



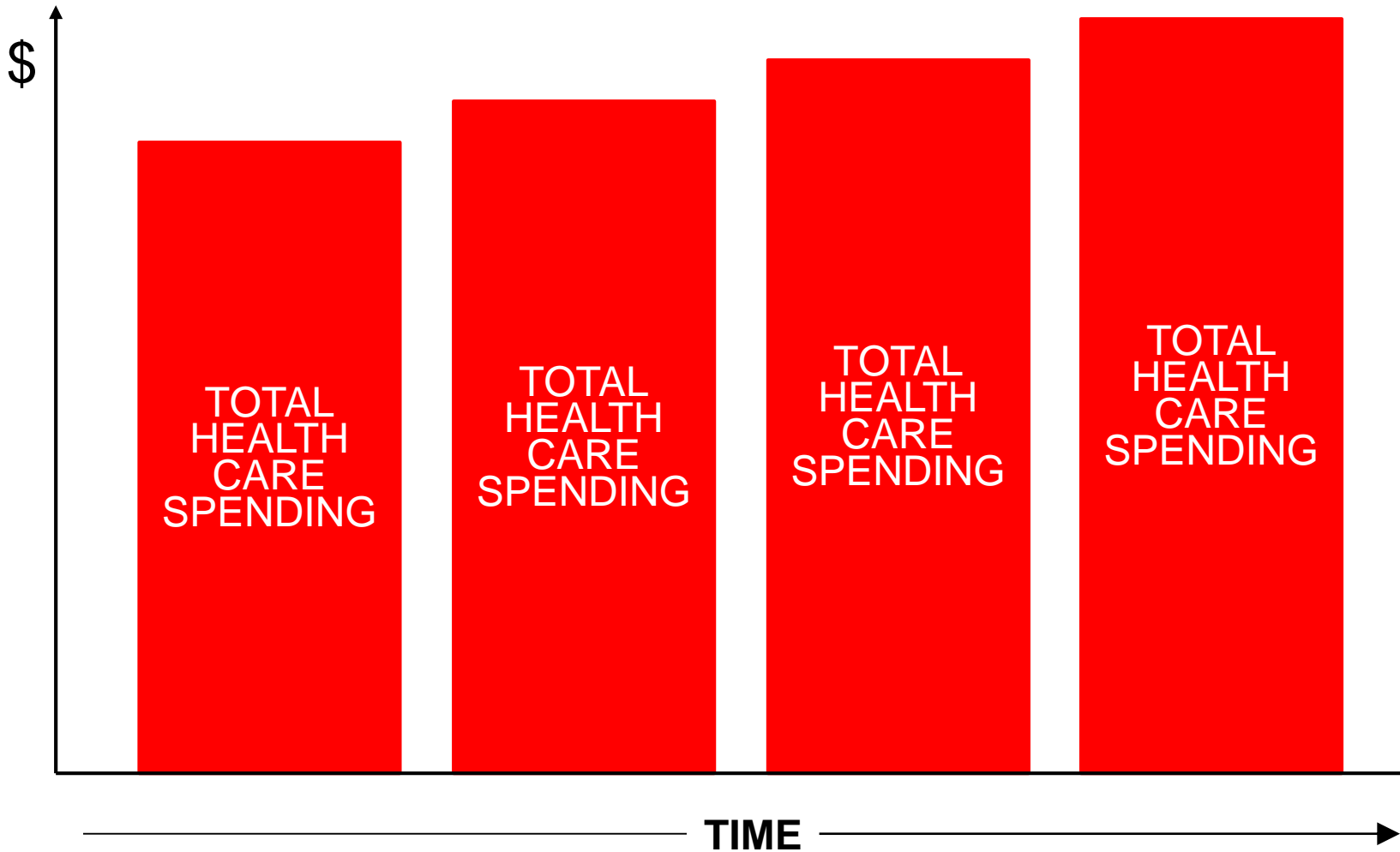
# **THE BUILDING BLOCKS OF SUCCESSFUL PAYMENT REFORM**

## **Designing Payment Systems That Support Higher-Value Health Care**

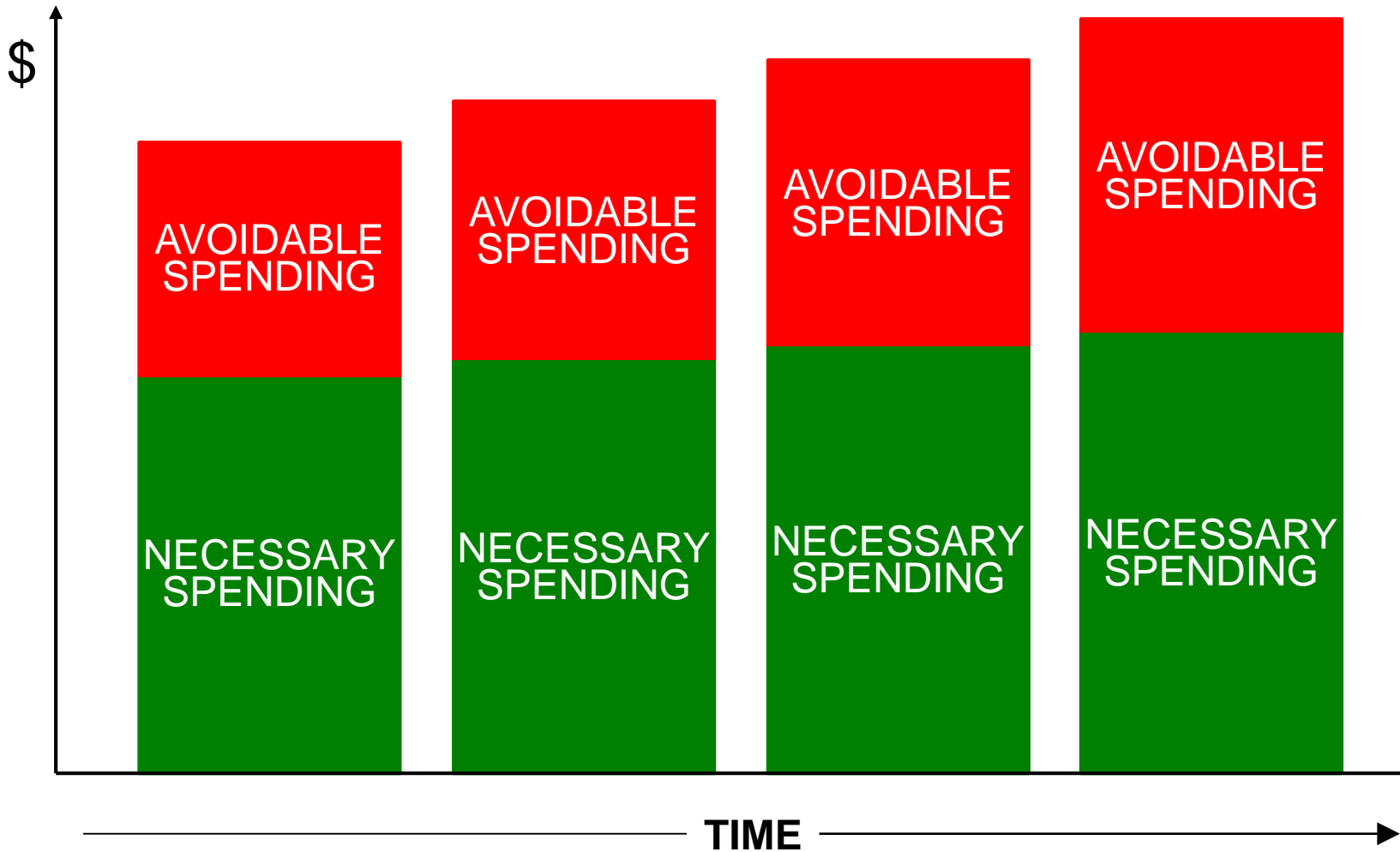
**Harold D. Miller**  
President and CEO  
Center for Healthcare Quality and Payment Reform

[www.CHQPR.org](http://www.CHQPR.org)

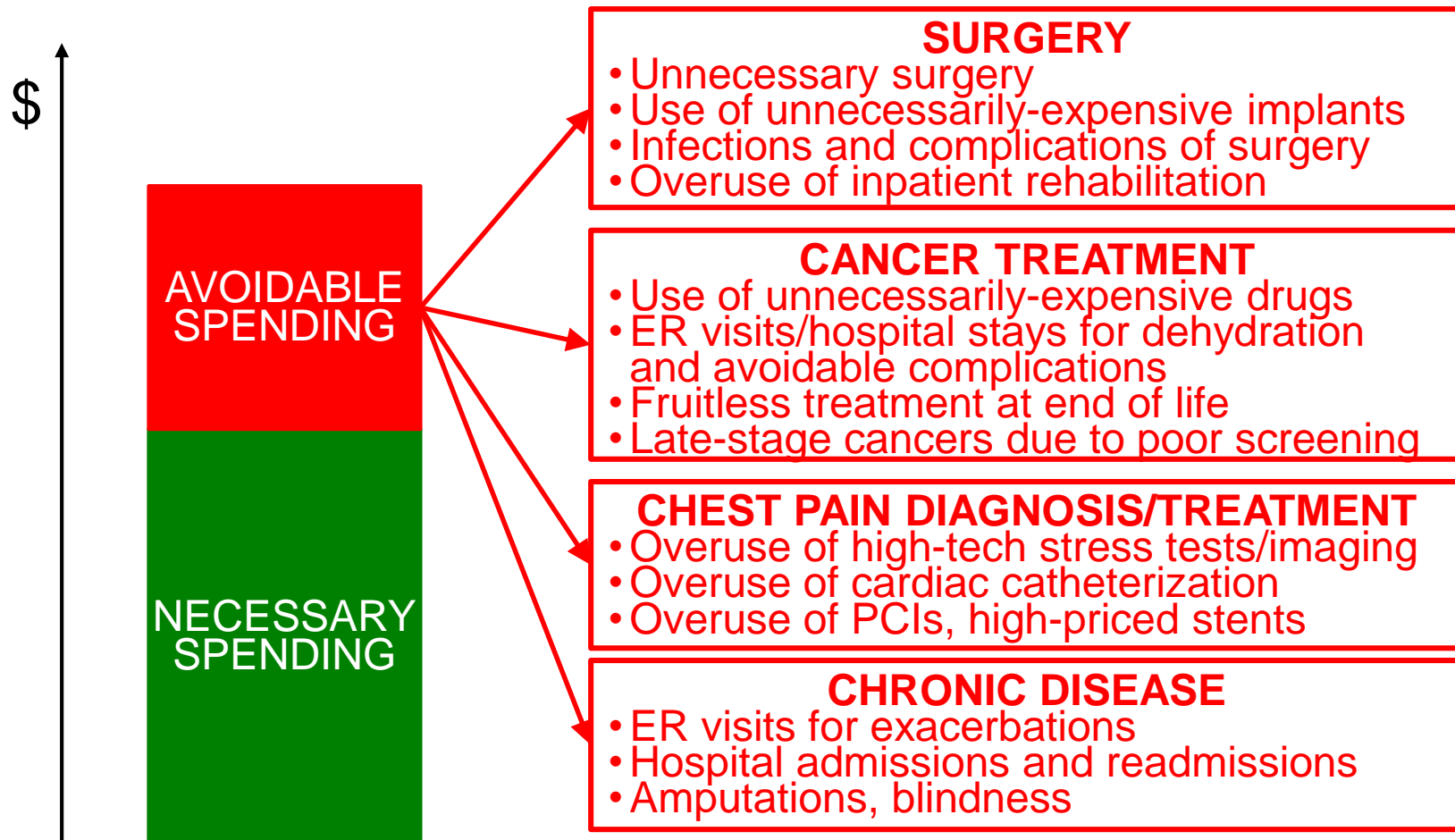
# How Do You Control Growing Healthcare Spending?



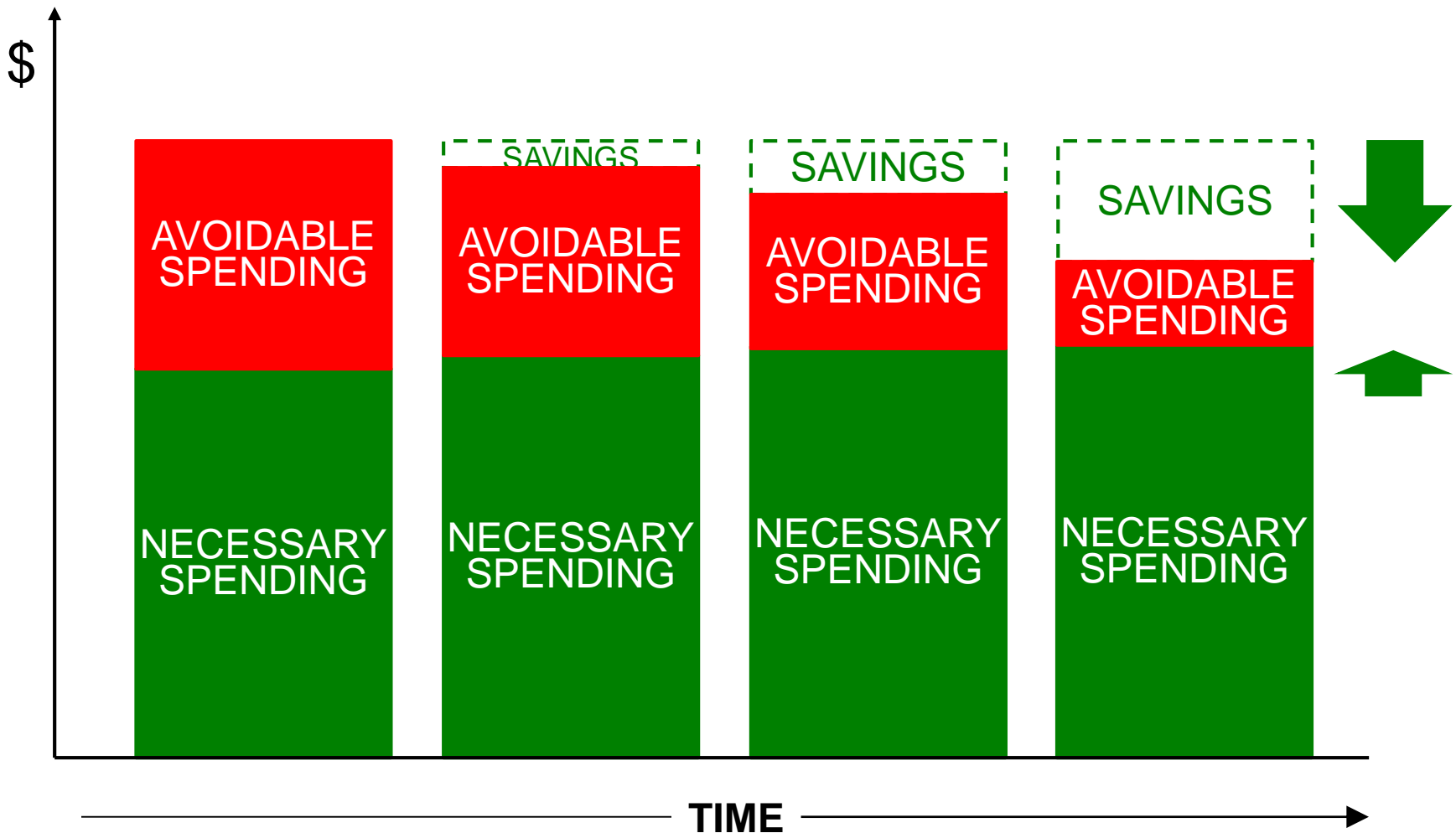
# The Opportunity: Spending That is Unnecessary or Avoidable



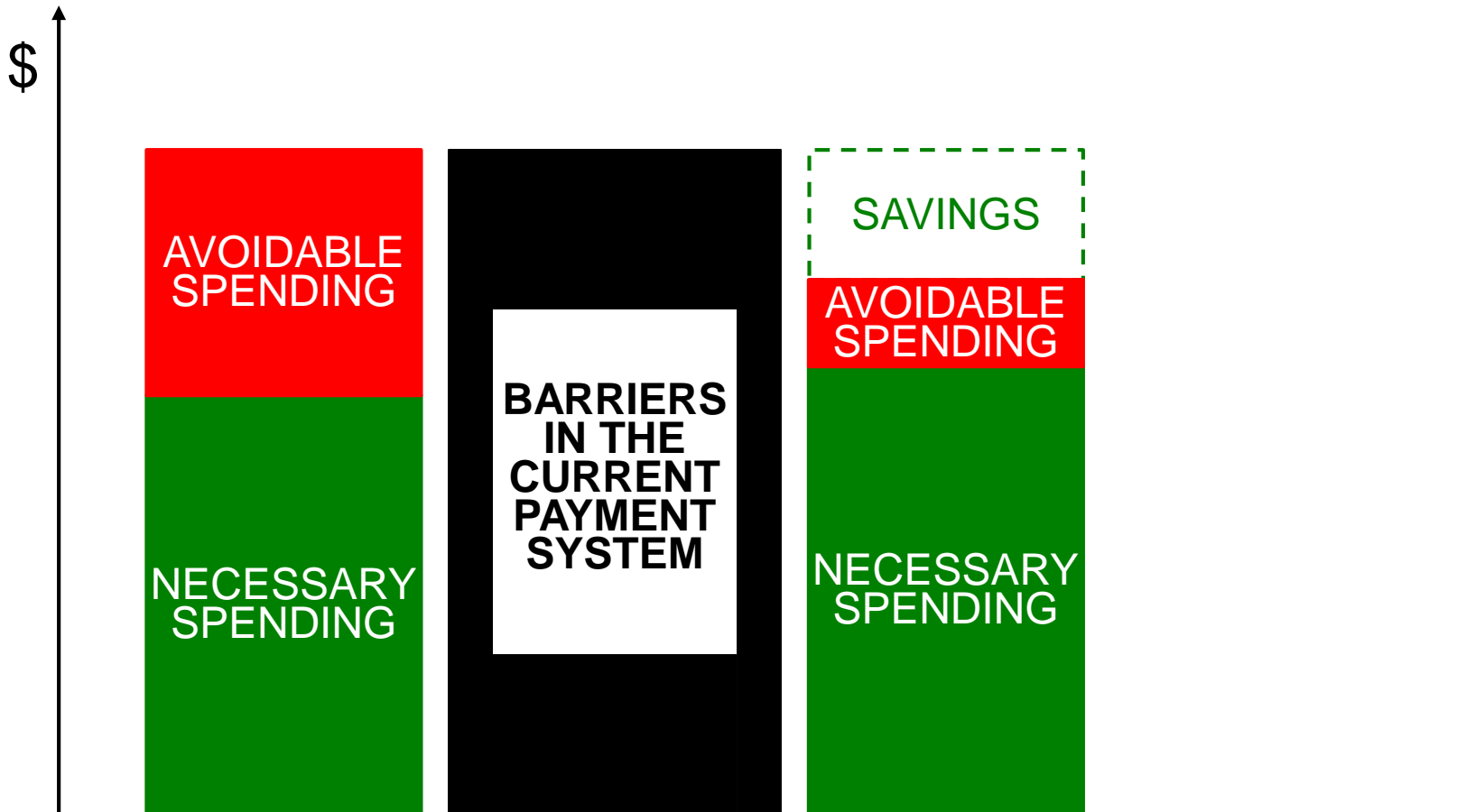
# Avoidable Spending Occurs In All Aspects of Healthcare



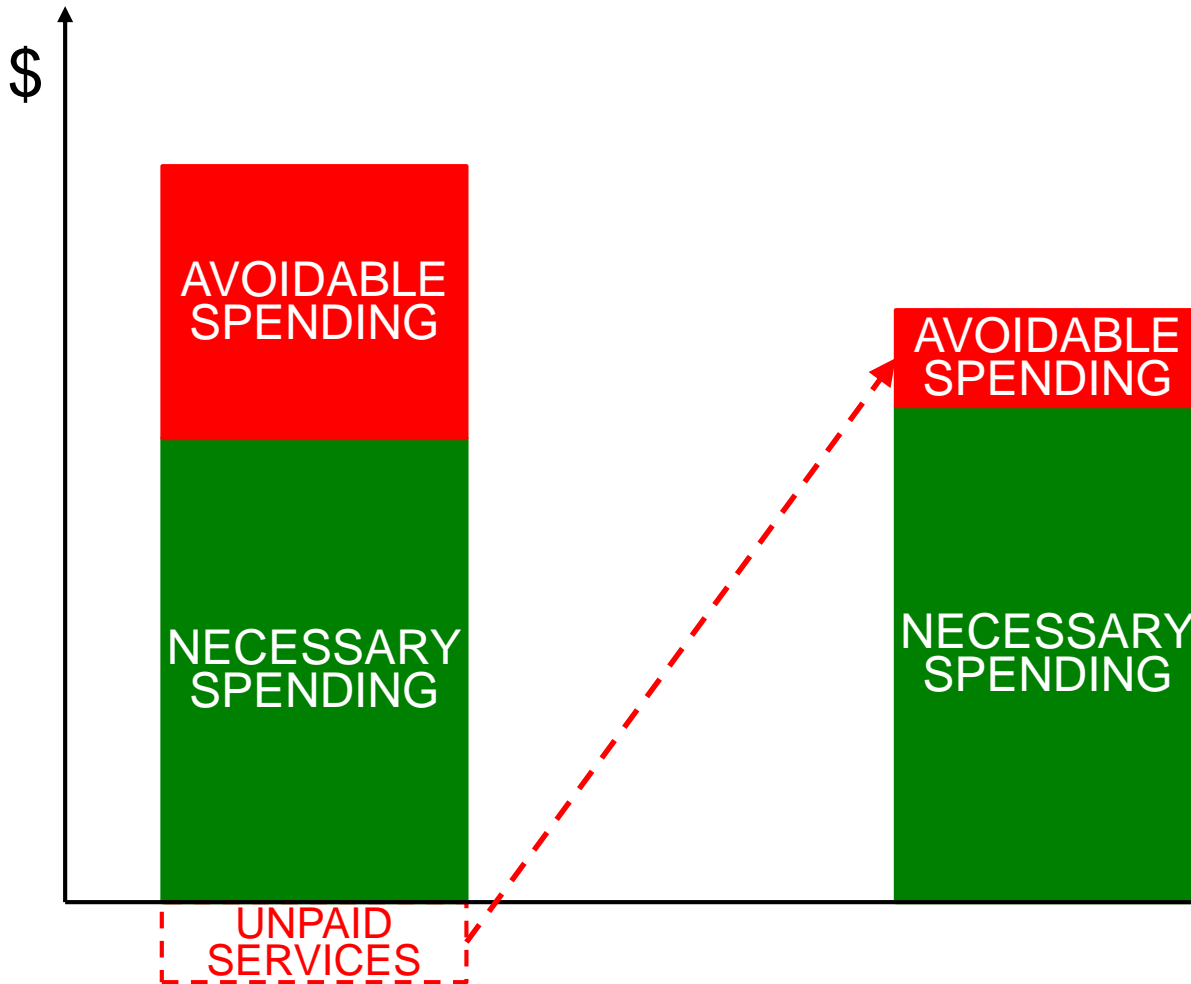
# The Goal: Less Avoidable \$, More Necessary \$, Less Total \$



# Payment Reform Needed When Payment System Creates Barriers



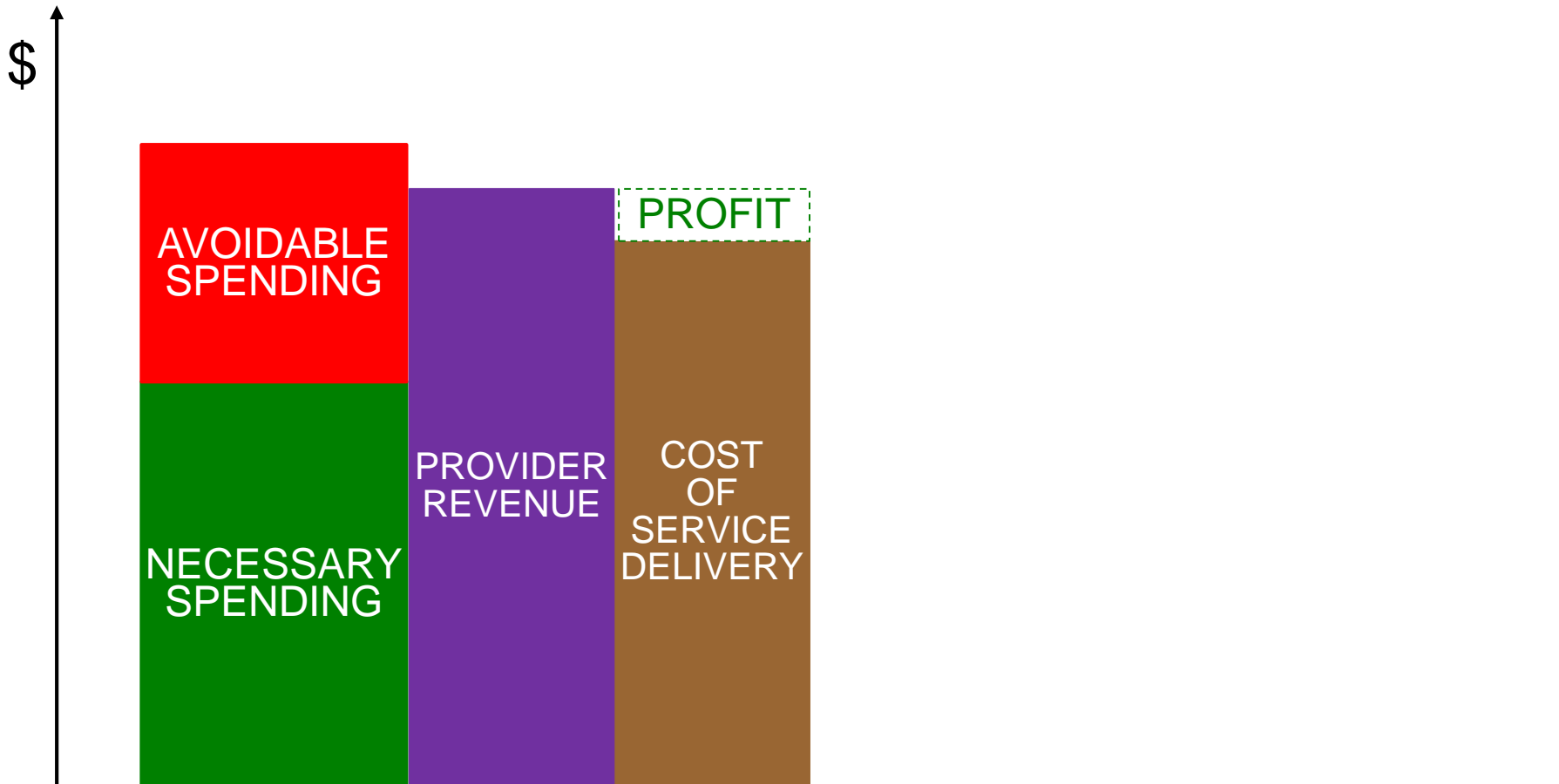
# Barrier #1: No \$ or Inadequate \$ for High-Value Services



## No Payment or Inadequate Payment for:

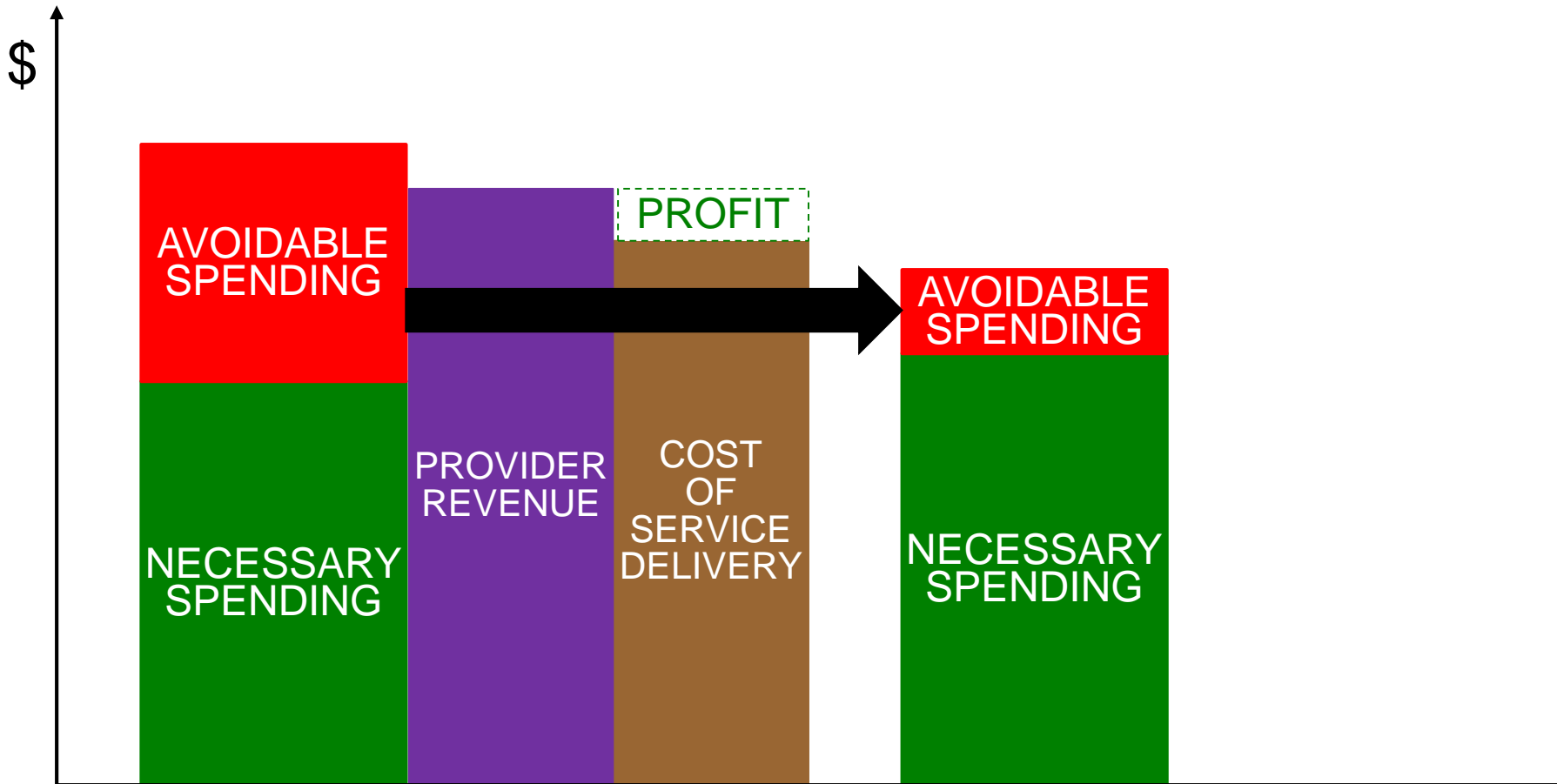
- Services delivered outside of face-to-face visits with clinicians, e.g., phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Non-medical services, e.g., transportation
- Additional time or cost for patients with higher intensity needs
- Services not covered by benefit restrictions

# Barrier #2: Avoidable Spending May Be Revenue for Providers...

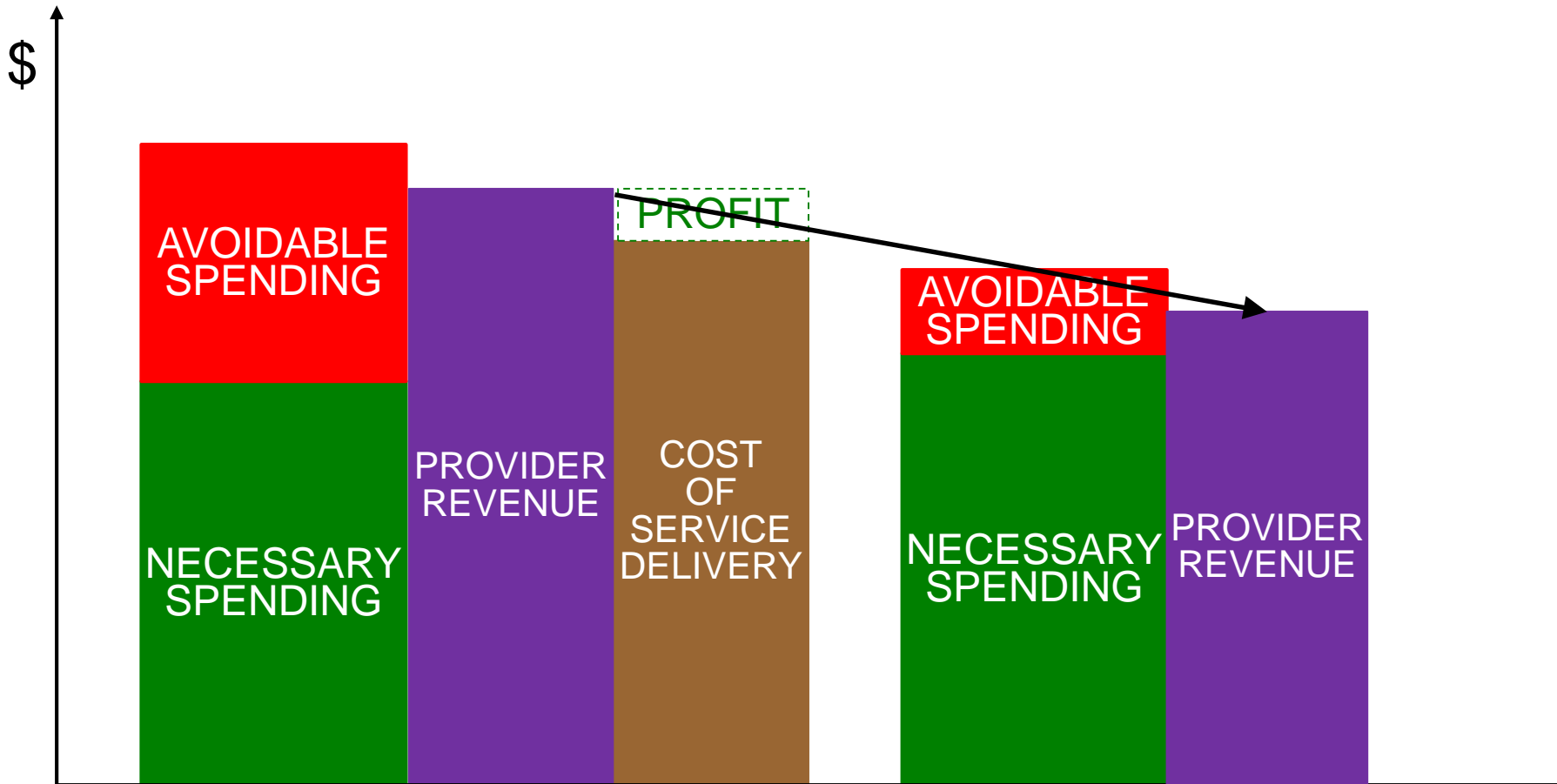




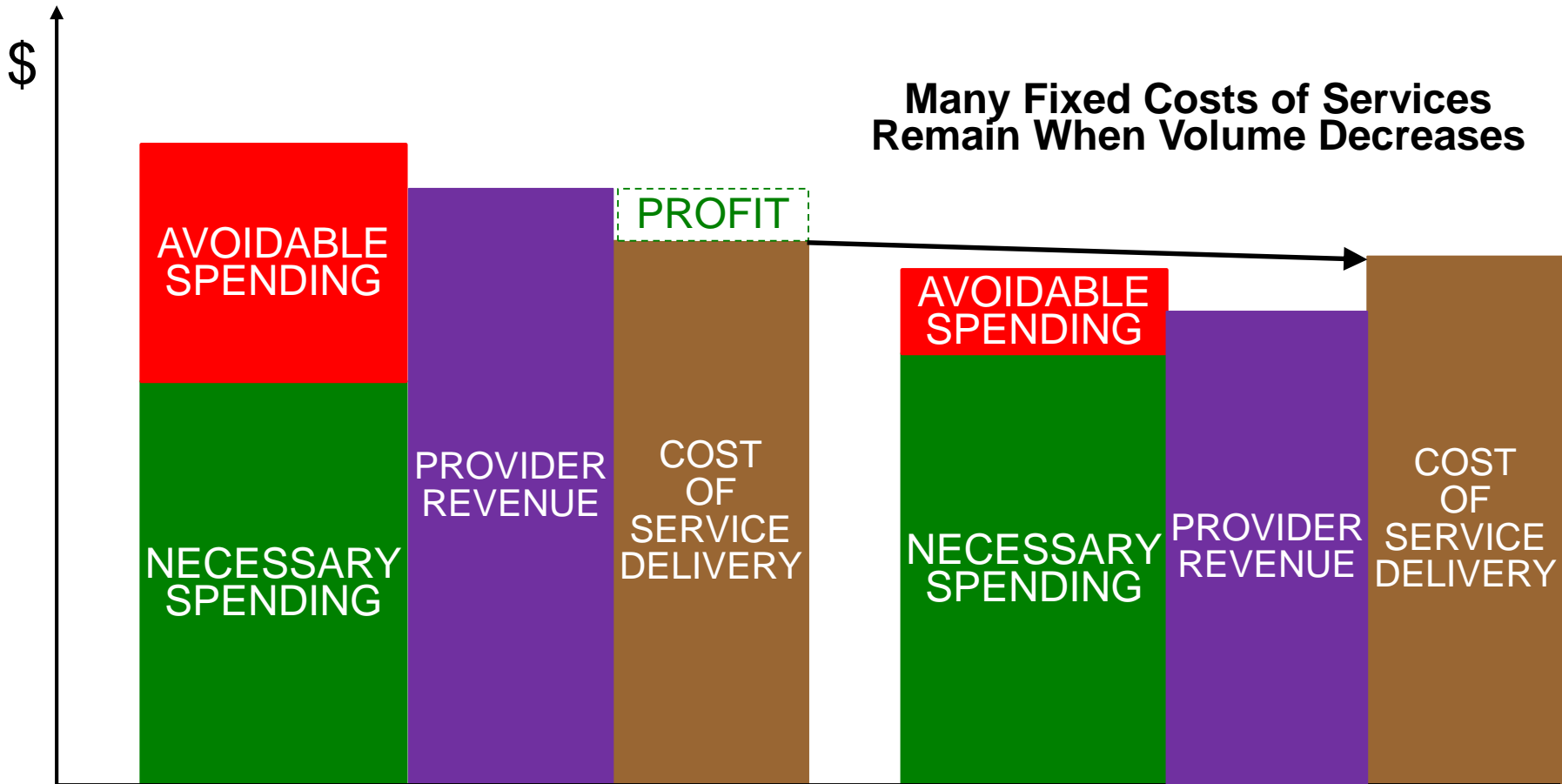
# ...And When Avoidable Services Aren't Delivered...



