

# THE HEALTH INDUSTRY FORUM POLICY BRIEF

OCTOBER, 2009

## ACCELERATING HIGH VALUE HEALTHCARE DELIVERY

American healthcare is the most expensive in the world, yet its system still struggles with uneven quality, serious access gaps, and population health indicators that lag behind most of the developed world. Healthcare is becoming increasingly unaffordable for a growing segment of Americans, and if recent spending trends persist, the system could collapse under its own weight. Congressional proposals for national healthcare reform, if enacted, will make important progress by expanding health insurance coverage and improving financial security for those who are already covered. But the proposals will have a more limited impact on the rate of health spending growth, particularly in the private sector.

There is broad consensus that fee-for-service reimbursement is a major factor enabling the rapid growth in US health spending. Therefore, payment reforms are essential for sustainable healthcare reform. Yet many physicians and hospitals are unprepared to move away from fee-for-service, and many need changes in their structure, systems, and operational processes to ensure a successful transition to new payment models. Policymakers face a classic chicken and egg dilemma: wait for delivery reforms as costs spiral out of control, or implement payment reforms and manage potential dislocations.

Congress appears likely to follow a middle ground by enacting a series of voluntary Medicare initiatives that would allow delivery systems to experiment with different payment structures. Given this opportunity, it is important to examine organizations that, despite prevailing financial disincentives, have successfully implemented delivery system changes. If policymakers can identify and support organizational characteristics that produce efficient, effective care, it could accelerate the cycle of payment and delivery reforms. On October 14<sup>th</sup>, the Health Industry Forum brought together leaders from a diverse group of health systems to examine organizations that have successfully implemented delivery system change and to discuss strategies for accelerating such changes in other organizations. Key themes are summarized below.

### DESPITE PAYMENT SYSTEMS THAT PENALIZE EFFICIENCY, SOME HEALTHCARE ORGANIZATIONS HAVE SUCCESSFULLY IMPROVED QUALITY AND REDUCED COSTS.

This forum examined three systems that have successfully implemented delivery system changes:

- **Virginia Mason Medical Center (VMMC)** is an integrated, multi-specialty delivery system in Seattle with a hospital, clinics, and 450 employed physicians. Following financial difficulties in the late 1990s, VMMC's leadership established a new strategic goal to become the market's quality leaders by focusing on patients and embracing continuous improvement. In 2002 VMMC adopted the Toyota production system as a mechanism for achieving its objectives. VMMC also initiated a market collaborative that worked with large employers to design programs focused on high cost conditions.

Key principals of the collaborative included adopting the customers' definition of quality and establishing evidence-based processes or value streams using systems engineering tools. The collaborative has resulted in a series of clinics that offer same-day patient access, improved quality, accelerated return to work times, high patient satisfaction, and lower costs than prior care models.

- **Alegent Health** is a community hospital system based in Omaha with ten hospitals and 1,300 affiliated physicians including about 200 that are system employees. Although not facing immediate financial pressure, Alegent has aggressively implemented a clinical quality improvement agenda that includes process redesign and implementation of evidence-based protocols at the point of care. Alegent has invested heavily in decision acceleration, a facilitated process for rapid cycle decision making that engages clinical teams in rapid process improvement. In 2007, Alegent was the nation's highest ranked health system based on published CMS quality and patient satisfaction measures.
- **Ascension Health** is a large, diverse Catholic health system with 67 hospitals in 20 states that has become well known for its pioneering work in reducing preventable hospital deaths. Since 2006, the system has lowered its risk-adjusted mortality rate by 30 percent, a reduction of nearly 5,000 deaths compared with the 2006 level. Over the same period, it reported significant reductions in birth trauma, pressure ulcers, and central blood line infections, bringing it well below national rates in all of these areas.

