DESIGNING VALUE-BASED PAYMENTS THAT SUPPORT VALUE-BASED CARE

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

www.CHQPR.org
How Do You Control the Growth in Healthcare Spending?

TOTAL HEALTHCARE SPENDING

TOTAL HEALTHCARE SPENDING

TOTAL HEALTHCARE SPENDING

TOTAL HEALTHCARE SPENDING

$
Bad Ways: Cut Fees to Providers or Delay/Deny Services to Patients

- Lower Spending for Payers
- Worse Care & Access for Patients

- TOTAL HEALTH CARE SPENDING
- CUT FEES
- DELAY/DENY CARE
- SAVINGS
A Better Way: Value-Based Care for Patients

TOTAL HEALTH CARE SPENDING

VALUE-BASED CARE DELIVERY

$
Most Value-Based Care Involves Reducing *Avoidable* Spending

- **AVOIDABLE SPENDING**
- **SPENDING ON NECESSARY SERVICES**

**SAVINGS**

- Lower Spending for Payers
- Better Care for Patients

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Avoidable Spending is Bad for Both Patients and Payers

SPENDING ON NECESSARY SERVICES

$\rightarrow$

AVOIDABLE SPENDING

**CHRONIC DISEASE**
- ED visits for exacerbations
- Hospital admissions and readmissions
- Preventable progression of disease
- Preventable chronic conditions

**MATERNITY CARE**
- Unnecessary C-Sections
- Early elective deliveries
- Underuse of birth centers

**CANCER TREATMENT**
- Use of unnecessarily-expensive drugs
- ED visits/hospital stays for dehydration and avoidable complications
- Fruitless treatment at end of life

**SURGERY**
- Unnecessary surgery
- Use of unnecessarily-expensive implants
- Infections and complications of surgery
- Overuse of inpatient rehabilitation
Barriers in the Payment System Create a Win-Lose for Providers

- **AVOIDABLE SPENDING**
  - Spending on necessary services

- **BARRIERS TO VALUE IN THE CURRENT PAYMENT SYSTEM**

- **Losses for Healthcare Providers**

- **SAVINGS**
  - Spending on necessary services

- **Lower Spending for Payers**
- **Better Care for Patients**
Barrier #1: Inadequate Payments for Higher-Value Services

Avoidable spending often occurs because payments are inadequate (or non-existent) for alternative, higher-value services:

- Services other than office visits, such as phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Communication between physicians to ensure accurate diagnosis & coordinate care
- Non-medical services, e.g., transportation
- Palliative care for patients at end of life

Delivering these services improves value for payers and patients, but causes financial losses for healthcare providers
Barrier #2: “Avoidable Spending” is Revenue for Providers

$\begin{align*}
\text{Payer} & \quad \text{Provider} \\
\text{Avoidable Spending} & \quad \text{Provider Revenue} \\
\text{Spending on Necessary Services} & \quad \\
\end{align*}$
Providers Use the Revenue to Pay for the Costs of Services

- AVOIDABLE SPENDING
- SPENDING ON NECESSARY SERVICES
- COST OF SERVICE DELIVERY
- PROVIDER REVENUE
- MARGIN

$
The Majority of Costs May Be Fixed (in the Short Term)

- Avoidable Spending
- Spending on Necessary Services
- Variable Cost of Services
- Fixed Cost of Service Delivery
- Provider Revenue
- Margin

$
When Healthcare Providers Reduce Avoidable Services…

<table>
<thead>
<tr>
<th>Provider</th>
<th>Margin</th>
<th>Avoidable Spending</th>
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<tbody>
<tr>
<td>Payer</td>
<td>Fixed</td>
<td>Spending on Necessary Services</td>
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$ \Rightarrow $

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...Variable Costs Decrease, But Fixed Costs Do Not
Plus Added Costs of Delivering New High-Value Services
Revenues Decrease in Direct Proportion to Service Volume...
…Resulting in Financial Loss for Healthcare Providers

![Diagram showing financial loss for healthcare providers]

- **Spending on Necessary Services**
- **Avoidable Spending**
- **Provider Revenue**
- **Margin**
- **Payer**
- **Provider**
- **New SVCS**
  - **Variable Cost**
  - **Fixed Cost of Service Delivery**

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Win-Lose: Savings for Payers, Losses for Providers

LOSE - WIN - WIN - LOSE

<table>
<thead>
<tr>
<th>Payer</th>
<th>Provider</th>
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<tbody>
<tr>
<td>AVOIDABLE SPENDING</td>
<td>PROVIDER REVENUE</td>
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<tr>
<td>SPENDING ON NECESSARY SERVICES</td>
<td>FIXED COST OF SERVICE DELIVERY</td>
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<tr>
<td>VARIABLE COST OF SERVICES</td>
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<tr>
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<tr>
<td>SAVINGS</td>
<td>LOSS</td>
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<tr>
<td>VARIABLE COST</td>
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Value-Based Payment Must Remove the Barriers to Better Care