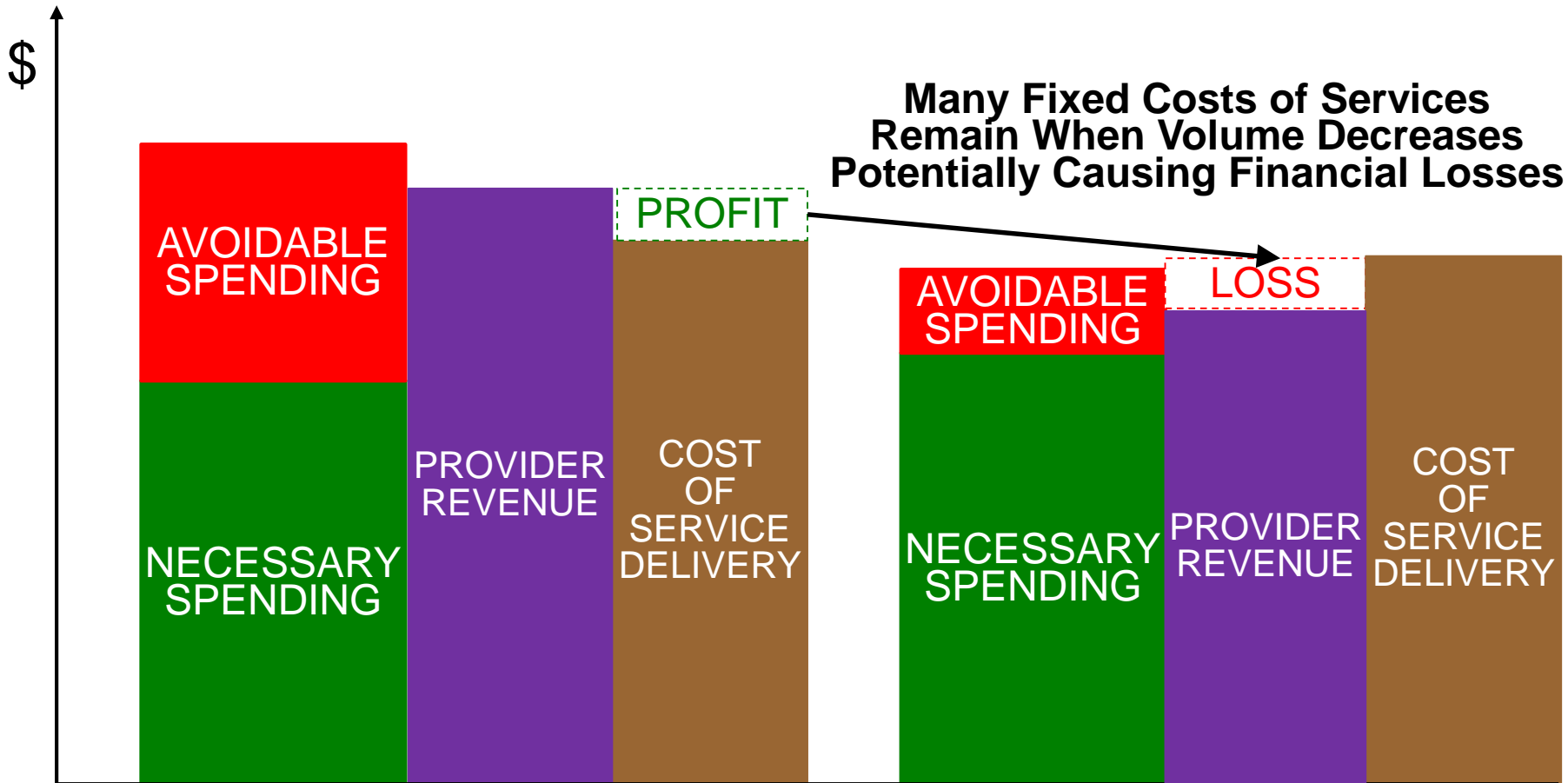
# ...Providers' Revenue May Decrease...



# ...But Providers' Fixed Costs Don't Disappear...

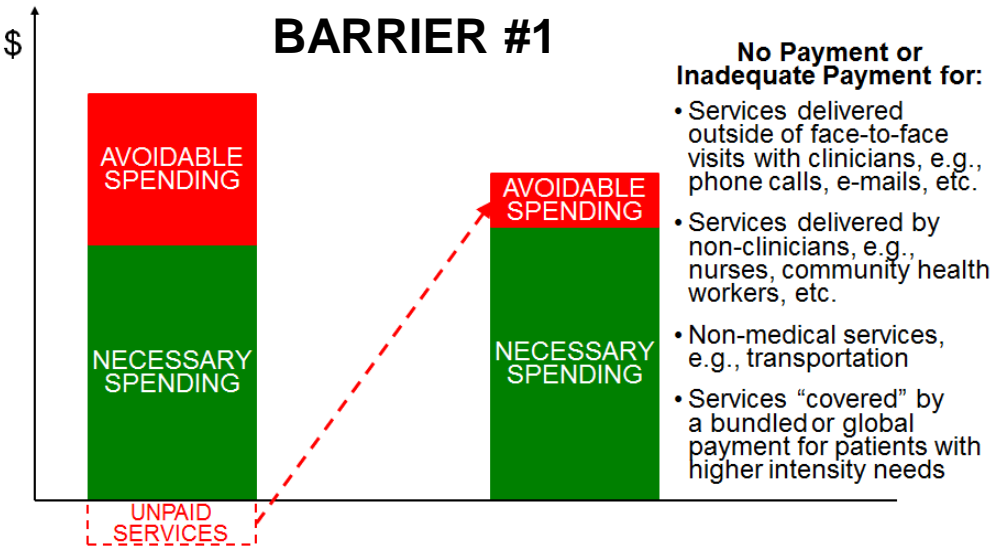


# ...Leaving Providers With Losses (or Bigger Losses Than Today)

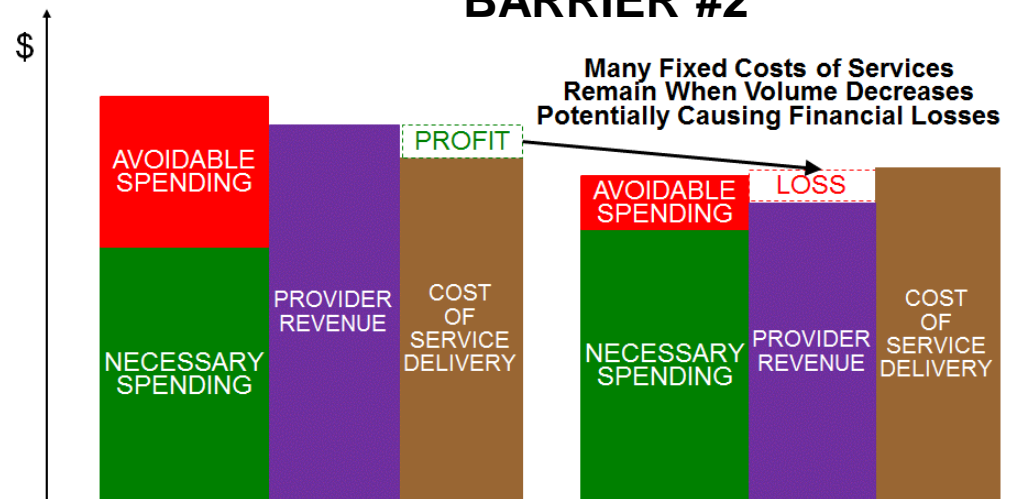


# A Payment *Change* isn't *Reform* Unless It *Removes the Barriers*

## BARRIER #1



## BARRIER #2



John Gray, Ph.D.

With a New Introduction by the Author

#1 *New York Times* Bestseller

MEN Are  
from MARS.  
WOMEN  
Are from  
VENUS



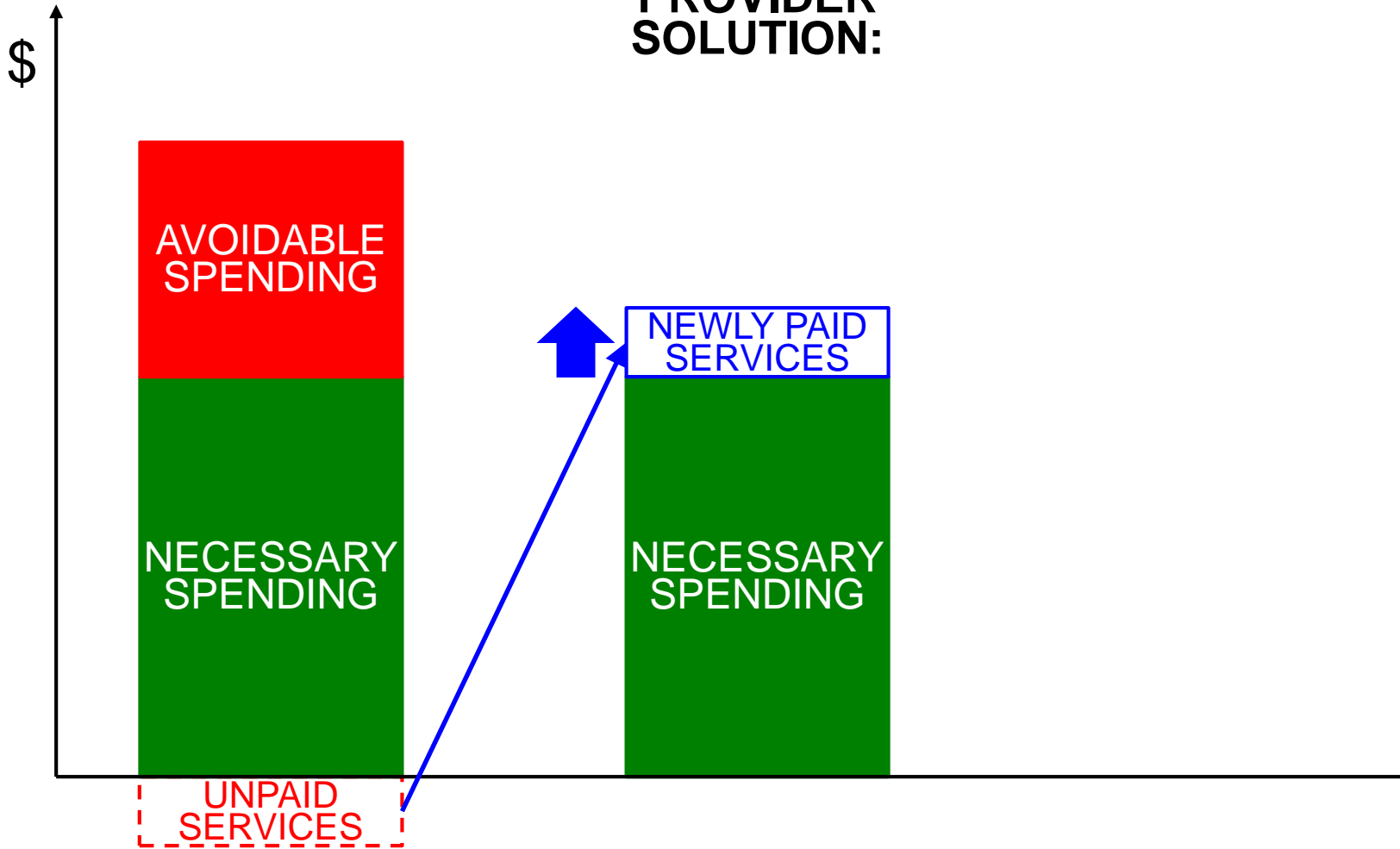
First  
time ever in  
paperback!

The Classic Guide to  
Understanding the Opposite Sex

Payers Are From Mars,  
Providers Are From Venus

# Provider Approach: Pay Us More...

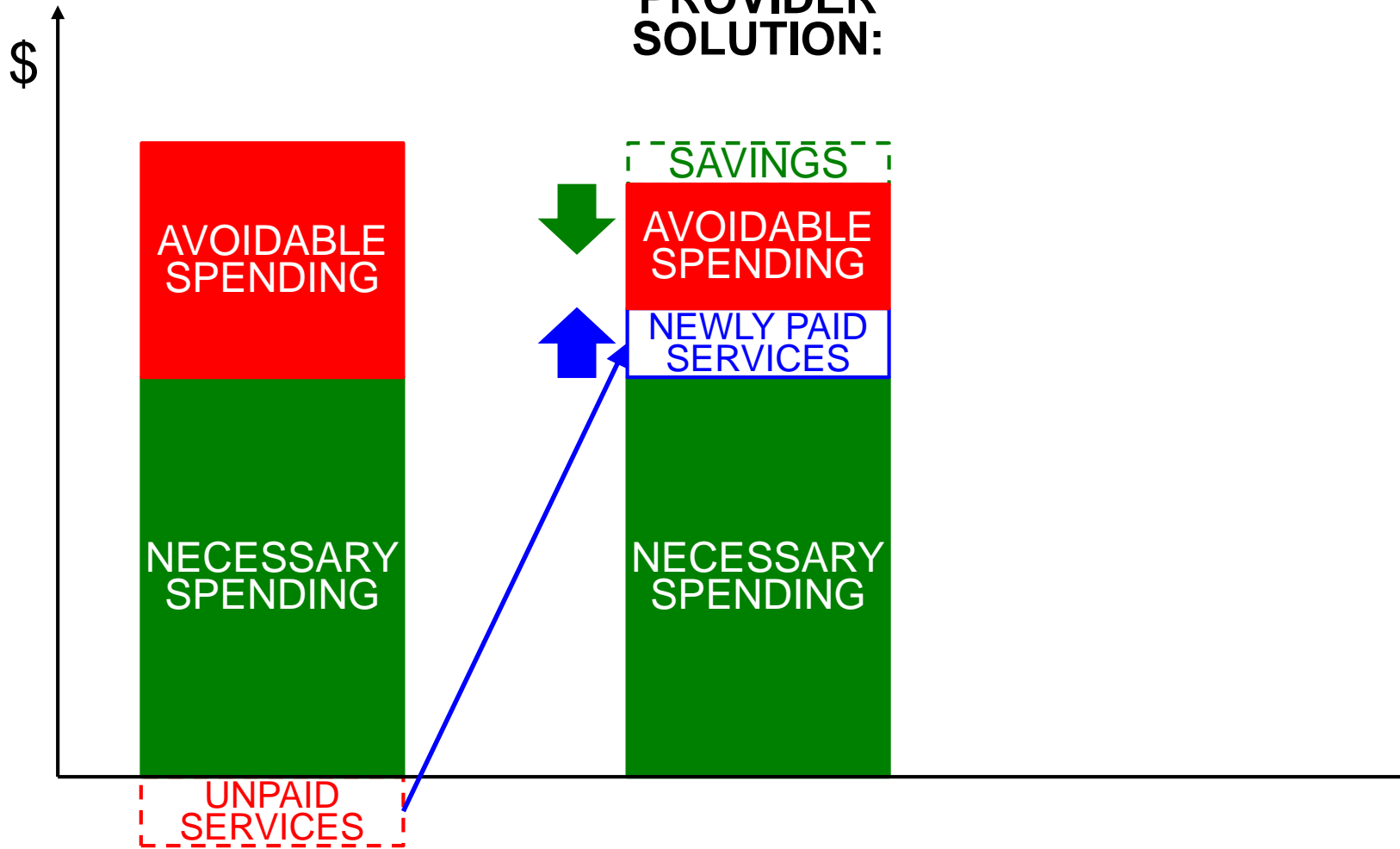
## PROVIDER SOLUTION:



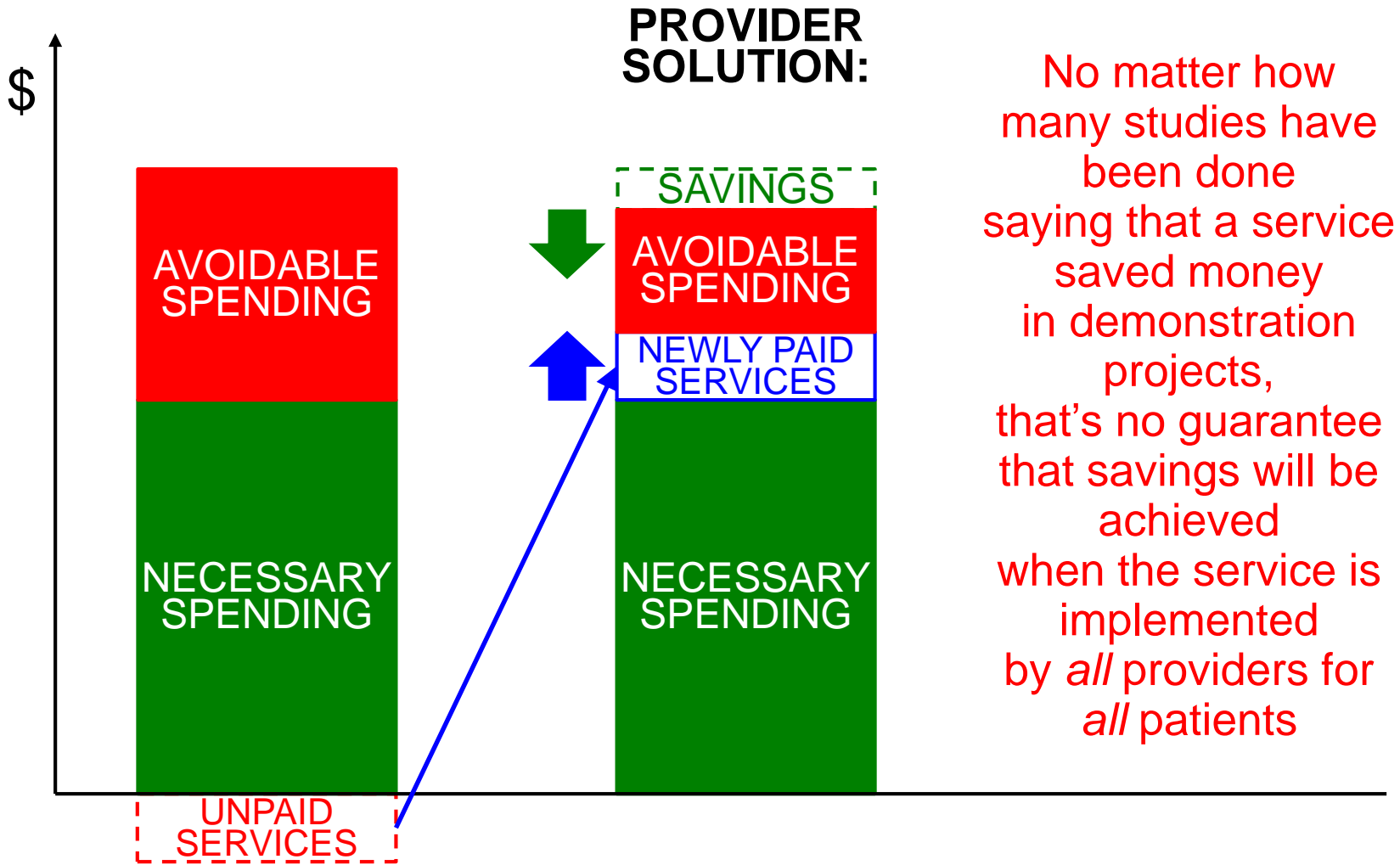


# Provider Approach: Pay Us More... ...and “Trust Us” on Savings

## PROVIDER SOLUTION:

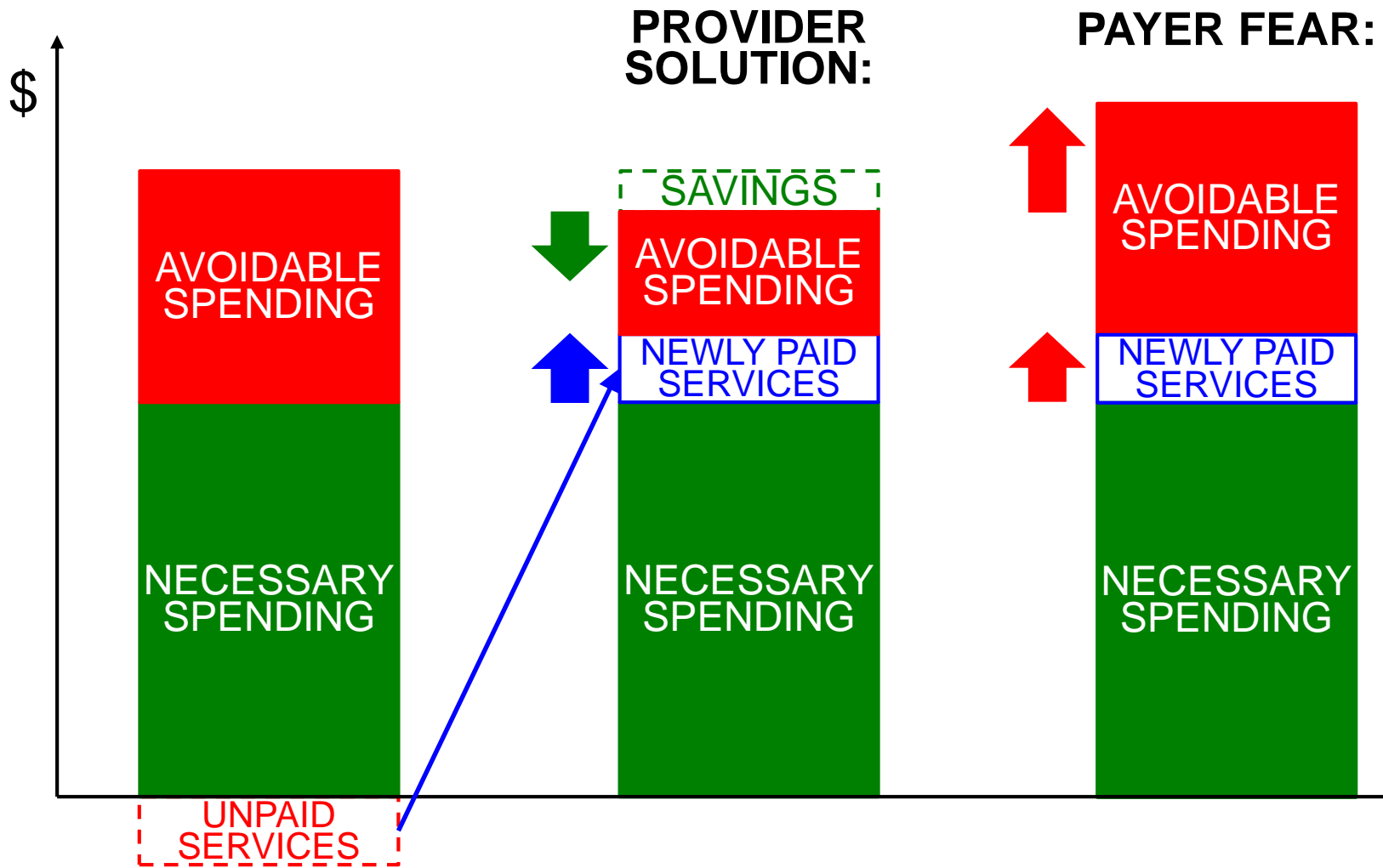


# Provider Approach: Pay Us More... ...and “Trust Us” on Savings

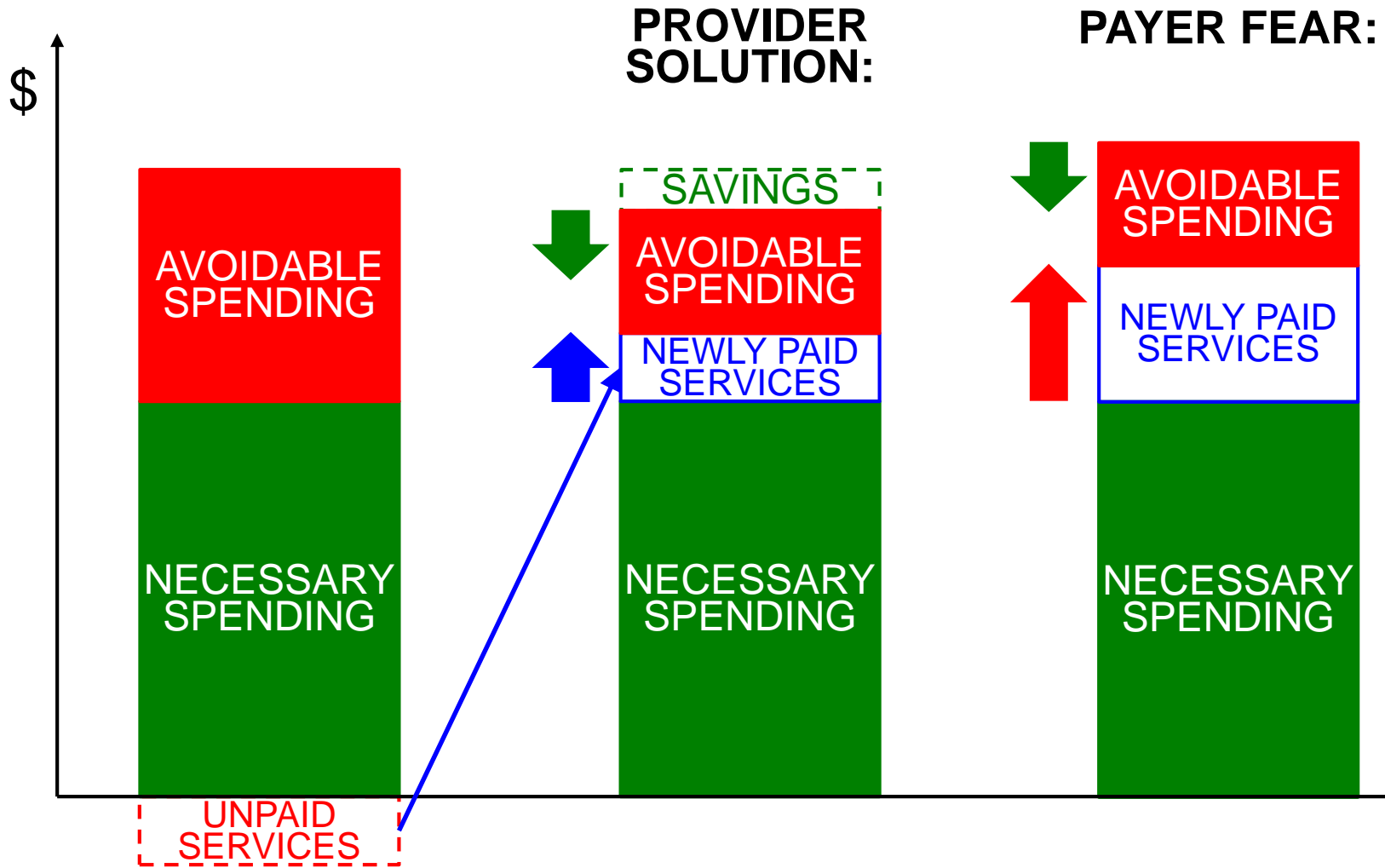


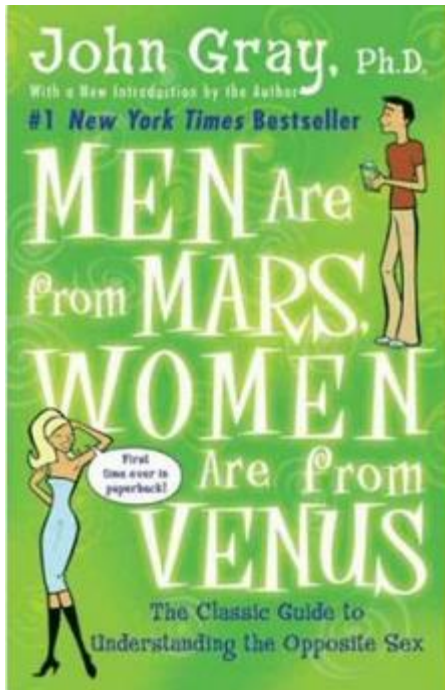
No matter how many studies have been done saying that a service saved money in demonstration projects, that's no guarantee that savings will be achieved when the service is implemented by *all* providers for *all* patients

# Payer Concern: No *Accountability* to Reduce Avoidable Spending



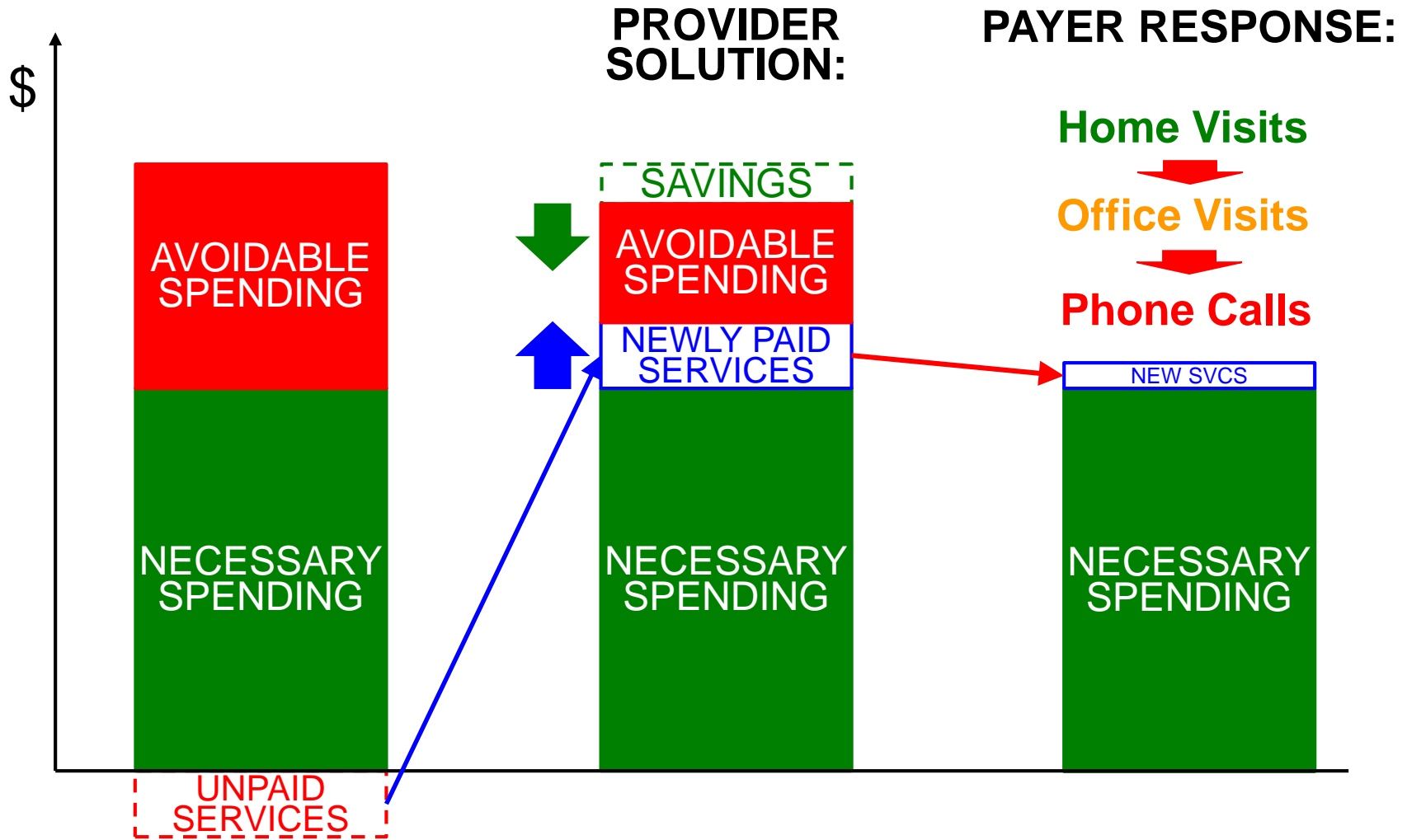
# Payer Concern #2: New Services Will Be Used More Than Necessary



