

HEALTH REFORM: THE IMPACT ON PROVIDER-PAYER RELATIONSHIPS

AAIHDS

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HOW WILL HEALTH REFORM AFFECT PROVIDER-PAYER RELATIONSHIPS?

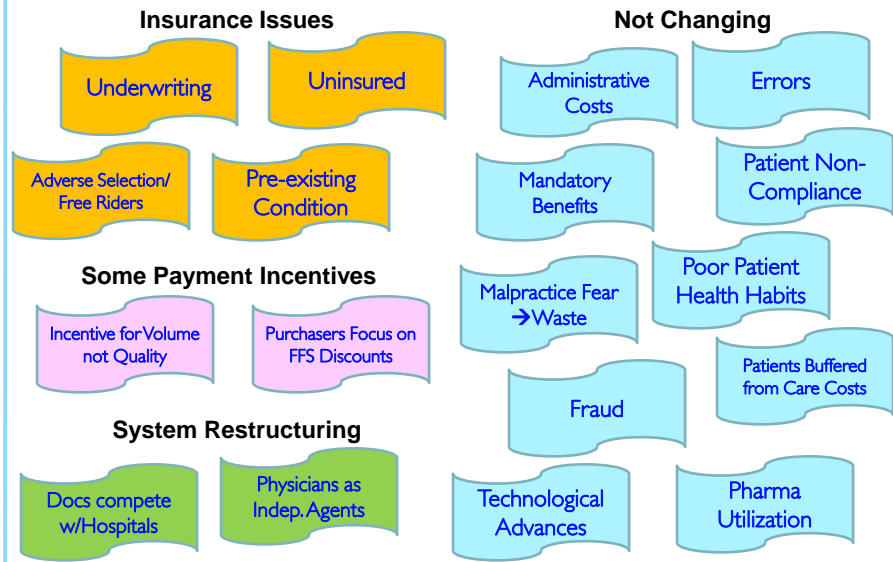
Changing the
payer
marketplace

Promoting
payment
innovations
through
Medicare

Accelerating
integrated
delivery
system
development

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WHAT'S SLATED TO CHANGE WITH REFORM?



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IMPLICATIONS FOR PAYERS

INSURANCE REFORM

- > Limitations on underwriting
- > Health insurance exchange (HIE)
- > Near “universal” coverage
- > Increased federal regulatory involvement
- > Public option – 2 out of 3 bills

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IMPLICATIONS FOR PAYERS

CHANGES IN UNDERWRITING

- > Small groups and individual market
 - o Guaranteed issue
 - o Prohibition on pre-existing condition exclusion
 - o Premium rating variation limitations
 - > e.g., only for family structure, geography, health plan benefit actuarial value, tobacco use, age
- > Maintenance of large group fully-insured and self-insured market

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IMPLICATIONS FOR PAYERS

HEALTH INSURANCE EXCHANGE

- > One-stop shop for private and public insurance products for individual and small group market
- > State-run (Senate Finance Committee and Senate HELP Committee) or national (House)
- > Defined benefit categories (3 or 4)

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IMPLICATIONS FOR PAYERS

“UNIVERSAL” COVERAGE

- > Individual mandates
 - o Enforced through tax penalty on individuals and employers
- > Premium credit subsidies to individuals eligible
- > Subsidies/penalties to small employers
- > Tax on high-cost plans – 1 of 3 bills
- > Increased enrollment for payers
 - o Likely some pent up demand

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IMPLICATIONS FOR PAYERS

INCREASED FEDERAL REGULATION

- > Minimum benefits
- > Underwriting regulations
- > Coverage mandates and penalties
- > Eligibility for subsidies

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IMPLICATIONS FOR PAYERS

PUBLIC OPTION

- > Community health insurance option offered through HIE (Senate HELP and House Only)
 - o Financed by premiums (not directly subsidized)
 - o Negotiated payment levels with providers (Not Medicare rates)
 - o Provider opt-out
- > Consumer Operated and Oriented Plan (COOP) member run in all 50 states (Senate Finance)
- > Rhetoric is intense
 - o “The end of private health insurance”

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Changing the payer marketplace

