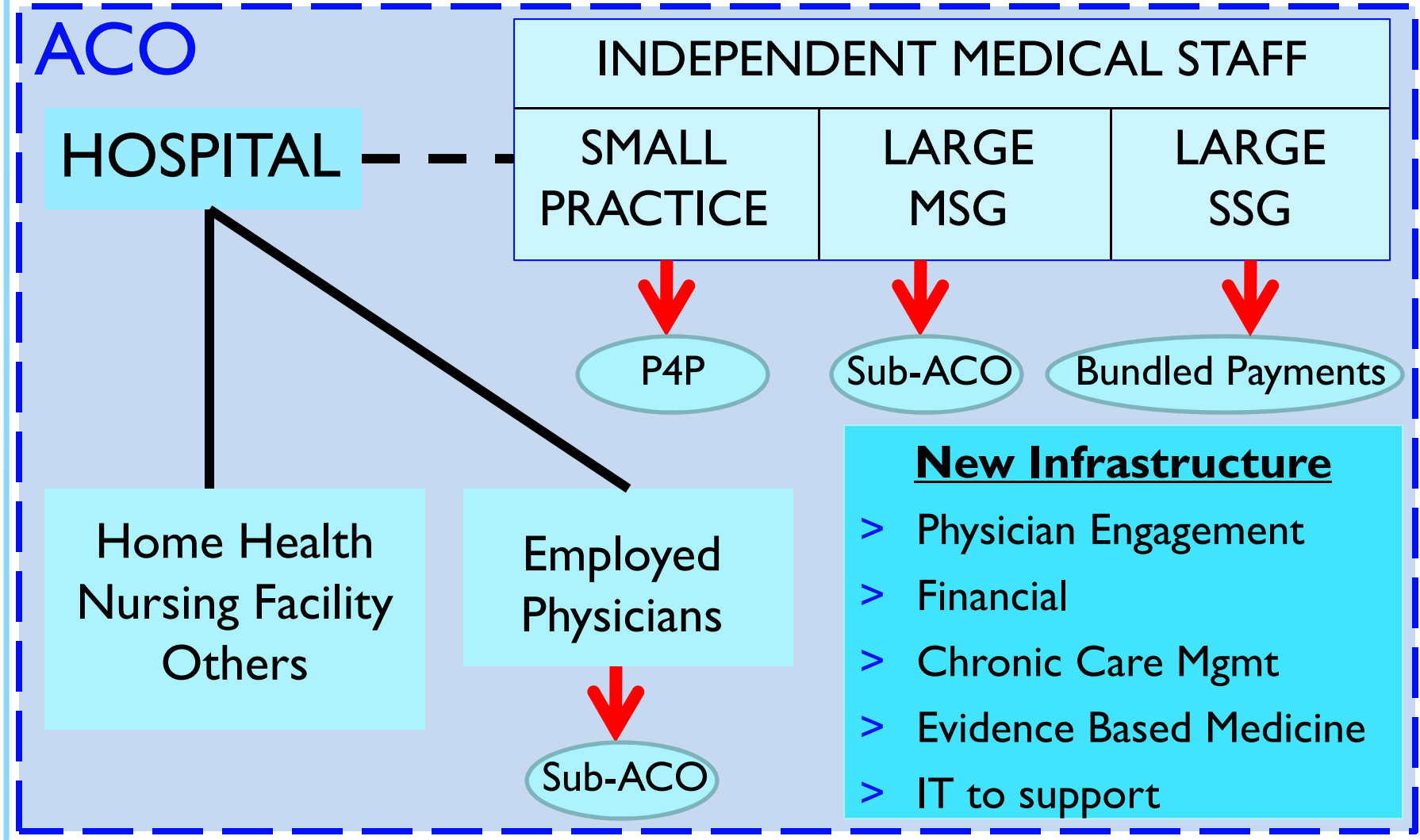
Typical hospital/health system structure



ACO infrastructure



Over time, some physicians will probably shift to employment or closer alignment



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

- > A patient's entire 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

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

Conclusion

- > Future Medicare payment increases may be in performance-driven bucket until X% of payments to providers are performance-driven
- > ACOs are a potential game-changer
- > Integrated payment methodologies are likely to drive integration of providers

To continue the discussion

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