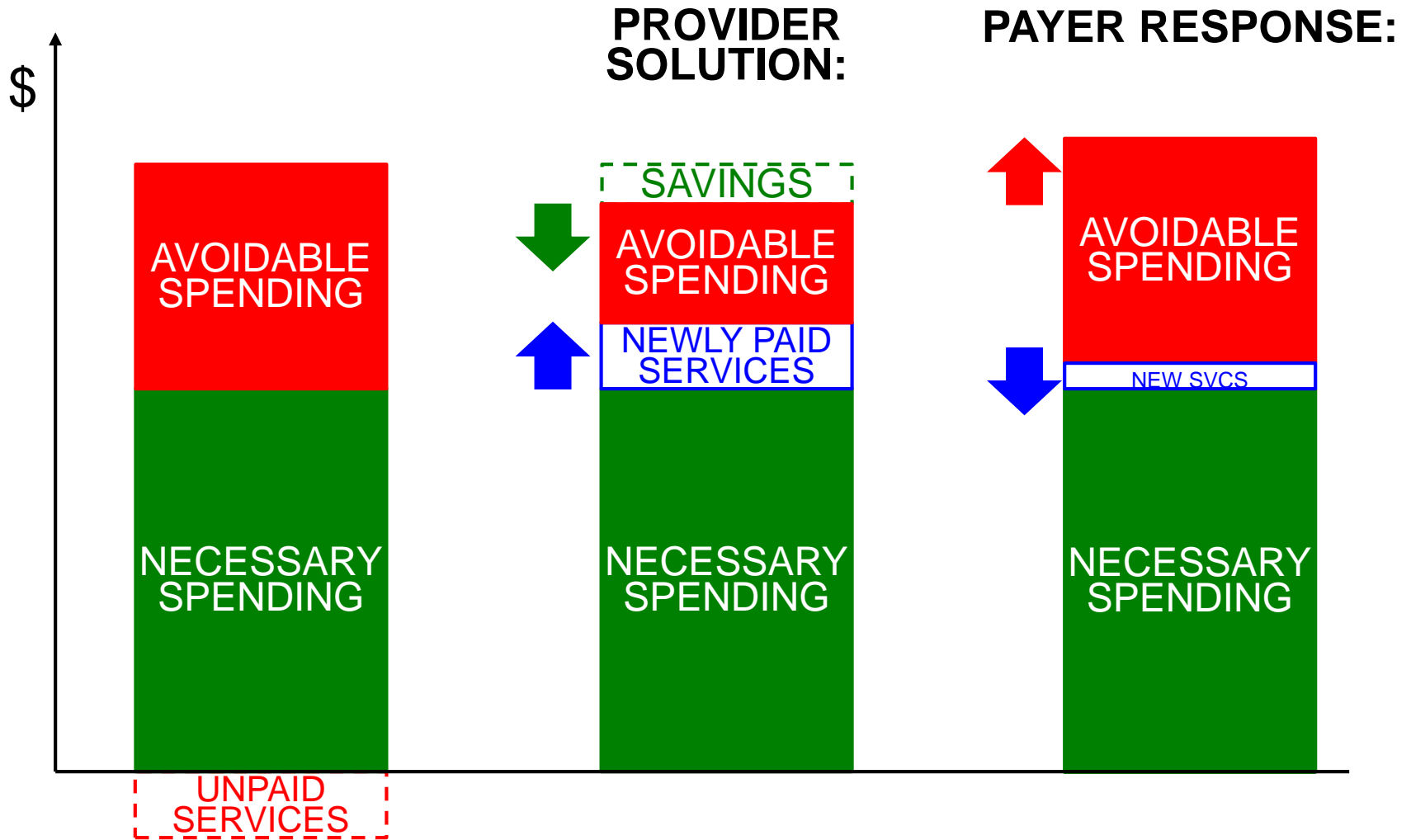


**Payers Are From Mars,  
Providers Are From Venus**

# Payer Response: Pay for Less Than What's Needed



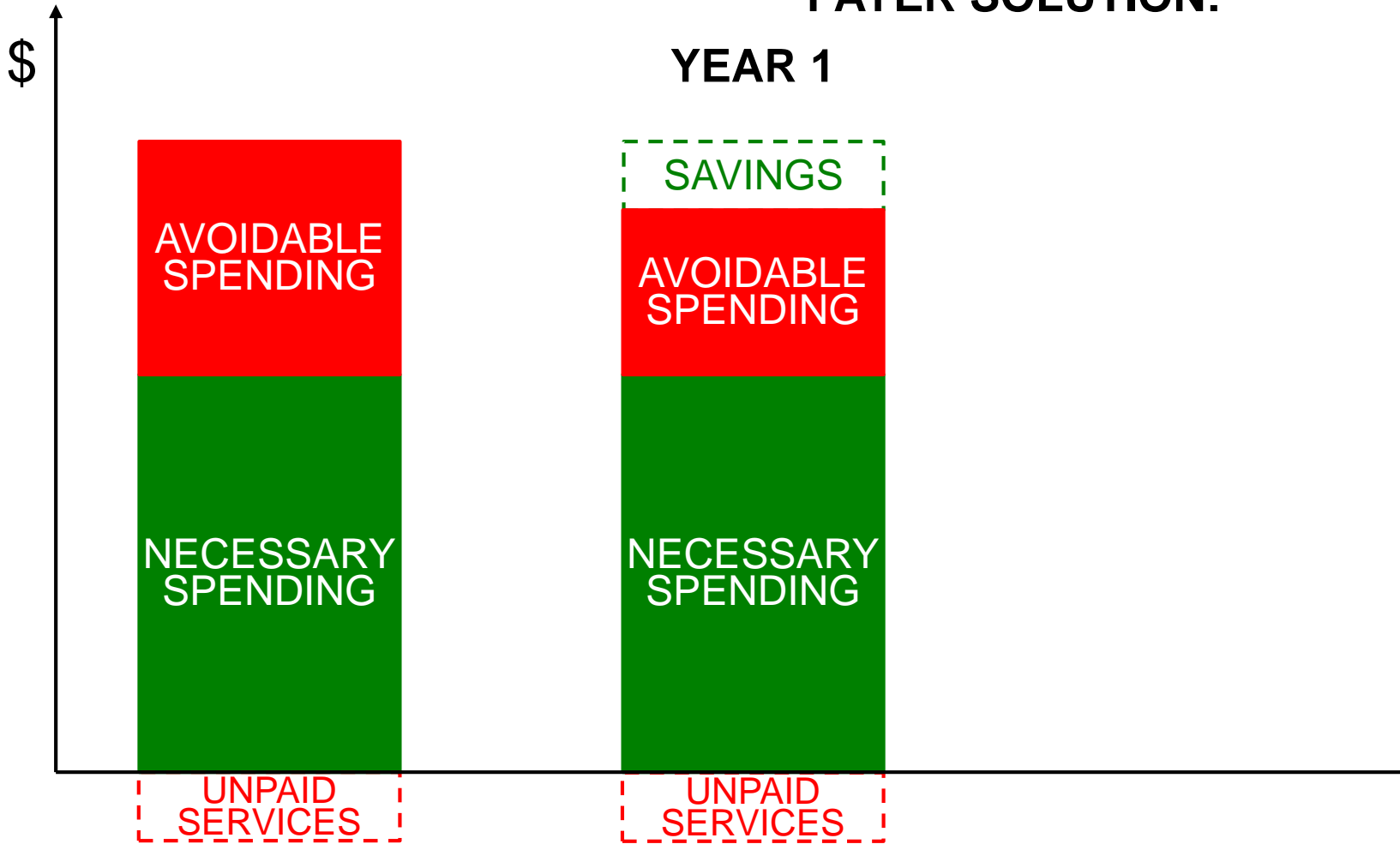
# Result: Inadequate Services = Little or No Impact on Spending



# Payer Approach: Save Us Money and...

## PAYER SOLUTION:

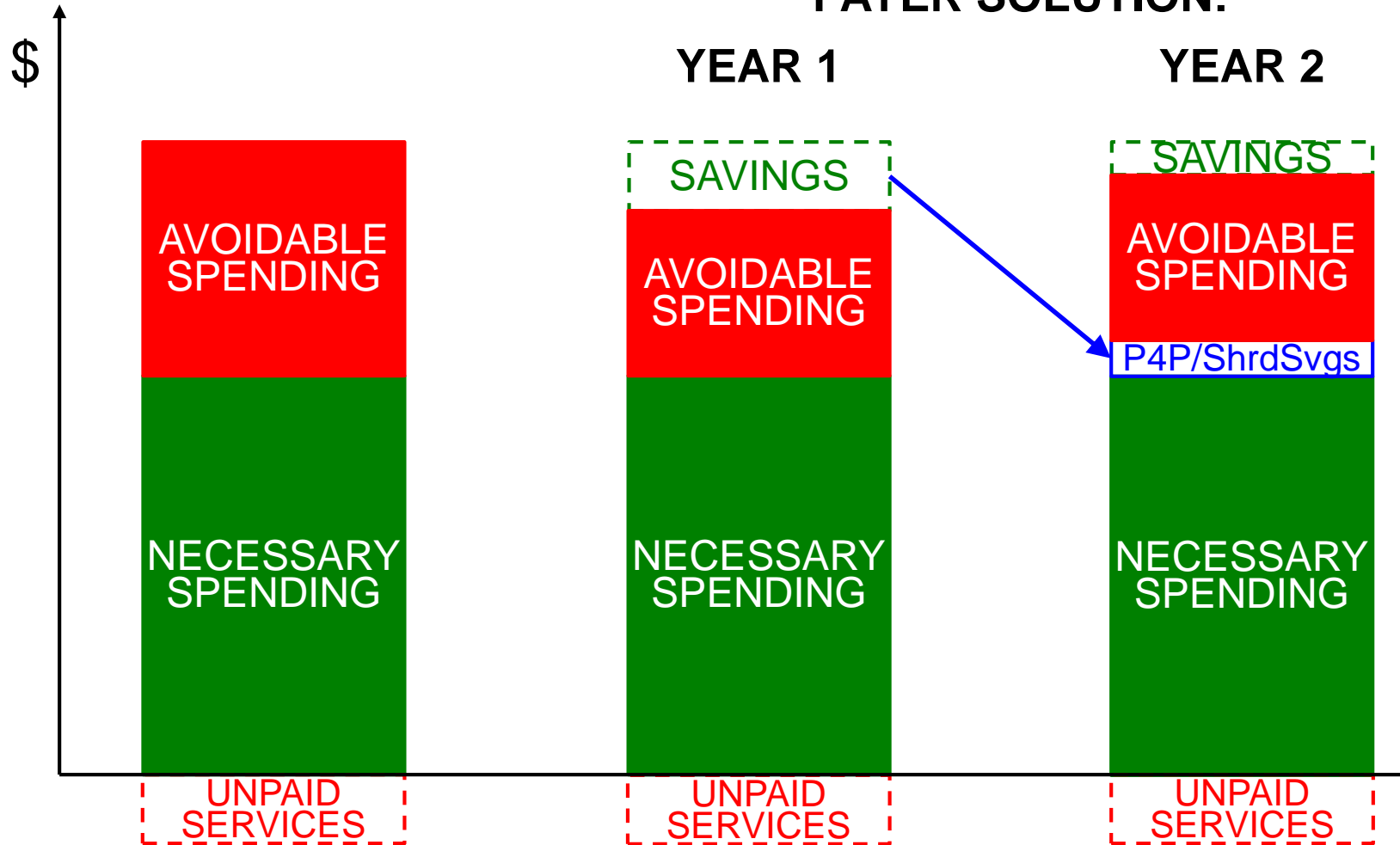
YEAR 1





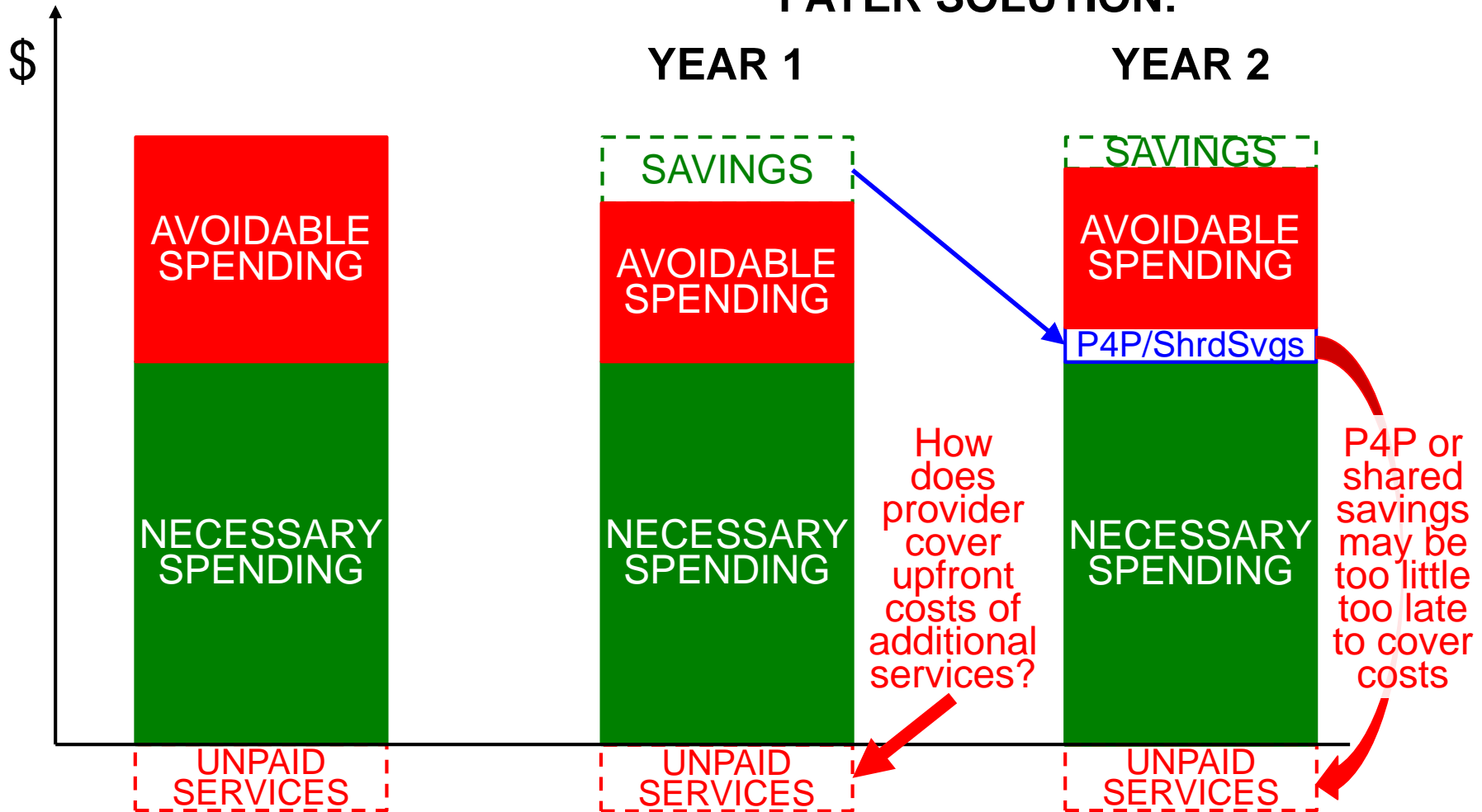
# Payer Approach: Save Us Money and We'll You Pay More Next Year

## PAYER SOLUTION:



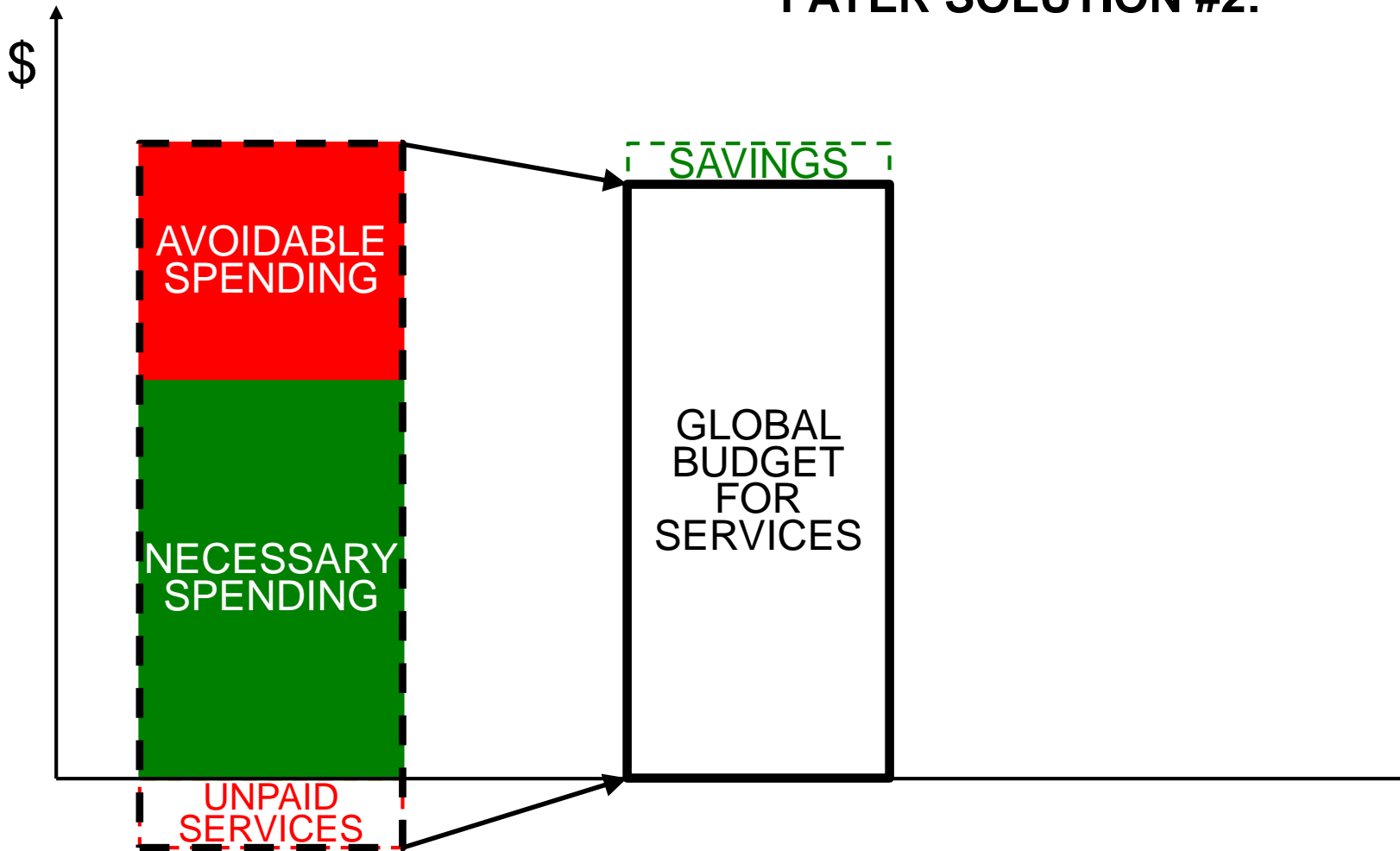
# Provider Concern: Shared Savings is Too Little, Too Late

## PAYER SOLUTION:



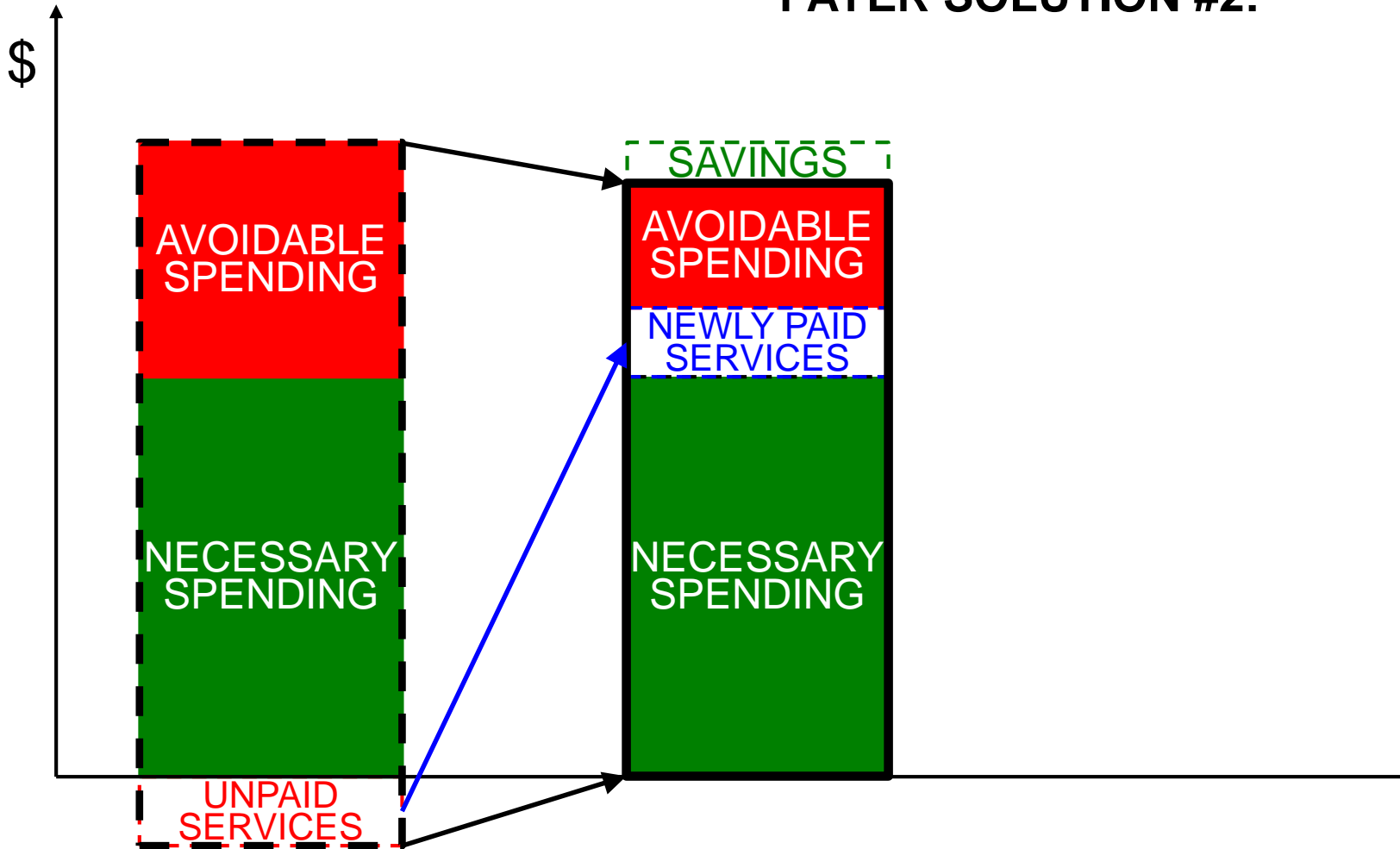
# Payer Approach #2: Global Budget for Services

## PAYER SOLUTION #2:



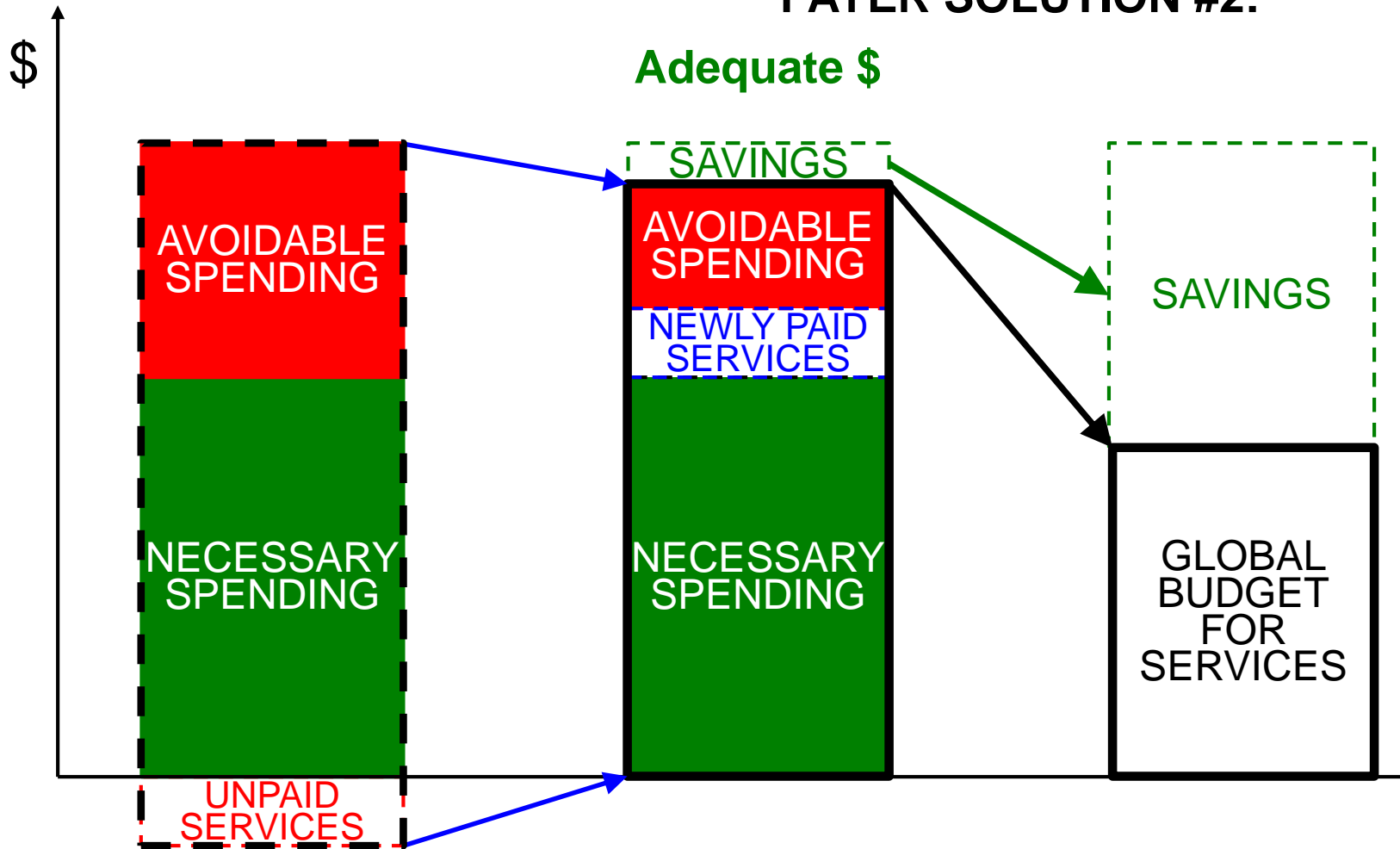
# Provider Has Flexibility to Provide Different Services Within Budget

## PAYER SOLUTION #2:



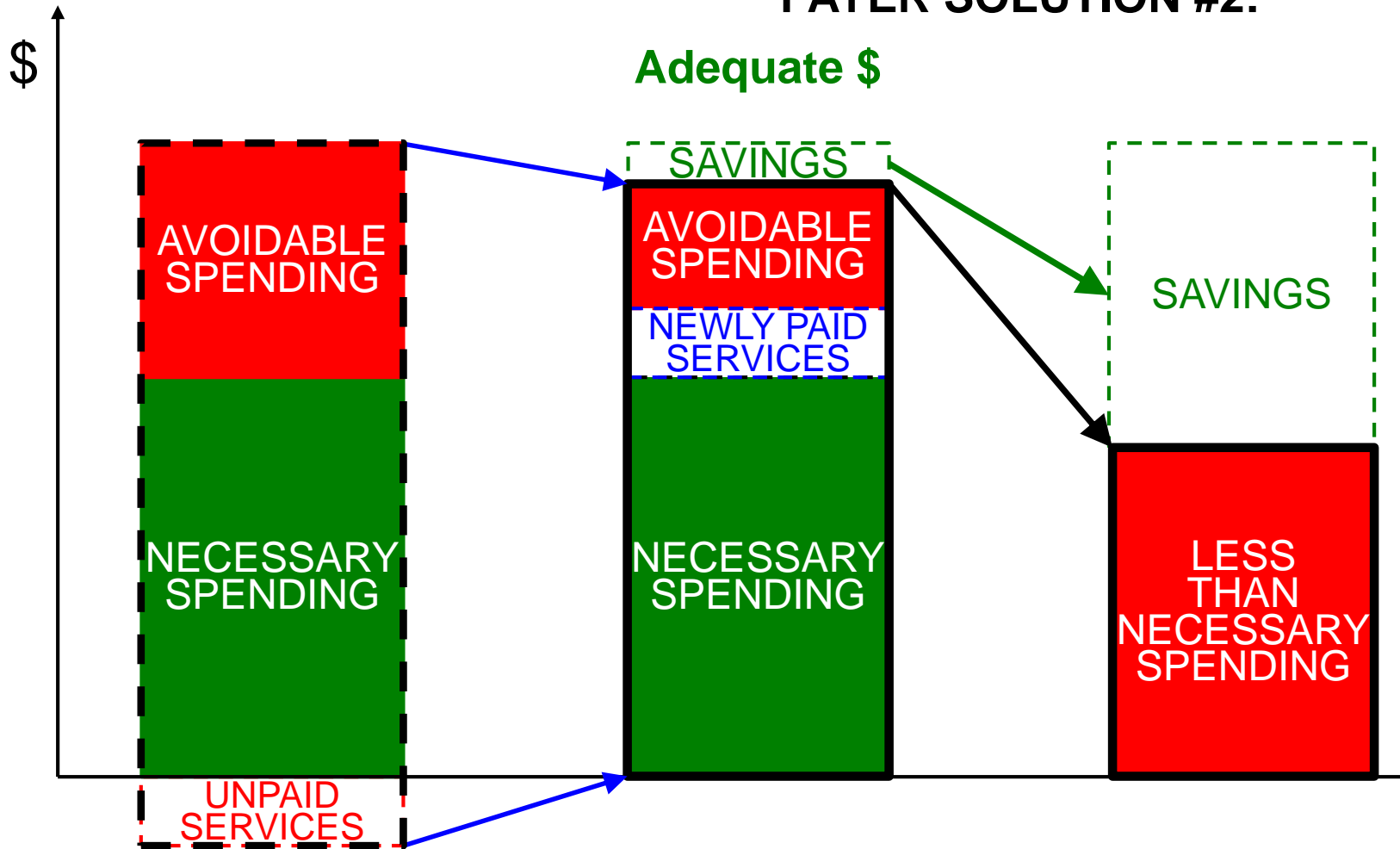
# Payers Cut Global Payments to Achieve More Savings...

## PAYER SOLUTION #2:



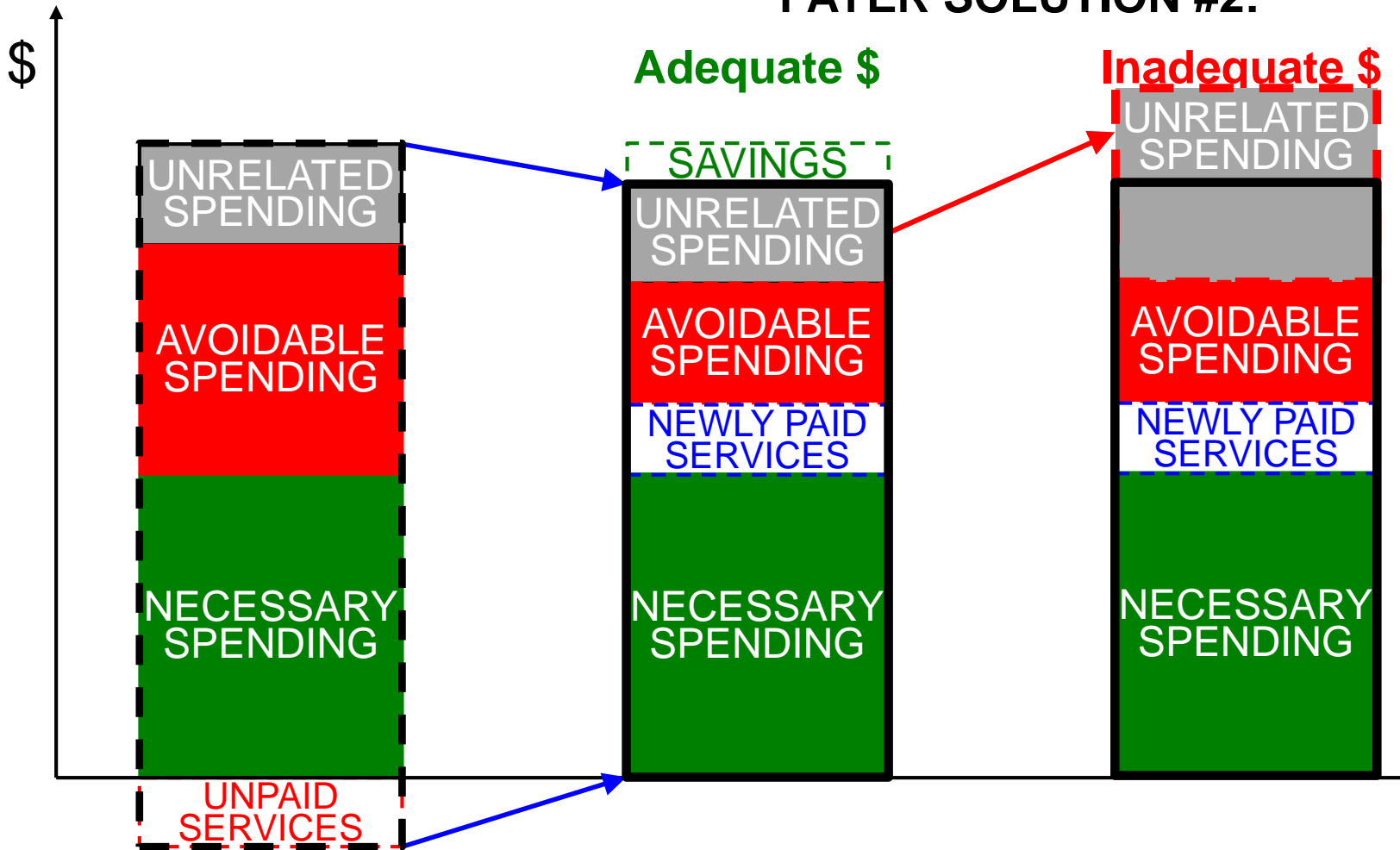
# ...But Lower Payments May Be Inadequate for Necessary Services

## PAYER SOLUTION #2:



# Or Costs Increase for Services Provider Can't Control

## PAYER SOLUTION #2:



It is unrealistic to expect providers to improve quality or reduce spending if the payment system does not provide adequate financial support for their efforts.



