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Hospital Trends and Strategies:

Collaborating in a Value-based Healthcare Model

Brent Petty, CMRP

OUR JOURNEY CONTINUES!

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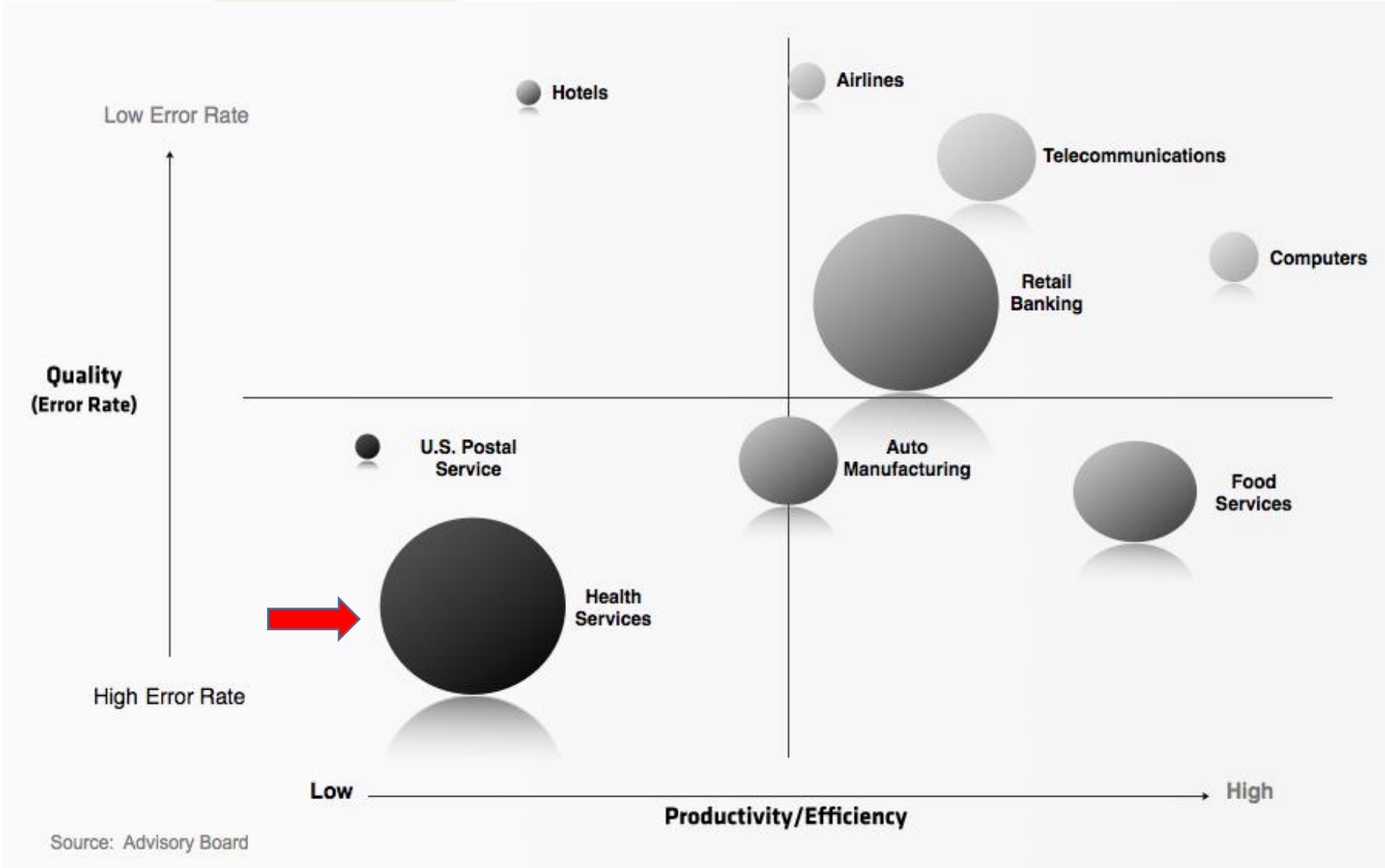
Healthcare lags behind other industries in terms of quality…



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How are we Doing as a Country with Healthcare?

