Redefining Health Care: Creating Value-Based Competition on Results

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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg (<u>Redefining Health Care: Creating Value-Based Competition on Results</u>, Harvard Business School Press). Earlier publications about the work include the *Harvard Business Review* article "Redefining Competition in Health Care" and the associated *Harvard Business Review* Research Report "Fixing Competition in U.S. Health Care" (June 2004). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means — electronic, mechanical, photocopying, recording, or otherwise — without the permission of Michael E. Porter and Elizabeth Olmsted Teisberg.

The Paradox of U.S. Health Care

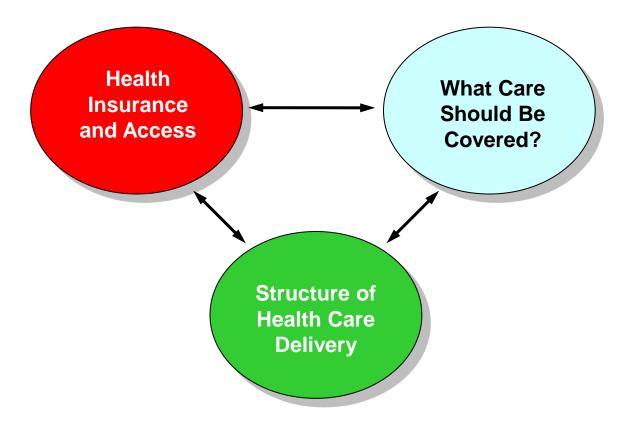
 The United States has a largely private system and more competition than virtually any other health care system in the world

BUT

- Costs are high and rising
- Services are restricted and fall well short of recommended care
- In other services, there is overuse of care
- Standards of care often lag and fail to follow accepted benchmarks
- Diagnosis errors are common
- Preventable treatment errors are common
- Huge quality and cost differences persist across providers
- Huge quality and cost differences persist across geographic areas
- Best practices are slow to spread
- Innovation is resisted



Issues in Health Care Reform



Zero-Sum Competition in Health Care

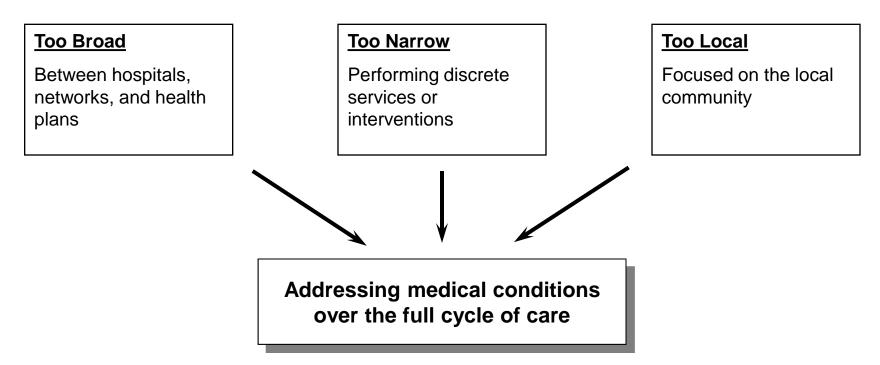
- Competition to shift costs
- Competition to increase bargaining power
- Competition to capture patients and restrict choice
- Competition to reduce costs by restricting services



None of these forms of competition increase value for patients

Root Causes

Competition in the health care system takes place at the wrong level on the wrong things