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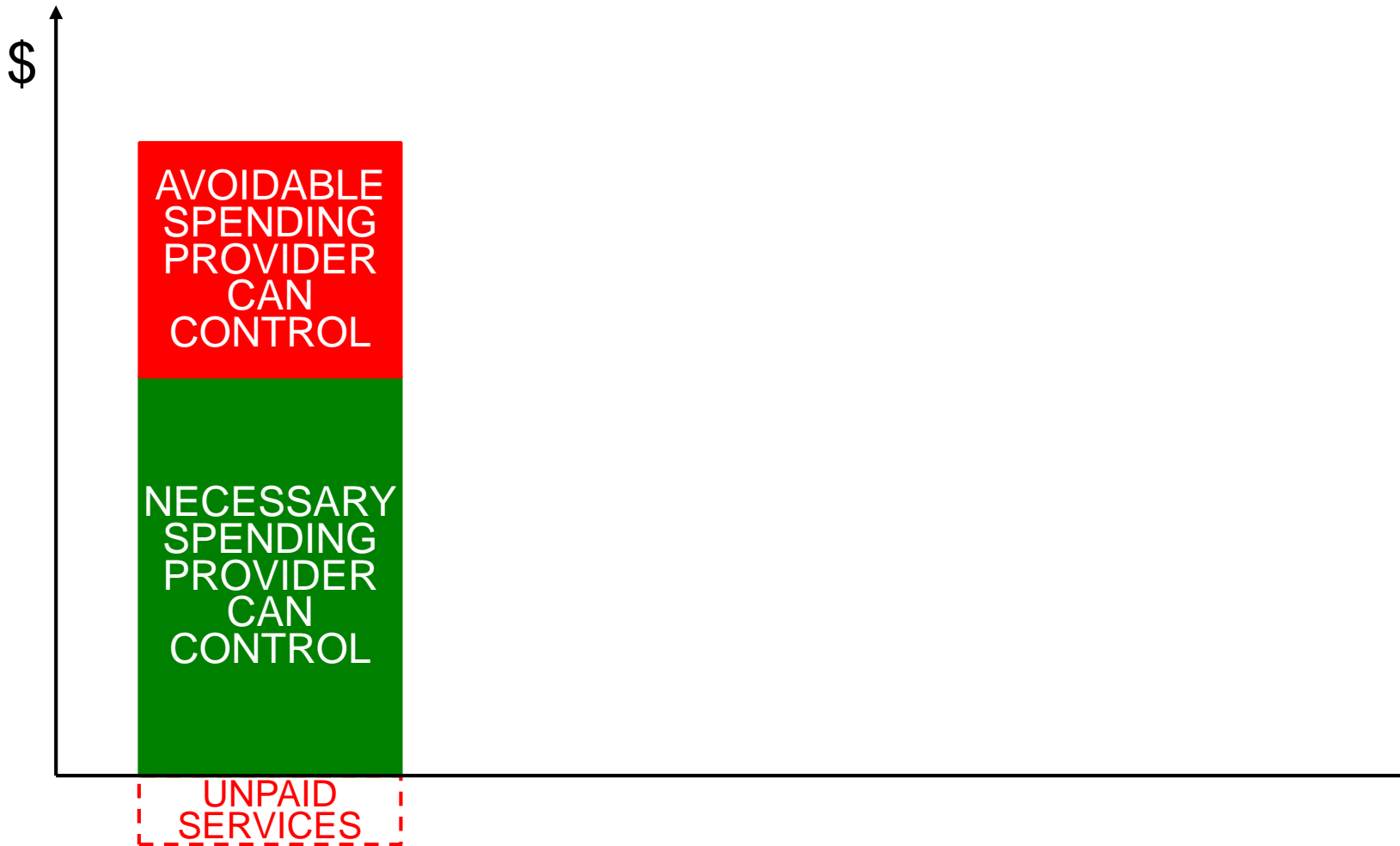
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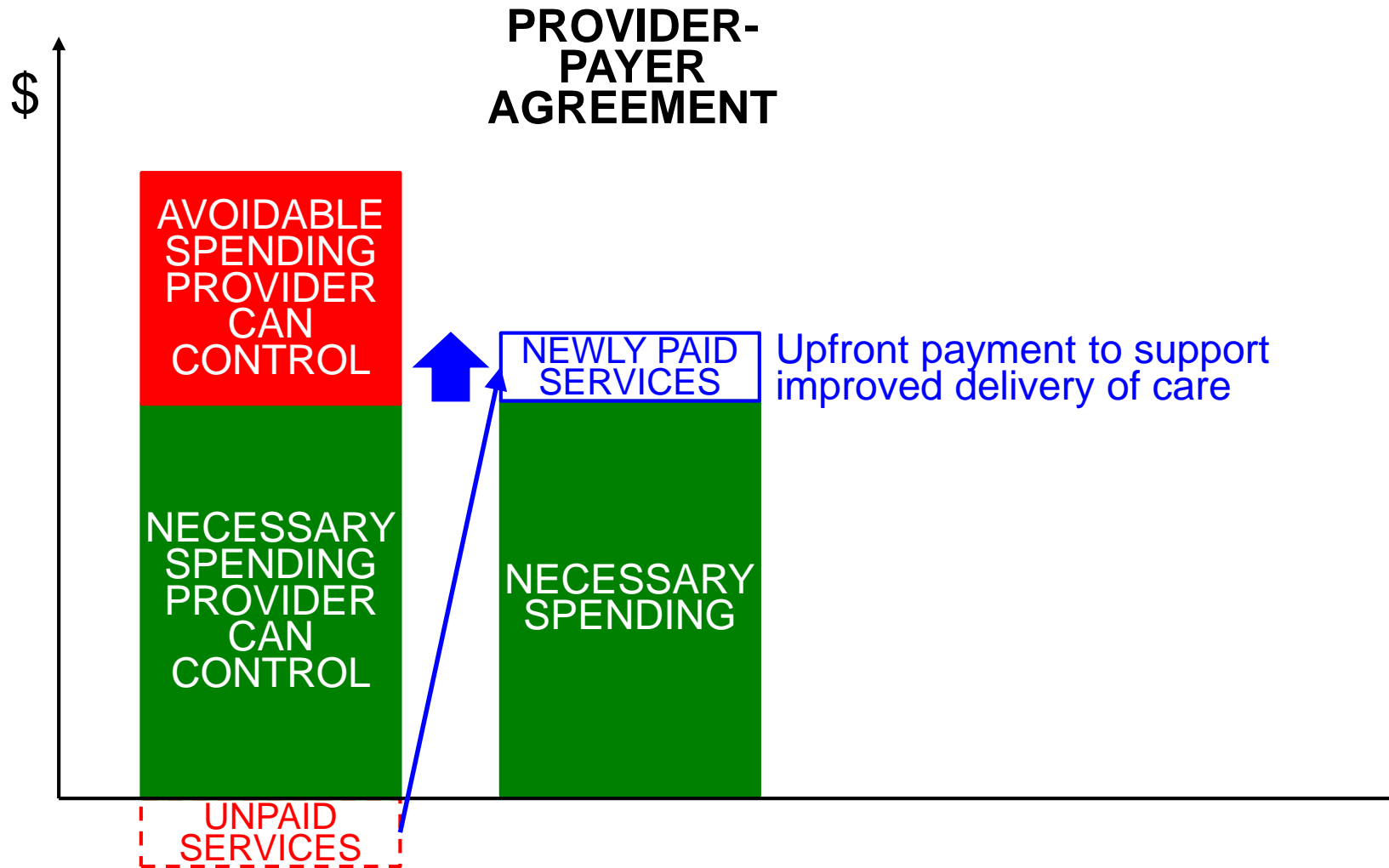
It's unrealistic to expect patients & purchasers to pay more or differently without assurances that quality will be improved, spending will be lower, or both.

Payment reforms must be designed to support delivery of **higher-quality care** for patients at **lower costs** for purchasers in ways that are **financially feasible for providers.**

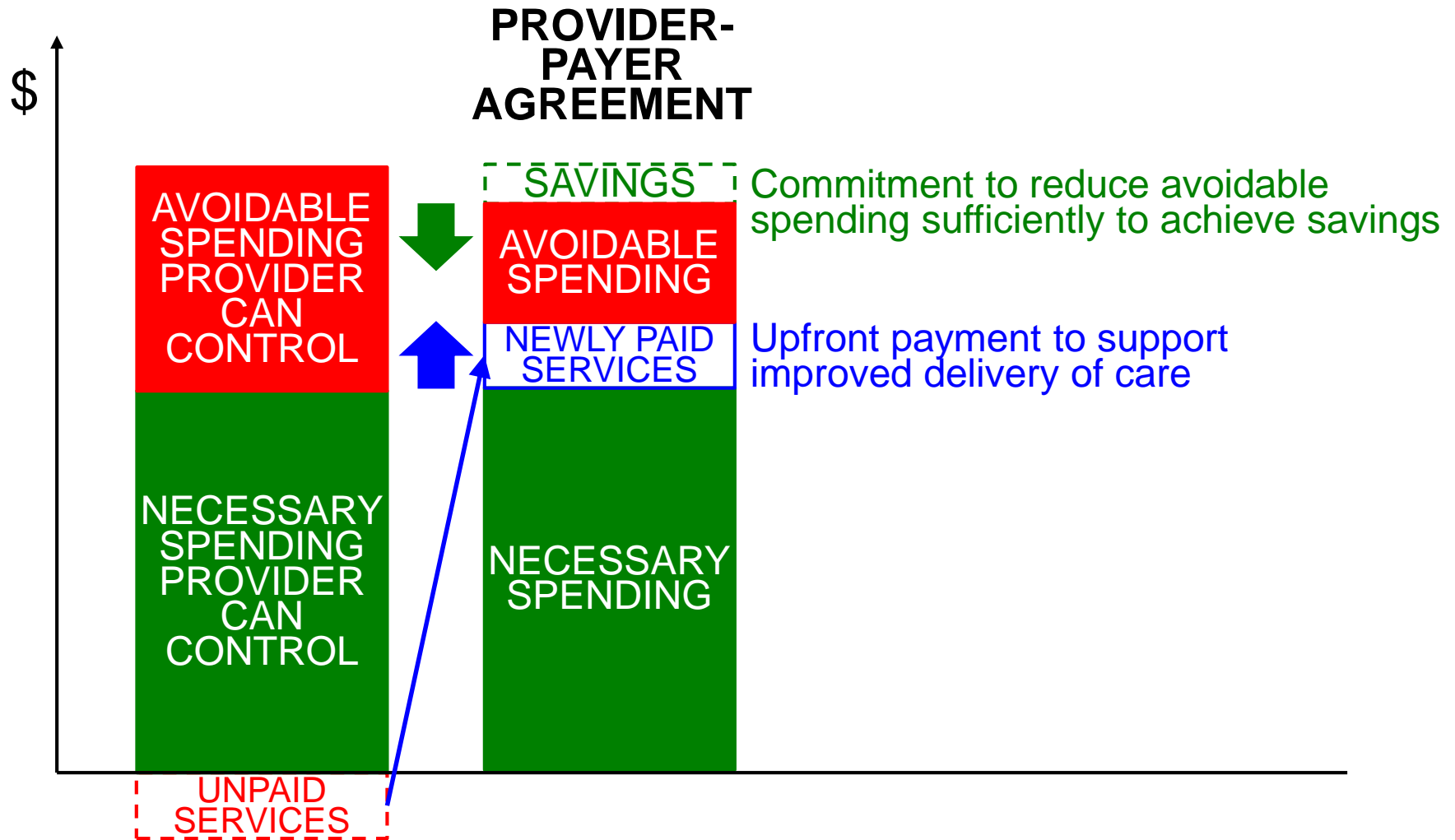
# A Successful Compromise: Spending Provider Can Control...



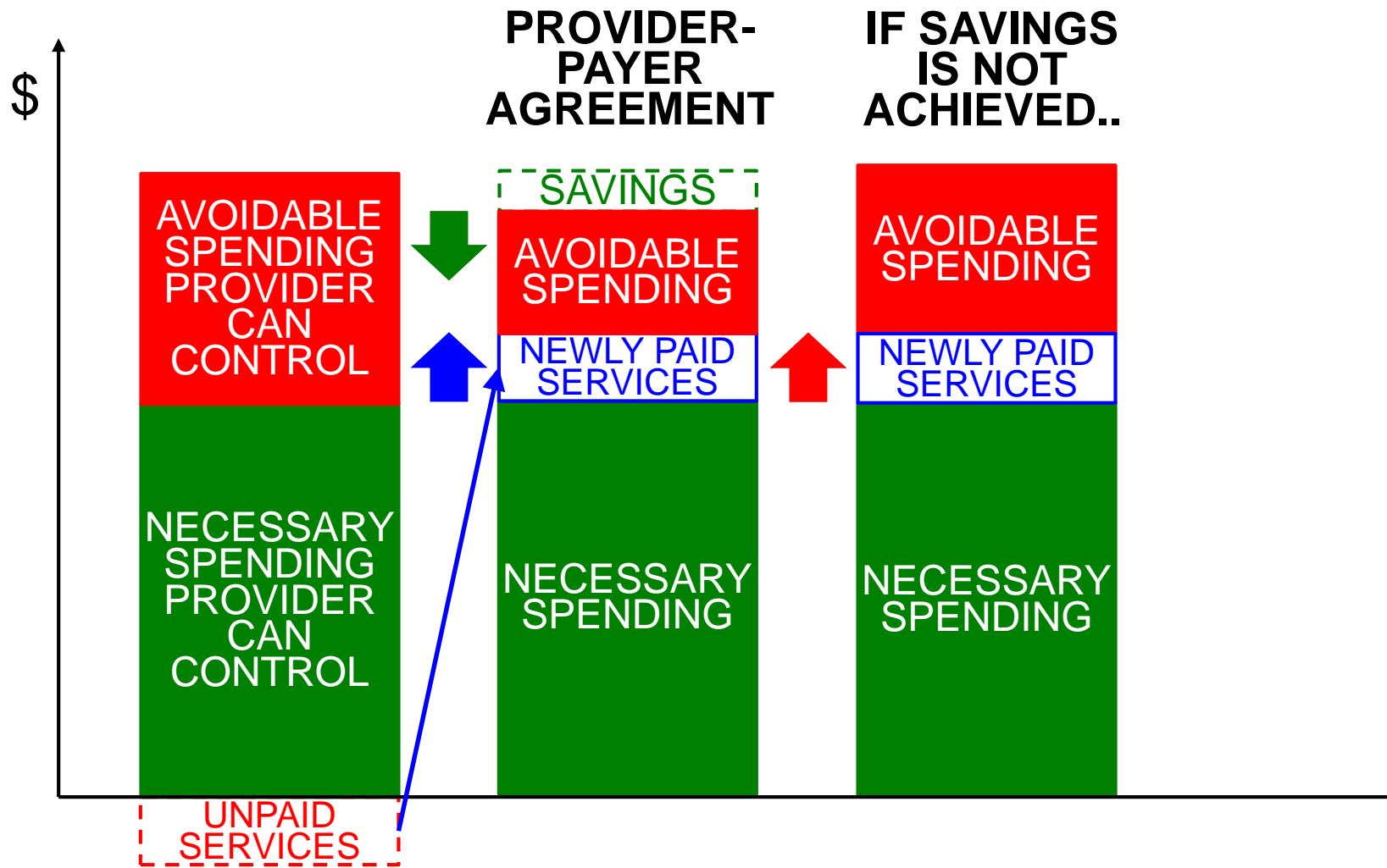
# A Successful Compromise: ...Provide Flexibility...



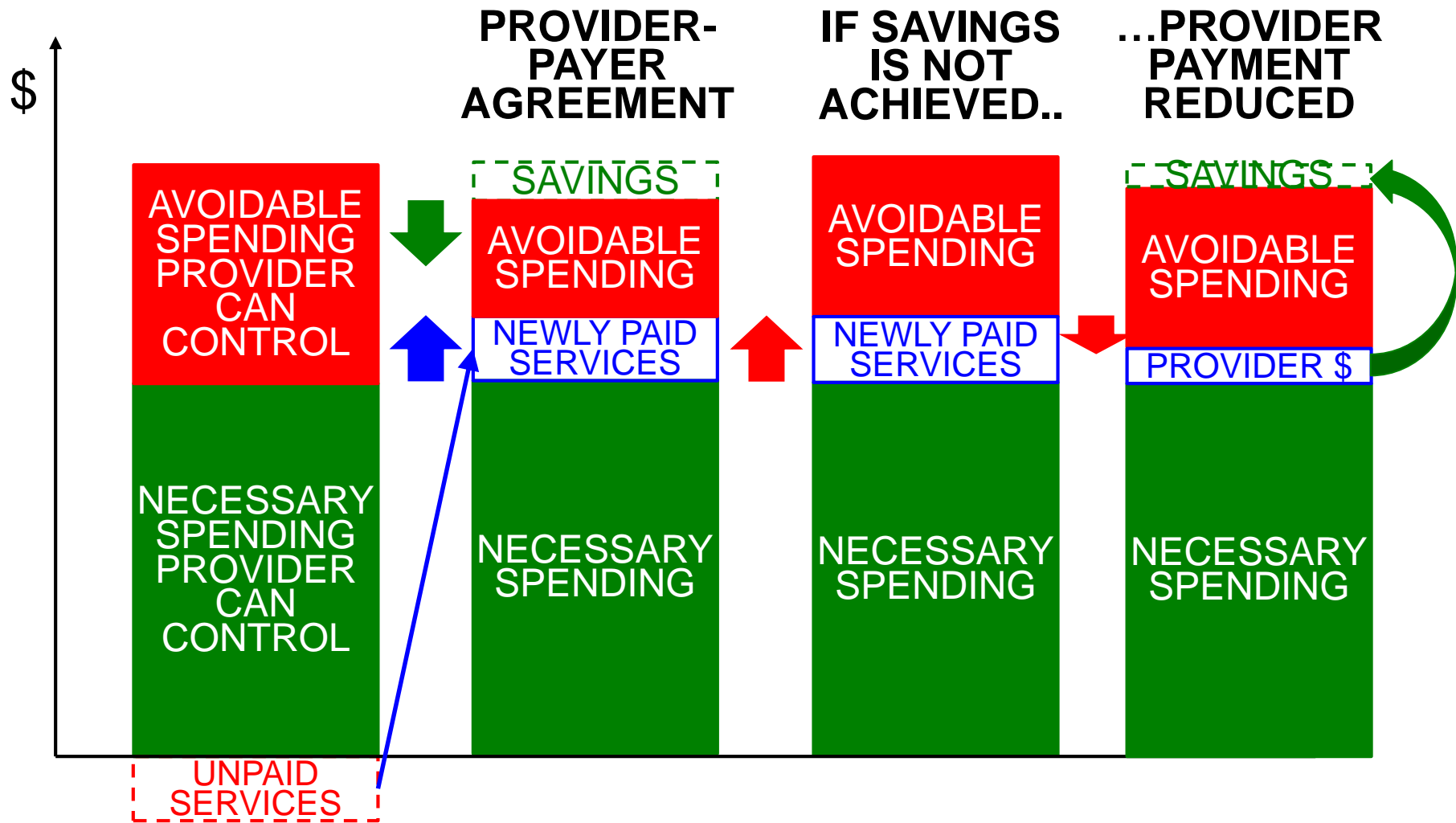
# A Successful Compromise: Provide Flexibility + Accountability



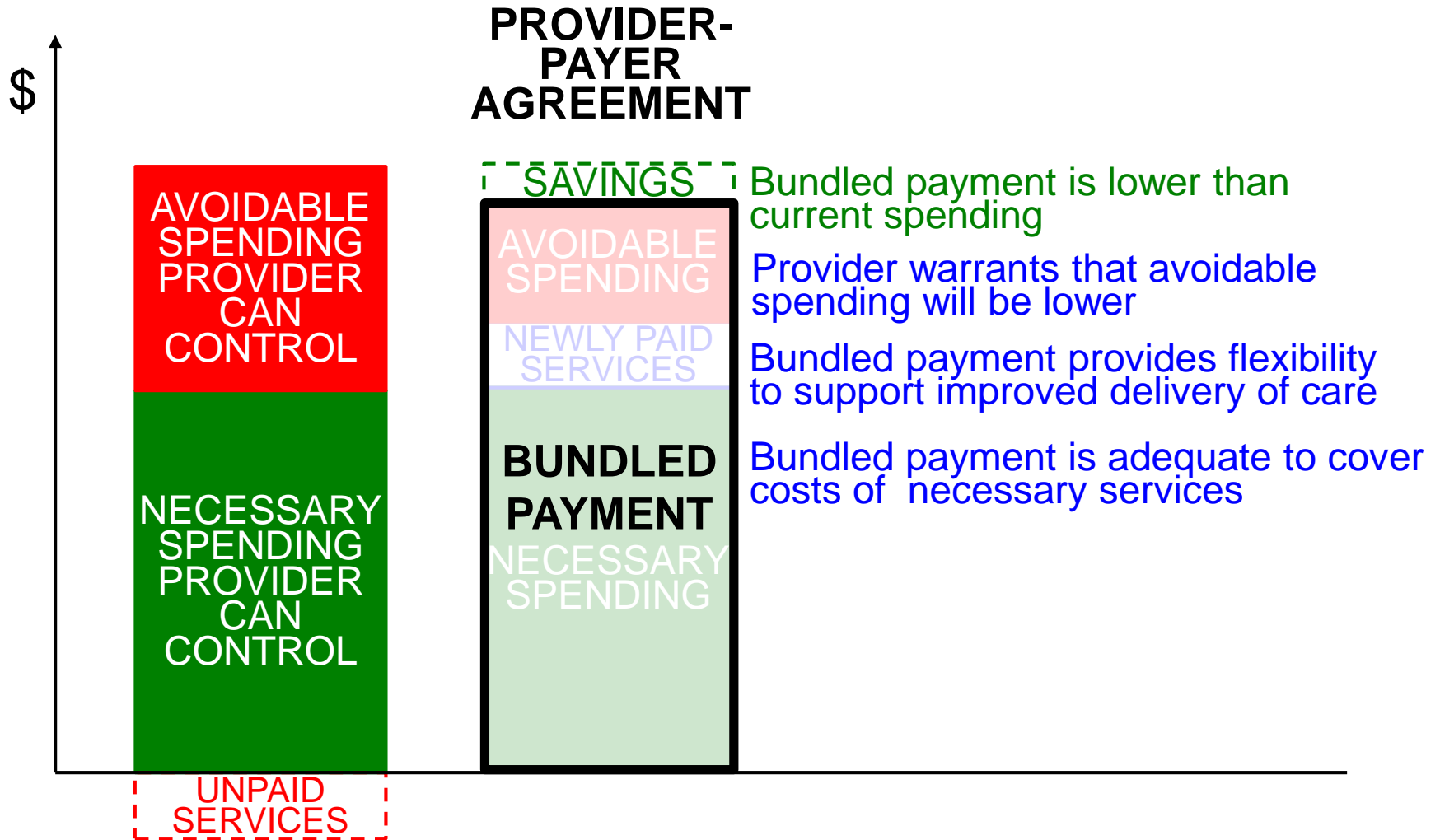
# Accountability is Assured As Part of the Payment Contract



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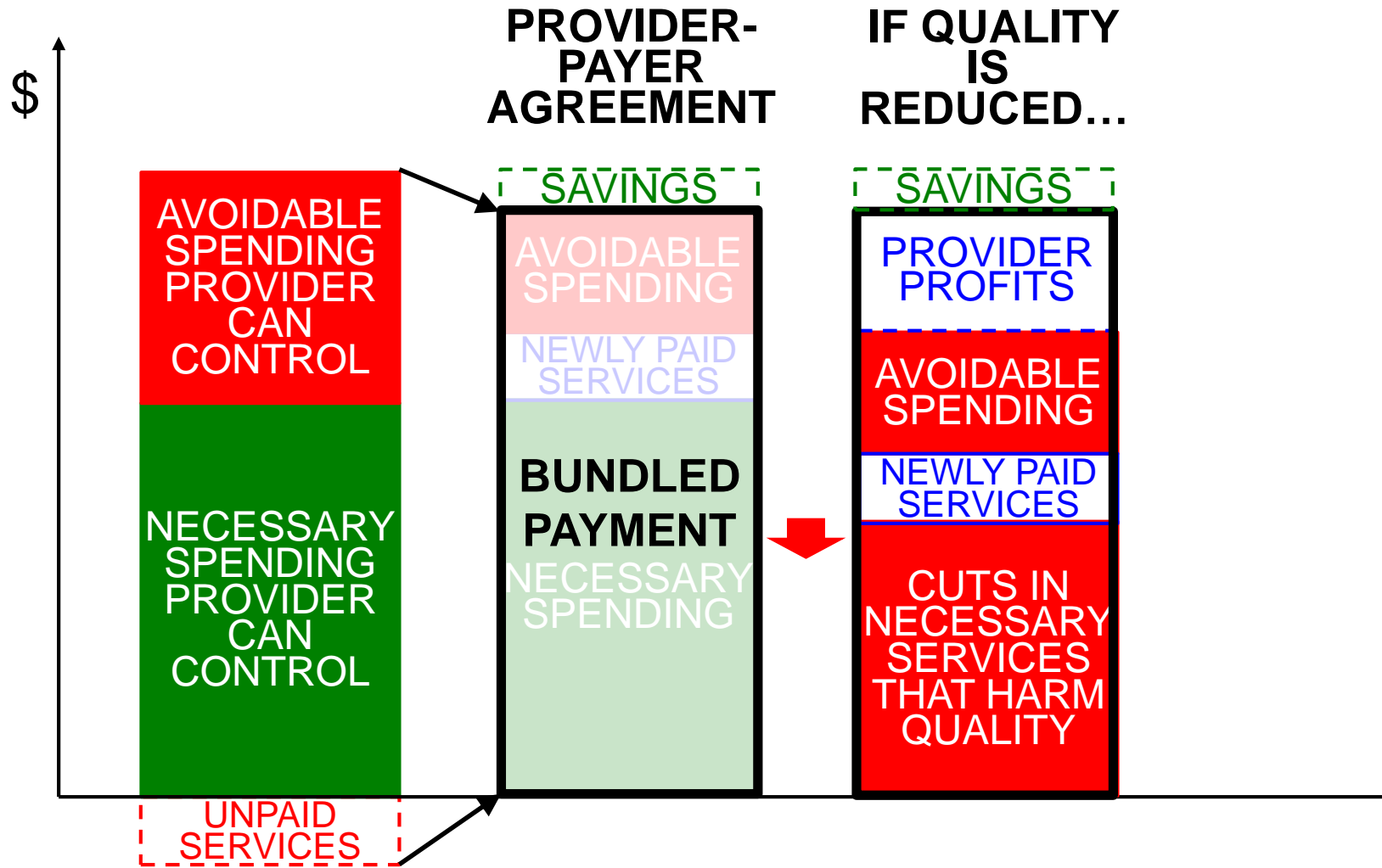


# Flexibility/Adequacy/Accountability via Bundles & Warranties

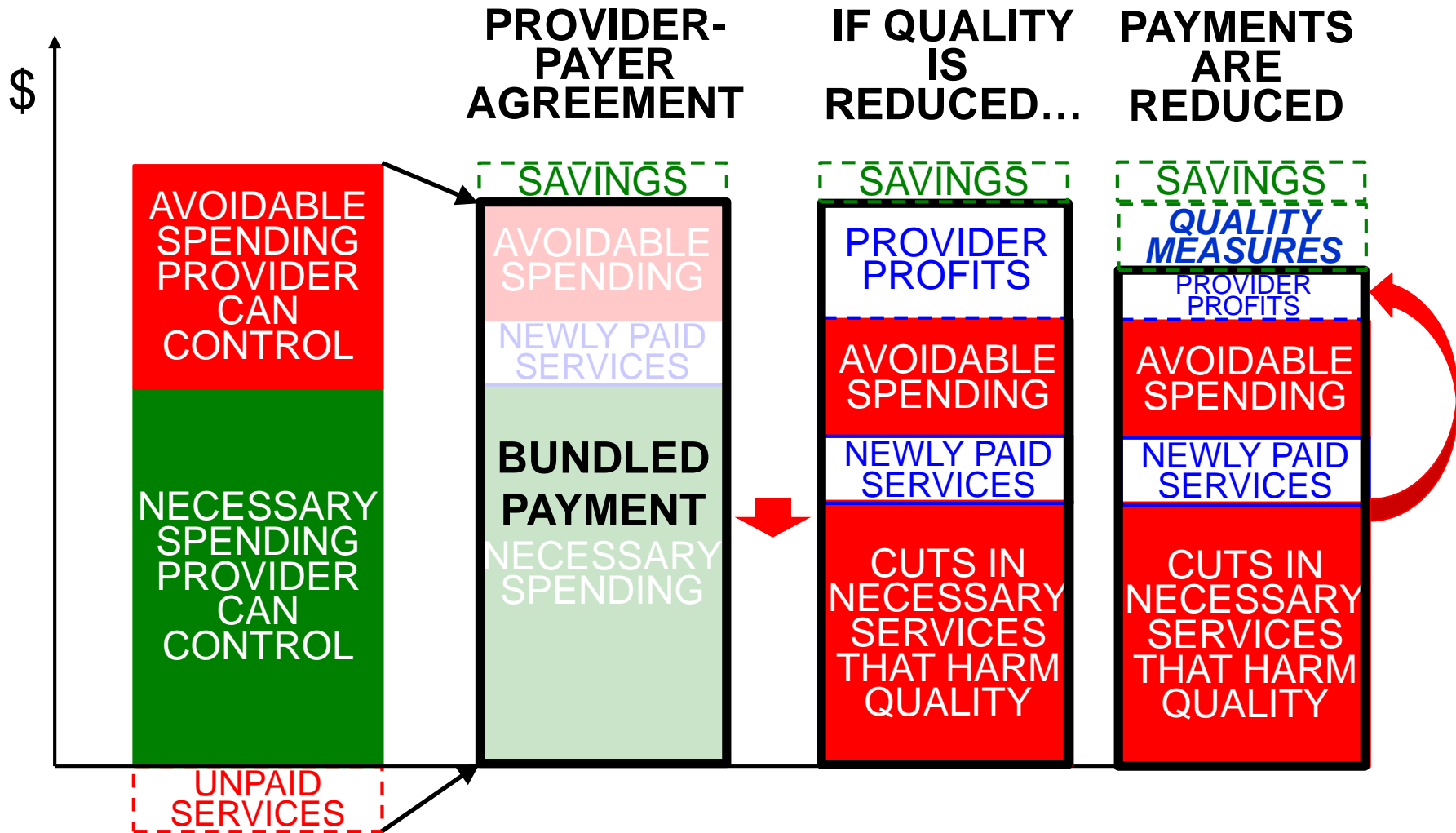




# Protections Against Underuse Needed



# Protections Against Underuse Needed



# Successful Payment Reforms Have Four Characteristics

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# The Four Characteristics of Successful Payment Reforms

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- 1. Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

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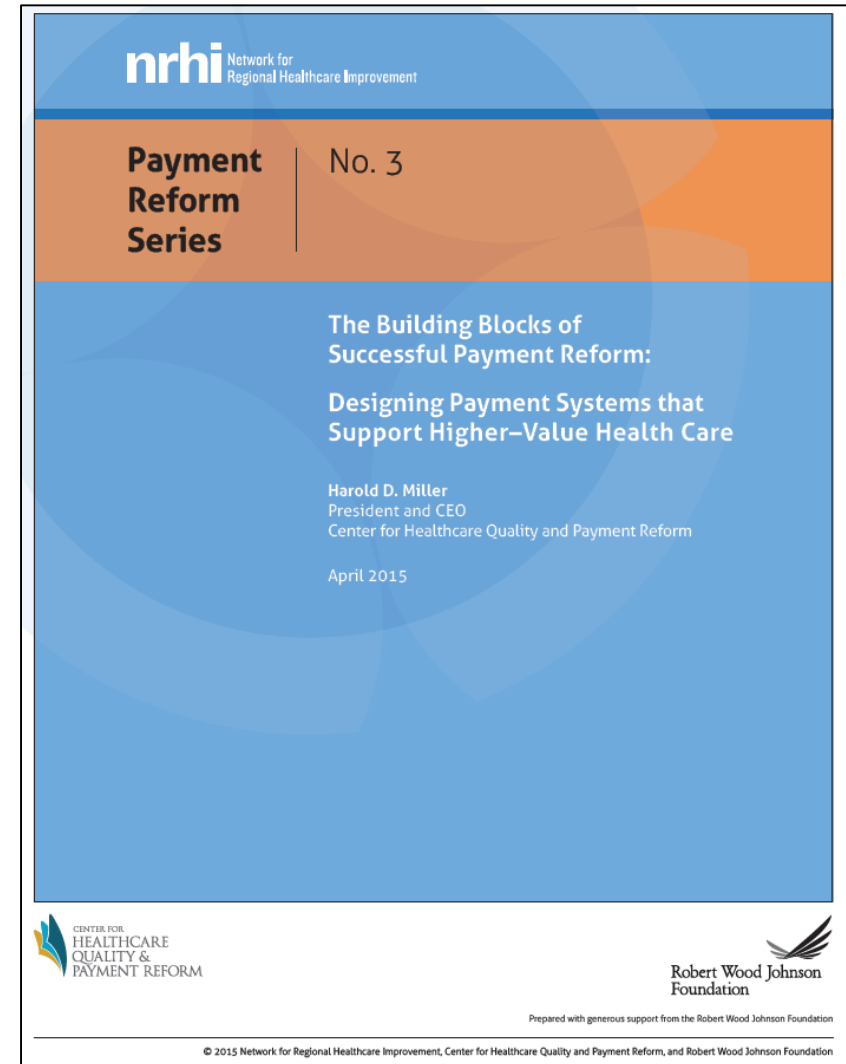


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- 4. Adequacy of Payment.** The size of the payments should be adequate to cover the providers' costs of delivering high quality care for the types of patients they see and at the levels of cost or efficiency that are feasible for them to achieve.

# Four Building Blocks to Address Four Characteristics for Success

1. Flexibility in Care Delivery.
2. Appropriate Accountability for Spending.
3. Appropriate Accountability for Quality
4. Adequacy of Payment.



