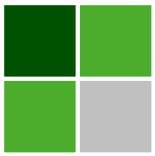
Shared Risk Initiatives: Bundled Payment, Private payer ACOs, and Network Provider Panels

Is this the Future?

John Cherf MD, MPH, MBA
Orthopedic Surgeon, Chicago Institute of Orthopedics
Clinical Advisor, Sg2
President, OrthoIndex

California Orthopedic Association Annual Meeting
Carlsbad, California



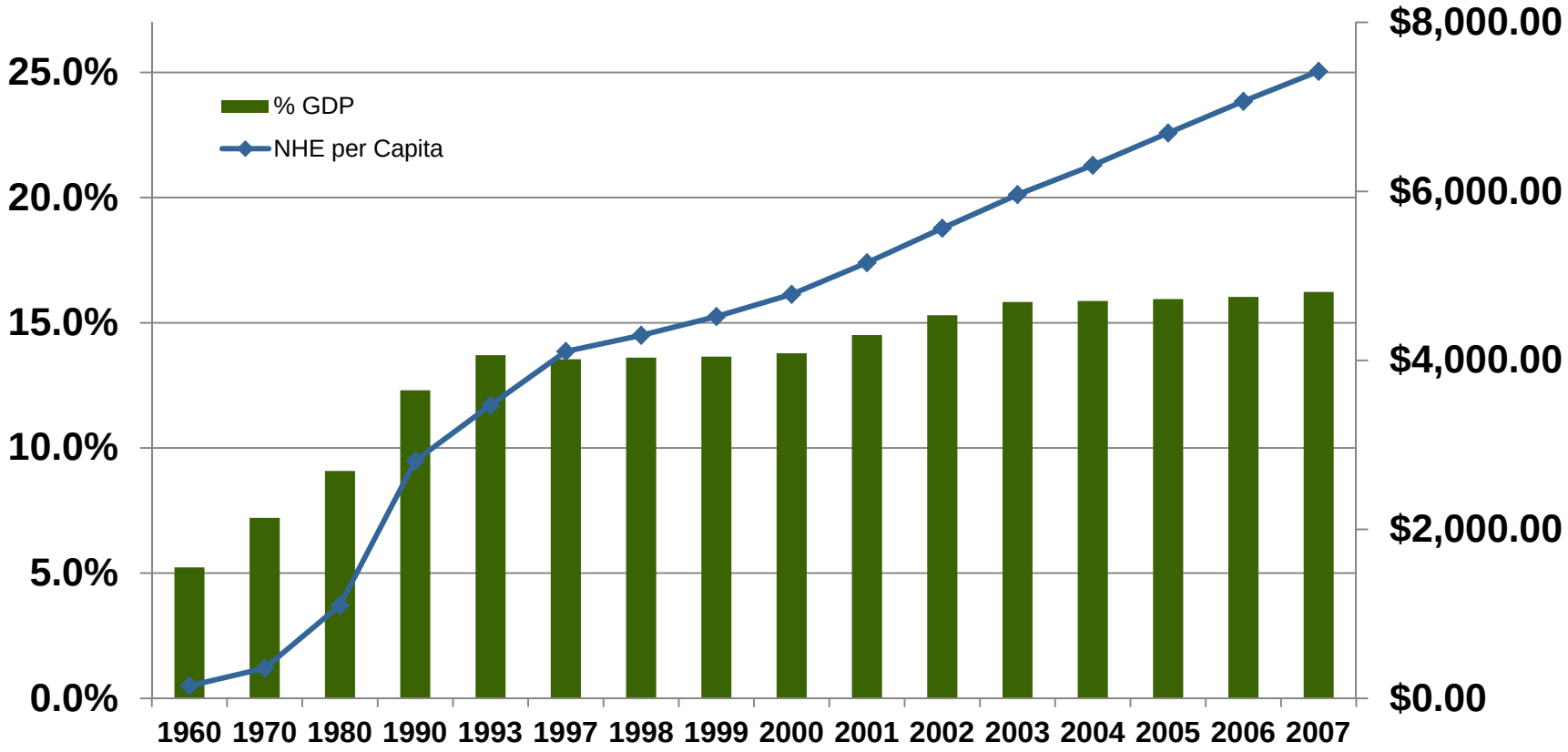
Disclosure

- Consultant for the FDA Orthopedic and Rehabilitation Medical Devices Panel of the Medical Devices Advisory Committee
- Advisory Board of Covenant Orthopedics
- Consultant to Accretive Health
- Board of Directors of OrthoCentrix Solutions
- Sg2 Clinical Advisor
- Consultant for Access Mediquip
- Consultant for Zimmer (product liability)
- Consultant for Breg (business development)
- Royalties from Innomed
- Equity in OrthoIndex
- Speaking honorariums