Measure	United States	Rest of World	How does the U.S. Compare
Percent of GDP	17.8%	9.6 to 12.4%	Worst
Population ≥ Age 65, Percent	14.5 %	18.2%	Youngest
Smoking Percent	11.4%	16.6%	Second Lowest
Overweight/Obese	70.1%	55.6%	Worst
Life Expectancy (years)	78.8	81.7	Worst
Infant Mortality, deaths per thousand live births	5.8	3.6	Worst
Administration cost as a percent of total health costs	8%	1 – 3%	Worst
Pharmaceutical Costs per capita	$1,443	$466 - 939	Worst
Annual Salaries – Generalist Physician	$218,173	$86,607 – 154,126	Highest

Countries: United States and ten other highest-income countries (United Kingdom, Canada, Germany, Australia, Japan, Sweden, France, the Netherlands, Switzerland, and Denmark

Source: Health Care Spending in the United States and Other High-Income Countries, Irene Papanicolas, PhD; Liana R.Woskie, MSc; Ashish K. Jha, MD, MPH. JAMA | Special Communication, JAMA. 2018;319(10):1024-1039. doi:10.1001/jama.2018.1150.

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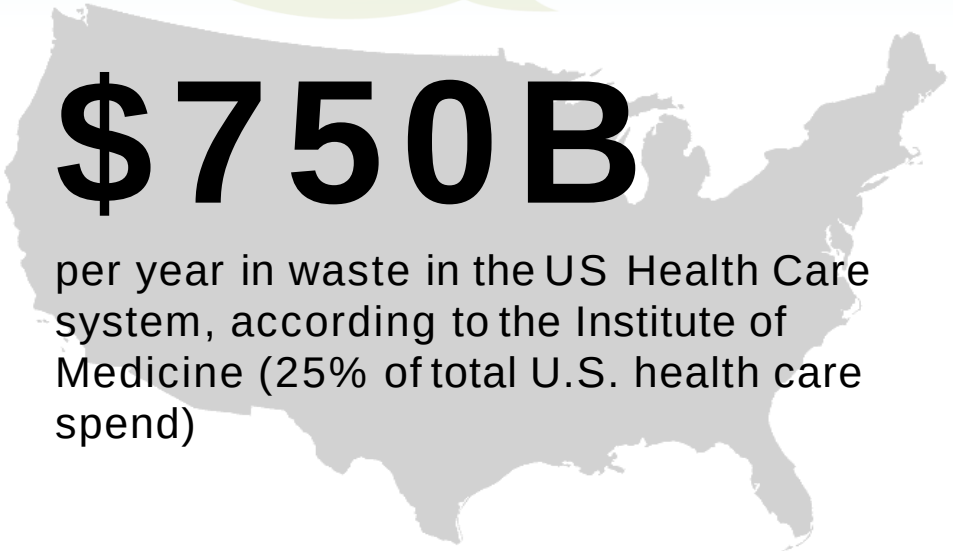
Too much waste in the U.S. health care system!



$750B

per year in waste in the US Health Care system, according to the Institute of Medicine (25% of total U.S. health care spend)

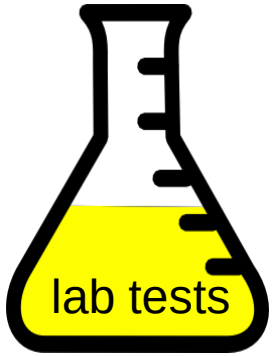
- Unnecessary services: ~$210
- Excess admin costs: ~$190
- Inefficient delivery of care: ~$130
- Inflated prices: ~$105
- Fraud: ~$75
- Prevention failures: ~$55

68% of specialists receive no information from Primary Care physician prior to referral visit

60-70% of referrals go unscheduled

25% of appointments are missed

3 out of 10



are reordered because results are lost!