# Four Building Blocks to Address Four Characteristics for Success

**1. Flexibility in Care Delivery.**

**BUILDING BLOCK 1:**  
Services Covered by a  
Single Payment

**2. Appropriate Accountability  
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**3. Appropriate Accountability  
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**4. Adequacy of Payment.**

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**BUILDING BLOCK 2:**  
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**BUILDING BLOCK 4:**  
Mechanism for Assuring  
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# Multiple Options for Implementing Each of the Four Building Blocks

**BUILDING BLOCK 1:**  
Services Covered by a  
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- New service-based fees
- Treatment-based bundles
- Condition-based bundles
- Population-based payment

**BUILDING BLOCK 2:**  
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## **BUILDING BLOCK 2:** Mechanism for Controlling Utilization and Spending

- P4P based on utilization
- P4P based on spending/savings
- Bundled payment

## **BUILDING BLOCK 3:** Mechanism for Assuring Good Quality and Outcomes

## **BUILDING BLOCK 4:** Mechanism for Assuring Adequacy of Payment



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## **BUILDING BLOCK 3:** Mechanism for Assuring Good Quality and Outcomes

- Minimum performance standards
- P4P based on quality
- Warrantied payment

## **BUILDING BLOCK 4:** Mechanism for Assuring Adequacy of Payment

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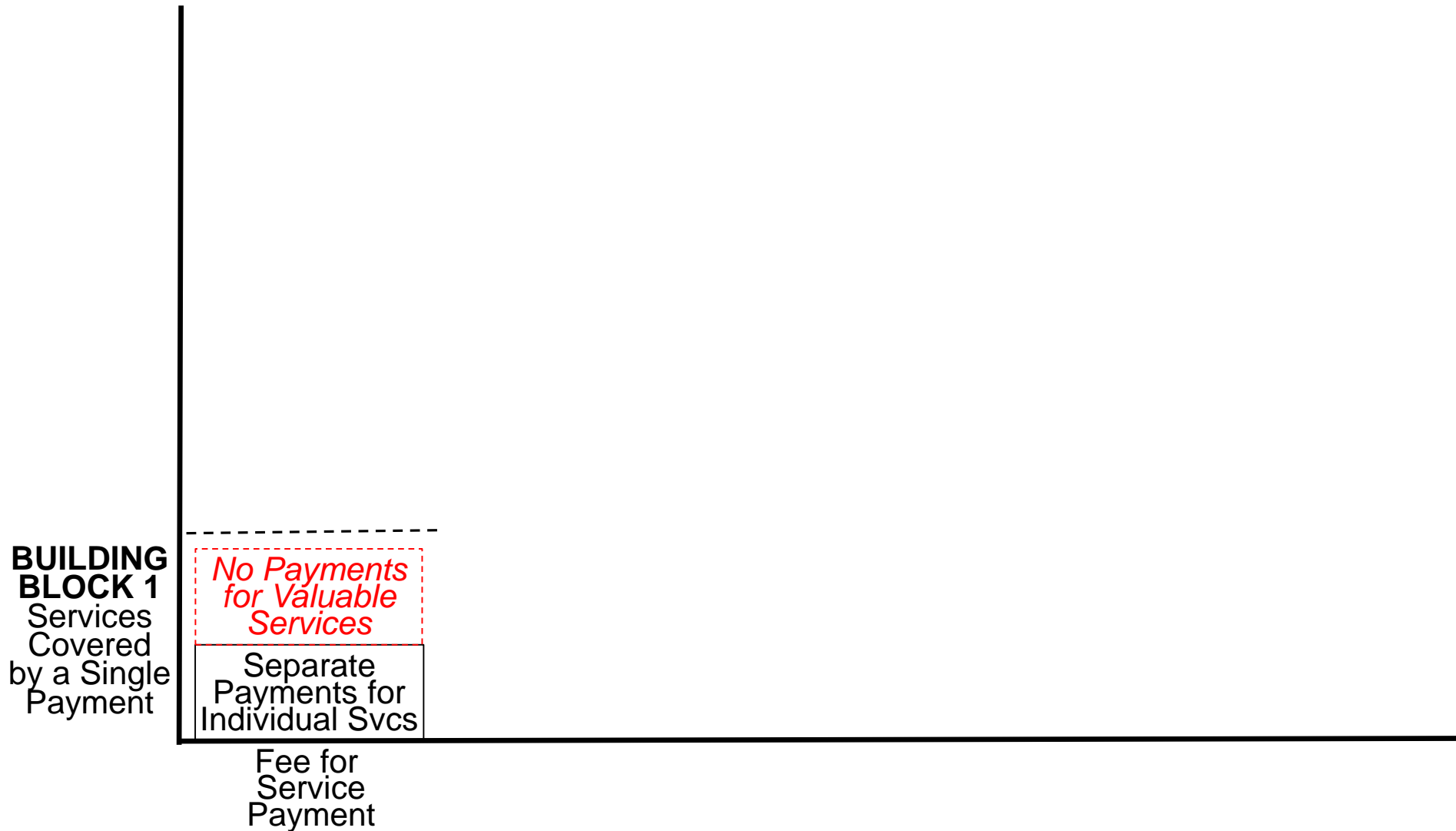
## **BUILDING BLOCK 4:** Mechanism for Assuring Adequacy of Payment

- Risk adjustment/stratification
- Outlier payments
- Risk corridors
- Volume-based adjustments
- Periodic adjustments to match cost

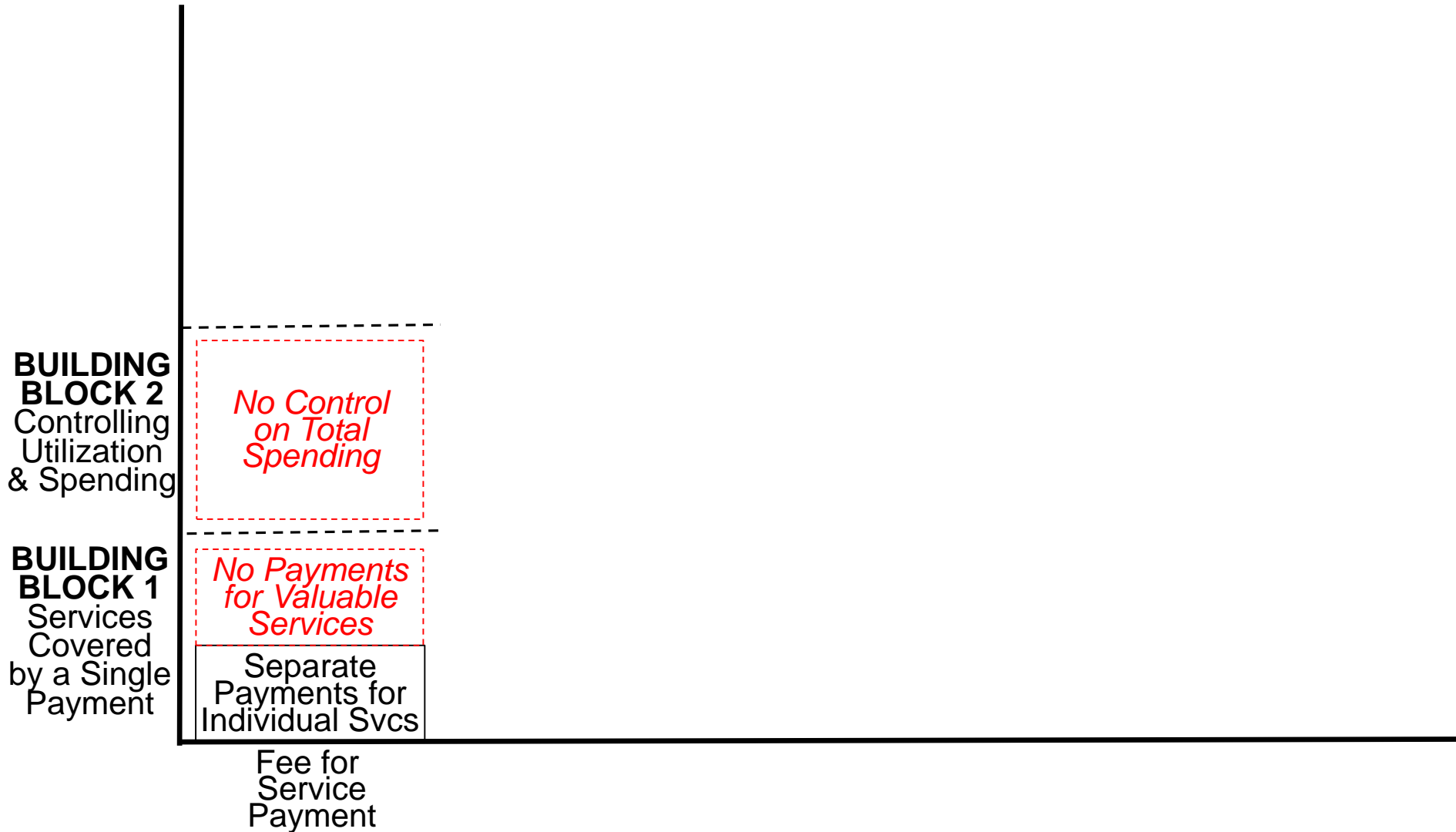
# Under FFS, Separate Payments for Individual Services...



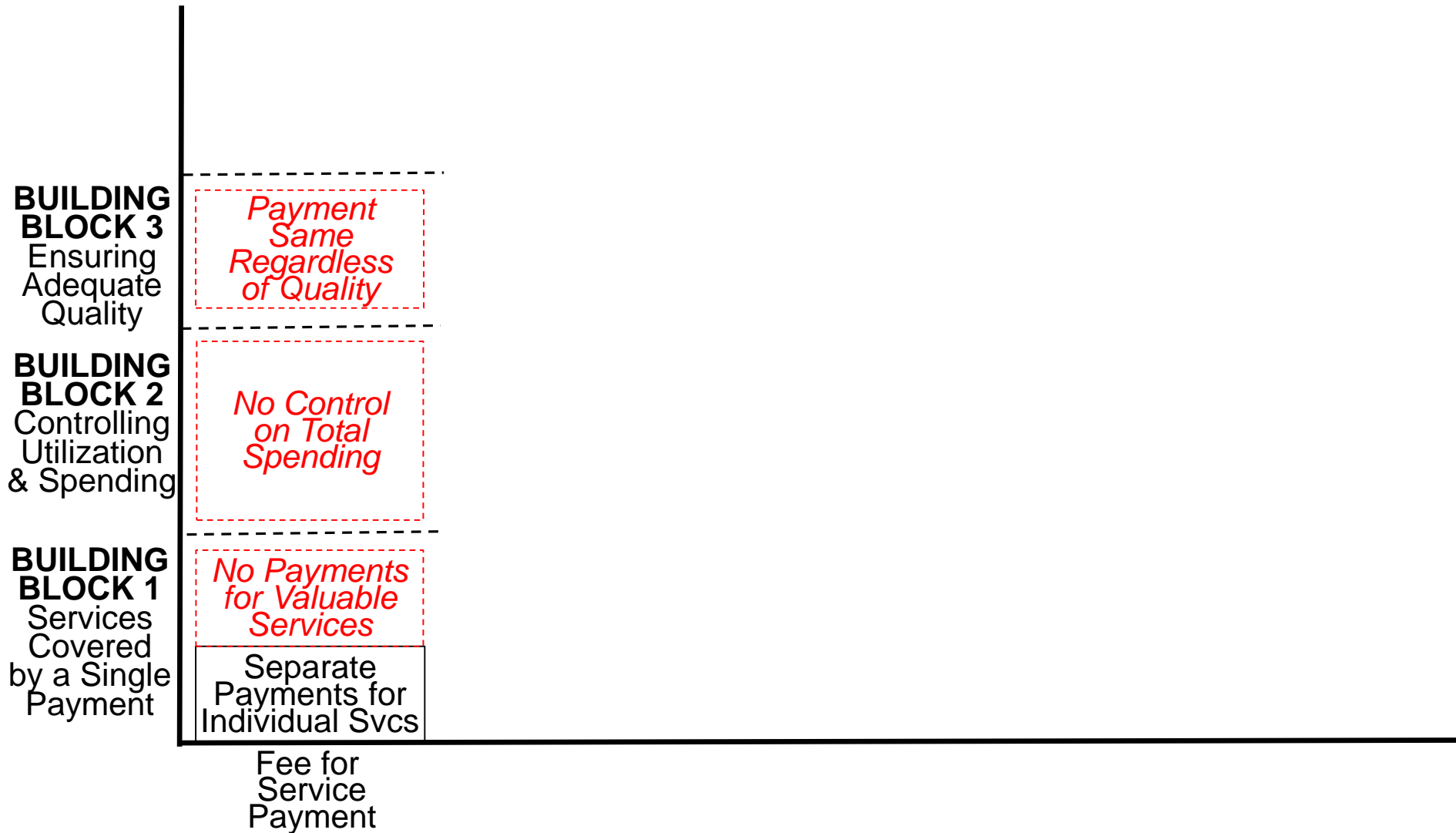
# ...But Not Every Service is Paid For Under FFS



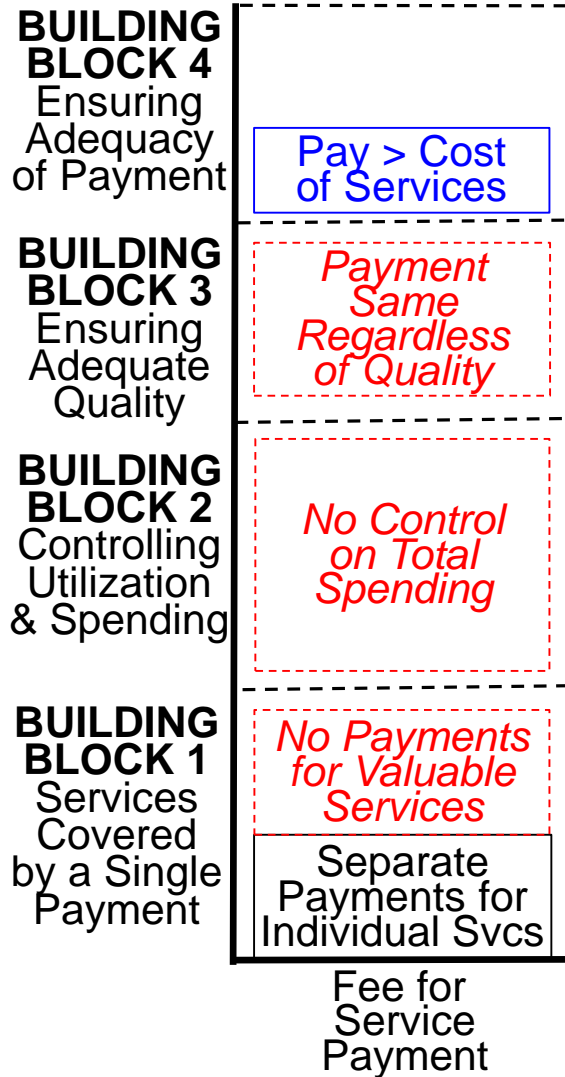
# There is No Control on Total Spending in FFS



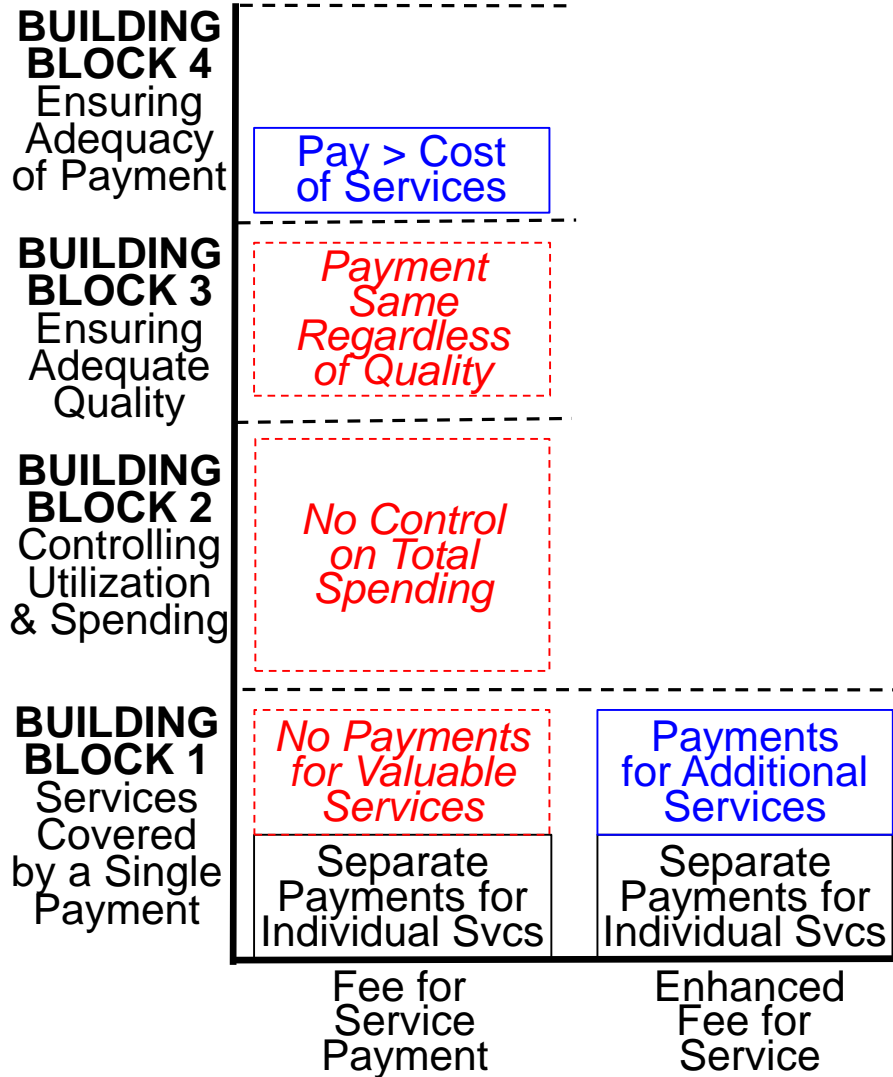
# Services Are Paid For Regardless of Quality



# In FFS, Efforts are Made to Ensure Payment Covers Costs

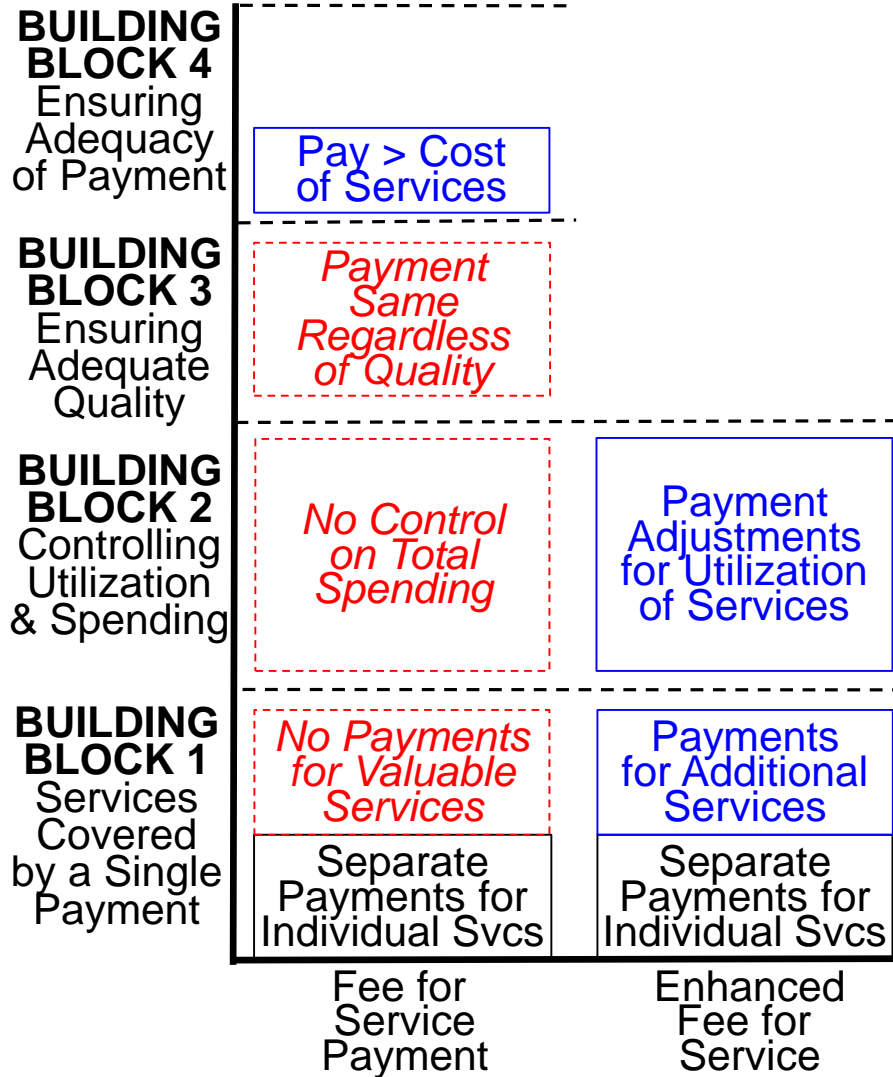


# One Approach: Pay for Services Not Currently Paid for in FFS





# But Also Adjust Payments to Protect Against Overutilization



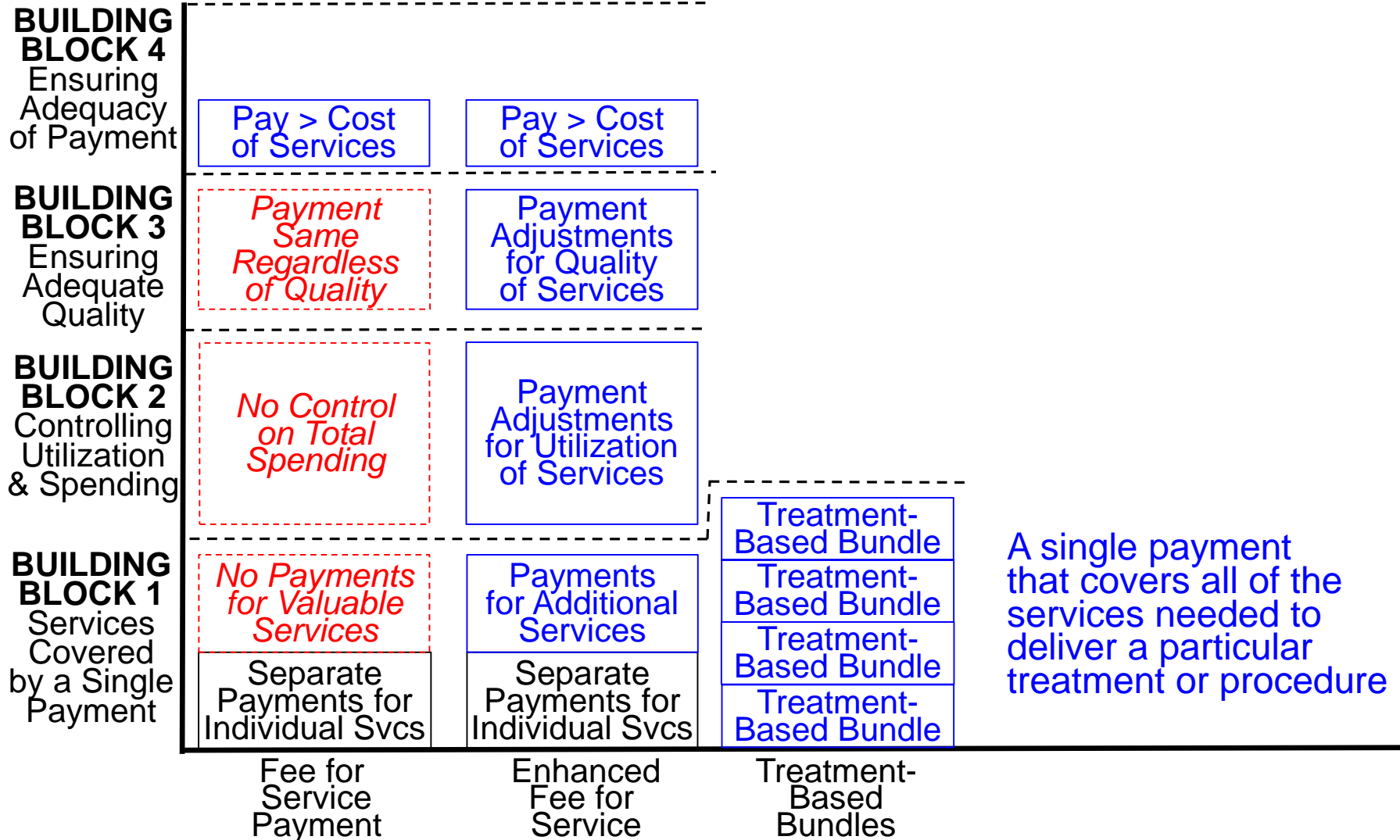
# And Adjust Payments Based on Quality of Services Delivered

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i>	Payments for Additional Services
	Separate Payments for Individual Svcs	Separate Payments for Individual Svcs
	Fee for Service Payment	Enhanced Fee for Service

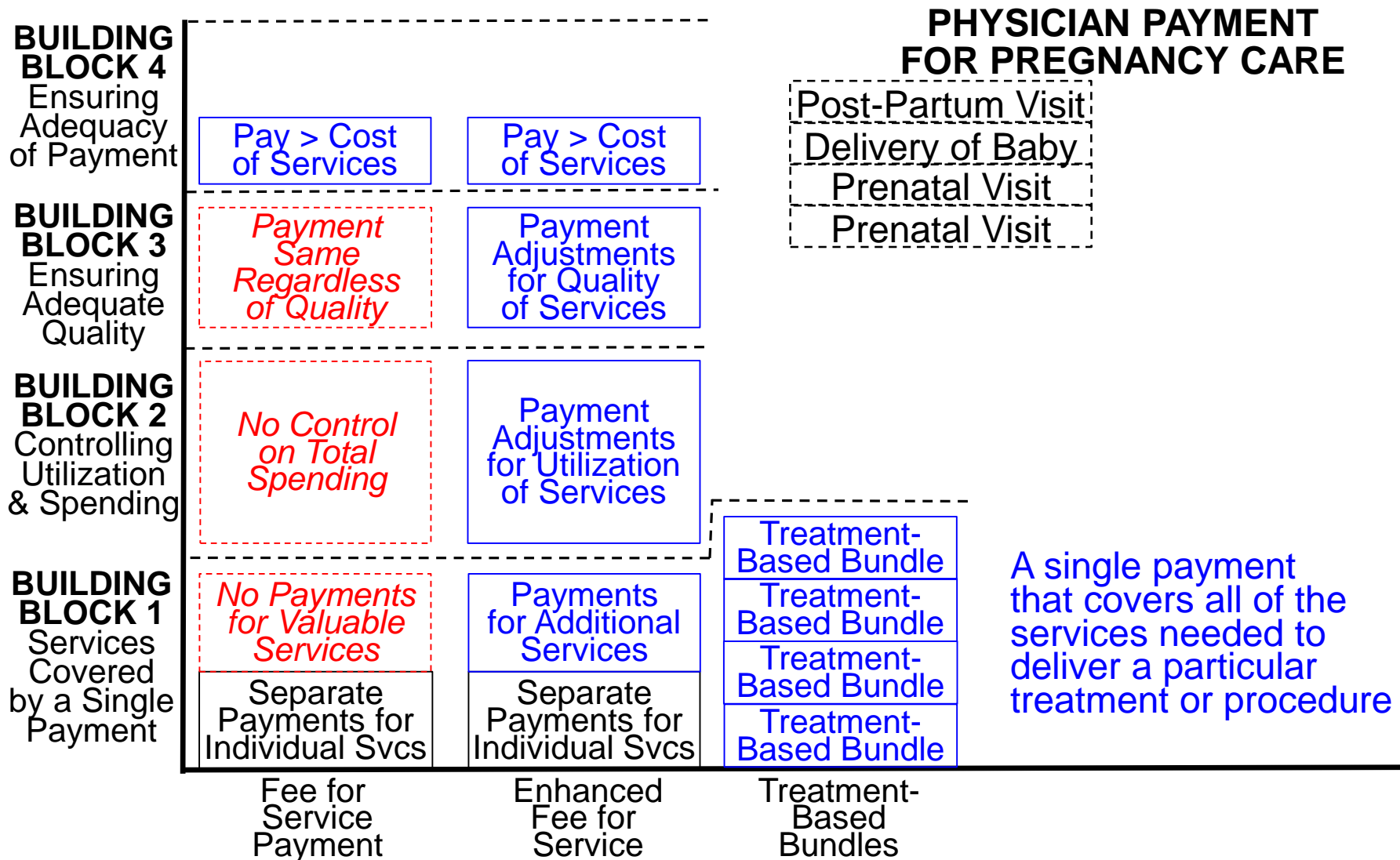
# Continue to Ensure that Payment Covers Costs of Needed Services

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services
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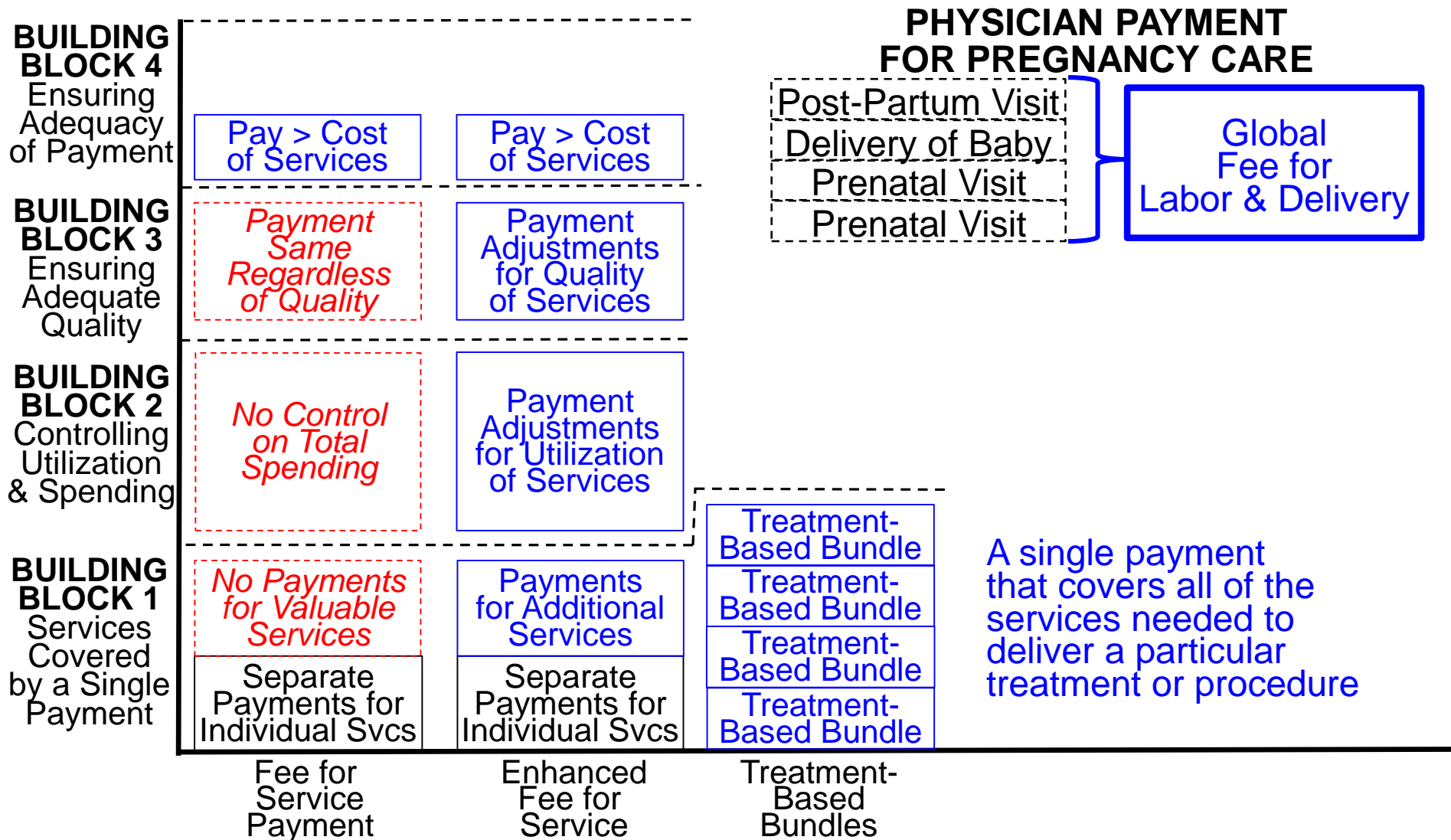
# A Second Approach: Create Treatment Bundles