Current Health Care Cost Trends Are Unsustainable

Health Spending as % of GDP
US Market, 1960-2007

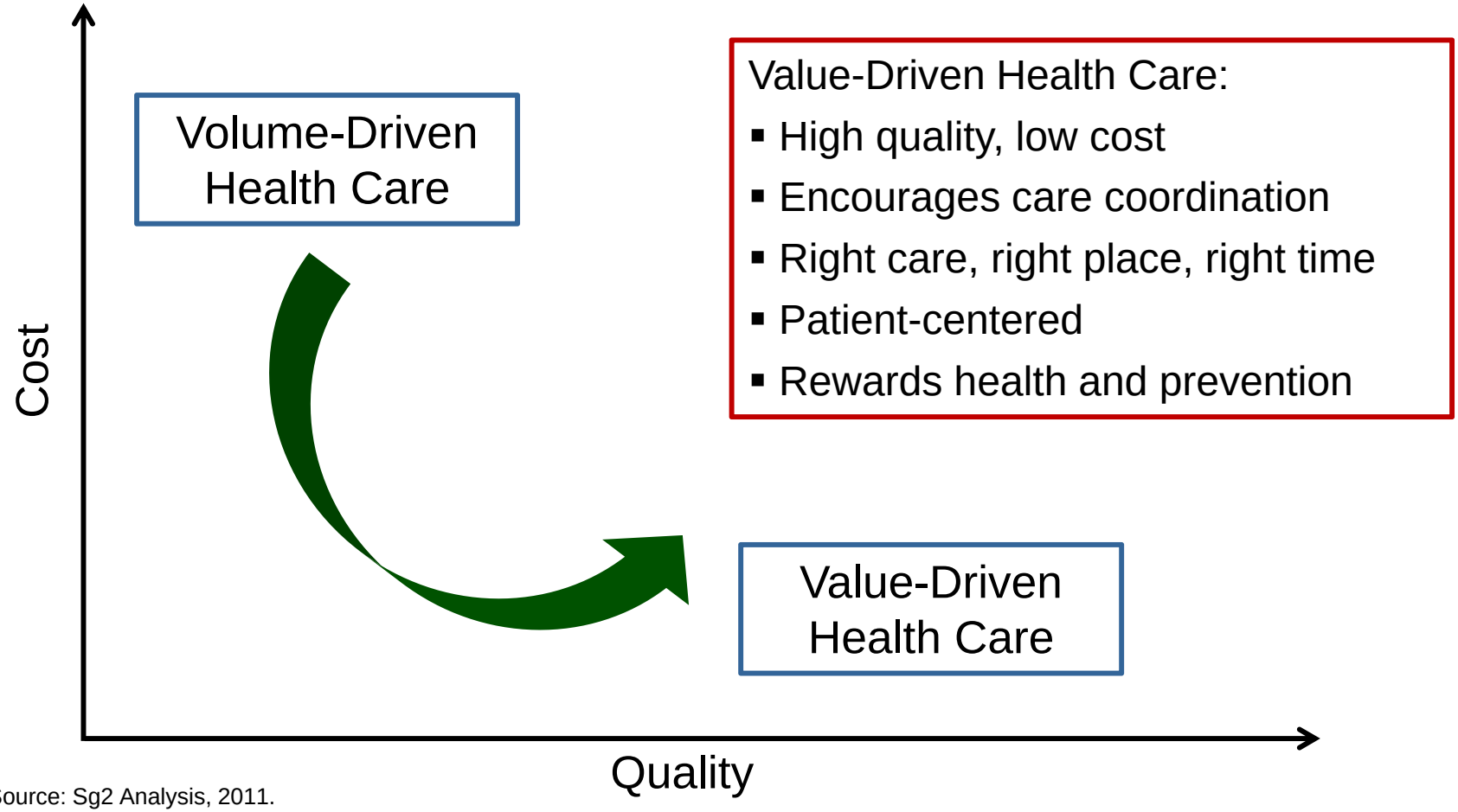
Annual Health Spending per Capita
US Market, 1960-2007



GDP = Gross Domestic Product. NHE = National Health Expenditure.
Source: US Office of Management and Budget, 2009. Centers for Medicare and Medicaid Services, 2009. Sg2 Analysis, 2009.