These three organizations are paid primarily fee-for-service, and none are fully integrated, yet they have achieved notable performance improvements in specific clinical domains. None of these organizations would be able to optimize efficiency and value across their entire continuum of services under the current payment model without decimating their bottom lines. Nevertheless, the fact they have successfully implemented significant delivery system changes provides cause for optimism that they could adapt to new payment models and become accountable for managing both the cost and the quality of services for defined patient populations.

## **SUCCESSFUL DELIVERY SYSTEM CHANGE REQUIRES EFFECTIVE LEADERSHIP AND A SHARED VISION ACROSS ALL LEVELS OF AN ORGANIZATION.**

Highly regarded delivery systems are known for having effective leadership and strong organizational cultures that have developed over decades. Most healthcare organizations will need to adapt their current cultures to succeed under new incentive structures, something that will challenge many of them. A strong, shared vision can help organizations embrace and implement change. For example, VMMC began its turnaround strategy in 2000 by initiating a physician compact that would embody organizational goals. The compact was developed by a group of mostly front-line physicians over a 12-month period. VMMC's managers created their own compact. Taken together these compacts indicated that physicians, staff, and organizational leaders agreed upon a shared vision of becoming quality leaders and embracing change; principals that were integrated into VMMC's compensation system. VMMC established a process to ensure that staff at all levels of the organization understood the rationale and desired outcomes of proposed changes. Similarly, Ascension Health devised a campaign to promote a culture of safety across its 67 hospitals by continuously reinforcing its strategic goals: healthcare that works, healthcare that is safe, healthcare that leaves no one behind. These goals are ubiquitous across the system from its website to its performance review process, and Ascension developed a process to continually reinforce its shared vision.

## **TRANSFORMATIONAL CHANGE IN HEALTHCARE REQUIRES PHYSICIAN ENGAGEMENT.**

Physicians are directly responsible for ordering services that account for 60 – 80 percent of total health spending, therefore, delivery reform cannot succeed without engaging physicians. Engagement reflects confidence, trust, and pride in an organization; highly engaged physicians and staff are passionate about their organizations' mission and values, and work hard to support organizational priorities. However, outside of organized groups, most physicians place a premium on professional autonomy and have historically resisted changes that they perceive as limiting their independence or earning potential. Elliott Fisher and colleagues at Dartmouth Medical School have proposed organizing Accountable Care Organizations (ACOs) around hospitals and their extended medical staffs. But, most hospitals rely on independent physicians for the majority of their patient revenue and may be reluctant to disturb these relationships.

Alegent Health is a community hospital system that has spent considerable energy working on physician, staff, and customer engagement. Approximately 15 percent of Alegent's affiliated physicians are employed, but those physicians account for half of the system's patient volume. Alegent's leaders recognize that physician and employee engagement are critical to making changes they believe are necessary for success in a future with limited health spending growth and increased accountability for quality. Alegent contracted with the Gallup organization to survey physicians, employees and patients. Gallup found that 35 percent of Alegent's physicians were actively engaged or engaged, 23 percent were disengaged, and 38 percent were actively disengaged. Overall, physician engagement at Alegent is roughly comparable to national averages reported by Gallup, but Alegent's employed physicians rank at the 75<sup>th</sup> percentile of engagement nationally while independent physicians rank at the 8<sup>th</sup> percentile. Alegent adopted a variety of innovative models to work with staff at all levels to accelerate organizational changes. However, on October 16, 2009, Alegent CEO Wayne Sensor resigned following votes of no confidence from the medical staff at two of the system's largest hospitals. Although full details are not available, press reports note concerns over Alegent's intent to continue moving towards a predominantly employed physician model. Actively disengaged physicians often resist change, and their control over referrals provide them with significant power. Therefore efforts at transformational delivery system change must include strengthening relationships with this group.