Promoting payment innovations through Medicare

Accelerating integrated delivery system development

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PAYMENT INNOVATIONS

- > Broad consensus FFS is not working
- > Medicare Part A → bankrupt by 2017
- > Little public discussion about payment methodology changes
- > Reform is likely to give Secretary of Health broad power to redesign Medicare payment
- > When Medicare changes, commercial payers follow

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PAYMENT INNOVATIONS

PAYMENT MODELS UNDER DISCUSSION

- > Medical homes
- > Bundled payments
- > Accountable Care Organization (ACO)/
Accountable Health Organization (AHO)
- > Pay for Performance
- > Also hope for savings from
 - o Comparative Effectiveness Research
 - o EHRs

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DÉJÀ VU ALL OVER AGAIN

THEN	NOW
Global Capitation	ACO/AHO
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

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PAYMENT INNOVATIONS

BECAUSE "THAT'S WHERE THE MONEY IS"

- > Chronic disease
 - o Expenditures on chronic illness account for 75% of total US health spending
 - o Significant costs are preventable
- > Hospitalizations and care transitions
 - o Engaging physicians to manage hospital costs
 - o Avoiding readmissions

Much is driven by physician decisions

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PAYMENT INNOVATIONS

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 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

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PAYMENT INNOVATIONS

BUNDLED PAYMENTS

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

Hospitals employing physicians may help

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PAYMENT INNOVATIONS

**ACCOUNTABLE CARE ORGANIZATIONS
(ACOS/AHOS)**

- > Hospital receive a global capitation payment and allocate money to involved providers
- > Pilot programs
 - o Mixed results in a North Carolina Medicaid demo
- > Prognosis
 - o Assignment of lives is an issue
 - o Probably requires IDss
 - o Interest in Congress and in Massachusetts
 - o Upside-only could be designed

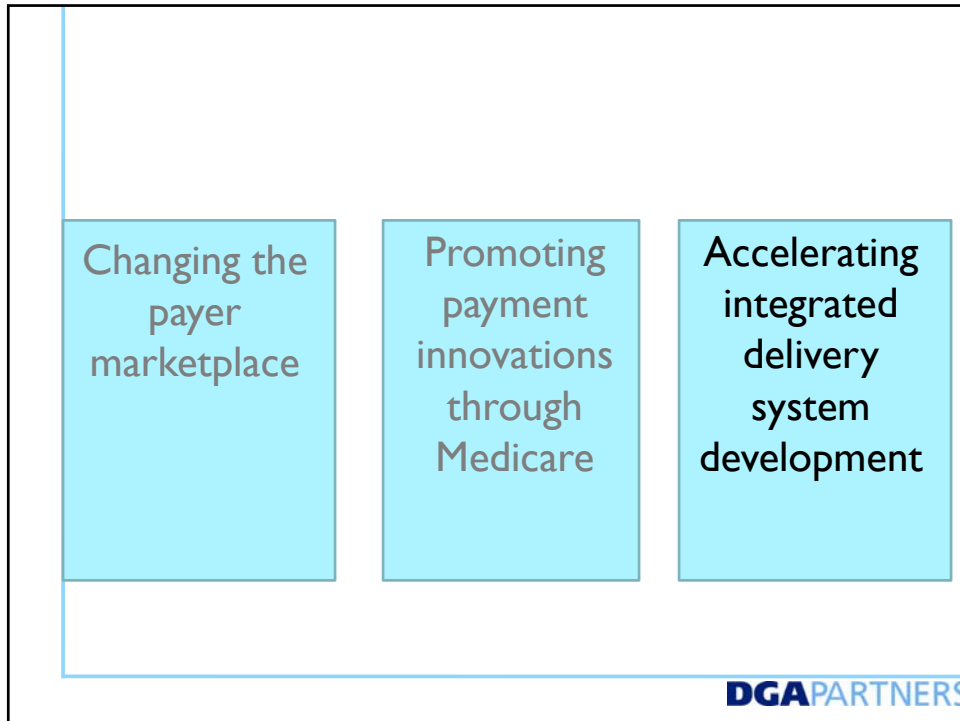
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PAYMENT INNOVATIONS