Incentives Are Shifting From Volume to Value

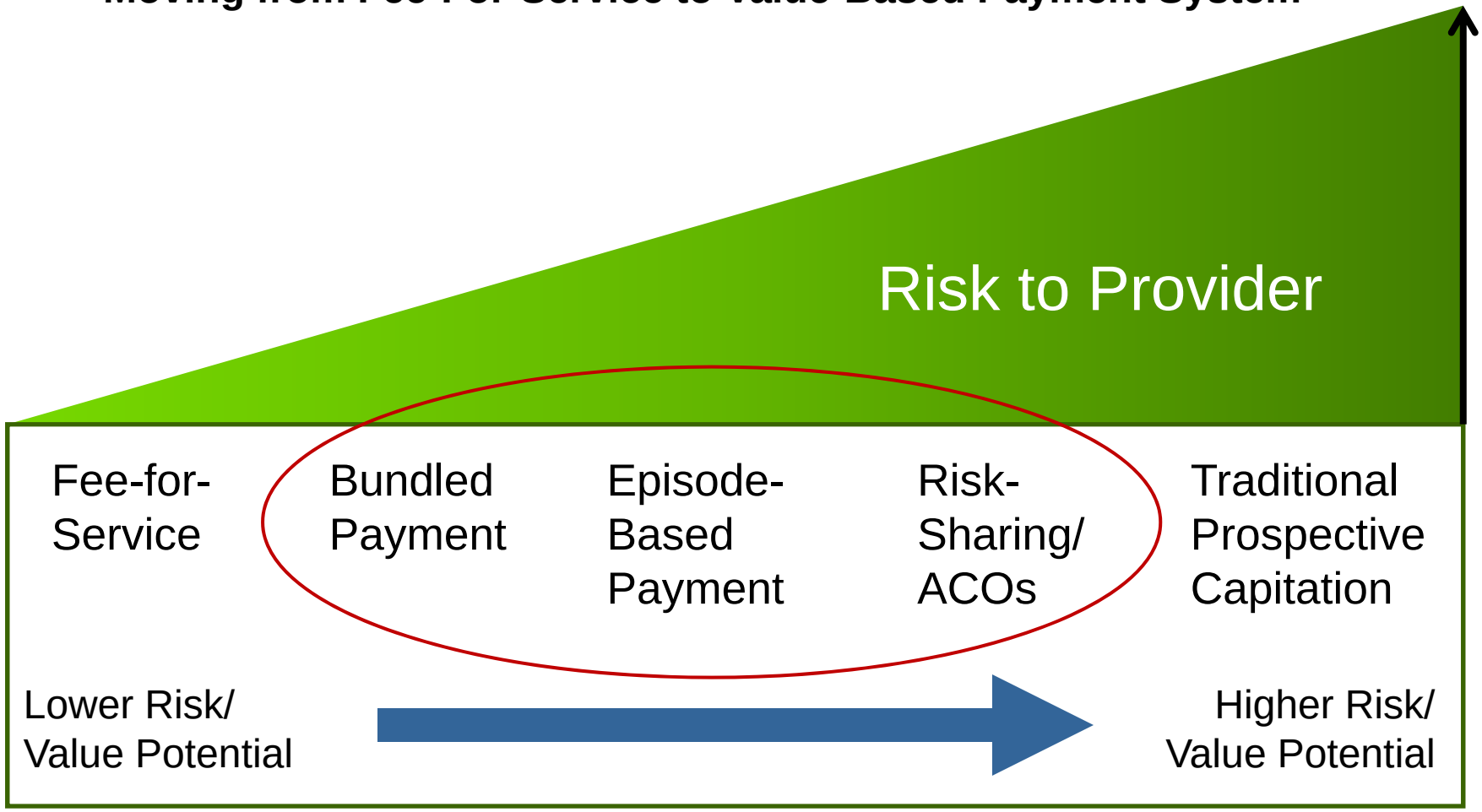
Moving from Fee-For-Service to Value-Based Payment System



Source: Sg2 Analysis, 2011.