Institute of Medicine report: 'Best Care at Lower Cost: The Path to Continuously Learning Health Care in America"

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Why is this important?

- **Health care is still transforming – make no mistake about it!**

- **As Health care transforms, Health Systems also have to change:**
  - Your role – less transactional; more strategic
  - You play a key role in helping user/technical/clinical buyers become more relevant to their C-suite
  - You become earnings/growth partners with your providers

- **Supply Chain and their partners must distinguish between the 'decision-makers' and 'decision-influencers' and address both accordingly.**

- **Supply Chain and their partners need to be considered part of the *solution*, not part of the *problem*.**

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A Relentless Focus to Reduce the Total Cost of Care: The New Normal

Radical operational performance improvement – make money on Medicare pricing

- Reduce costs and improve operating margin to make money on Medicare; **cut costs 14 – 20+ percent.**
- Average 2016 Medicare margin projected to be *negative* 9% [1]

Key areas of focus

- Cutting direct costs (FTEs, Drugs, Services)
- Reducing variation of care is KEY
- Leveraging size to negotiate better pricing
- Increasing operational efficiencies
- Value-based purchasing – improving quality and experience
- Value-based contracting
- Physician engagement
- Creating value through population health management

1 F. Crosson, Report to the Congress: Medicare Payment Policy. Medicare Advisory Payment Commission, March 2016 http://www.medpac.gov/documents/reports/march-2016-report-to-the-congress-medicare-payment-policy.pdf, last visited August 16, 2016.

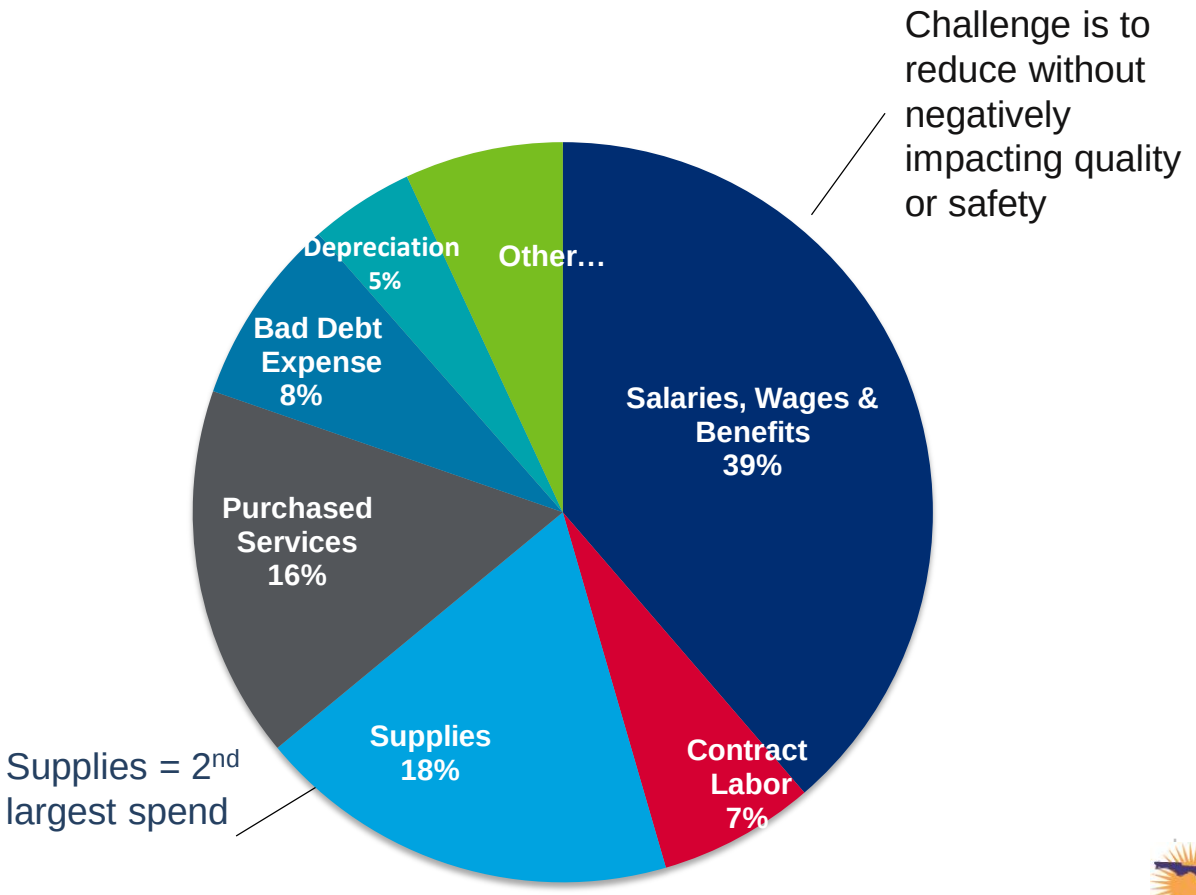
The US Health Care System Today… Remember the Math!