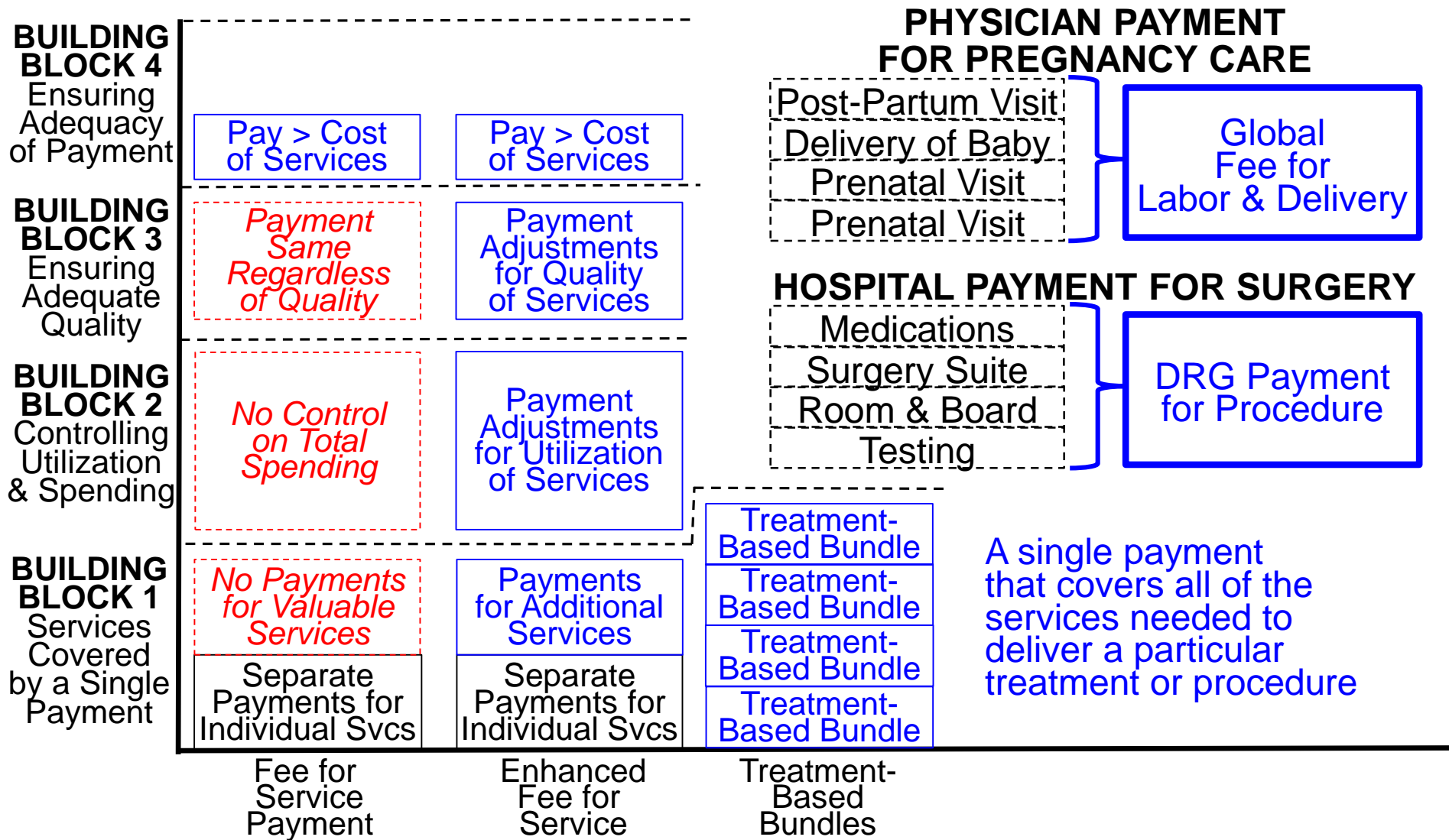
# Treatment Bundles Are Nothing New



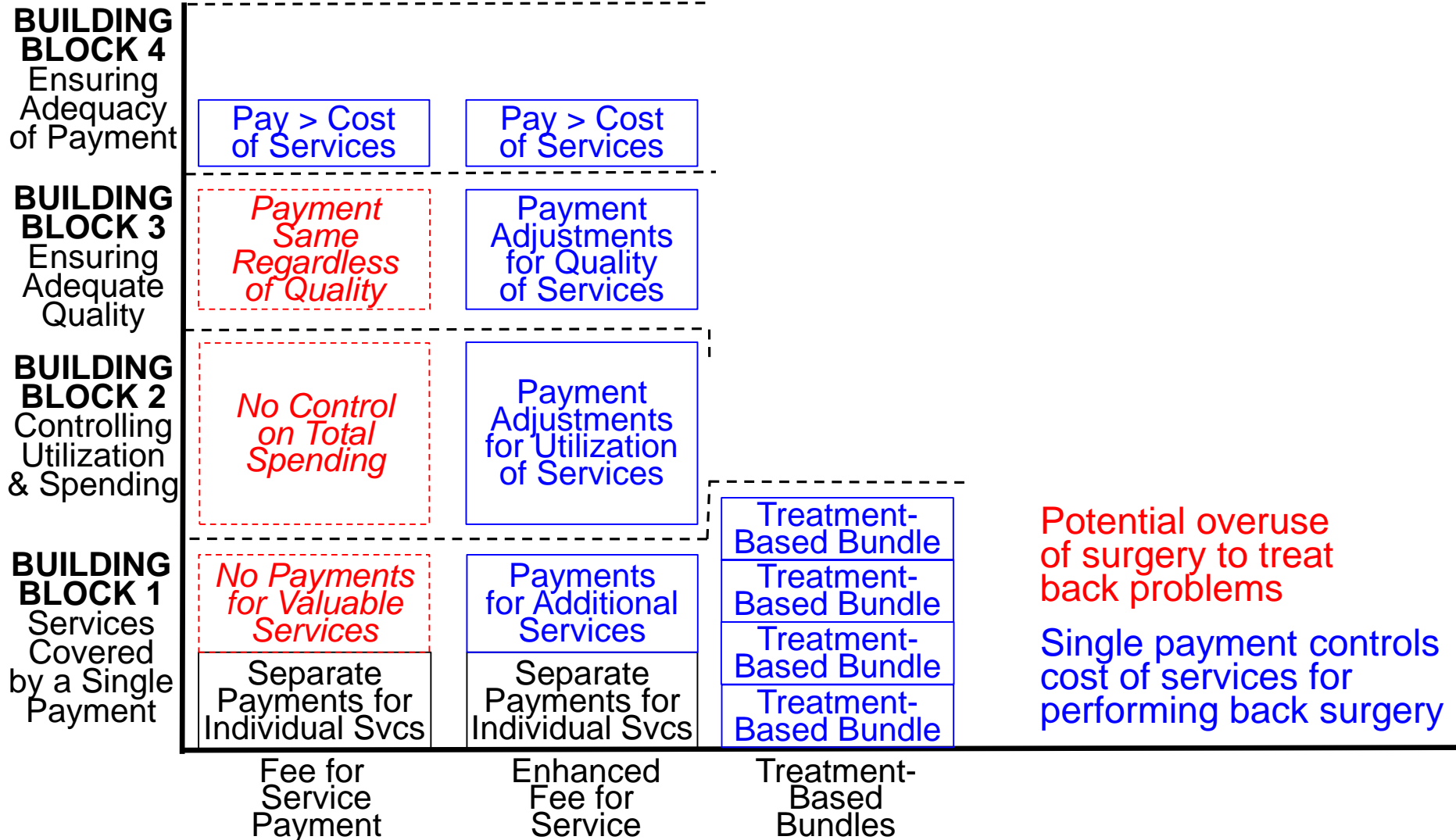
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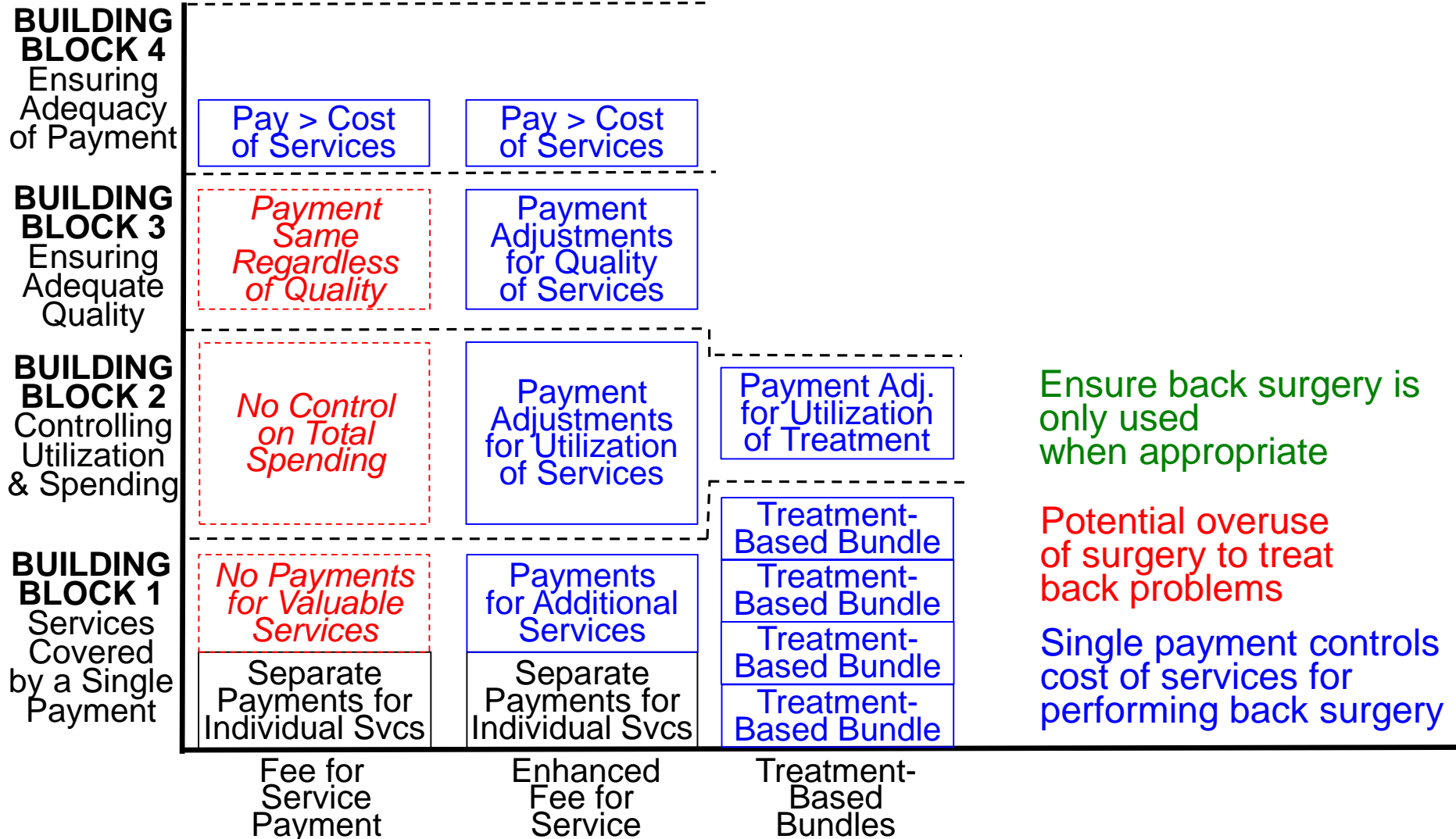


# Bundles Only Control Service Utilization Per Treatment...





# ...But Controls Are Needed to Avoid Overtreatment



# Quality Measures Must Now Protect Against Underuse

**BUILDING BLOCK 4**  
Ensuring Adequacy of Payment

Pay > Cost of Services

Pay > Cost of Services

**BUILDING BLOCK 3**  
Ensuring Adequate Quality

*Payment Same Regardless of Quality*

Payment Adjustments for Quality of Services

Payment Adjustments for Quality and Underuse of Services

**BUILDING BLOCK 2**  
Controlling Utilization & Spending

*No Control on Total Spending*

Payment Adjustments for Utilization of Services

Payment Adj. for Utilization of Treatment

**BUILDING BLOCK 1**  
Services Covered by a Single Payment

*No Payments for Valuable Services*

Payments for Additional Services

Treatment-Based Bundle  
Treatment-Based Bundle  
Treatment-Based Bundle  
Treatment-Based Bundle

Separate Payments for Individual Svcs

Separate Payments for Individual Svcs

Fee for Service Payment

Enhanced Fee for Service

Treatment-Based Bundles

Ensure good outcomes when back surgery is performed

Ensure back surgery is only used when appropriate

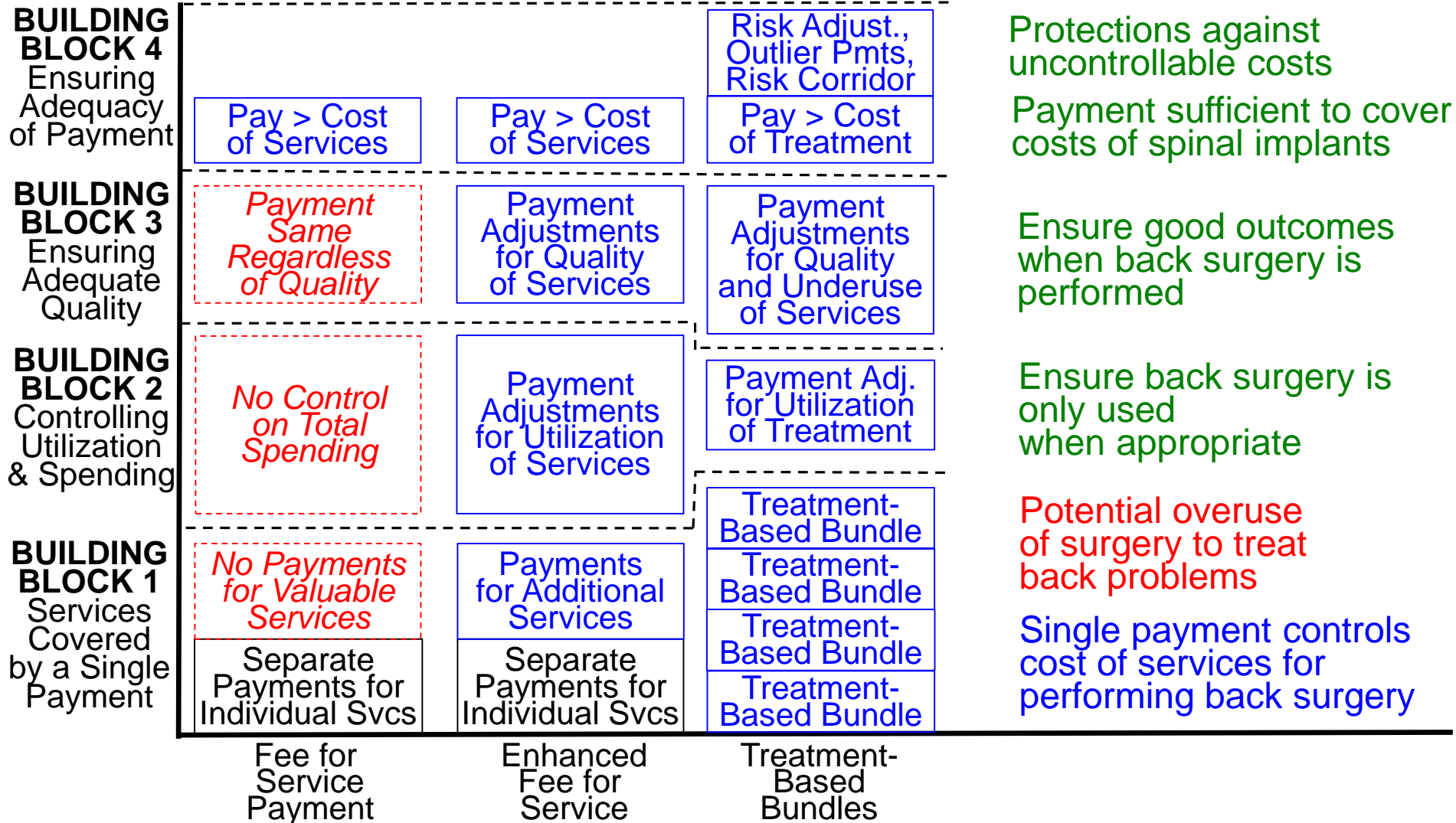
Potential overuse of surgery to treat back problems

Single payment controls cost of services for performing back surgery

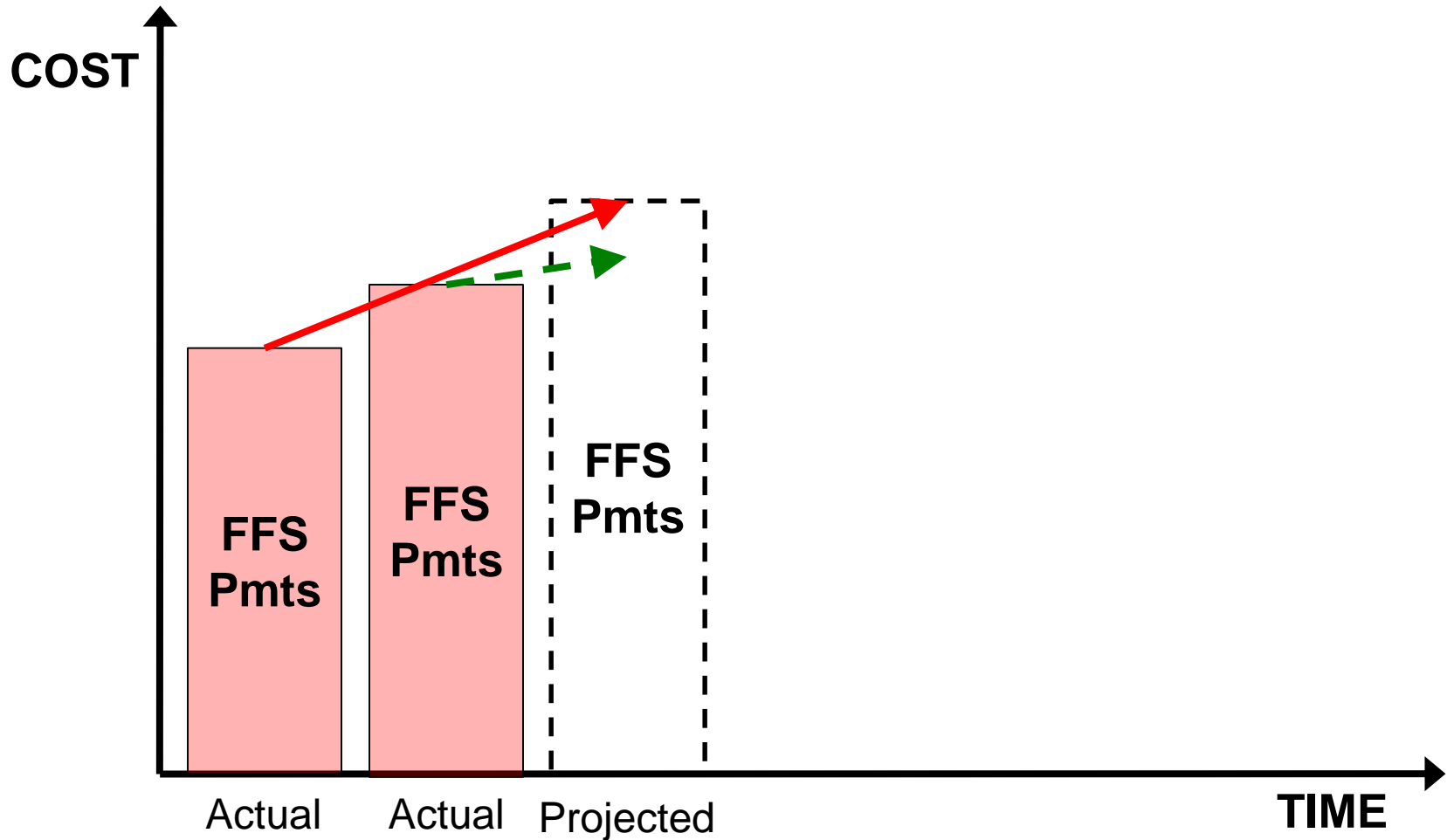
# Assure Payment Covers Costs of Treatment

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Pay > Cost of Treatment	Payment sufficient to cover costs of spinal implants
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Ensure good outcomes when back surgery is performed
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Ensure back surgery is only used when appropriate
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i> Separate Payments for Individual Svcs	Payments for Additional Services Separate Payments for Individual Svcs	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Potential overuse of surgery to treat back problems Single payment controls cost of services for performing back surgery
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	

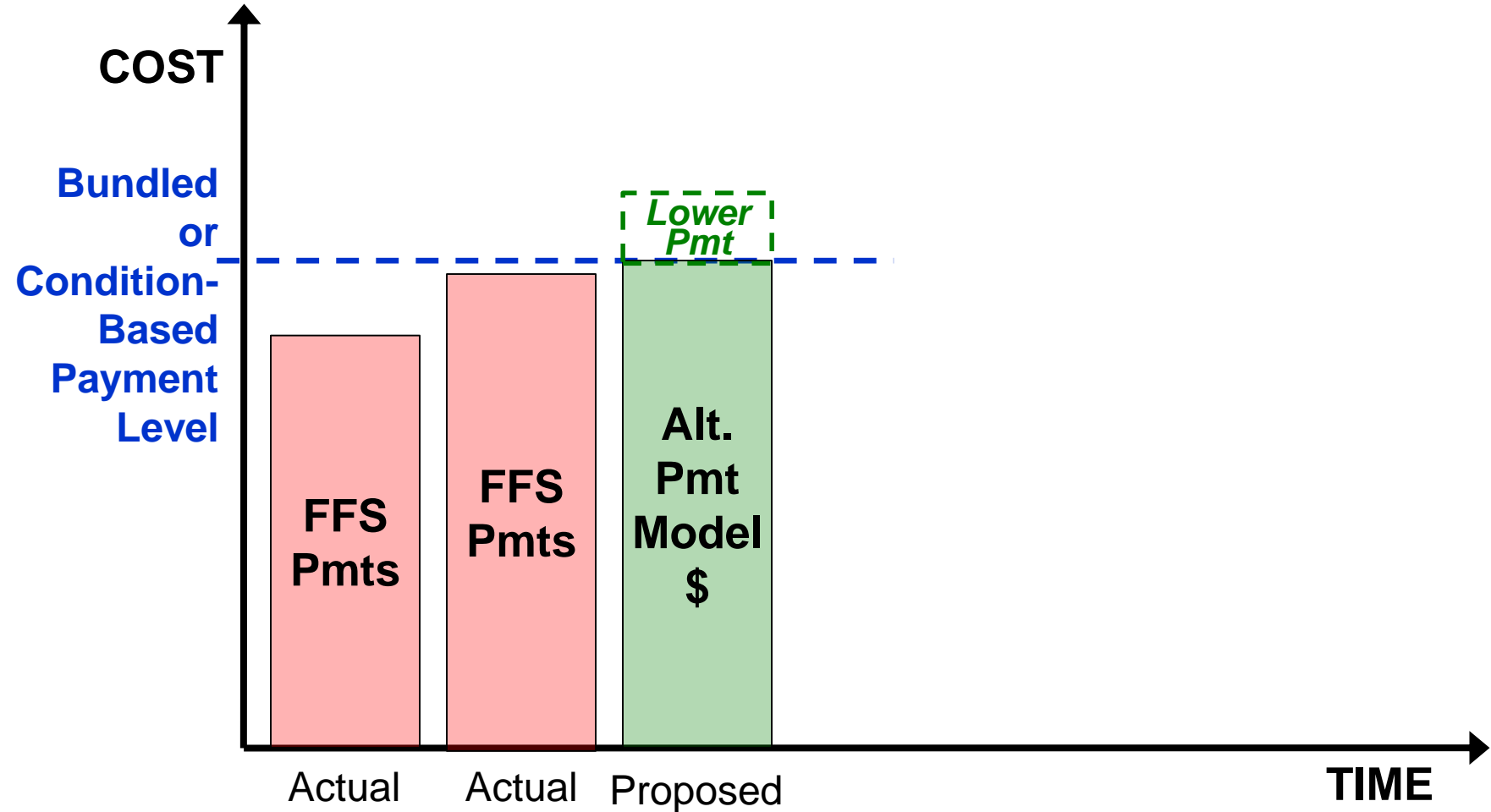
# Provider Now Needs Protection for Expenses It Can't Control



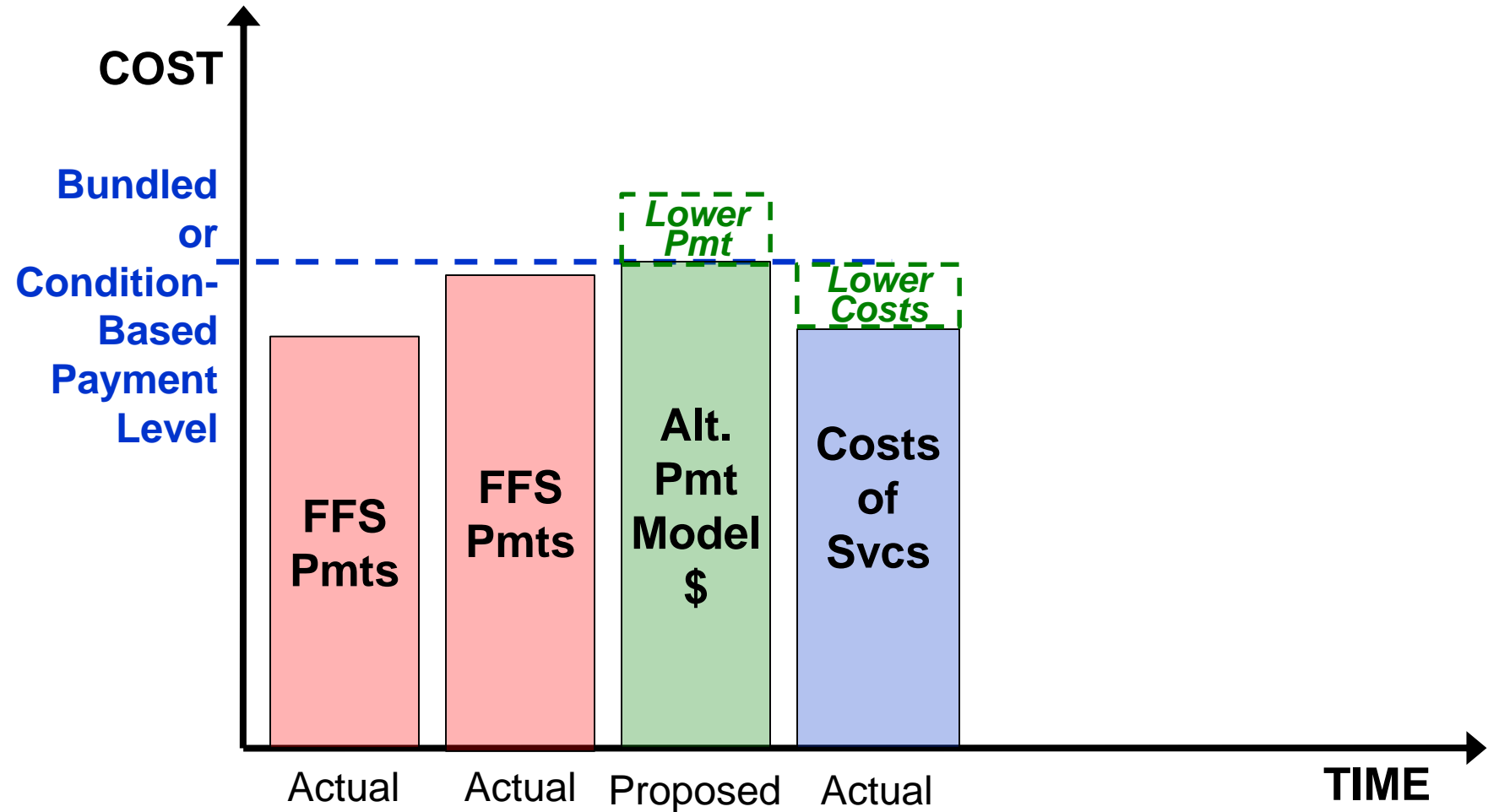
# The Goal: Slower *Growth* in Spending Than Under FFS



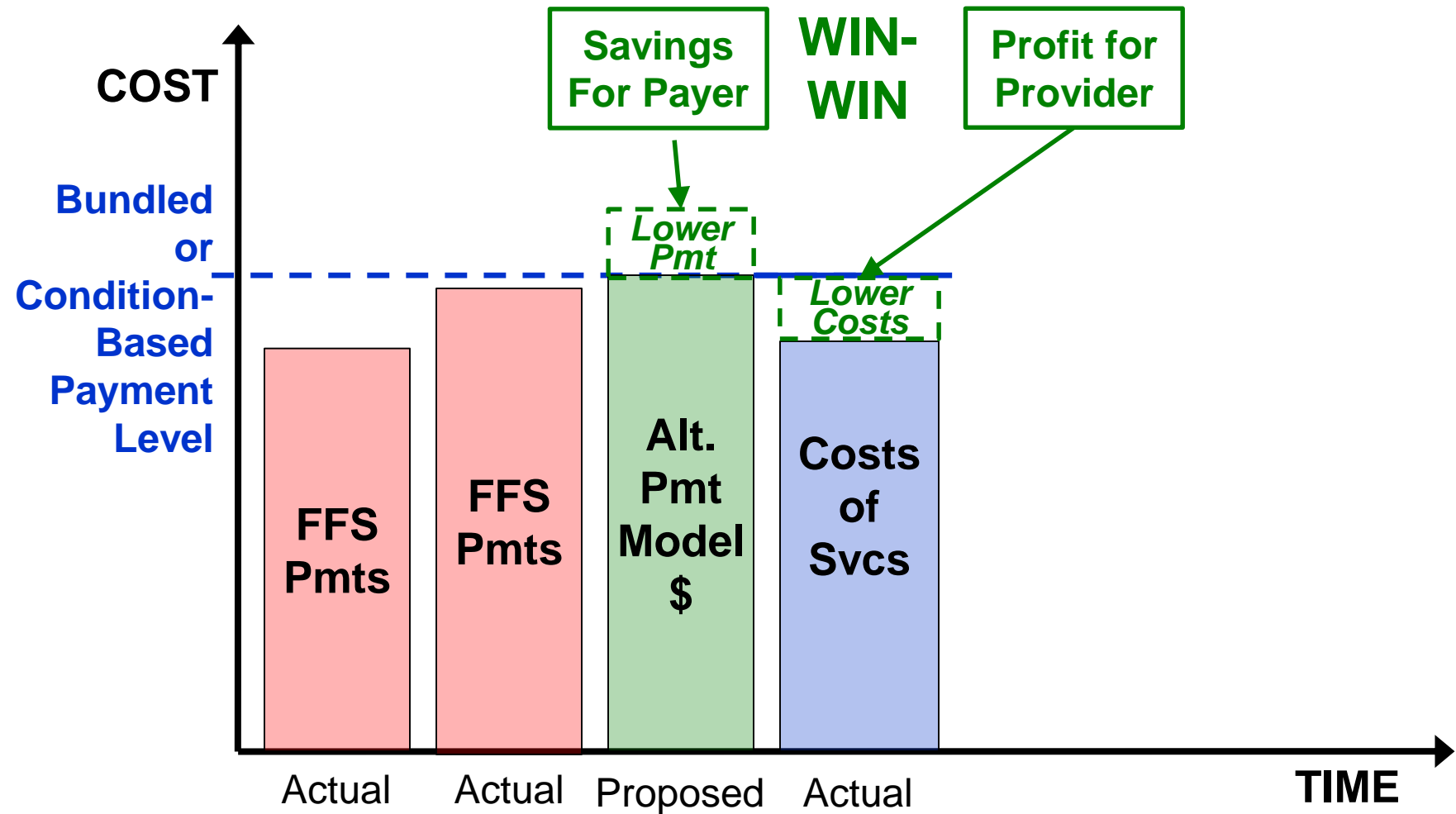
# To Attract Payers, New Payment Must Be $<$ Projected FFS Spend



# ...If All Goes Well, Provider's Costs Are Lower Than the Payment...

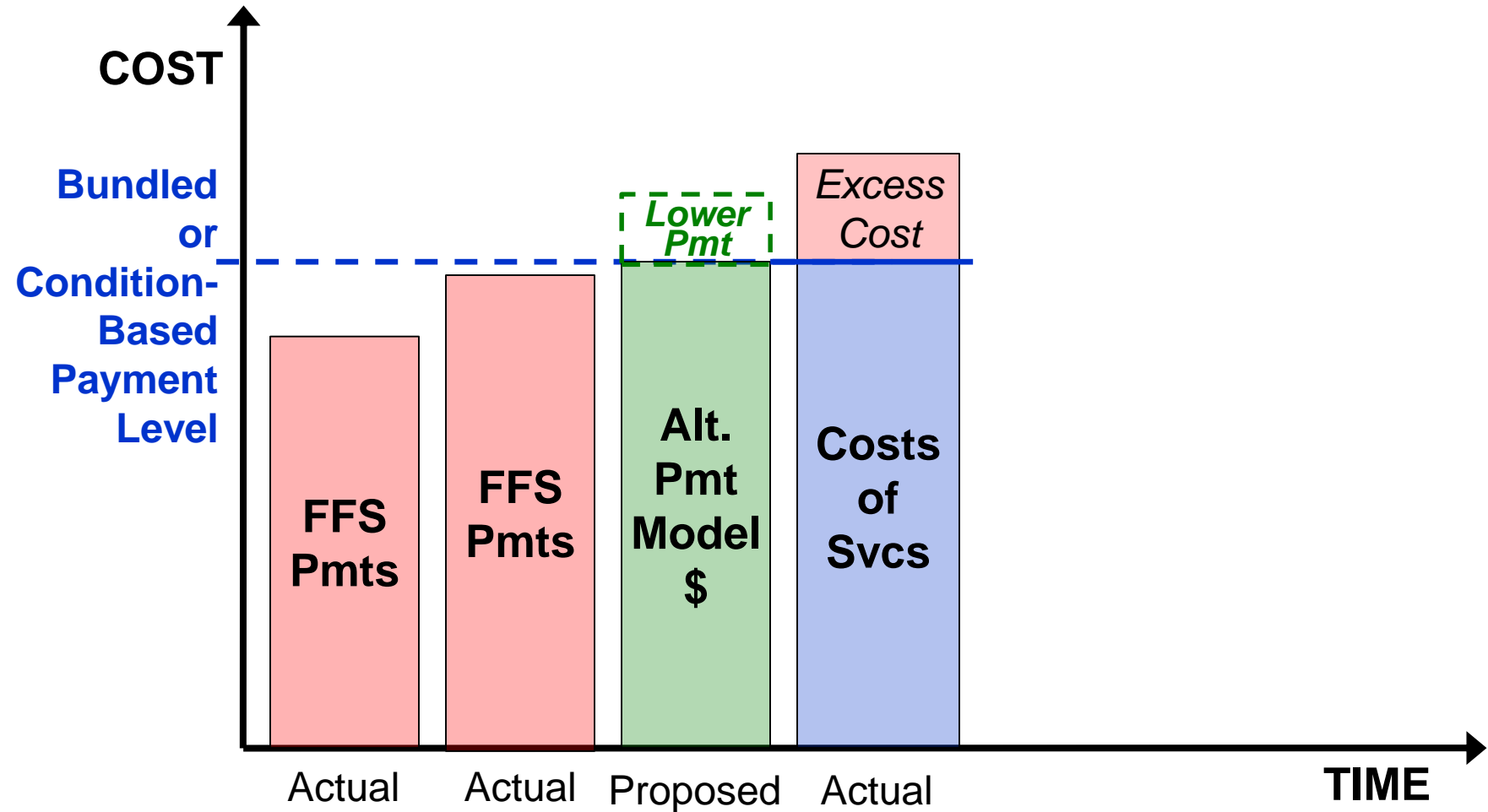


# ...And Both the Payer and Provider Will “Win”

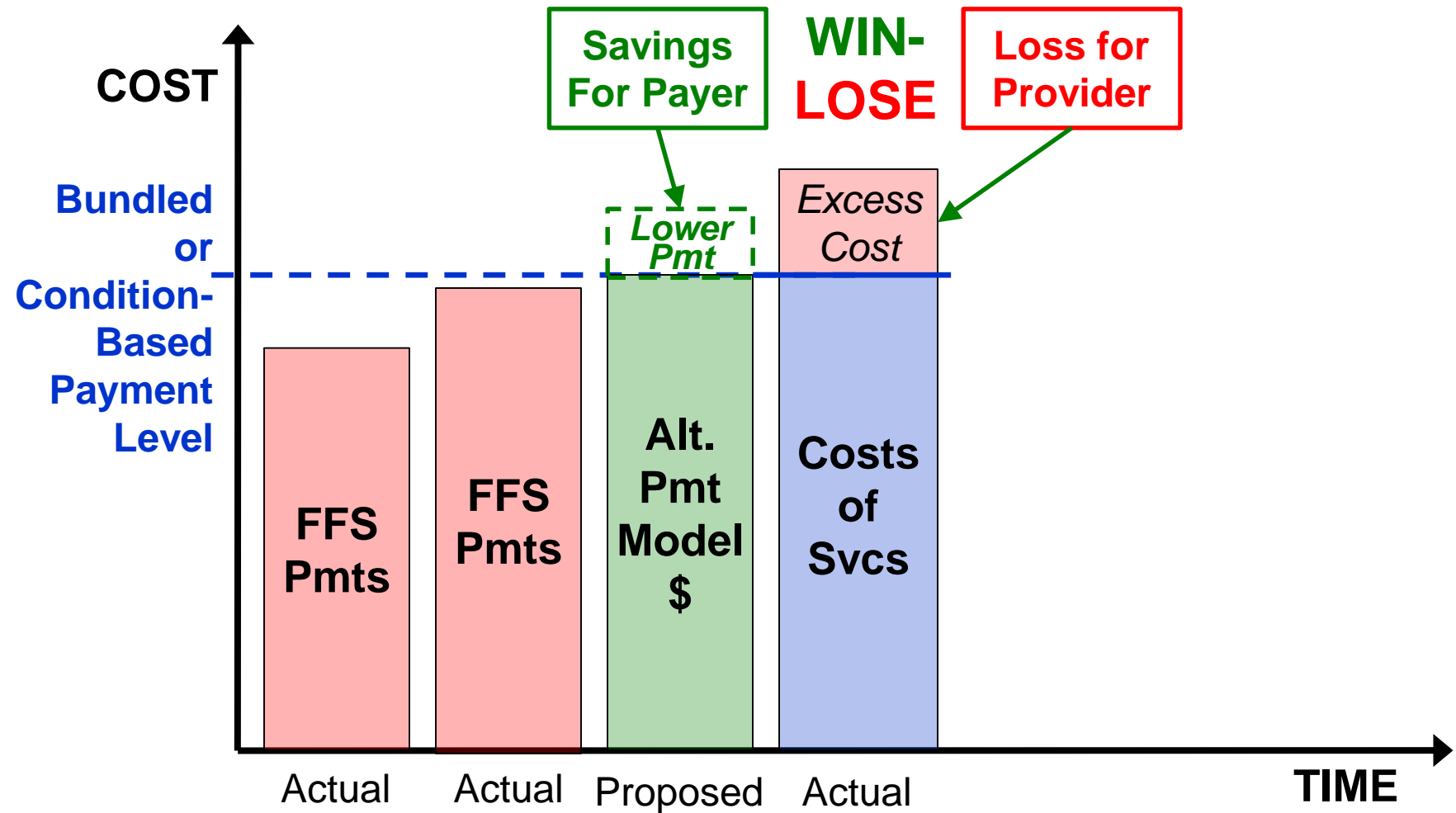




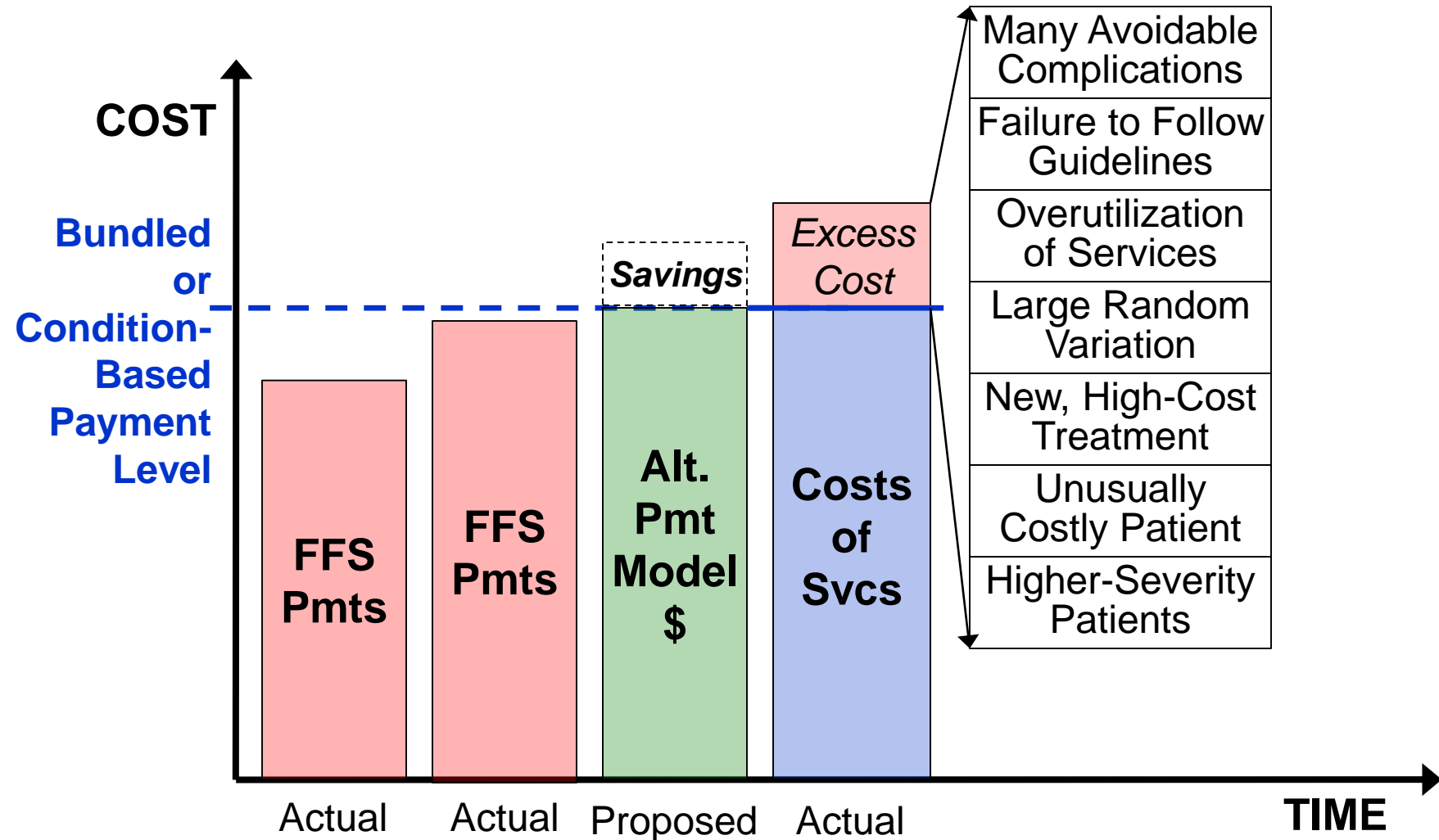
# The Risk Providers Fear: All *Won't* Go Well (Costs Go Up)..