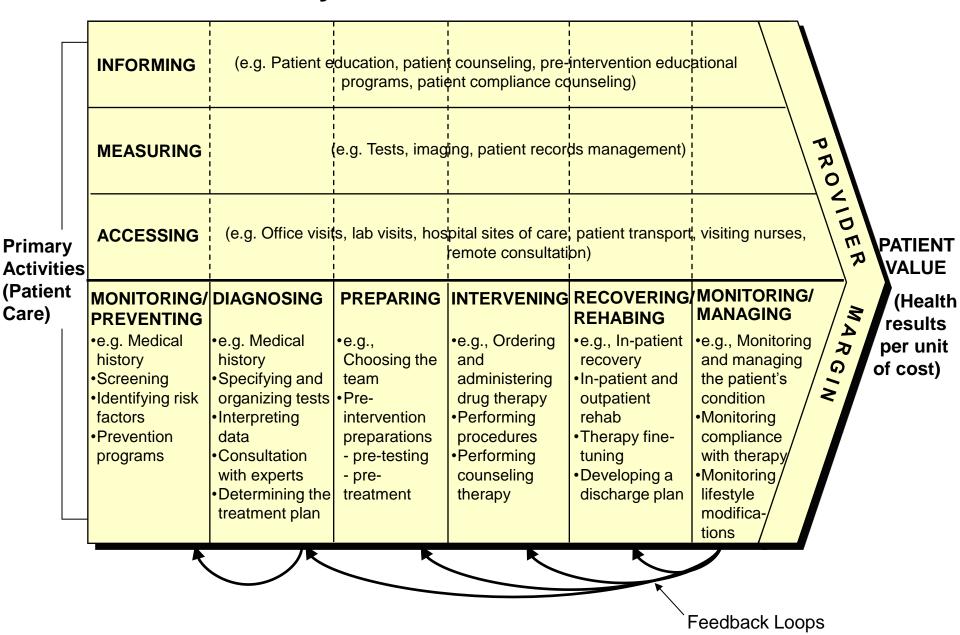


- Competition at the right level has been reduced or eliminated
- Efforts to improve health care delivery have sought to micromanage providers and "lift all boats"
- Consumer-driven health care alone will not work

Principles of Positive Sum Competition

- The focus should be on value for patients, not just lowering costs.
- There must be unrestricted competition based on results.
- Competition should center on medical conditions over the full cycle of care.

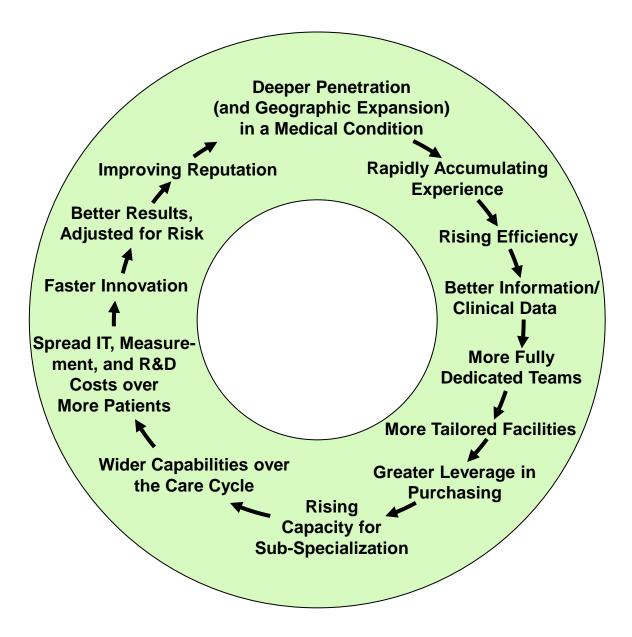
The Care Delivery Value Chain for a Medical Condition



Principles of Positive Sum Competition

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- Quality and cost will often improve simultaneously.
- Value is driven by provider experience, scale, and learning at the medical condition level.

