Value-Based Payment – A Primer

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Triple Aim

Better patient care
Improved community health
Smarter spending

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Value = Quality + Experience

But we have a problem...
Value-Based Payment Continuum

High Payer Risk
- Fee-for-Service
- P4P/VBP
- Shared Savings
- Bundled Payment

High Provider Risk
- Total Cost of Care
- Global Budget
Our Roots: *Fee-for-Service*

- Payment for each unit of service
- Cost-based reimbursement and prospective payment are fee-for-service systems
- Widget production example
- Rewards industriousness and efficiency
- Volume is king, not care
Dominate Now: *Shared Savings Plans (ACOs)*

- Accountable Care Organizations (ACOs)
- Groups of providers (generally physicians and/or hospitals) that receive financial rewards to maintain or improve care quality for a group of patients while reducing the cost of care for those patients.

- ACOs on July 1, 2019
  - 995 public and commercial ACOs
  - 44 million covered lives
    - 60% commercial
    - 30% Medicare
    - 10% Medicaid

Source: “Spread of ACOs And Value-Based Payment Models In 2019: Gauging the Impact of Pathways to Success,” Health Affairs Blog, October 21, 2019.
Percent of ACO Lives by State – 2017

ACO Financing

ACO's Baseline Spending per Patient—Based on Previous Three Years, for All ACO Participants

$10,000

ACO's Year 1 Spending per Patient

$9,500

Savings

$500

Shared Savings (50%)

$250

Quality Score Adjusted Shared Savings

$200

All existing reimbursement stays the same.

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Getting There: Global Budget

- Single unchanging payment per fixed time period
- Per person (capitation)
- Health club example
- Rewards health maintenance and efficiency
Historic Trend versus Global Budget

![Graph showing revenue trend and global budget from 2016 to 2024. The trend line shows a decline, while the global budget remains constant.]

- **Revenue (millions)**

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Why Agree to a Global Budget

• Financial “breathing room”

• Appropriate if:
  • Downward trending patient revenue
  • Low service area patient volumes
  • Financially distressed hospital

• Likely *not* appropriate for hospitals with upward revenue trend
  • Requires candid pro forma regarding price trends and volume predictions
Hospital Risks

• Note: many rural hospitals are *already at financial risk*

• Risk of *increased* volume/costs

• Global budget locks in historic revenue, but the risks of:
  • Reducing costs remains difficult
  • Future budget adjustments unknown
  • May not increase revenue enough for hospital survival

• Still requires coded claims for risk-adjustment, co-pays, and quality assessment
Potential of Global Budget beyond Finances

• Exciting managerial challenge
• Innovation opportunity
• Getting paid for community and population health care

• **Mission focus**
  • A duty of nonprofit boards and leadership
  • Balanced with the duty to future financial viability
Collaborations to Spread Innovation

- Rural Health Value Project
  https://ruralhealthvalue.org

- Rural Policy Research Institute
  https://www.rupri.org

- The National Rural Health Resource Center
  https://www.ruralcenter.org/

- The Rural Health Information Hub
  https://www.ruralhealthinfo.org/

- The National Rural Health Association
  https://www.ruralhealthweb.org/

- The American Hospital Association
  https://www.aha.org/front