BARRIER #1

Avoidable Spending Occurs Because Payments Are Inadequate (or Non-Existential) for Alternative, Higher-Value Services:

- Services other than office visits, such as phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Communication between physicians to ensure accurate diagnosis & coordinate care
- Non-medical services, e.g., transportation
- Palliative care for patients at end of life

BARRIER #2

$\uparrow$

LOSE - WIN - WIN - LOSE

AVOIDABLE SPENDING

CURRENT SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

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Will “Incentives” for Healthcare Providers Remove the Barriers to Value-Based Care?
“Shared Savings” & P4P: No Change in FFS Payment

“Incentives”: Pay for Performance / Shared Savings

Under typical P4P and Shared Savings systems, physicians and hospitals are still paid the same amounts for the same services as under standard fee-for-service payments, and they receive no new payments or higher payments for high-value services.
If Payers Save $$ This Year…

“Incentives”: Pay for Performance / Shared Savings

![Chart showing spending on necessary services and avoidable spending with savings in year 1.](chart.png)
If Payers Save $$ This Year… Providers (May) Get $ Next Year

“Incentives”: Pay for Performance / Shared Savings

Under typical P4P and Shared Savings systems, the only change in payment is a bonus paid based on savings or quality/cost performance in a previous year.
No Additional Payments for New High-Value Services

“Incentives”: Pay for Performance / Shared Savings

YEAR 1

$ AVOIDABLE SPENDING SAVINGS AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

How does provider cover upfront costs of high-value care?

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If Provider Qualifies for an Incentive Payment...

“Incentives”: Pay for Performance / Shared Savings

YEAR 1

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

SAVINGS

YEAR 2

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

SAVINGS

P4P/Shared Svgs

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES

LOW $ FOR HIGH-VALUE SERVICES

How does provider cover upfront costs of high-value care?
...Incentive Payment is Generally Less Than Added Costs & Losses

“Incentives”: Pay for Performance / Shared Savings

- YEAR 1
  - AVOIDABLE SPENDING
  - SPENDING ON NECESSARY SERVICES
  - LOW $ FOR HIGH-VALUE SERVICES
  - SAVINGS

- YEAR 2
  - AVOIDABLE SPENDING
  - SPENDING ON NECESSARY SERVICES
  - LOW $ FOR HIGH-VALUE SERVICES
  - SAVINGS
  - P4P/Shared Svgs

New Svcs
- PROVIDER REVENUE
- VARIABLE COST
- FIXED COST OF SERVICE DELIVERY

Bonus may not cover losses

How does provider cover upfront costs of high-value care?

Low $ for High-Value Services
Result: Incentive Payments Are Typically Still a Win-Lose
Win-Win Requires Payment Reform, Not Just “Incentives”

Avoidable Spending
Spending on Necessary Services

Low $ for High-Value Services

Value-Based Payment

Savings

Win - Win

Marginal New Services
Varying Cost
Fixed Cost of Service Delivery

Payer
Provider

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4 Steps for Creating Successful Value-Based Payment Reform

Step 1: AVOIDABLE SPENDING
Step 2: SPENDING ON NECESSARY SERVICES
Step 3: LOW $ FOR HIGH-VALUE SERVICES
Step 4: VALUE-BASED PAYMENT

Payer

Provider

WIN - WIN

SAVINGS

MARGIN

NEW SVCS
VARIABLE COST
FIXED COST OF SERVICE DELIVERY

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Step 1: Identify *Specific* Areas of Potentially Avoidable Spending

POTENTIALLY AVOIDABLE SPENDING
- Avoidable Hospital Admissions
- Unnecessary Tests and Procedures
- Unnecessarily Expensive Treatments
- Preventable Complications of Treatment
- Treatment of Late-Stage Disease

AVOIDABLE SPENDING

SPENDING ON NECESSARY SERVICES
Step 2: Design Services That Will Reduce the Avoidable Spending

SERVICES NEEDED TO REDUCE THE IDENTIFIED AVOIDABLE SPENDING
- Care Management
- Care Coordination
- Lower-Cost Treatments
- Prevention & Screening
Step 3: Pay Adequately to Support Higher-Value Services

- Avoidable Spending on Necessary Services
- Savings from Avoidable Spending on Services that Prevent Avoidable Spending
- Adequate Payment for Higher-Value Services

Unpaid Services
Loss of Revenue
Adequacy Requires Knowing the Cost of Higher-Value Care

- Avoidable Spending
- Spending on Necessary Services
- Unpaid Services
- Loss of Revenue
- Savings
- Avoidable Spending
- Services that Prevent Avoidable Spending
- Variable Cost
- Fixed Cost of Service Delivery
- New SVCS
- ADEQUATE PAYMENT FOR HIGHER-VALUE SERVICES
Knowing Your *Current* Costs Is Not Enough

- Time-Driven Activity-Based Costing and other cost-accounting systems can tell you what it *currently* costs to deliver *non-value-based care*, but not what it *will* cost to deliver *value-based care*.