Key Information:

Under reform, fully phased-in hospital cuts (2019):

- **At BEST**, baseline payment MINUS 14% (across-the-board cuts only)
- **At WORST**, baseline payment MINUS 20% (across-the-board PLUS quality cuts)

Health Systems Typical Spend Breakdown



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CEO #1 Priority “Sustainable Cost Control”

BECKER'S HOSPITAL REVIEW

The No. 1 priority for hospital CEOs? Cost control

Written by Alyssa Rege | July 11, 2018 | Print | Email

Cost control surpassed revenue growth as the top priority for hospital and health system CEOs in 2018, according to the Advisory Board's Annual Health Care CEO Survey.

The nationwide survey, conducted between December 2017 and March 2018, included the responses of 146 C-suite executives from hospitals and health systems. Sixty-two percent of those surveyed identified preparing their organization for sustainable cost control as their foremost priority — the most for any concern outlined in the survey during the past four years.

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From Washington:

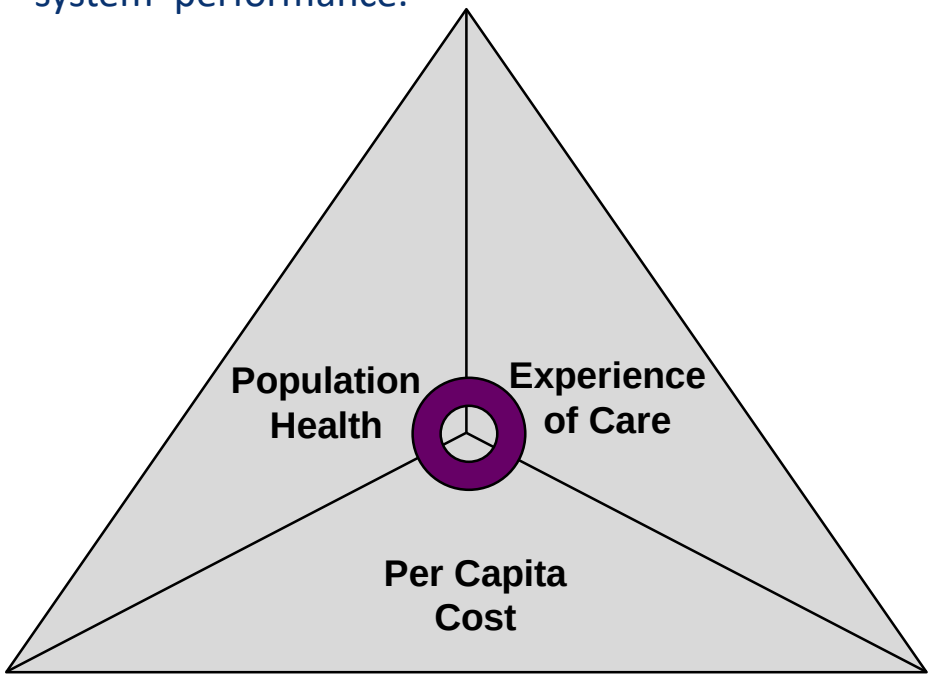
*"There is no turning back to an unsustainable system that **pays for procedures rather than value**. In fact, the only option is to charge forward — for HHS to take bolder action, and for providers and payers to join with us. This administration and this President are not interested in incremental steps. We are unafraid of disrupting existing arrangements simply because they're backed by powerful special interests."*