## **SINCE LEADERSHIP IS HIGHLY VARIABLE, POLICYMAKERS NEED TO STRUCTURE STRONG INCENTIVES FOR HIGH VALUE HEALTHCARE AND REDUCE BARRIERS TO INTEGRATION.**

Delivery reforms must be implemented at the local level. But pushing rapid change in the current environment can be treacherous as the preceding example illustrates. Therefore policy makers must craft incentives for delivery reform while recognizing that there are wide differences in organizational readiness for change. One form of incentives that is applicable to all healthcare providers, regardless of their organizational affiliation, comes from greater performance transparency; publishing comparative data on total risk adjusted spending per patient per year for hospitals and physicians, including performance on specific episodes of care. More should be done with Medicare data, and many states are now developing statewide all-payer claims databases to support improved performance measurement. A second level of incentives could come from payment reforms. These could begin with voluntary payment pilots that reward rather than punish systems for doing the right thing. Finally, many analysts support stronger patient incentives to select high value delivery systems, such as tiered provider networks with variable co-payments. Using this approach in Medicare will be very controversial. However, CMS is testing it in a very limited way in the acute care episode (ACE) demonstration by waiving Part B premiums for enrollees that select designated hospitals for certain services.

Policymakers also need to address current legal and regulatory barriers to delivery system reform. Providers that aspire to becoming accountable care organizations face a complex array of federal and state laws that

inhibit integration, including federal antitrust and anti kickback laws, tax rules, prohibitions on physician gain sharing, and state scope of practice laws. Although these laws incorporate important principals, such as maintaining competition and protecting patients, refinement and rationalization to ease delivery system experimentation would be beneficial. Washington and Lee School of Law Professor Timothy Jost has proposed a federal Commission for Innovation in Delivery Systems that would include representatives from appropriate agencies that would offer “one stop review” for authorizing innovative delivery and financing arrangements.

**MEDICARE INCENTIVES ARE ESSENTIAL FOR DRIVING DELIVERY REFORMS.  
VOLUNTARY PAYMENT PILOTS WILL MOVE DELIVERY SYSTEMS IN THE RIGHT  
DIRECTION IF THEY ARE IMPLEMENTED EFFECTIVELY.**

As the nation’s largest payer, Medicare can either accelerate or hinder delivery system reform. Recognizing wide differences in local healthcare system readiness, Congressional leaders have backed away from broad based Medicare payment reforms. Instead, current bills include voluntary bundled payment and Accountable Care Organization (ACO) pilot projects. The bills would establish a new Center for Medicare and Medicaid Innovation (CMI) within CMS that is authorized to initiate new payment and delivery reform pilot projects in collaboration with delivery systems and private insurers. Unlike current demonstrations, the Innovation Center would not be constrained by budget neutrality restrictions and would have a \$10 billion appropriation to cover services like care coordination that aren’t reimbursed under traditional Medicare. CMS demonstrations are much maligned for being small, slow, and bureaucratic. A key policy issue is how to structure the Innovation Center so that it can implement and evaluate pilots quickly, partner effectively with private sector organizations, and move rapidly to expand innovations that work into the broader Medicare program.

Given current fiscal pressures on governments and employers, both individual healthcare providers and health systems will face eroding fee-for-service payments levels. As this happens, the most significant opportunities to maintain or improve margins are likely to come from performance-based payment models including bundled and global payments. New Medicare pilot projects offer an opportunity for private payers and state governments to align incentives based on value rather than volume. For delivery systems that can effectively engage physicians, coordinate care, and implement evidence-based care processes, this creates a significant opportunity to improve margins while simultaneously improving the quality and value of patient services.

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This policy brief was prepared by Robert Mechanic of Brandeis University.

**The Health Industry Forum** is based at Brandeis University. It is chaired by Professor Stuart Altman, and directed by Robert Mechanic. The Forum brings together public policy experts and senior executives from leading healthcare organizations to address challenging health policy issues. The Forum conducts independent, objective policy analysis, and provides neutral venues where stakeholders work together to develop practical, actionable strategies to improve the quality and value of the US healthcare system.  
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