- A *Cost Model* is needed to determine how costs will *change* as value-based care is implemented:
  - What will it cost to deliver *new*, high-value services?
  - How much of the cost of *current* services is:
    - **Variable**, i.e., it will change with each unit change in services (e.g., drugs, disposable items)
    - **Semi-Variable**, i.e., it will change only with large changes in volume (e.g., personnel, equipment)
    - **Fixed**, i.e., it can only be changed over a longer time horizon
Step 3: Pay Adequately for Cost of Higher-Value Services

- Avoidable Spending
  - Spending on Necessary Services
    - Unpaid Services
  - Services That Prevent Avoidable Spending
    - Loss of Revenue
- New SVCS
  - Variable Cost
  - Fixed Cost of Service Delivery
- ADEQUATE PAYMENT FOR HIGHER-VALUE SERVICES

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Step 4: Hold Providers Accountable for Results

- Avoidable Spending
- Spending on Necessary Services
- Unpaid Services
- Loss of Revenue
- Savings
- Services that Prevent Avoidable Spending
- Fixed Cost of Service Delivery
- ADEQUATE PAYMENT FOR HIGHER-VALUE SERVICES

Accountability for Reducing Avoidable Spending
No One “Right” Way to Structure Payment + Accountability

- Bundled Payment
- Warrantied Payment
- Episode Payment
- Condition-Based Payment
- Outcome-Based Payment

AVOIDABLE SPENDING

SERVICES THAT PREVENT AVOIDABLE SPENDING

NEW SVCS

VARIABLE COST

FIXED COST OF SERVICE DELIVERY

Accountability for Reducing Avoidable Spending

UNPAID SERVICES

LOSS OF REVENUE

SAVINGS

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A Wrong Way: Holding Providers Accountable for Total Cost of Care

Many “value-based” payment systems put a physician or hospital at financial risk for total healthcare spending on patients, including spending on services for unrelated health problems and increases in spending due to higher prices of drugs and medical devices that the providers cannot control.
Accountability Must Be Focused on What Each Provider Can Influence

- Spending the Provider Cannot Control
  - e.g., PCPs can’t control the cost of cancer treatment
  - e.g., oncologists can’t prevent cancer
  - e.g., hospitals can’t prevent diabetic foot ulcers that require amputation
  - e.g., providers can’t control the price of drugs

- Avoidable Spending the Provider Can Control or Influence
  - e.g., PCPs can encourage patients to get mammograms and colonoscopies
  - e.g., oncologists can help patients avoid or minimize problems from chemotherapy toxicity
  - e.g., hospitals can reduce surgical site infections when amputations are needed
  - e.g., providers can choose the most cost-effective drugs from among the drugs available at the prices charged by manufacturers

- Payments to the Provider

Total Spending Per Patient
$
Good Alternative Payment Models Can Be Win-Win-Wins

Current Fee-for-Service

- AVOIDABLE SPENDING
- SPENDING ON NECESSARY SERVICES
- UNPAID SERVICES
- LOSS OF REVENUE

SAVINGS

- SERVICES THAT PREVENT AVOIDABLE SPENDING

Alternative Payment Model

- AVOIDABLE SPENDING
- ADEQUATE PAYMENT FOR HIGHER-VALUE SERVICES

SAVINGS

Win for Payers:
Lower Total Spending

Win for Patients:
Better Care Without Unnecessary Services

Win for Physicians:
Adequate Payment for High-Value Services

$
Necessary & Avoidable Services Differ Among Patients

- **Lower Need Patients**
  - Necessary Services
  - Unpaid Svc
  - Avoidable Spending

- **Medium Need Patients**
  - Necessary Services
  - Unpaid Svc
  - Avoidable Spending

- **Higher Need Patients**
  - Necessary Services
  - Unpaid Svc
  - Avoidable Spending

$ Loss
A Wrong Way: Paying the Same Amount for Every Patient

- **Lower Need Patients**
  - Necessary Services
  - Avoidable Spending
  - UnpaidSvc
  - $ Loss

- **Medium Need Patients**
  - Necessary Services
  - Avoidable Spending
  - UnpaidSvc
  - $ Loss

- **Higher Need Patients**
  - Necessary Services
  - Avoidable Spending
  - Same Payment Amount for All Patients
  - UnpaidSvc
  - $ Loss

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**Condition-Based Payments Adjust for Differences in Patient Needs**

- **Lower Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Unpaid Svc

- **Medium Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Condition-Based Payment

- **Higher Need Patients**
  - Avoidable Spending
  - Necessary Services
  - Condition-Based Payment

- **Savings**
  - Avoidable Spending
  - Necessary Services
  - Condition-Based Payment

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Under Population-Based Payment: Will It All Average Out?