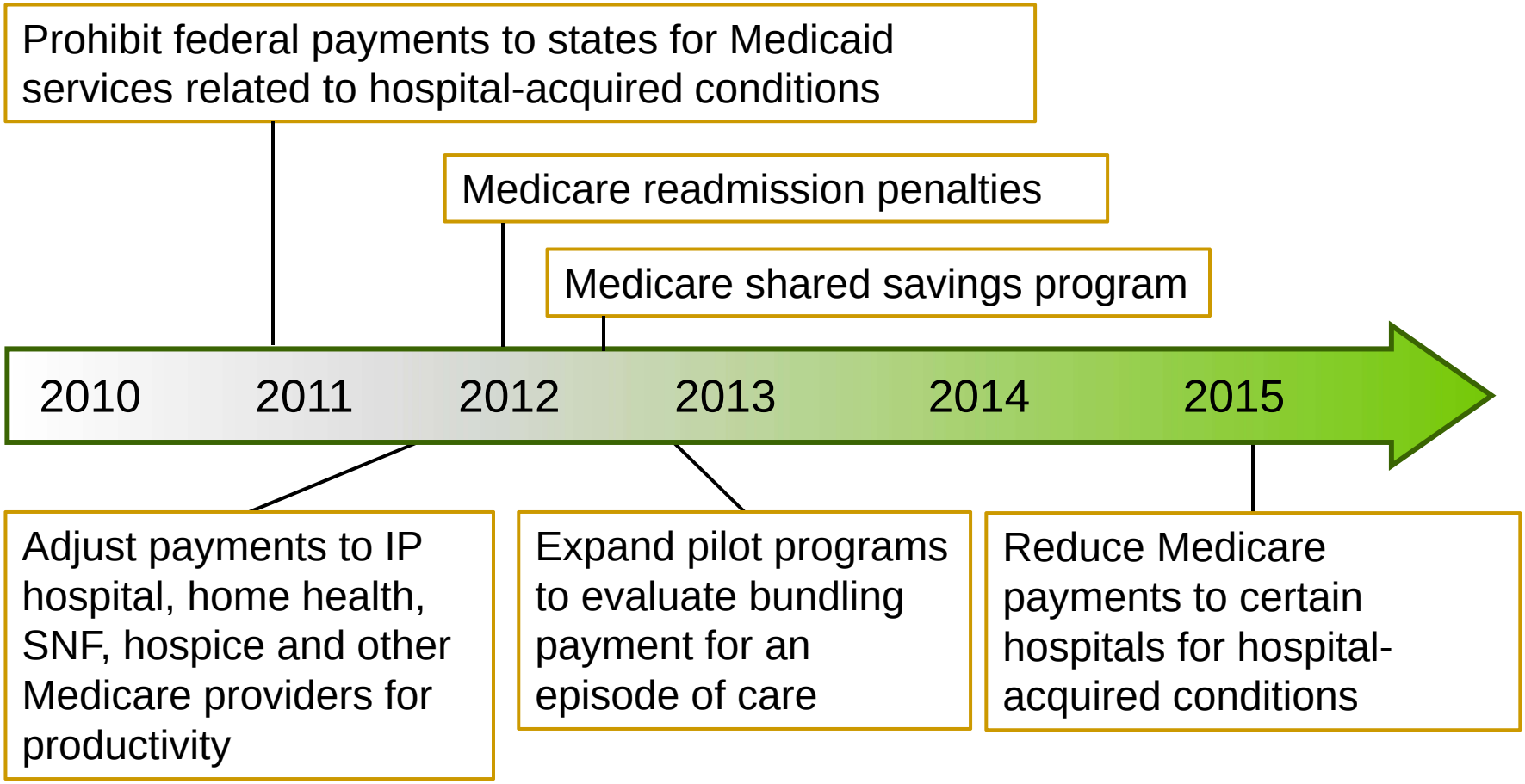
New Payment Models Are About Managing Risk to a Budget

Moving from Fee-For-Service to Value-Based Payment System



Source: Sg2 Analysis, 2011.

ACA Introduces Several Pilots to Improve Accountability



ACA = Accountable Care Act; IP = inpatient; SNF = skilled nursing facility.
Source: The Henry J. Kaiser Family Foundation. *Health Reform Implementation Timeline*, May 2010.