PAY FOR PERFORMANCE

- > Payment tied to quality targets
- > Pilot programs (for example)
 - o 225 hospitals shared \$12 million bonus, poor performers penalized
 - o Improved quality, but incentive seen as low
- > Prognosis
 - o Improved care, but is it enough \$?
 - o Mostly improves quality, not costs
 - o Medicare likely to continue (e.g., PQRI)

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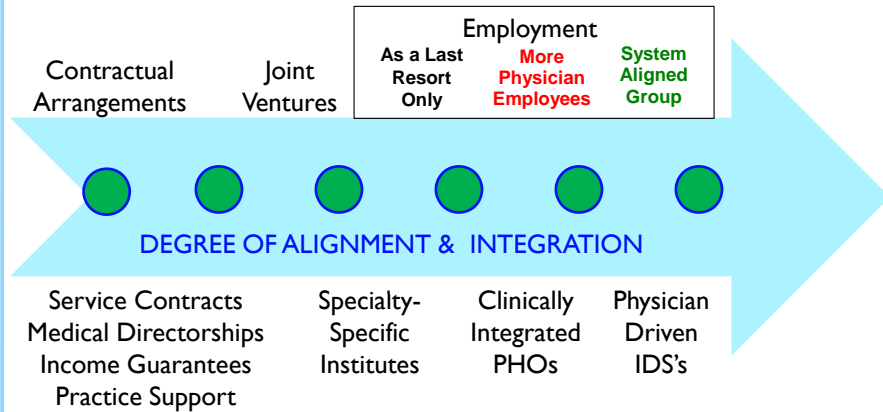
THE OTHER REFORM

- > Health care delivery is already transforming
 - o Hospital employment of physicians
- > Employed but often not yet integrated
 - o Compensation design is critical
 - o Struggling to engage employed physicians
 - o EHRs may help
 - o Still mostly FFS reimbursement and incentives
- > Challenge: Living with a mix of employed and independent physicians

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IMPLICATIONS FOR PROVIDERS

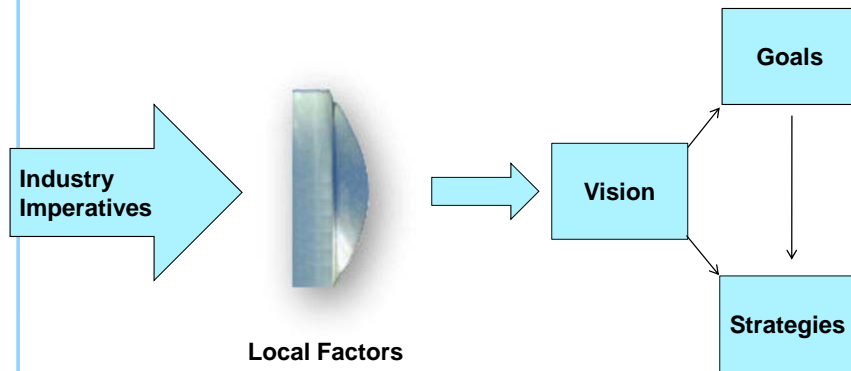
PHYSICIAN ALIGNMENT BUSINESS MODELS



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IMPLICATIONS FOR PROVIDERS

CHOOSING THE RIGHT STRATEGIES



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IMPLICATIONS FOR PROVIDERS

INTEGRATED PAYMENT METHODS WILL DRIVE INTEGRATED SYSTEM GROWTH

- > Easier to address within one Integrated Delivery System (IDS)
 - o Challenges still remain regarding aligning incentives
 - o Physicians will need to be engaged in managing the overall cost of care
- > Can address contractually with independent physicians, but messy

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IMPLICATIONS FOR PROVIDERS

IMPACT ON HEALTH PLAN ENROLLMENT

- > Uninsured will gain coverage adding to private plan market power
 - o Alternatively, public option may win share
- > Some IDSs may offer narrow network insurance products on an insurance exchange
 - o Can partner if no license
 - o May price low due to efficiencies and steerage