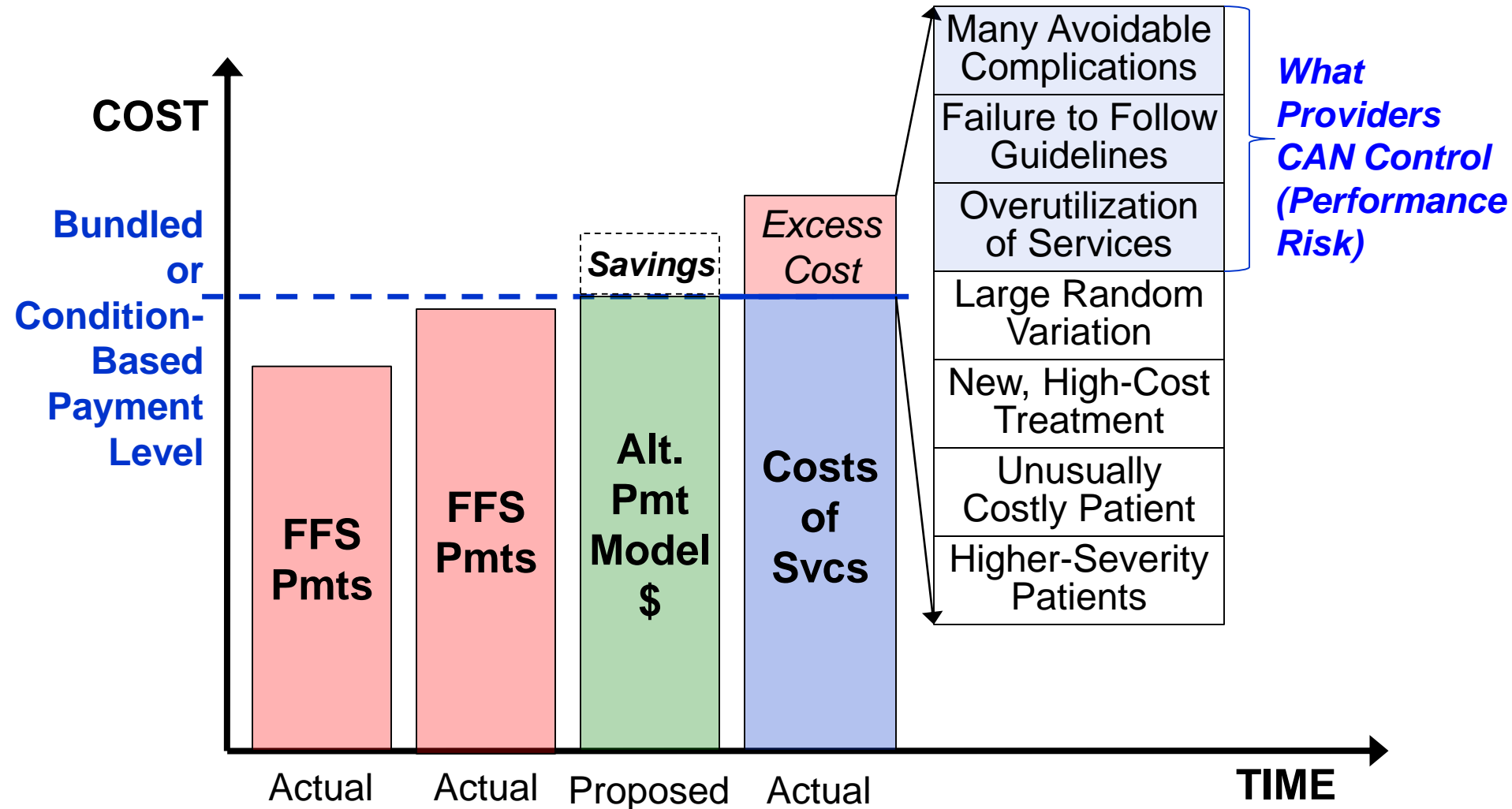
# ...Creating a Win-Lose Situation



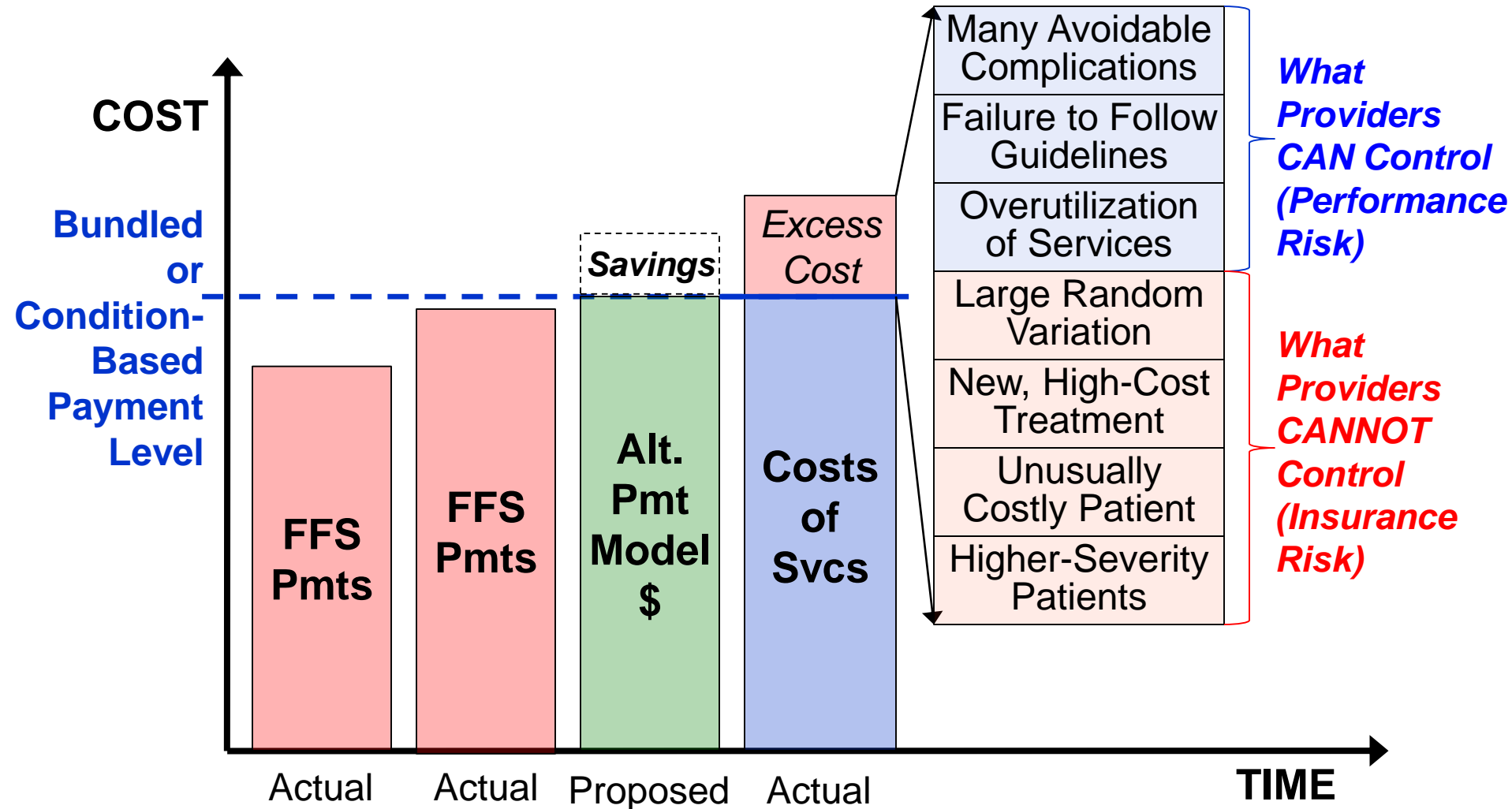
# Many Different Reasons Costs May Increase Beyond Payment



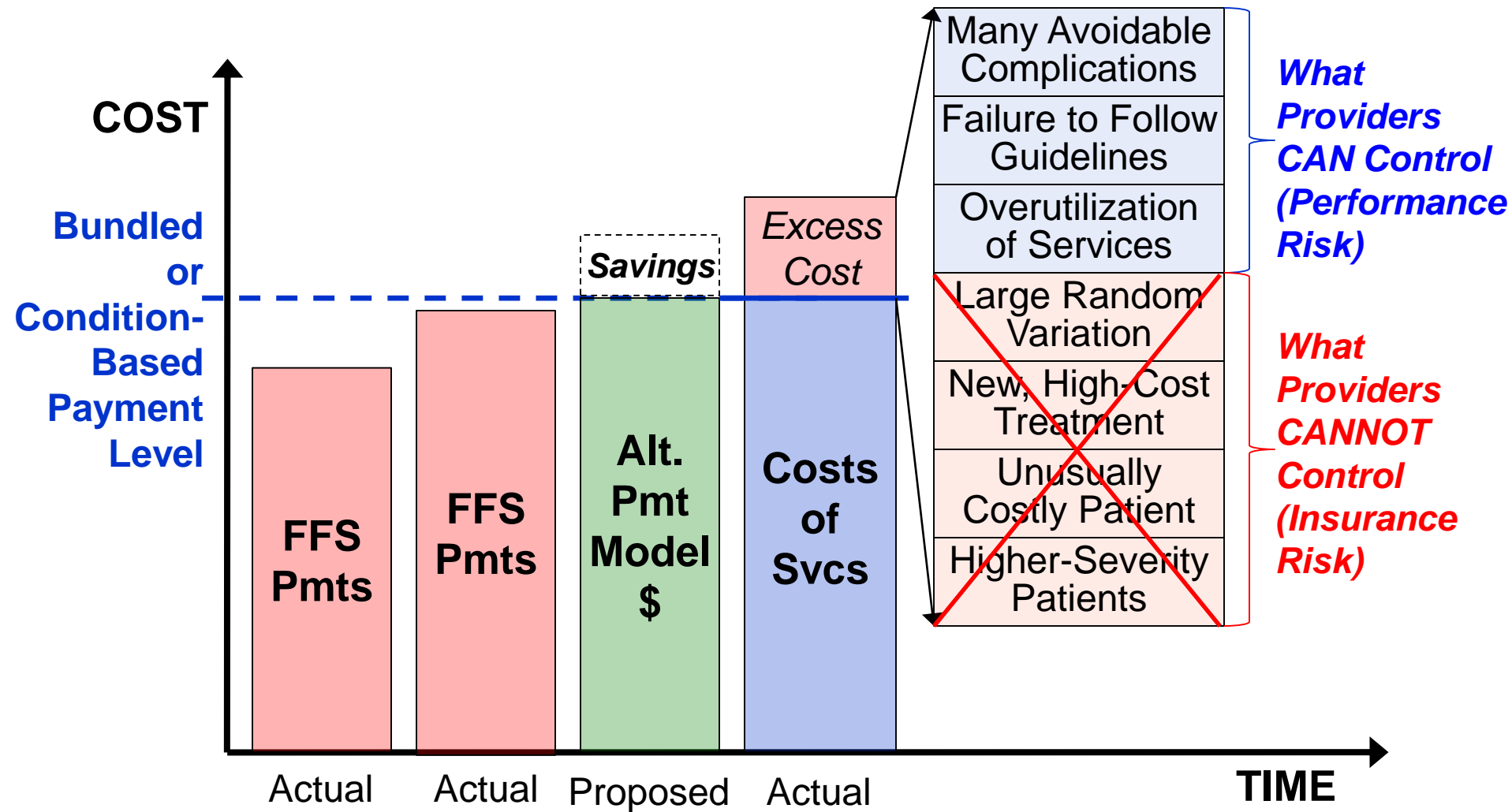
# Providers CAN Control Many of the Factors Causing Higher Costs



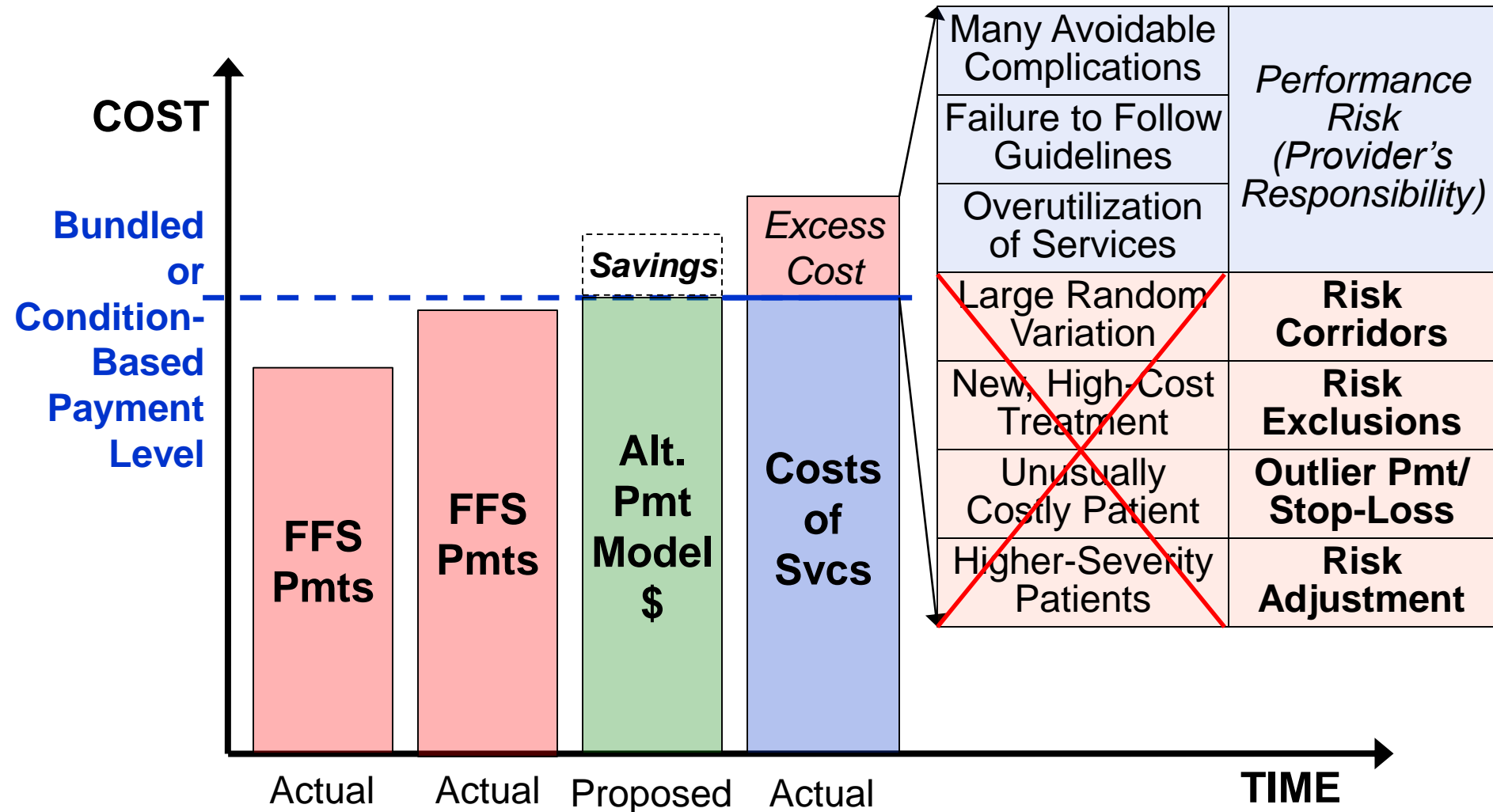
# But Other Causes of Higher Costs CAN'T Be Controlled by Providers



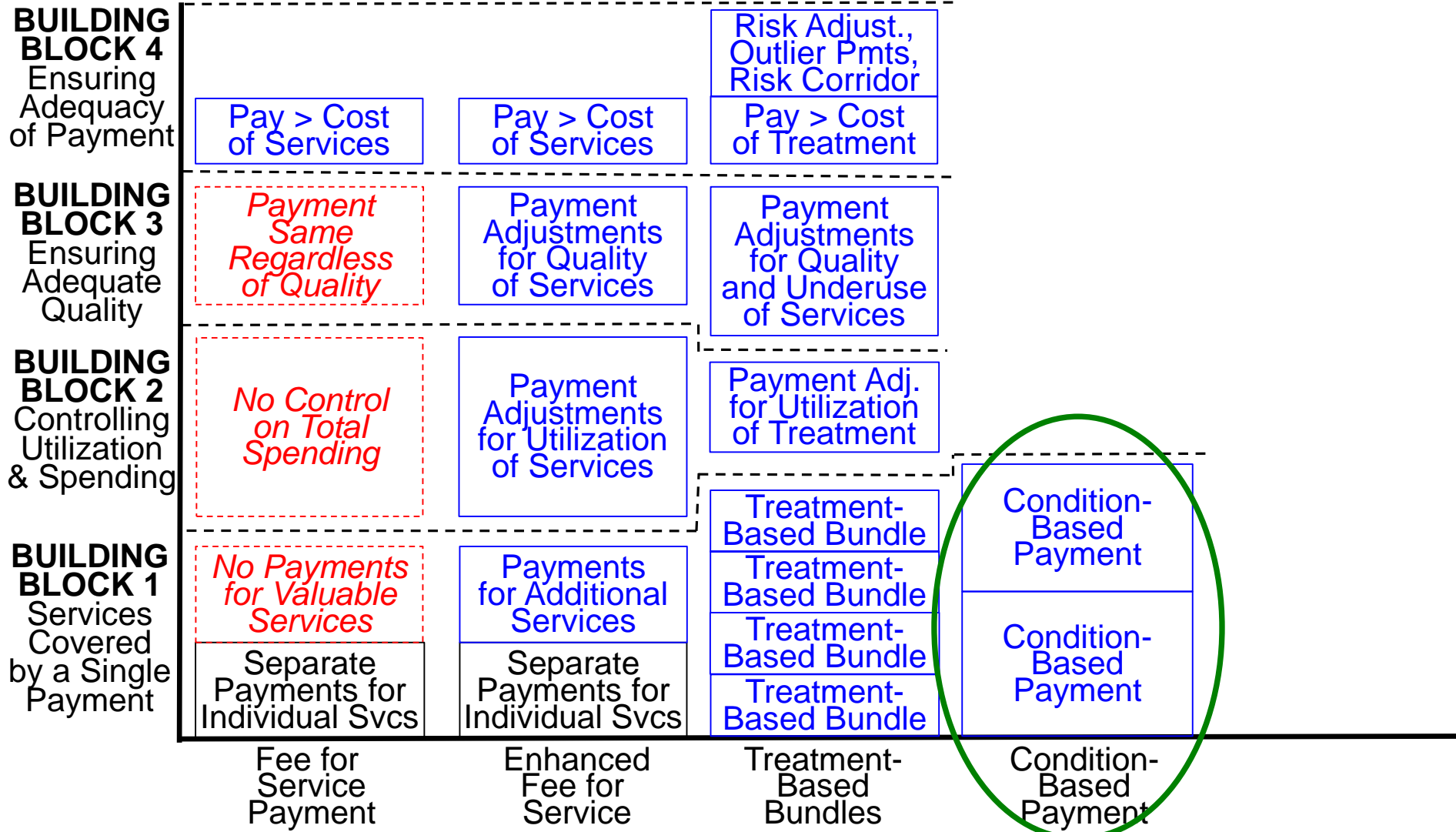
# Providers Should NOT Be Expected To Take *Insurance Risk*



# Four Mechanisms for Separating Insurance and Performance Risk



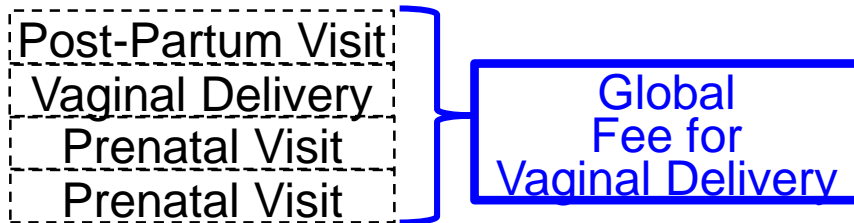
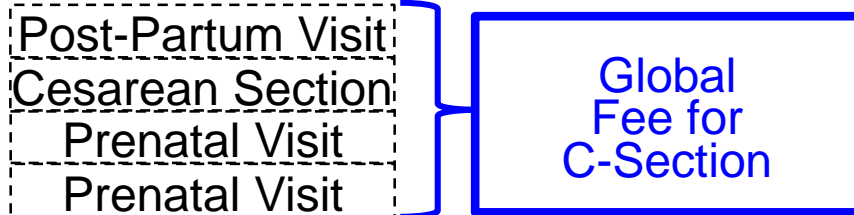
# Payments Can be Bundled by *Condition* Instead of Treatment





# Start From Treatment-Based Bundles..

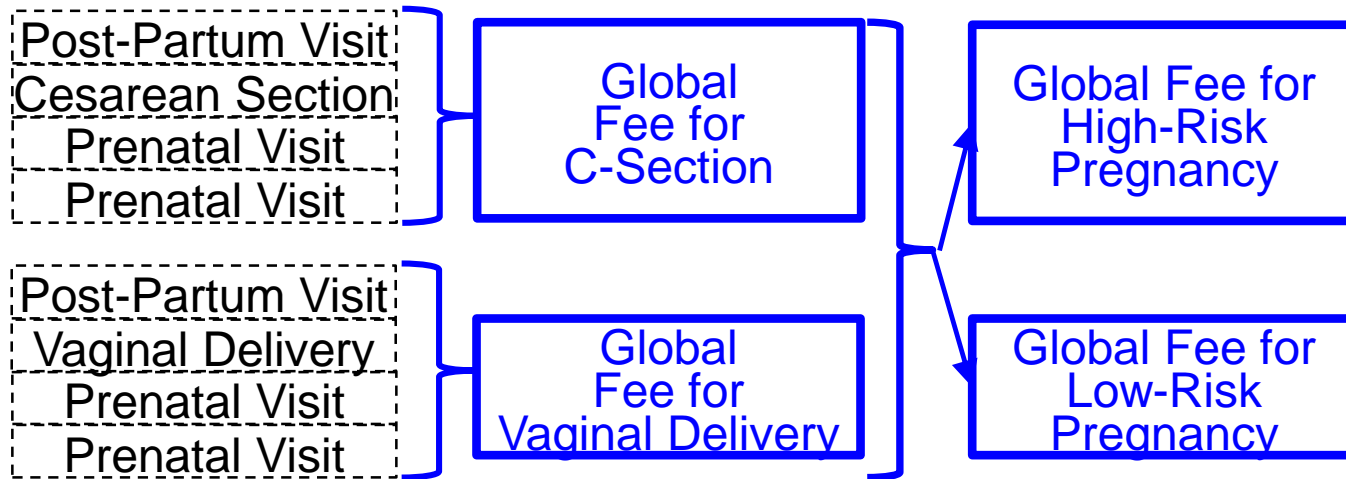
## PHYSICIAN PAYMENT FOR PREGNANCY CARE



*Payment Based on Type of Procedure Used Rather Than Need of Patient*

# ...to Create Condition-Based Bundles

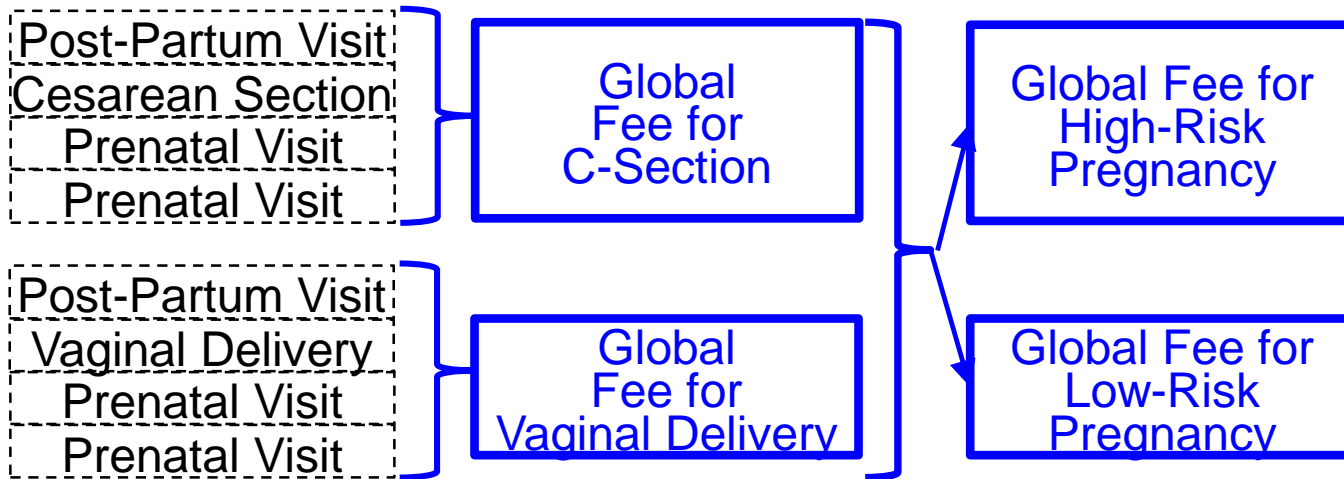
## PHYSICIAN PAYMENT FOR PREGNANCY CARE



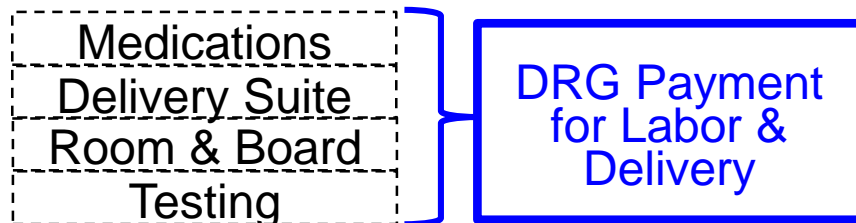
*Payment Based on Need of Patient Rather Than Type of Procedure Used*

# And From Single-Provider Bundles...

## PHYSICIAN PAYMENT FOR PREGNANCY CARE

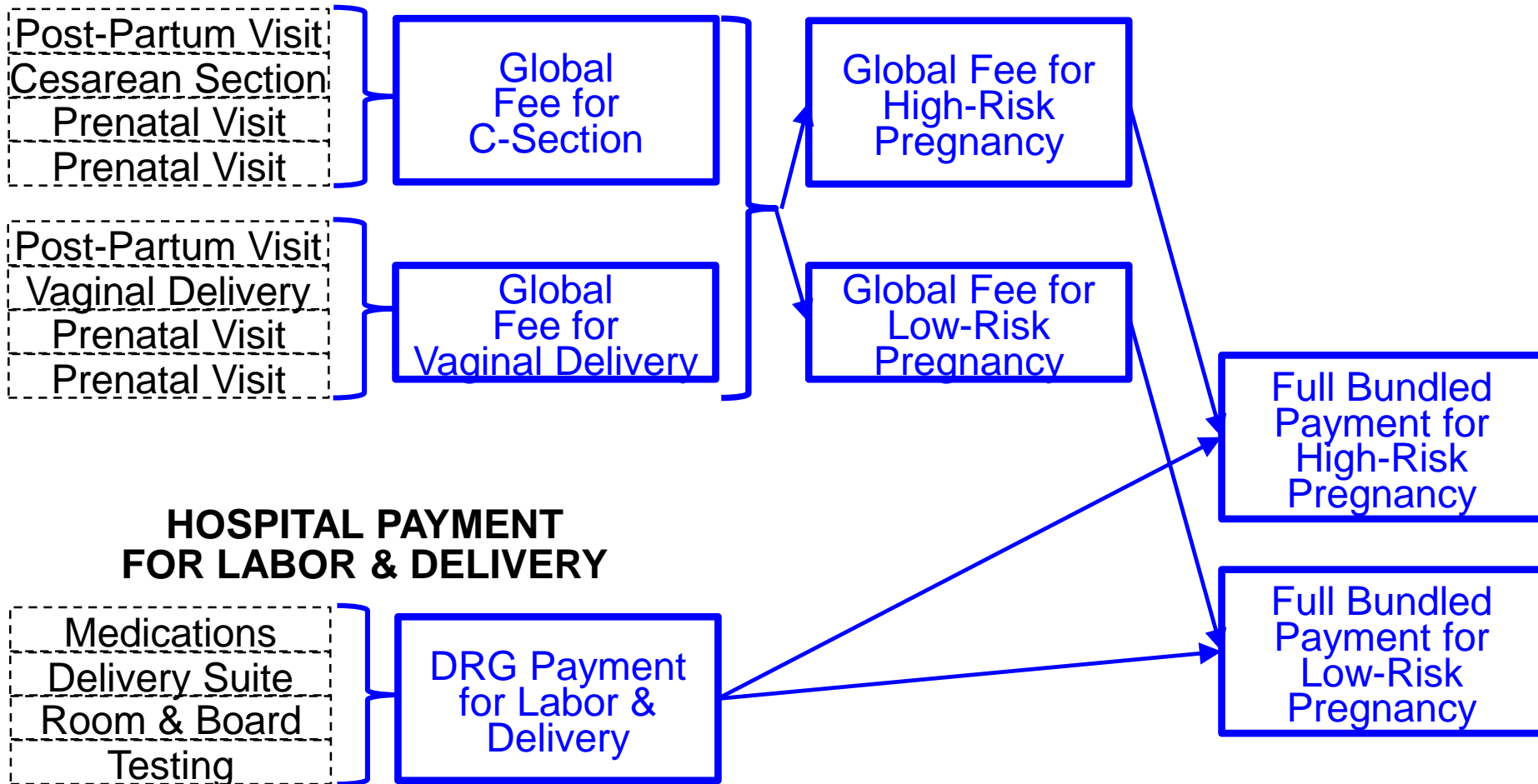


## HOSPITAL PAYMENT FOR LABOR & DELIVERY



# ...To Multi-Provider Bundles

## PHYSICIAN PAYMENT FOR PREGNANCY CARE



# Controls Needed to Protect Against Overdiagnosis

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment		
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services		
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.	Evidence of spinal problem
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i>	Payments for Additional Services	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Condition-Based Payment Condition-Based Payment	Payment for addressing back pain (payment unrelated to whether surgery is performed)
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	Condition-Based Payment	

# Ensure Quality of Services and Protect Against Underuse

**BUILDING BLOCK 4**  
Ensuring Adequacy of Payment

			Risk Adjust., Outlier Pmts, Risk Corridor
	Pay > Cost of Services	Pay > Cost of Services	Pay > Cost of Treatment

**BUILDING BLOCK 3**  
Ensuring Adequate Quality

	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Payment Adjustments for Quality and Underuse of Treatment
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**BUILDING BLOCK 2**  
Controlling Utilization & Spending

	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.
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**BUILDING BLOCK 1**  
Services Covered by a Single Payment

	<i>No Payments for Valuable Services</i>	Payments for Additional Services	Treatment-Based Bundle	Condition-Based Payment
	Separate Payments for Individual Svcs	Separate Payments for Individual Svcs	Treatment-Based Bundle	Condition-Based Payment
			Treatment-Based Bundle	
			Treatment-Based Bundle	

Fee for Service Payment

Enhanced Fee for Service

Treatment-Based Bundles

Condition-Based Payment

# Ensure Payments Are Adequate to Cover Costs for All Patients

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Condition
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Payment Adjustments for Quality and Underuse of Treatment
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i> Separate Payments for Individual Svcs	Payments for Additional Services Separate Payments for Individual Svcs	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Condition-Based Payment Condition-Based Payment
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	Condition-Based Payment

# Pay a “Global Payment” for All Conditions and Treatment

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Condition	
	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Payment Adjustments for Quality and Underuse of Treatment	
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.	
		<i>No Payments for Valuable Services</i>	Payments for Additional Services	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Condition-Based Payment Condition-Based Payment
Separate Payments for Individual Svcs	Separate Payments for Individual Svcs				
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending					
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment					
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	Condition-Based Payment	Population-Based Payment