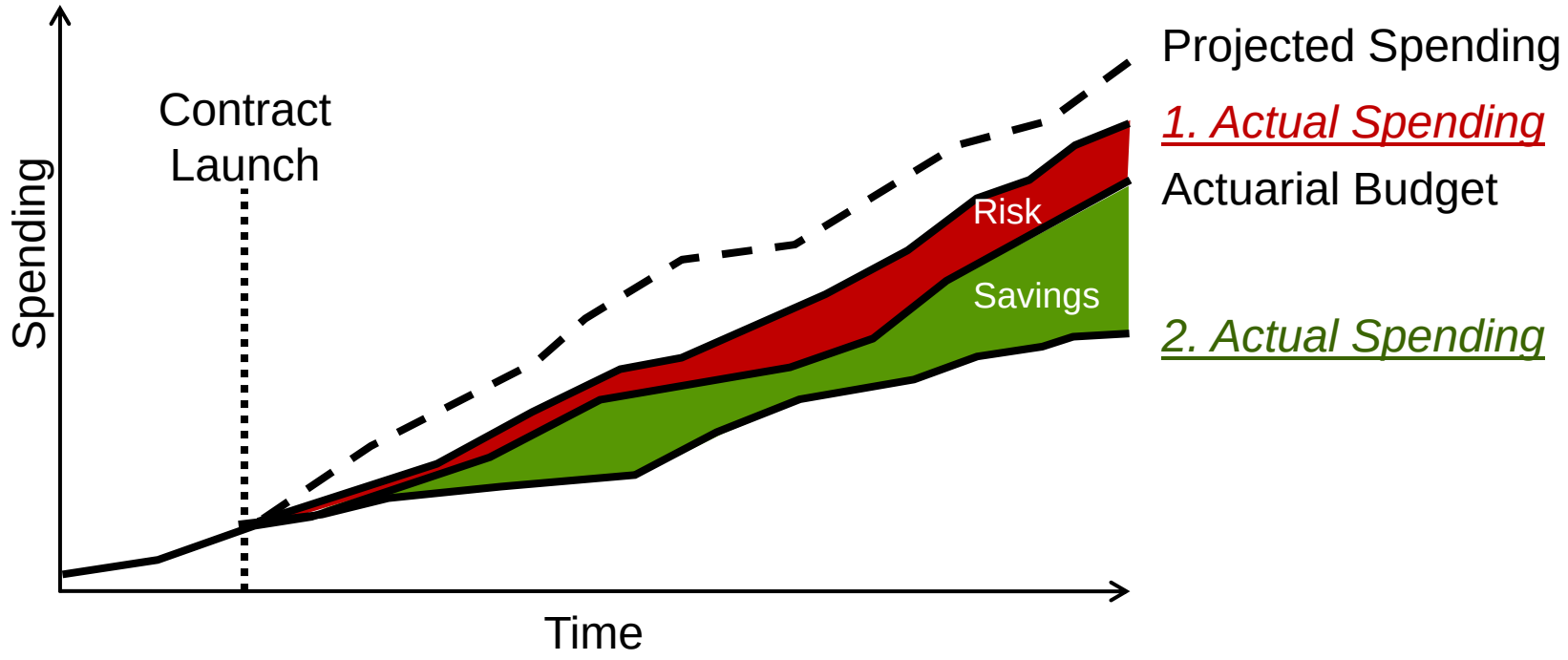
Shared Savings / Accountable Care Organization (ACO)

- Less than a dozen pages of text in a roughly 2,400-page health care reform legislation (PPACA)
- Few other topics has garnered more interest – or stirred more controversy – in the health care industry

"another passing fad" ⟷ **"future of health care delivery in the United States"**

What Is an ACO?

There is no single definition of an accountable care organization



Sources: Sg2 Analysis, 2011.

How Is This Different From Traditional Capitation?

- Patient attribution is **retrospective**
- Patients have **choice** (subject to benefit plan)
- Budgets are adjusted for **health status (i.e., "risk-adjusted")**
- Providers continue to be paid **fee for service**
- Budget reconciliation is **retrospective**
- Provider **risks may be limited**
- Shared savings are subject to **quality** and **performance** measures
- Some models include upside ***bonuses*** based on performance measures
  - For example, safety, appropriateness of care, patient satisfaction
- Payer commits to regular **reporting** of performance and cost data
- This is a **partnership**

Source: Sg2 Analysis, 2011.

27 ACOs Enter Agreement with CMS

The First ACOs Will Include:

- 27 healthcare entities
- 18 states
- 10,000 physicians
- 10 hospitals
- 13 smaller physician-leg entities
- Serve estimated 375,000 beneficiaries
- 33 quality measures
  - care coordination and patient safety
  - appropriate preventive health services
  - improved care for at-risk populations
  - patient experience

Source: OrthoIndex Analysis, 2012.