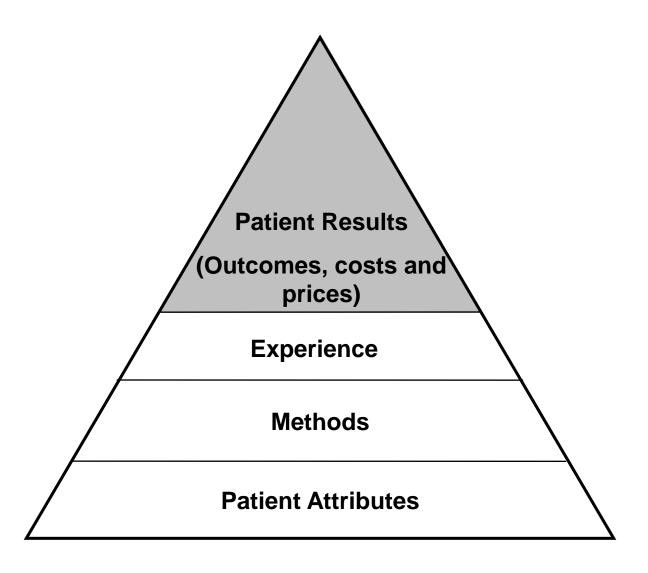
The Virtuous Circle in Health Care Delivery



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- Value is driven by provider experience, scale, and learning at the medical condition level.
- Competition should be regional and national, not just local.
- Information on results and prices needed for value-based competition must be widely available.

The Information Hierarchy



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- Information on results and prices needed for value-based competition must be widely available.
- Innovations that increase value must be strongly rewarded.

Moving to Value-Based Competition Providers

1. Redefine the business around medical conditions

What Businesses Are We In?

Chronic Kidney Disease

Nephrology practice



- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management

Moving to Value-Based Competition Providers

- 1. Redefine the business around medical conditions
- 2. Choose the range and types of services provided
- 3. Organize around medically integrated practice areas

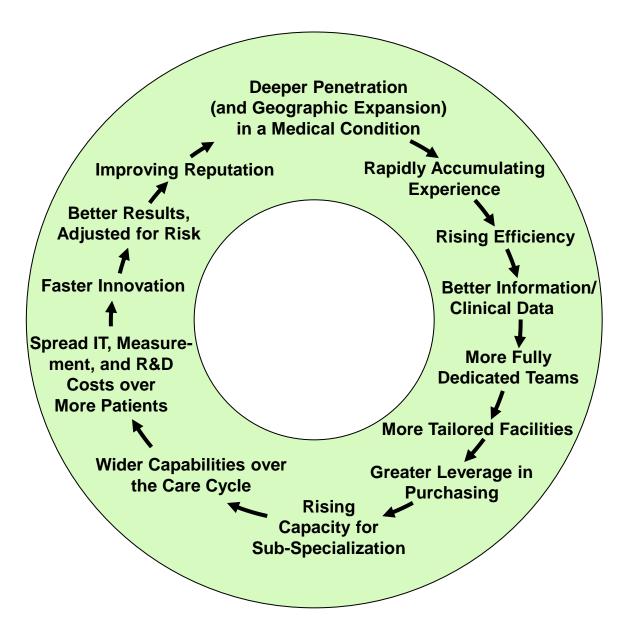
The Care Delivery Value Chain: Breast Cancer Care