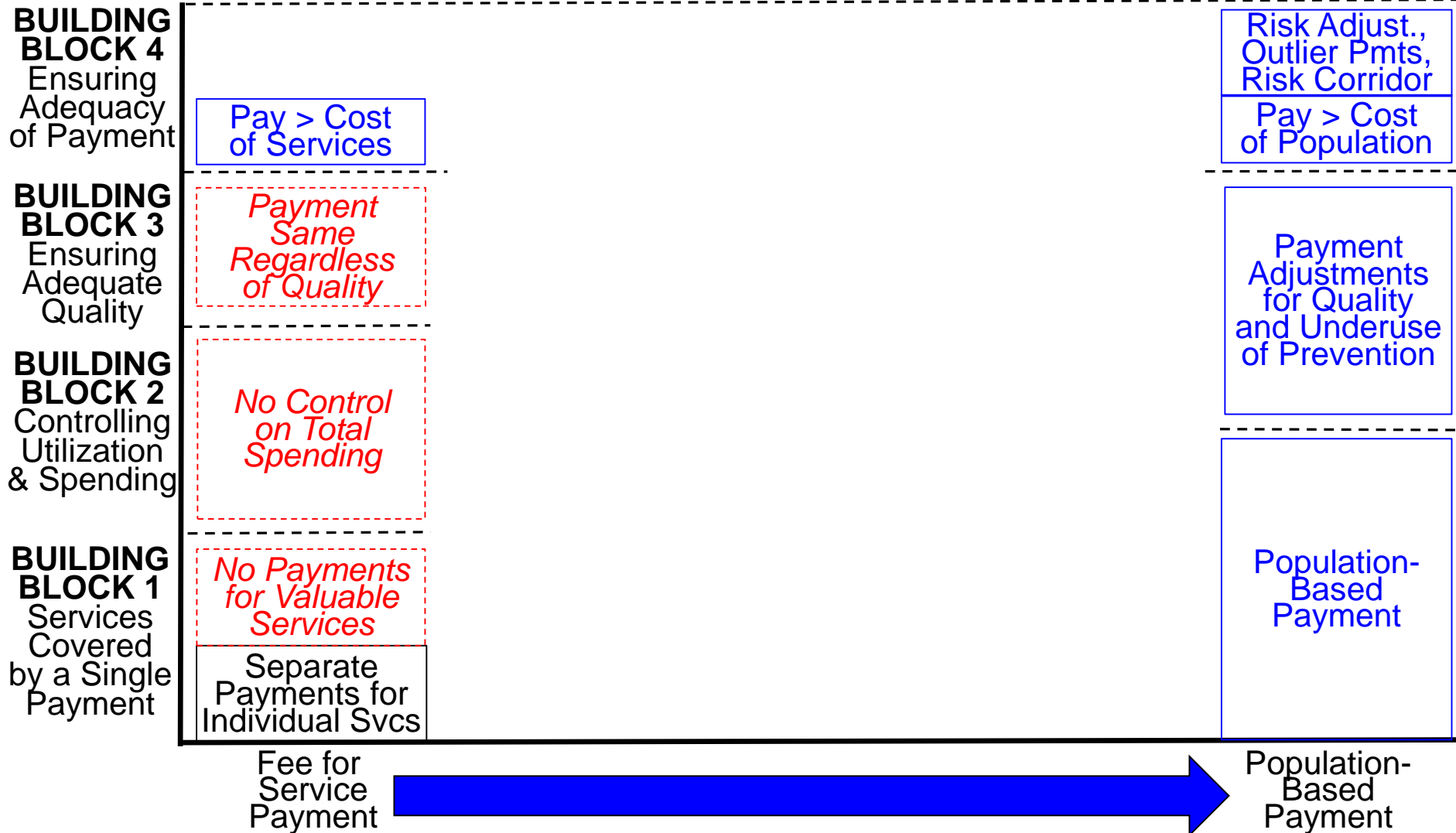
# Ensure Quality and Protect Against Underuse

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Condition	
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Payment Adjustments for Quality and Underuse of Treatment	Payment Adjustments for Quality and Underuse of Prevention
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.	
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i> Separate Payments for Individual Svcs	Payments for Additional Services Separate Payments for Individual Svcs	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Condition-Based Payment Condition-Based Payment	Population-Based Payment
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	Condition-Based Payment	Population-Based Payment

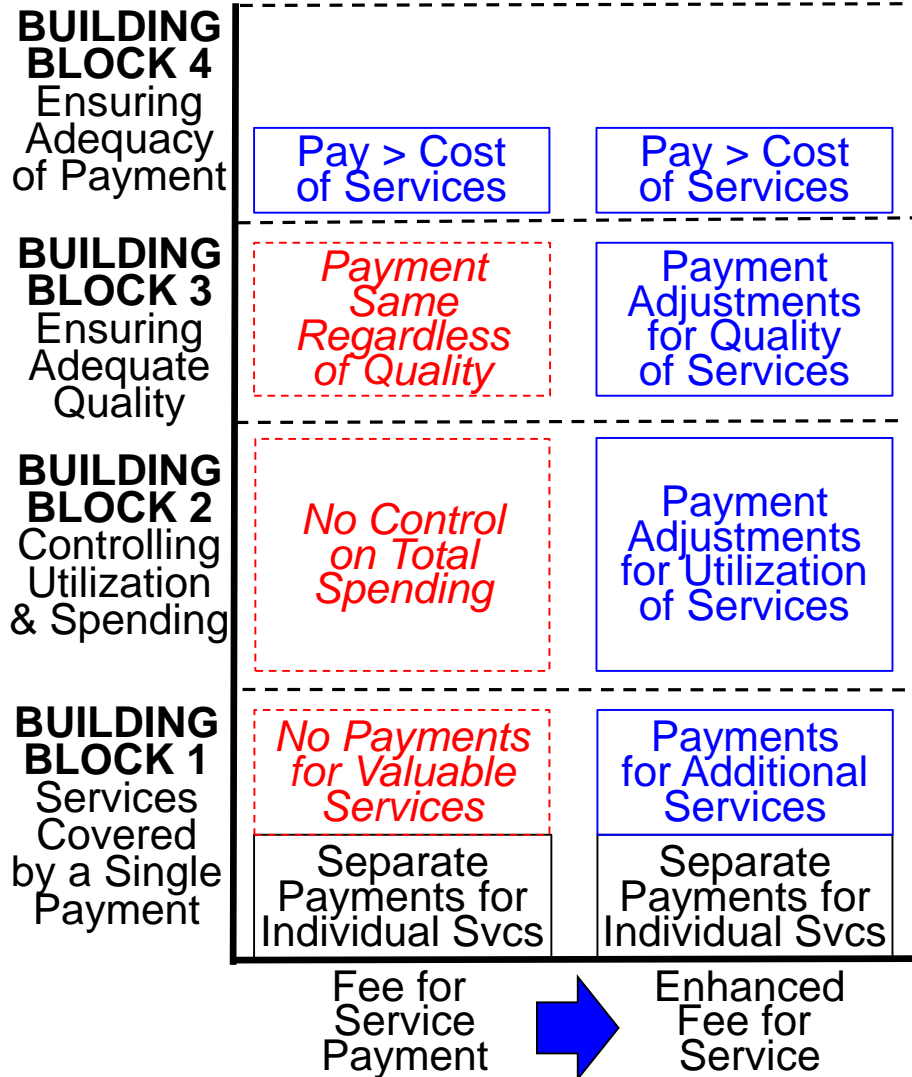
# Ensure Payments are Adequate to Cover Cost of Quality Care

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Condition	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Population
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services	Payment Adjustments for Quality and Underuse of Treatment	Payment Adjustments for Quality and Underuse of Prevention
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment	Payment Adj. for Over-Diag.	
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i> Separate Payments for Individual Svcs	Payments for Additional Services Separate Payments for Individual Svcs	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle	Condition-Based Payment Condition-Based Payment	Population-Based Payment
	Fee for Service Payment	Enhanced Fee for Service	Treatment-Based Bundles	Condition-Based Payment	Population-Based Payment

# Options Can Also Be Viewed as a Transition Strategy



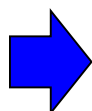
# Options Can Also Be Viewed as a Transition Strategy



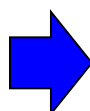
# Options Can Also Be Viewed as a Transition Strategy

<b>BUILDING BLOCK 4</b> Ensuring Adequacy of Payment	Pay > Cost of Services	Pay > Cost of Services	Risk Adjust., Outlier Pmts, Risk Corridor Pay > Cost of Treatment
<b>BUILDING BLOCK 3</b> Ensuring Adequate Quality	<i>Payment Same Regardless of Quality</i>	Payment Adjustments for Quality of Services	Payment Adjustments for Quality and Underuse of Services
<b>BUILDING BLOCK 2</b> Controlling Utilization & Spending	<i>No Control on Total Spending</i>	Payment Adjustments for Utilization of Services	Payment Adj. for Utilization of Treatment
<b>BUILDING BLOCK 1</b> Services Covered by a Single Payment	<i>No Payments for Valuable Services</i> Separate Payments for Individual Svcs	Payments for Additional Services Separate Payments for Individual Svcs	Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle Treatment-Based Bundle

Fee for Service Payment

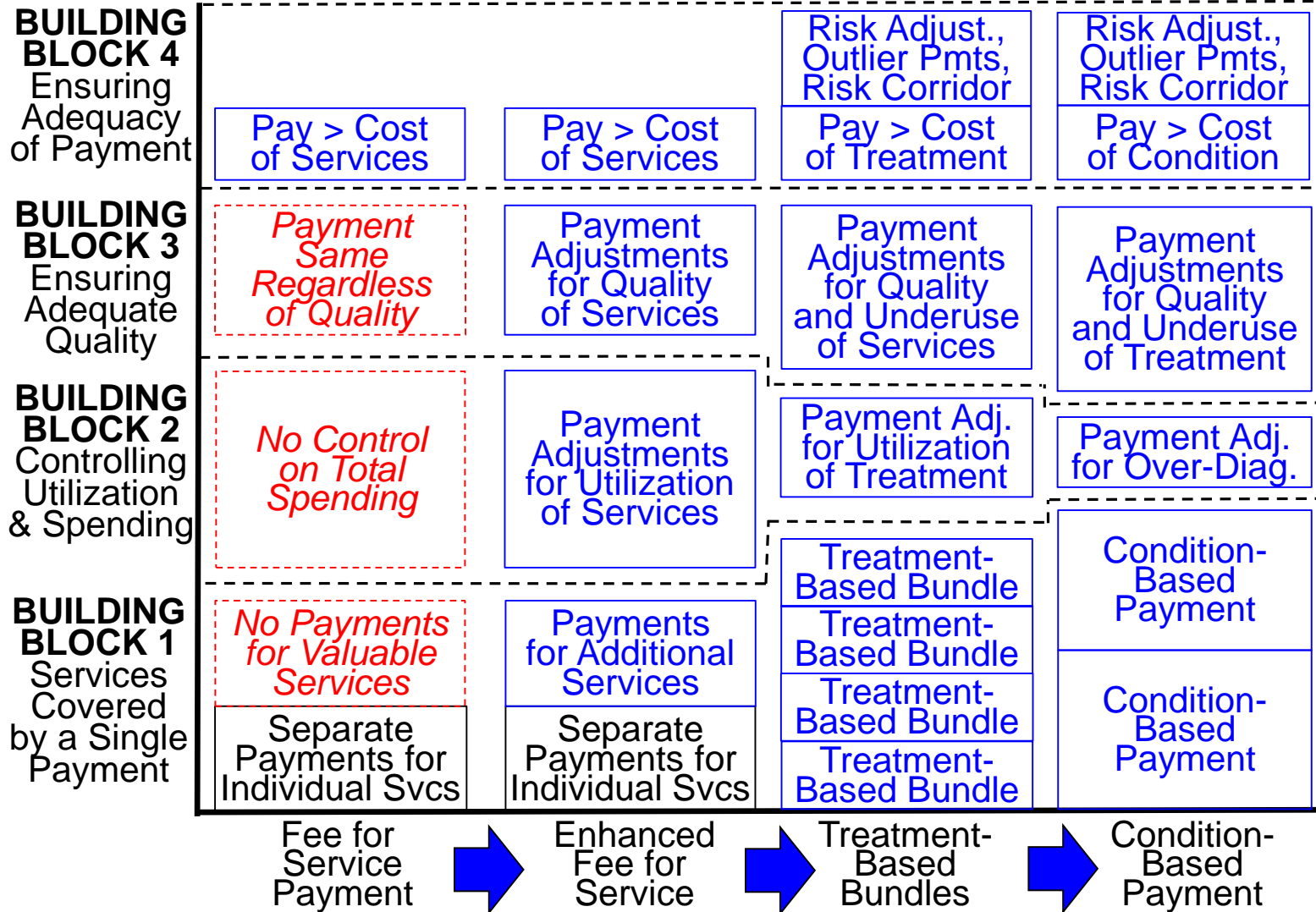


Enhanced Fee for Service

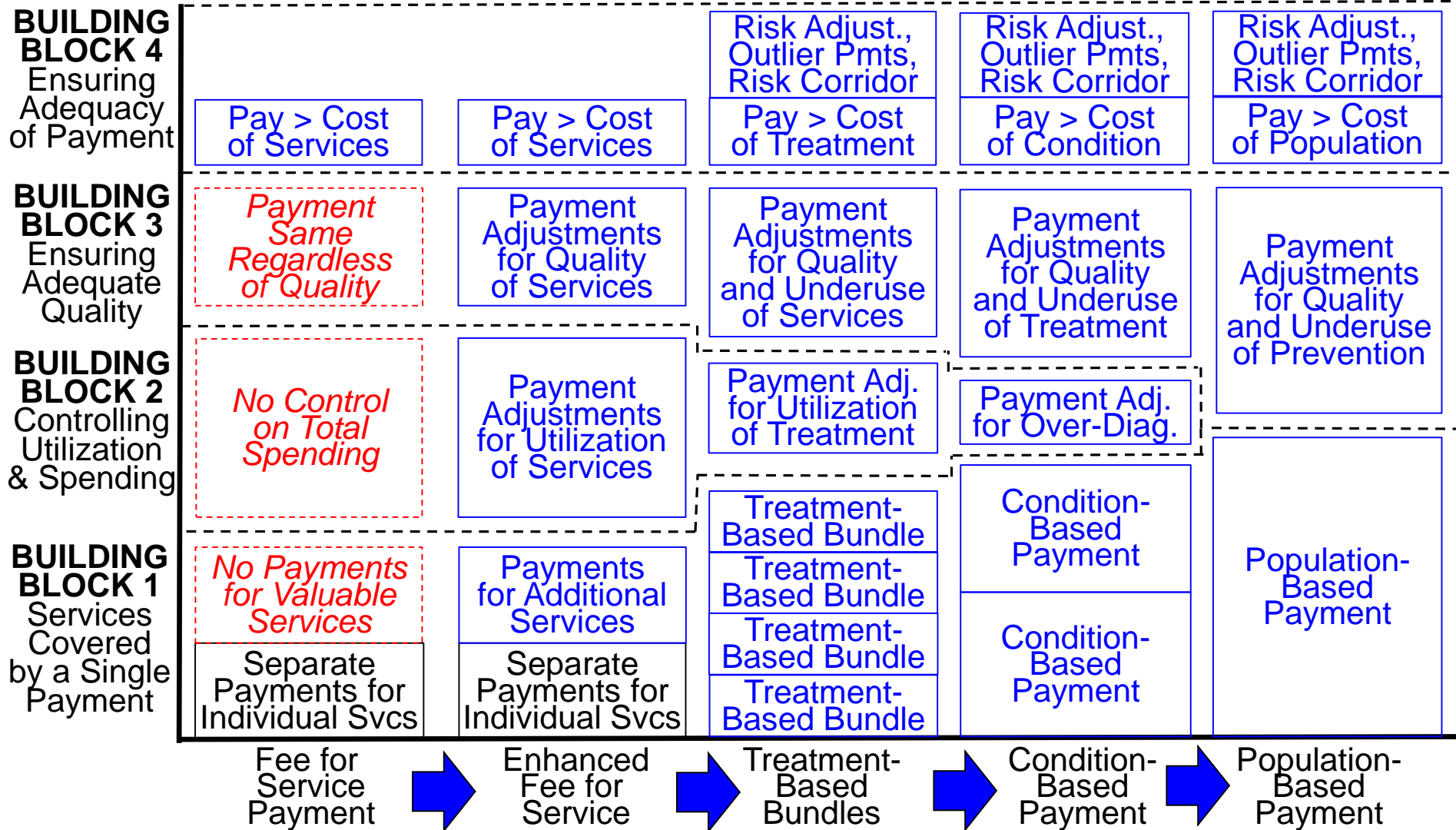


Treatment-Based Bundles

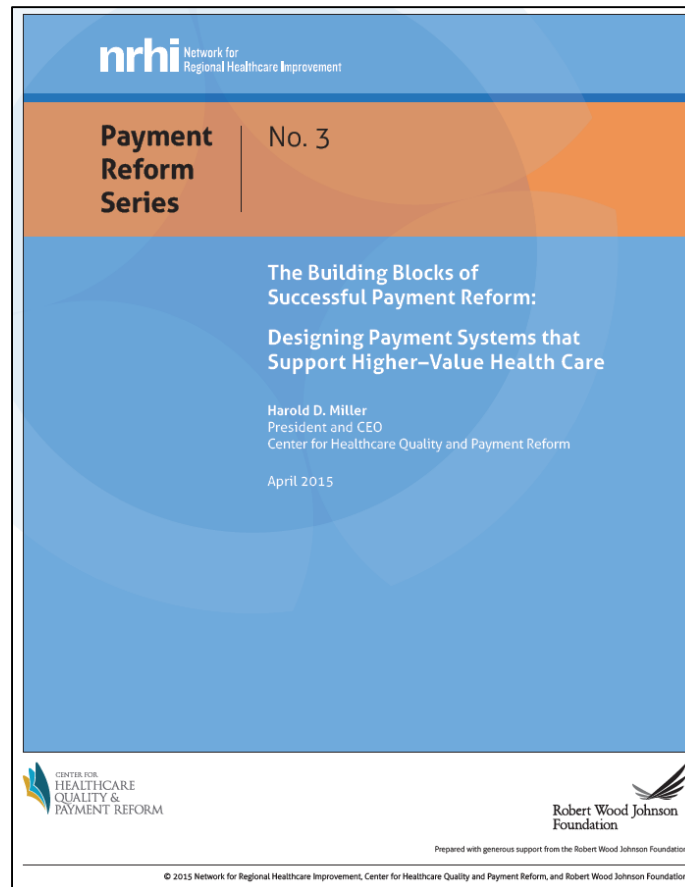
# Options Can Also Be Viewed as a Transition Strategy



# Allow Providers and Payers to Evolve Payment Over Time



# More Detail on Building Blocks Available in Full Report



[www.nrhi.org/uploads/nrhi\\_pymntrfrm\\_3\\_r9-2.pdf](http://www.nrhi.org/uploads/nrhi_pymntrfrm_3_r9-2.pdf)

[www.paymentreform.org/downloads/BuildingBlocksofSuccessfulPaymentReform.pdf](http://www.paymentreform.org/downloads/BuildingBlocksofSuccessfulPaymentReform.pdf)



# Three Step Process Needed in Designing Payment Reforms

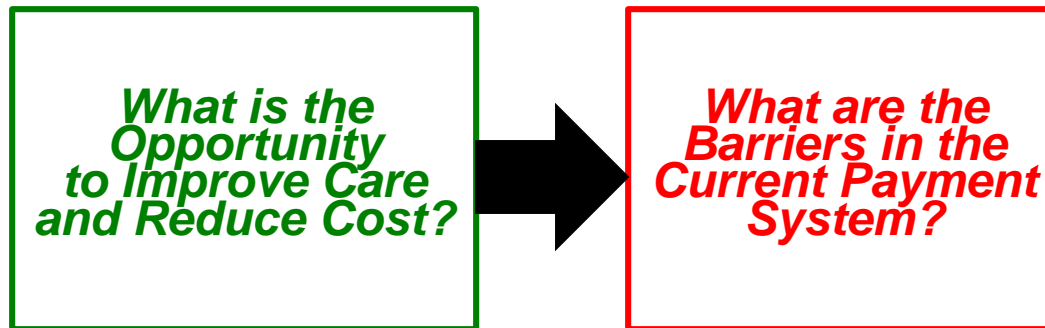
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# Changing Payment Isn't Worth It Without Opportunities to Improve

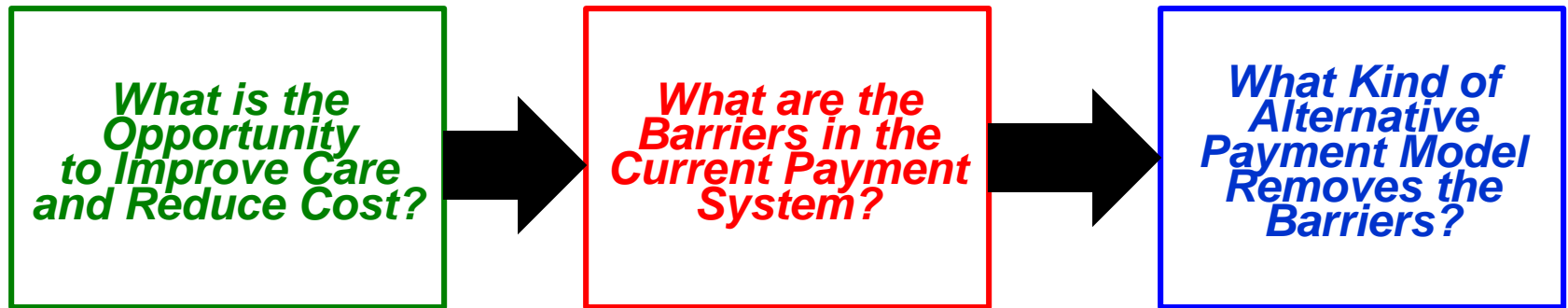
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*What is the  
Opportunity  
to Improve Care  
and Reduce Cost?*

# If No Barriers in Payment, No Need for Payment Reform



# Payment Reforms Must Remove Barriers to Improving Care



# Opportunities for Improvement Exist in Every Specialty

	<i>Opportunities to Improve Care and Reduce Cost</i>
Cardiology	<ul style="list-style-type: none"> <li>• Use less invasive and expensive procedures when appropriate</li> </ul>
Orthopedic Surgery	<ul style="list-style-type: none"> <li>• Reduce infections and complications</li> <li>• Use less expensive post-acute care following surgery</li> </ul>
Psychiatry	<ul style="list-style-type: none"> <li>• Reduce ER visits and admissions for patients with depression and chronic disease</li> </ul>
OB/GYN	<ul style="list-style-type: none"> <li>• Reduce use of elective C-sections</li> <li>• Reduce early deliveries and use of NICU</li> </ul>

# Most Specialties Face Barriers in FFS to Making Improvements

	<b>Opportunities to Improve Care and Reduce Cost</b>	<b>Barriers in Current Payment System</b>
Cardiology	<ul style="list-style-type: none"> <li>• Use less invasive and expensive procedures when appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Payment is based on which procedure is used, not the outcome for the patient</li> </ul>
Orthopedic Surgery	<ul style="list-style-type: none"> <li>• Reduce infections and complications</li> <li>• Use less expensive post-acute care following surgery</li> </ul>	<ul style="list-style-type: none"> <li>• No flexibility to increase inpatient services to reduce complications &amp; post-acute care</li> </ul>
Psychiatry	<ul style="list-style-type: none"> <li>• Reduce ER visits and admissions for patients with depression and chronic disease</li> </ul>	<ul style="list-style-type: none"> <li>• No payment for phone consults with PCPs</li> <li>• No payment for RN care managers</li> </ul>
OB/GYN	<ul style="list-style-type: none"> <li>• Reduce use of elective C-sections</li> <li>• Reduce early deliveries and use of NICU</li> </ul>	<ul style="list-style-type: none"> <li>• Similar/lower payment for vaginal deliveries</li> </ul>

# There Are Win-Win-Win Solutions Through Better Payment Systems

	<b>Opportunities to Improve Care and Reduce Cost</b>	<b>Barriers in Current Payment System</b>	<b>Solutions via Accountable Payment Models</b>
<b>Cardiology</b>	<ul style="list-style-type: none"> <li>• Use less invasive and expensive procedures when appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Payment is based on which procedure is used, not the outcome for the patient</li> </ul>	<ul style="list-style-type: none"> <li>• Condition-based payment covering CABG, PCI, or medication management</li> </ul>
<b>Orthopedic Surgery</b>	<ul style="list-style-type: none"> <li>• Reduce infections and complications</li> <li>• Use less expensive post-acute care following surgery</li> </ul>	<ul style="list-style-type: none"> <li>• No flexibility to increase inpatient services to reduce complications &amp; post-acute care</li> </ul>	<ul style="list-style-type: none"> <li>• Episode payment for hospital and post-acute care costs with warranty</li> </ul>
<b>Psychiatry</b>	<ul style="list-style-type: none"> <li>• Reduce ER visits and admissions for patients with depression and chronic disease</li> </ul>	<ul style="list-style-type: none"> <li>• No payment for phone consults with PCPs</li> <li>• No payment for RN care managers</li> </ul>	<ul style="list-style-type: none"> <li>• Joint condition-based payment to PCP and psychiatrist</li> </ul>
<b>OB/GYN</b>	<ul style="list-style-type: none"> <li>• Reduce use of elective C-sections</li> <li>• Reduce early deliveries and use of NICU</li> </ul>	<ul style="list-style-type: none"> <li>• Similar/lower payment for vaginal deliveries</li> </ul>	<ul style="list-style-type: none"> <li>• Condition-based payment for total cost of delivery in low-risk pregnancy</li> </ul>

# Examples from Other Specialties

	<b>Opportunities to Improve Care and Reduce Cost</b>	<b>Barriers in Current Payment System</b>	<b>Solutions via Accountable Payment Models</b>
<b>Neurology</b>	<ul style="list-style-type: none"> <li>• Avoid unnecessary hospitalizations for epilepsy patients</li> <li>• Reduce strokes and heart attacks after TIA</li> </ul>	<ul style="list-style-type: none"> <li>• No flexibility to spend more on preventive care</li> <li>• No payment to coordinate w/ cardio</li> </ul>	<ul style="list-style-type: none"> <li>• Condition-based payment for epilepsy</li> <li>• Episode or condition-based payment for TIA</li> </ul>
<b>Gastroenterology</b>	<ul style="list-style-type: none"> <li>• Reduce unnecessary colonoscopies and colon cancer</li> <li>• Reduce ER/admits for inflammatory bowel d.</li> </ul>	<ul style="list-style-type: none"> <li>• No flexibility to focus extra resources on highest-risk patients</li> <li>• No flexibility to spend more on care mgt</li> </ul>	<ul style="list-style-type: none"> <li>• Population-based payment for colon cancer screening</li> <li>• Condition-based pmt for IBD</li> </ul>
<b>Oncology</b>	<ul style="list-style-type: none"> <li>• Reduce ER visits and admissions for dehydration</li> <li>• Reduce anti-emetic drug costs</li> </ul>	<ul style="list-style-type: none"> <li>• No flexibility to spend more on preventive care</li> <li>• Payment based on office visits, not outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Condition-based payment including non-oncolytic Rx and ED/hospital utilization</li> </ul>
<b>Radiology</b>	<ul style="list-style-type: none"> <li>• Reduce use of high-cost imaging</li> <li>• Improve diagnostic speed &amp; accuracy</li> </ul>	<ul style="list-style-type: none"> <li>• Low payment for reading images &amp; penalty for 2x</li> <li>• Inability to change inapprop. orders</li> </ul>	<ul style="list-style-type: none"> <li>• Global payment for imaging costs</li> <li>• Partnership in condition-based payments</li> </ul>




# A Critical Element is Shared, Trusted Data

---

- **Providers** need to know the current utilization and costs for their patients to know whether the condition-based or bundled/warrantied payment amount will cover the costs of delivering effective care to the patients
- **Purchaser/Payer** needs to know the current utilization and costs to know whether the condition-based or bundled/warrantied payment amount is a better deal than they have today
- **Both** sets of data have to match in order for providers and payers to agree on the new approach!

# Using Data to Show the Business Case for Payment Reform



Robert Wood Johnson Foundation

## Making the Business Case for Payment and Delivery Reform

Harold D. Miller  
Center for Healthcare Quality and Payment Reform

To learn more about RWJF-supported payment reform activities, visit RWJF's Payment Reform webpage ([www.rwjf.org/en/topics/rwjf-topics-areas/payment-reform.html](http://www.rwjf.org/en/topics/rwjf-topics-areas/payment-reform.html))

For additional resources on health care payment reform, visit [www.paymentreform.org](http://www.paymentreform.org)

Tens of billions of dollars in health care spending could be saved every year by avoiding unnecessary tests, procedures, emergency room visits, and hospitalizations; by reducing infections, complications, and errors in the tests and procedures that are performed; and by preventing serious conditions and providing treatment at earlier and lower-cost stages of disease. However, current health care payment systems create large and often insurmountable barriers to the changes in patient care needed to achieve these benefits.


In order to support improvements in both health care delivery and payment systems, individuals and organizations that purchase health care services need a clear *business case* showing that the proposed change in care will achieve sufficient benefits to justify whatever change in payment health care providers need to support the change in care. Health care providers also need a clear *business case* showing that they will be able to successfully deliver high-quality care in a financially sustainable way under the new payment system.

This report describes a 10 step process to develop such a business case:

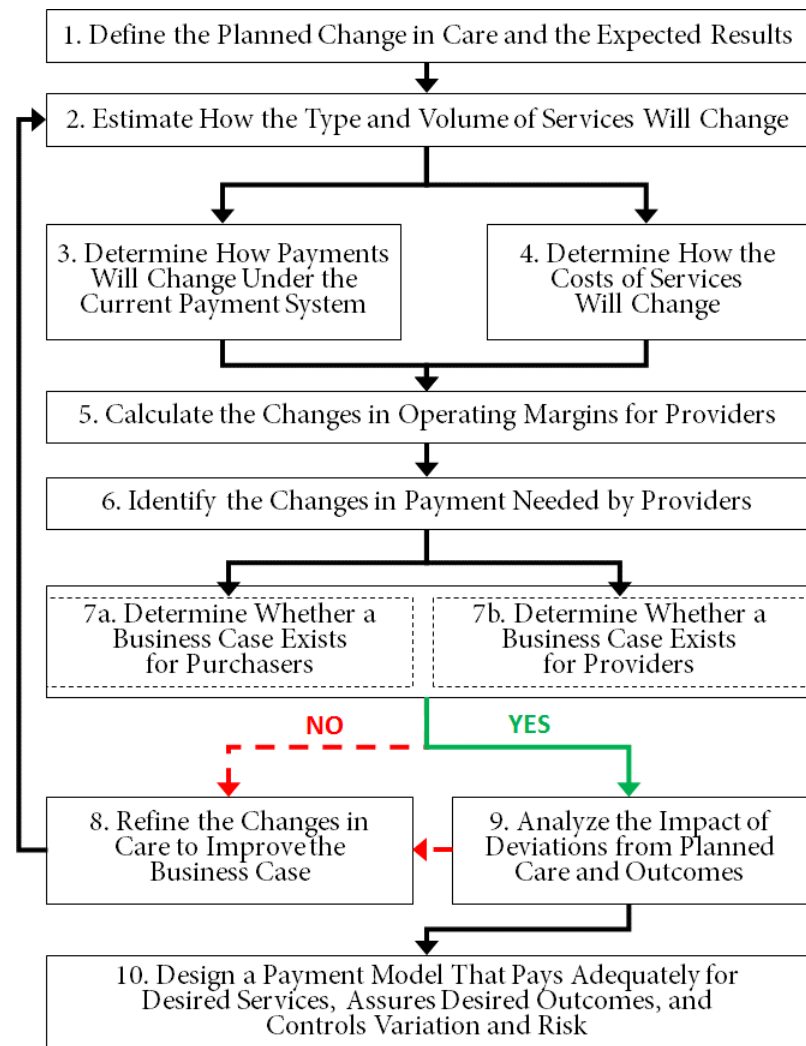
- Step 1. Define the planned change in care and the results it is expected to achieve.
- Step 2. Estimate how the type and volume of services will change.
- Step 3. Determine how payments/revenues will change under the current payment system.
- Step 4. Determine how the costs of services will change.
- Step 5. Calculate the changes in operating margins for providers.
- Step 6. Identify the changes in payment needed by providers to maintain positive operating margins.
- Step 7. Determine whether a business case exists for both purchasers and providers.
- Step 8. Refine the changes in care to improve the business case.
- Step 9. Analyze the impact of potential deviations from planned care and expected outcomes.
- Step 10. Design a payment model that pays adequately for desired services, assures desired outcomes, and controls variation and risk.

The report also describes the four major types of data that will generally be needed to carry out all of the steps in a good business case analysis:

- Health care billing/claims data;
- Clinical data from electronic health records or patient registries;
- Data on the costs of health care services; and
- Data on patient-reported outcomes.



[www.PaymentReform.org](http://www.PaymentReform.org)

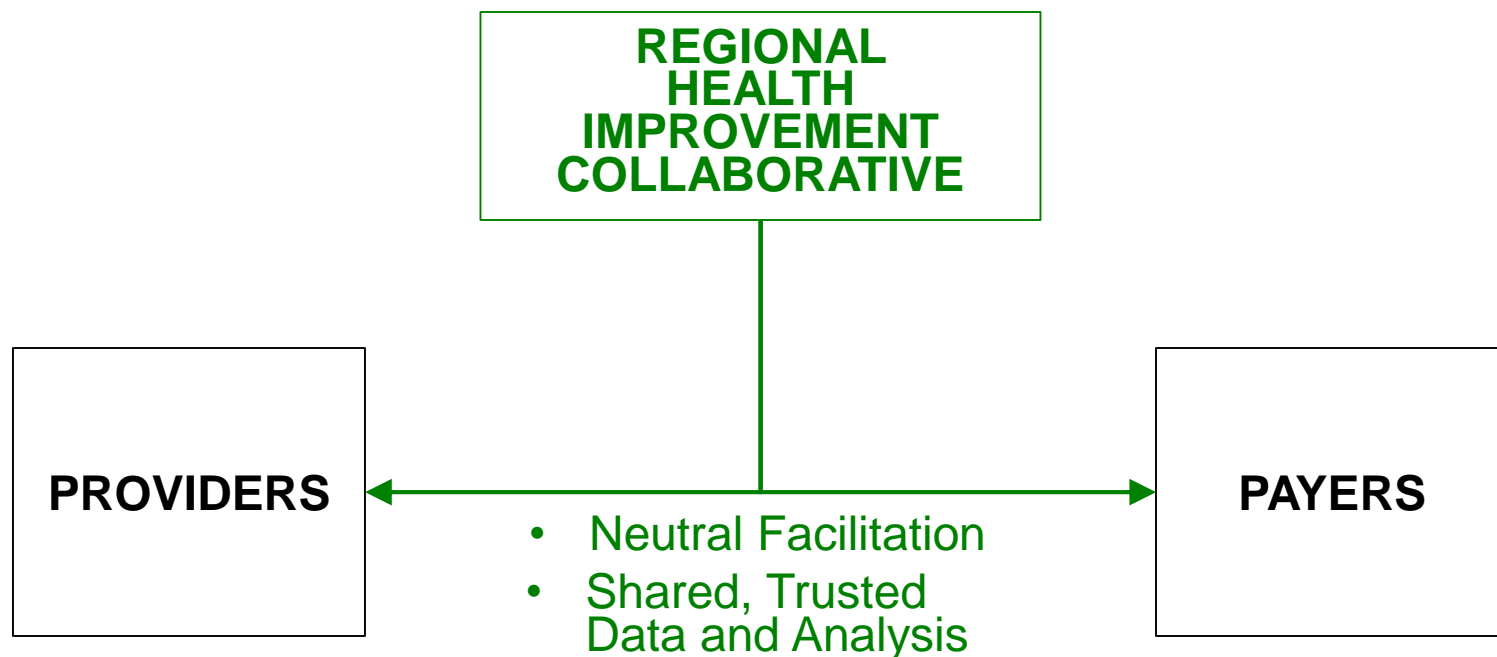


# Providers and Payers Have to Collaborate for Win-Win Solutions

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# RHICs Can Provide the Critical Bridge for Success





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