Combined Shared Savings Models

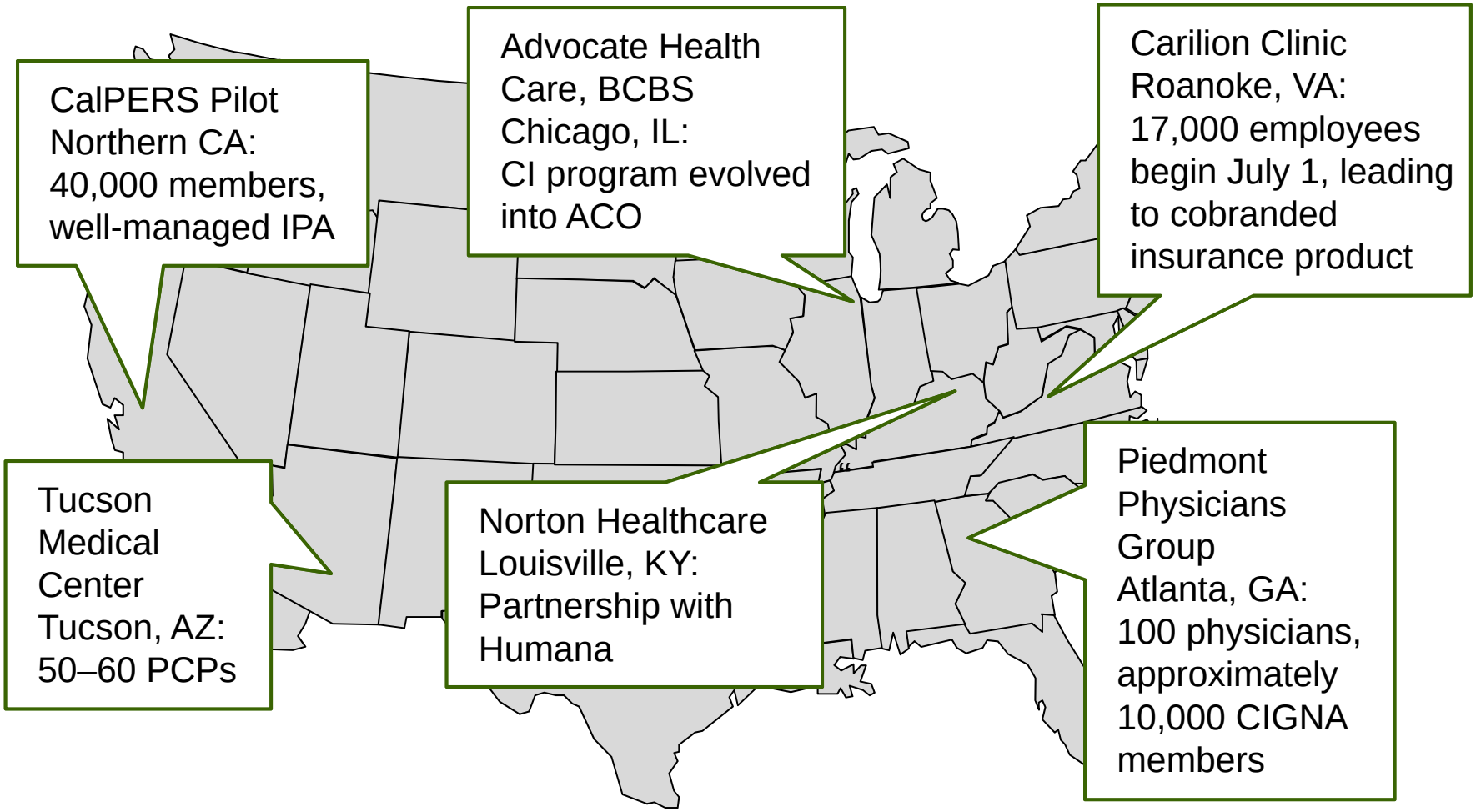
Various CMS Shared Savings Care Models

- 33 in the Pioneer Program
- 27 Shared savings program for ACO
- 6 Physician Group Practice Transition Demonstrations

1.1 million beneficiaries now receiving services through various models

Source: OrthoIndex Analysis, 2012.

The Private Market Is Also Adopting the ACO Model



Source: Sg2 Analysis, 2011.

Tiered Networks and "Steerage" Driven By Employers/Management

Recognition Programs

- Blue Cross and Blue Shield's Blue Distinction®
- UnitedHealth Premium® designation
- Aetna Institutes of Quality®
- CIGNA Centers of Excellence