**POPULATION-BASED PAYMENT**

- **High Need Patients**: Same Payment for All Patients
- **Medium Need Patients**: Same Payment for All Patients
- **Lower Need Patients**: Same Payment for All Patients
Under Population-Based Payment: More High-Need Patients = Losses

POPULATION-BASED PAYMENT

High Need Patients

Medium Need Patients

Lower Need Patients

High Need Patients

Same Payment for All Patients

Same Payment for All Patients

Lower Need Patients

Same Payment for All Patients

LOSS

Same Payment for All Patients

Same Payment for All Patients

Same Payment for All Patients
Under Population-Based Payment: Cherry-Picking Patients = Profits

POPULATION-BASED PAYMENT

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High Need Patients

Same Payment for All Patients

Lower Need Patients

Same Payment for All Patients

Medium Need Patients

Same Payment for All Patients

Lower Need Patients

Same Payment for All Patients

Lower Need Patients

Same Payment for All Patients

Lower Need Patients

Same Payment for All Patients

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Under Condition-Based Payment: Payment Differs by Patient Need
Under Condition-Based Payment:
No Losses for Serving High Needs

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CONDITION-BASED PAYMENT

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<th>Lower Need Patients</th>
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Under Condition-Based Payment: No Profits from Cherry-Picking

CONDITION-BASED PAYMENT

High Need Patients
High Need Payment
High Need Patients
High Need Payment
Lower Need Patients
Low Need Payment
Lower Need Patients
Low Need Payment

Medium Need Patients
Medium Need Payment
Medium Need Patients
Medium Need Payment
Lower Need Patients
Low Need Payment
Lower Need Patients
Low Need Payment
## Population-Based Payment Can Worsen Health Disparities

<table>
<thead>
<tr>
<th></th>
<th>Fee-for-Service Payment (Fixed payment for each service, regardless of whether service is needed)</th>
<th>Condition-Based Payment (Fixed payment for all services that are related to a specific condition)</th>
<th>Population-Based Payment (Fixed payment for all services, regardless of patient’s needs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards over-treatment?</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Rewards under-treatment?</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
How Can It Be “Win-Win-Win” When Spending is Being Cut?

- Avoidable Spending
- Necessary Services
- Savings

Diagram shows a decrease in spending with a focus on avoiding unnecessary services.
“Savings” Doesn’t Mean *Cuts*, It Means *Smaller Increases*
How Do We Get to Win-Win-Win Value-Based Payment?
Payment & Care Delivery Must Be Designed Together
By Themselves, Payers Will Design Things So *Payers* Win

**PAYER PREFERENCE:**

- Maximum reduction in total spending
- Minimum change in payment methods and administrative costs
- Shift in financial risk from payer to provider

---

**Design**

**Payer Payment Model**

**Care Delivery Model**

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By Themselves, Providers Will Design Things so *Providers* Win

**PAYER PREFERENCE:**
- Maximum reduction in total spending
- Minimum change in payment methods and administrative costs
- Shift in financial risk from payer to provider

**PAYER PREFERENCE:**
- Higher payments for existing services
- New payments for new services
- No accountability for outcomes
- No financial risk

**Design**

**Payer Payment Model**

**Care Delivery Model**

**Payment Model**

**Provider Care Delivery Model**

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Payers & Providers Must Collaborate for a Win-Win Design

Collaborative Task Force

- Payer
- Provider
- Payer
- Provider
- Payer
- Provider
- Payer
- Provider

Design

Payment Model

- Savings based on avoidable spending
- Adequate payment for services
- Risk for number & type of conditions

Care Delivery Model

- Delivery of services using most efficient, effective methods
- Accountability for controllable cost & outcomes of care
Summary

• **Steps to Design Value-Based Payment**
  1. Identify opportunities to reduce avoidable spending
     • Opportunities differ for different patients and in different communities
  2. Design services that will reduce avoidable spending
     • Payments must enable the specific changes in services needed for higher value
  3. Pay adequately to support higher-value services
     • Payment adequacy requires understanding costs of services *after* volume changes
  4. Hold providers accountable for results
     • Accountability should only be for aspects of costs/services providers can control

• **Key Elements for Success**
  – Payer-provider collaboration to design payment + care delivery
  – Cooperation among physicians, hospitals, & other providers
  – Protection for providers against taking inappropriate risk
  – Assurance for patients of higher quality as well as savings
  – Patience – don’t expect large savings immediately
More Details on Creating Value-Based Payment Models

www.PaymentReform.org