Alex M. Azar II - Federation of American Hospitals March 5, 2018 Washington, D.C.

U.S. Healthcare

IHI TRIPLE AIM:

The Institute for Healthcare Improvement (IHI) Triple Aim is a framework developed to describe an approach to optimizing health system performance.



CQO MOVEMENT:

The AHRMM Cost, Quality, and Outcomes (CQO) Movement looks at the intersection of, and the relationship between:

COST – all costs associated with caring for individuals
QUALITY – care aimed at achieving the best possible health
OUTCOMES – financial results driven by exceptional patient outcomes

COST QUALITY OUTCOMES ™

CQO: The Health Care Supply Chain

- Ability to define the value of a device or drug in terms of these goals
- Defining value from a provider or patient's perspective

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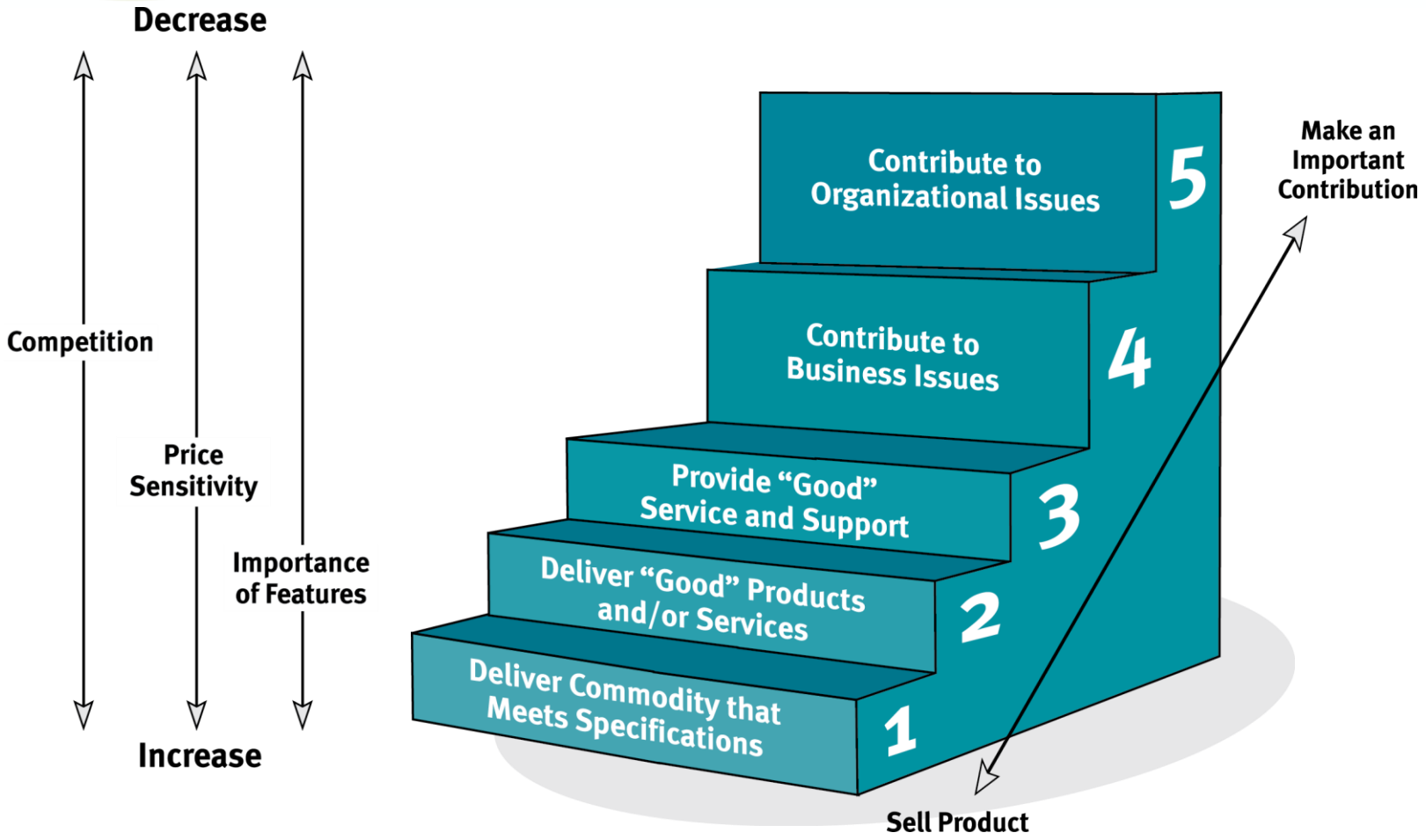
Where are you in your collaborations?



