A Strategy for Successful Implementation of Bundled Payments

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Role of Payment System in Improving Value?

Value = patient centered health outcomes per the health dollar expended

*Slide Courtesy of Tom Feeley, MD*
Value-Based Payment

- Reduce/eliminate *non value-added* care
- Unnecessary care
- Inappropriate variation in care
- Avoidable complications/ readmissions/reoperations
- Excess cost due to variation in price

**Mean DRG 470 Payment Distribution after 10% Cost Savings**

Source: Brandeis Analysis of 2012 CMS Data
### Cost variation in hip and knee arthroplasty

#### Percent Difference between Minimum and Maximum Cost per Case, Top 9 Nationally

<table>
<thead>
<tr>
<th>Knee Replacement</th>
<th>Hip Replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>TX: Dallas</td>
<td>MA: Boston-Worcester</td>
</tr>
<tr>
<td>MA: Boston-Worcester</td>
<td>CA: Los Angeles</td>
</tr>
<tr>
<td>WA: Seattle-Bellvue-Everett</td>
<td>TX: Dallas</td>
</tr>
<tr>
<td>PA: Philadelphia</td>
<td>TX: Houston</td>
</tr>
<tr>
<td>VA: Richmond-Petersburg</td>
<td>AZ: Phoenix-Mesa</td>
</tr>
<tr>
<td>TX: Houston</td>
<td>MN: Minneapolis-St. Paul</td>
</tr>
<tr>
<td>MN: Minneapolis-St. Paul</td>
<td>NE: Omaha</td>
</tr>
<tr>
<td>SC: Charleston</td>
<td>PA: Philadelphia</td>
</tr>
<tr>
<td>TX: Austin-San Marcos</td>
<td>MI: Grand Rapids</td>
</tr>
</tbody>
</table>

*For hip replacements, Austin is #18 in the nation in the cost differential ranking*

Source: Blue Cross Blue Shield. “A Study of Cost Variation for Knee and Hip Replacement Surgeries in the U.S.” January 2015
Providers Bear More Risk

**EXHIBIT 1**
Variables For Which The Provider Is At Risk Under Alternative Payment Systems

<table>
<thead>
<tr>
<th>Cost per person</th>
<th>No. of conditions per person</th>
<th>x</th>
<th>No. of episodes of care per condition</th>
<th>x</th>
<th>No./type of services per episode of care</th>
<th>x</th>
<th>No. of processes per service</th>
<th>x</th>
<th>Cost per process</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

- **Insurance risk**
- **Performance risk**
- **Comprehensive care payment/condition-adjusted capitation**
- **Episode-of-care payment**
- **Fee-for-service**

**SOURCE:** Author’s analysis.
Principles for Successful Implementation of Value-Based Payment

A Strategy for Successful Implementation of Bundled Payments in Orthopaedic Surgery

Kevin J. Bozic, MD, MBA
Lorrayne Ward, MBA, MPP
1. Assess Cultural, Operational Readiness

A. Risk tolerance
B. Data systems, Sharing
C. Trust, Alignment
D. Leadership
2. Identify Condition, Clinical/Administrative Champions

- High volume
- Well defined episode
- Relatively well-defined indications (CPGs)
- Outcomes already measured
- Homogeneous patient population
- *Local expertise, leadership*
3. Define the Episode for which you Accept Risk
4. Define Performance Metrics, Gainsharing Models
5. Understand Care From the Patient’s Perspective
6. Measure the *Actual Costs* of Care Delivery

![Diagram showing cost distribution for different hospital cost accounting methods.](image-url)

- **Hospital Cost Accounting - Hip**
  - Implant Cost: $10,203
  - Room & Board: $5,650
  - OR Services: $458
  - Drug Cost: $356
  - Supplies: $590
  - Other Services: $507

- **TDABC**
  - Implant Cost: $6,301
  - Room & Board: $3,113
  - OR Services: $2,244
7. Use *Data* to Identify Opportunities for Improvement

A) Evidence-based vs. consensus
8. Redesign Care to Improve Quality, Reduce Cost
9. Price/Market Episode of Care Program
10. Evaluate Results, Iterate
Payment vs. Delivery System Reform?

EXHIBIT 4
Transition In Both The Payment And The Delivery Systems

<table>
<thead>
<tr>
<th>Delivery system</th>
<th>Payment system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-driven coordinated care</td>
<td>Fee-for-service</td>
</tr>
<tr>
<td>Interim/virtual coordination arrangements</td>
<td>Virtual episode-of-care and comprehensive care payment</td>
</tr>
<tr>
<td>Volume-driven fragmented care</td>
<td>Episode-of-care or comprehensive care payment</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

Transition

Co-evolution of organization and payment

Ideal

Failure due to lack of organizational capacity to manage value-driven payment

SOURCE: Author’s analysis.

Miller H D Health Aff 2009;28:1418-1428
Reorganizing the Delivery System Around Value

Existing Model:
Organize by Specialty and Discrete Service

Attributes:
- Staffed by dedicated multidisciplinary team
- Joint accountability for outcomes and costs
- Shared information platform
- Single administrative & scheduling structure
- Services co-located to the extent possible
What’s Missing from Bundled Payments?
Employer Based Initiatives

Wal-Mart, Lowe's, PBGH form network for 'no-cost' knee/hip replacements

Los Angeles Times | BUSINESS

Companies go surgery shopping
Employers are sending workers on all-expenses-paid trips to top-performing hospitals that agree to low, fixed rates for surgery.

By Chad Terhune, Los Angeles Times
November 17, 2012 | 5:00 a.m.
Why am I Bullish on Value-Based Payment Strategies?

- Cost pressures are not going away
- Waste in the system (variability in cost, outcomes)
- Providers are in the best position to identify waste, opportunities for improvement
- Opportunity to redesign care, improve value, but also share rewards
- Will require increased accountability, leadership, risk tolerance, access to data!
- Result: Increased financial success for providers, value for patients

US Health Expenditures: 1965-2020
What Do We Have To Lose?

Fee-for-Service (RVU, DRG) System:
• Improved efficiency, decreased time = lower reimbursement
• No consideration of outcome, value

Provider Financial Performance

Value-based approaches

Fee for service

Time
The Choice is Ours…

- Either we find ways to stretch our healthcare dollars by improving value, or…

- Cost containment will be imposed on us by limiting access and cutting provider reimbursement
Thank You!!