INFORMING	 Education and 	Counseling		- Counseling	-Counseling	•Counseling \
	reminders about	patient and family		patient and	patient and family	patient and
	regular exams	on the diagnostic	patient choices	family on	on rehabilitation	family on
	• Lifestyle and diet	process and the	of treatment	treatment and	options and	long term risk
	counseling	diagnosis • Mammograms		prognosis	process	management
MEASURING	 Self exams 	Ultrasound		• Procedure-	• Range of	• Recurring
	 Mammograms 	• MRI		specific	movement	mammograms \
		• Biopsy		measurements	• Side effects	(every 6 months for \
		• BRACA 1, 2			measurement	the first 3 years)
ACCECCINIC	Office visits	• Office visits	Office visits	¦ • Hospital stay	Office visits	Office visits Lab visits Mammographic labs and imaging center visits
ACCESSING	Mammography	• Lab visits	Hospital visits	Visits to	Rehabilitation	• Lab visits
	lab visits	• High-risk	i lospitai visits	outpatient or	facility visits	• Mammographic labs
	ido violto	clinic visits		radiation	racinty viole	and imaging center
		i ciii iio violeo		chemotherapy		visits
				units		7
	MONITORING/	DIAGNOSING	PREPARING	INTERVENING	RECOVERING/	
	PREVENTING				REHABING	MANAGING S
	 Medical history 	Medical history	Medical	Surgery (breast)	• In-hospital and	• Periodic mammography
	_				•	all
	Monitoring for	l • Determining the	counselina	I preservation or	i outpatient wound	• Other imaging / 🛂 📕
	 Monitoring for lumps 	Determining the specific nature	counseling • Surgery prep	preservation or mastectomy.	outpatient wound healing	• Other imaging • Follow-up clinical exams
	Monitoring for lumpsControl of risk	Determining the specific nature of the disease	 Surgery prep 	mastectomy,	healing	• Follow-up clinical exams
	lumps • Control of risk	specific nature	• Surgery prep (anesthetic risk	mastectomy, oncoplastic	healing • Psychological	for next 2 years /
	lumps	specific nature of the disease	 Surgery prep 	mastectomy,	healing	 Other imaging Follow-up clinical exams for next 2 years Treatment for any continued side
	lumps • Control of risk factors (obesity,	specific nature of the disease • Genetic	• Surgery prep (anesthetic risk assessment,	mastectomy, oncoplastic alternative)	healing Psychological counseling	for next 2 years Treatment for any
	lumps • Control of risk factors (obesity, high fat diet)	specific nature of the disease • Genetic evaluation	• Surgery prep (anesthetic risk assessment, EKG)	mastectomy, oncoplastic alternative) • Adjuvant	healing • Psychological counseling • Treatment of side	for next 2 years Treatment for any continued side
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Moving to Value-Based Competition <u>Providers</u>

- 1. Redefine the business around medical conditions
- 2. Choose the range and types of services provided
- 3. Organize around medically integrated practice areas
- 4. Create a distinctive strategy in each practice area
- 5. Measure **results**, **methods**, and **patient attributes** by practice area
- 6. Move to single bills and new approaches to pricing
- 7. Market services based on excellence, uniqueness, and results
- 8. Grow locally and geographically in areas of strength

The Virtuous Circle in Health Care Delivery



Transforming the Roles of Health Plans

Old Role

New Role

 Restrict patient choice of providers and treatment

- Enable informed patient and physician choice and patient management of their health

 Micromanage provider processes and choices



 Measure and reward providers based on results

Minimize the cost of each service or treatment



 Maximize the value of care over the full care cycle

 Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills



 Minimize the need for administrative transactions and simplify billing

 Compete on minimizing premium increases



Compete on subscriber health results

Moving to Value-Based Competition Health Plans

Provide Health Information and Support to Patients and Physicians

- 1. Organize around **medical conditions**, not geography or administrative functions
- 2. Develop measures and assemble results **information** on providers and treatments
- 3. Actively **support provider** and **treatment choice** with information and unbiased counseling
- 4. Organize information and patient support around the full cycle of care
- Provide comprehensive disease management and prevention services to all members, even healthy ones

Restructure the Health Plan-Provider Relationship

- 6. Shift the nature of **information sharing** with providers
- 7. Reward provider **excellence** and value-enhancing **innovation** for patients
- 8. Move to single bills for episodes and cycles of care, and single prices
- 9. Simplify, standardize, and eliminate paperwork and transactions