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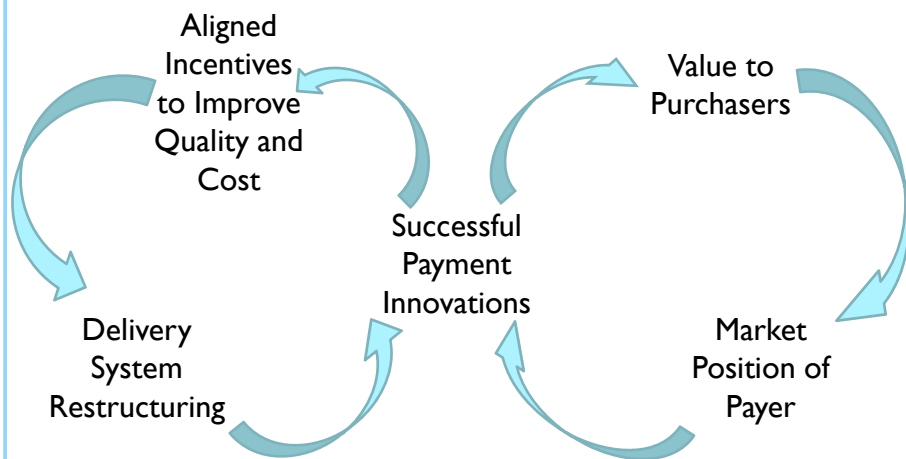
IMPLICATIONS FOR PROVIDERS

WHICH PAYMENT INNOVATIONS WOULD PROVIDERS PREFER?

- > Bundled payments are less of a stretch for hospital driven providers
- > Medical Home is more primary care focused than hospitals are now
- > ACO/AHO could be acceptable if it is more focused on upside than downside

Employed physicians and EHRs help for all

SUCCESSFUL PAYMENT INNOVATIONS CAN LINK PAYER AND PROVIDER SUCCESS



CASE STUDIES

CASE STUDY 1:
BC PLAN MAY ACQUIRE HOSPITAL

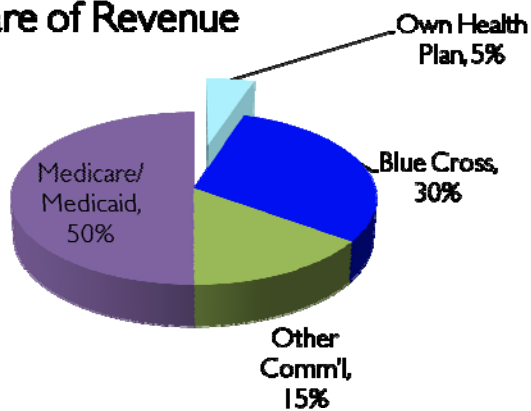
- > Insurer fears
 - o They cannot drive clinical change
 - o Will be beaten by integrated payer/provider competitors
 - o Will be forced to accept pricing from consolidated but non-integrated provider hold-outs
- > Plan
 - o Acquire hospital and its physician network

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CASE STUDIES

CASE STUDY 2:
IDS SETS NEW VISION FOR ITS HEALTH PLAN

Share of Revenue



- > Provider sponsored health plan
- > Too small to drive change, bear overhead

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CASE STUDIES

CASE STUDY 2:

IDS's HEALTH PLAN SHIFTING ROLE

- > Tired of being enemy of their own hospitals
- > Address high-volume payers
 - o Possible partnership with local Blues plan - tiered
 - o Seeking Medicare demos
- > Focusing on generating value
 - o Bundled payments
 - o Clinical innovation
- > Dropping health plan sales and underwriting functions

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WHICH PROVIDERS WILL WIN IN THE END?

Traditional

- > Independent physicians
- > Fee for service payments
 - o Incentive for volume
- > Hospitals focus on market share

Integrated

- > Integrated physicians
- > Bundled/integrated payments
 - o Incentive for value
- > Hospitals focus on delivering value to purchasers

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RESOURCES

> JHarris@DGApartners.com

> www.KFF.org

- o Side-by-side comparisons of reform proposals
- o Mathematica study –
“Strategies for Reining in Medicare Spending through
Delivery System Reforms”

> www.CommonwealthFund.org

- o ACOs

> www.HealthAffairs.org

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