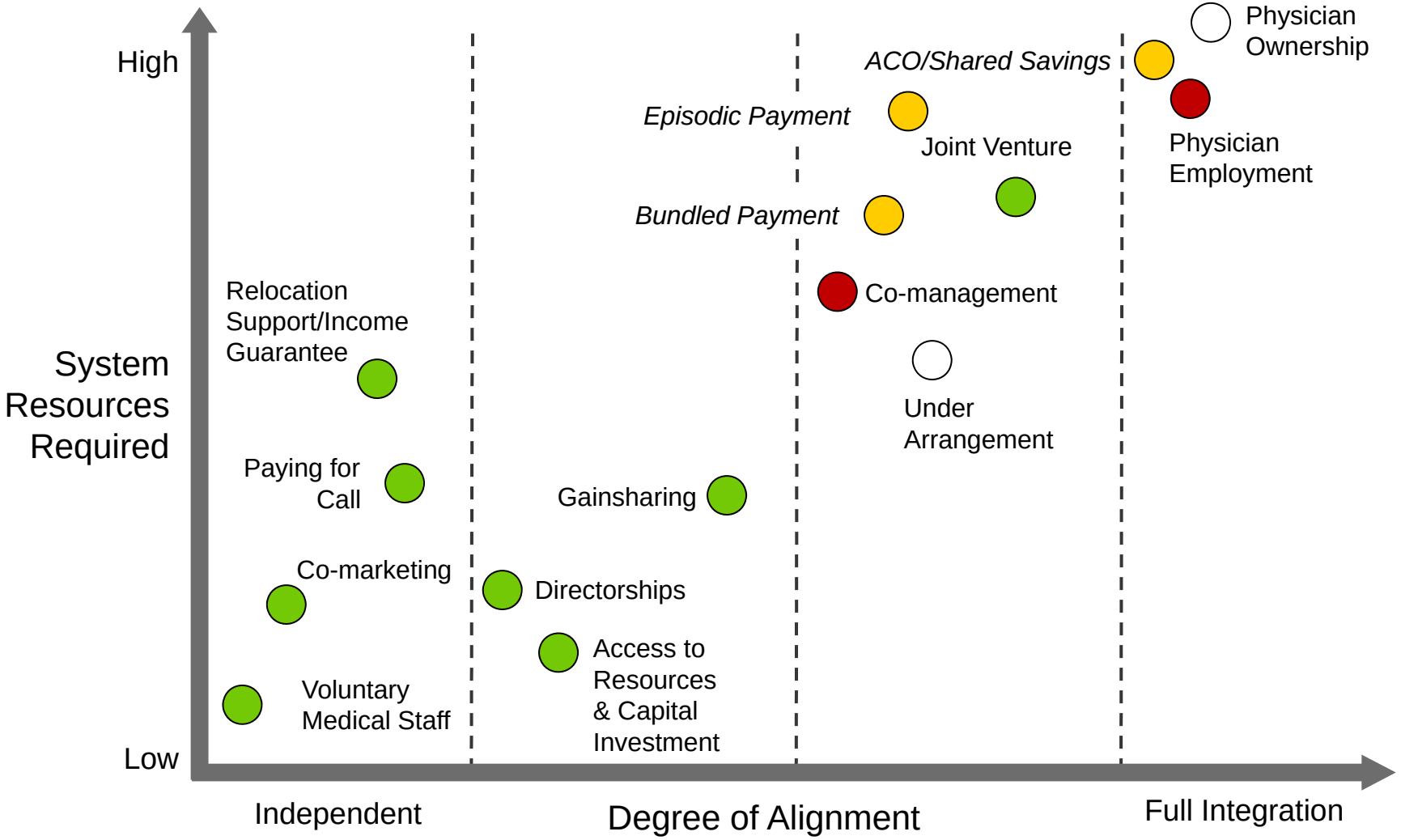
Designation Programs → Preferred Providers and Tiered Networks

"Employers are willing to limit choice to create a better cost advantage."

- Joe Zubretsky, CFO, Aetna

Source: Sg2 Analysis, 2011.

Collaboration Can Be Achieved Through a Spectrum of Options



Source: Sg2 Analysis, 2011.

Shifting Financial and Clinical Risk To Providers

Source: OrthoIndex Analysis, 2012.

What is the Fate of the "Shared" Savings

Physicians

Payer

Third Party

Hospitals

Source: OrthoIndex Analysis, 2012.

Healthcare Cost is a "Center-Stage Issue" For CMS

Two Options:

1. <u>Direct savings policies</u>
   - Changes to the level of payment
   - Productivity adjustments
2. <u>Indirect savings policies</u>
   - Reduction of waste
     1. Failure to coordinate care
     2. Failures in the care process (delays, injuries, etc.)
     3. Over-treatment
     4. Excessive administrative costs
     5. Problems with healthcare pricing
     6. Fraud and abuse

Source: Dr. Berwick, Administrator, Centers for Medicare & Medicaid Services, 2011. OrthoIndex Analysis, 2012.