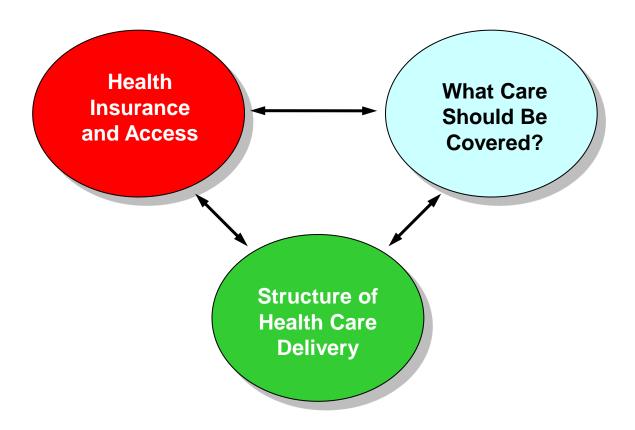
Redefine the Health Plan-Subscriber Relationship

- Move to multi-year subscriber contracts and shift the nature of plan contracting
- End cost shifting practices, such as re-underwriting, that erode trust in health plans and breed cynicism
- 12. Assist in managing members' medical records

Moving to Value-Based Competition <u>Employers</u>

- Set the goal of increasing health value, not minimizing health benefit costs
- Set new expectations for health plans, including self-insured plans
- Provide for health plan continuity for employees, rather than plan churning
- Enhance provider competition on results
- Support employees in making health choices and managing their health
- Find ways to expand insurance coverage and advocate reform of the insurance system
- Measure and hold benefits staff accountable for the company's health value received

Issues in Health Care Reform



How Will Redefining Health Care Begin?

- It is already happening!
- Each system participant can take voluntary steps in these directions, and will benefit irrespective of other changes.
- The changes are mutually reinforcing.
- Once competition begins working, value improvement will no longer be discretionary or optional
- Those organizations that move early will gain major benefits.

What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

BACK-UP

Insurance and Access

- Enable value based competition among health plans, rather than move to a single payer system
- Ban re-underwriting where it remains legal
- Assign full legal responsibility for medical bills to health plans except in cases of fraud or breaches of important plan conditions
- Prohibit balance billing
- Mandate universal health coverage
 - Assigned risk pools
- Move to equalize taxation of individual and employer purchased health coverage
- Make HSAs available to all Americans
- Level the playing field among employers in terms of the burden of health coverage

Coverage

- Establish a national standard for required coverage
- The Federal Employees Health Benefit Plan (FEHBP) as a starting point

What Government Can Do: Policies to Improve the Structure of Health Care Delivery

BACK-UP

Open Up Competition at the Right Level

- Enforce antitrust laws
- Eliminate network restrictions
- Prohibit conflicts of interest such as self referrals or referrals to an affiliated organization without a results justification
- End restrictions on specialty hospitals
- Modify the Stark Law to encourage productive practice area integration
- Establish reciprocal state licensing
- Require periodic renewal of licenses based on results
- Revise tax treatment for medical travel expenses
- Curtail anticompetitive buying group practices

Promote the Right Information

- Establish common national standards and metrics for reporting on results, processes, experience, and prices at the medical condition level
- Require mandatory reporting of results information as a condition to practice
- Designate a quasi-public entity to oversee information collection and dissemination
- Encourage private efforts to analyze and build upon mandatory data

What Government Can Do: Policies to Improve the Structure of Health Care Delivery (continued)

Require Better Pricing Practices

BACK-UP

- Require transparent prices for health care services
- Over time, require bundled prices that aggregate charges for episodes of care
- Limit or eliminate price discrimination based solely on plan or group membership

Reform the Malpractice System

Allow lawsuits only for truly negligent medical practice

Redesign Medicare Policies and Practices

- Medicare should act like a health plan, not just a payer
- Medicare should set pricing, information, and other practices to enable valuebased competition at the condition level
- Medicare should outsource health plan roles it is not equipped to play itself
- Recent promising Medicare experiments need to be improved and rolled-out

Redesign Medicaid Policies and Practices

- Medicaid policy should move from state-federal cost shifting to supporting valuebased competition
- Medicaid should provide for the value-adding roles of health plans

Invest in Technology and Innovation

- Continue support for basic life science and medical research
- Create an adoption of innovation fund