Source: Miller Heiman

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What is value-based contracting, and why is it of interest?

- Identifies a set of outcomes, mutually recognized by payers and manufacturers, that reflects the clinical or economic benefits.
- Defines the measurement of these outcomes in real-world populations and specifies the data sources, processes, and thresholds that represent “good” and “poor” outcomes.
- How a product or service impacts:
  - Cost, Quality, and Outcomes
  - Population Health, Experience Of Care, and Per Capita Cost
  - Market Share
  - Reduction of Variation
  - Service Guarantee
  - Define Outcomes

Value-based contracting

Pharma led the charge

2009 Cigna and Merck inked a deal for Januvia and Janumet – type 2 diabetes drugs [1]

- Merck provided patients a discount on the two rugs if the lowered their blood sugar levels after 1 year and additional rebates if they took the drugs according to MD instructions.
- Cigna put the drugs on a low co-payment tier to help influence adherence

Guaranteed performance:

Financial incentive to use the product; financial penalty if it fails.

1. "Value-based drug contracting shifts risk to manufacturers" Mari Edlin, *Managed Healthcare Executive,* Jun 3, 2017

Value-Based Contracting

Value = outcomes achieved per $ spent

Traditional Contracting = volume driven or simple fee-for-service based-payment for every unit of service delivered

Value Based Contracting = Incentives based on indicators (KPIs/Metrics)

Value-based Contracting

KPIs Metrics – shared goals

- Service – patient satisfaction – Inpatient, Outpatient, ED, Home
- Work life - employee safety and satisfaction
- Quality – clinical indicators
- Finance – net Income, net revenue per case, cost per case

Financial Incentives

- Penalties for not performing to standard
- Additional payment incentives for going above and beyond

Leadership Alignment

- Supplier and hospital leadership need to agree on and hold one another accountable
- Business planning to align goals

Value Mindset

- Look at the Total Cost of Ownership rather than pure price
- Will spending a little extra for QUALITY service yield savings elsewhere

Conclusion:

- **Value based Contracting is a reality**
  - Value based programs will drive increase focus on cost-effectiveness of all aspects of care delivered
  - Patients as consumers will ultimately define value
- Increasing demand for clinical evidence to support products
- Can you answer this question:
  - “In my bundled payment cases, this product will represented an increased cost that will directly reduce my Health System reimbursement. Why should I use it?”
- Understand the clinical and economic impact of your products

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