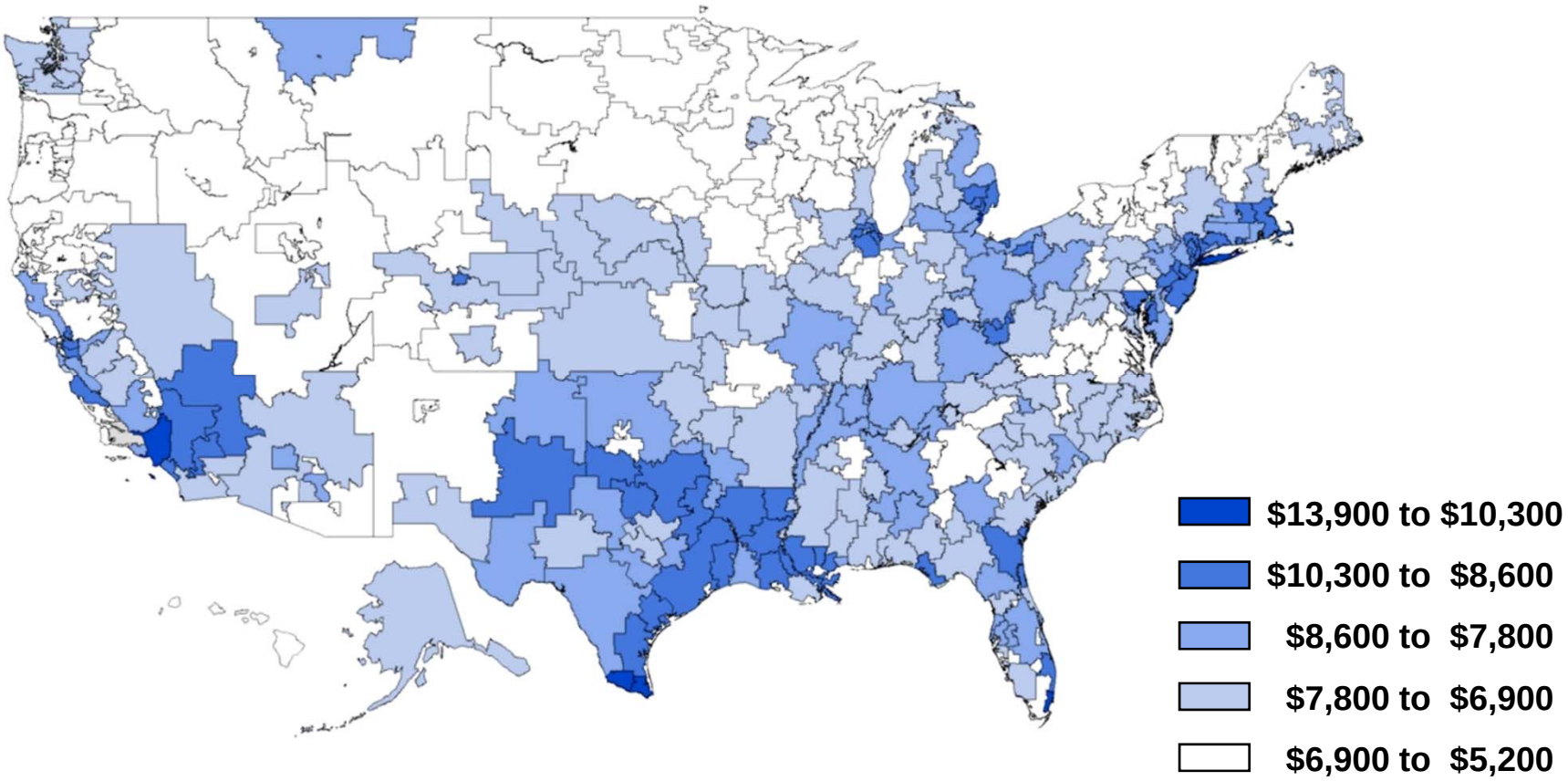
We Will No Longer Operate In An "Economic Vacuum"

Managing Cost and Utilization Will Be Mandatory

Source: OrthoIndex Analysis, 2012.

Policy Makers and Payers Have Declared War on Variation

Regional Variation in Medicare Spending per Beneficiary



Are Shared Savings Sustainable?

Lessons From Medicare's Demonstration Projects on Disease Management, Care Coordination, and Value-Based Payment

Disease management and care coordination demonstrations	Value-based demonstrations

On average these programs did not achieve enough savings to offset their costs

Source: Congressional Budget Office, January 18, 2012. OrthoIndex Analysis, 2012 .

Take Away

- The cost problem of health care is not going to disappear!
- Expect to see “market efficiency”
- Bad providers are at greatest risk
- Good providers may be rewarded
- We need to retool and be part of the solution
- New payment models have the potential to be financially rewarding (as well as financially penalizing)
- Not all markets will be affected equally
- Larger well capitalized enterprises have an early advantage

Taking On Risk and Managing Population Health

Our Market is Undergoing Transformational Change

Orthopedic Surgeons

Musculoskeletal Care Providers (managers)

Source: OrthoIndex Analysis, 2012.

Thank You

John Cherf MD, MPH, MBA
312.339.4925
jcherf@orthoindex.net
321 North Clark Street, Suite 1301
Chicago, Illinois 60654