The Value of Providing Good Value

HFMA Lone Star Chapter Dinner Meeting
November 12, 2014

The Current State
$2.6 Trillion! → $4.5 Trillion in 2020!

National Health Spending (Billions of USD)

5X GDP Growth!

Health spending has maintained a steep climb
Percentage growth since 1960

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Expenditure Data, 2012 release

The most expensive in the world...

2012 Cost Per Hospital Day

Source: “21 graphs that show America’s health-care prices are ludicrous” - Ezra Klein, Washington Post
No one can afford us anymore…

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012

Are we getting our money’s worth?

Source: Commonwealth Fund “Mirror, Mirror On the Wall - How the Performance of the U.S. Health Care System Compares Internationally” (2014 Update)
Ranking Details:

- Out of Pocket Expenses: Last
- Duplication of Tests: Last
- Time spent on paperwork: Last
- Insurance denials: Last
- Did not get needed care because of cost: Last
- Wait time in the ER: Last
- Level of care rated fair or poor: Last
- Infant mortality: Last
- Life Expectancy: 2nd to Last

Are we delivering value?
What is ‘Value’ anyway?

“Value”

“A fair return or equivalent in goods, services, or money for something exchanged”

– Merriam Webster
“Value” in Health Care

- According to HFMA:

  \[
  \text{Value} = \frac{\text{Quality}^{*}}{\text{Payment}^{†}}
  \]

  * A composite of patient outcomes, safety, and experiences
  † The cost to all purchasers of purchasing care

- Problems:
  - Quality: No clear, consensus definition
  - Payment: the full amount paid for health care is not apparent
  - Providers typically are not compensated for producing value

Source: HFMA “Value in Health Care: Current State and Future Directions

“Value” – According to Lean

Value is defined by the Customer

- It must transform the product or service.
- The customer must be willing to “pay” for it.
- It must be done correctly the first time.

If what you are doing doesn’t meet all 3 of these criteria then it is either:

1) Non-value added
2) Waste
Seven Types of “Waste”

- Transportation
- Waiting
- Overproduction
- Defects
- Inventory
- Movement
- Extra Processing

How far do you drive to your PCP’s office?
How long do you wait once you get there?
Do we ever get more ‘service’ than we need?

Overproduction?

Supply-sensitive care 63%
Effective care 12%
Preference-sensitive care 25%

Source: The Dartmouth Institute for Health Policy and Clinical Practice Health Dialog internal data
Effective vs. Supply-Sensitive Care

Effective Care (Hip Fracture) vs. Supply-Sensitive Care (All Medical Conditions)

Seven Types of “Waste”

- Transportation
  - How far do you drive to your PCP’s office?
- Waiting
  - How long do you wait once you get there?
  - Do we ever get more ‘service’ than we need?
- Overproduction
  - Do patients ever get harmed in the process? Need readmission?
- Defects
  - How many extra beds are in our market?
- Inventory
  - How far do you need to be transported for imaging?
- Movement
  - How many tests are duplicated?
- Extra Processing

Source: The Dartmouth Institute for Health Policy and Clinical Practice Health Dialog internal data
Where is the Waste?

Source: JAMA, Berwick & Hackbarth "Eliminating Waste in US Health Care"

Are we delivering value?
How did we get here?

At the prices consumers actually pay OOP, they demand a LOT of healthcare.
At the FFS rates that providers are reimbursed, they are incentivized to supply a LOT of healthcare.

Who pays for this?
(Employers, Government)

We Do
Another Factor: Baumol's Cost Disease

- Unit cost of care increases >> US GDP because:
  - Reliance on 'expert' labor
  - Low rate of innovation-driven productivity

Source: Baumol WJ, The Cost Disease, Yale Univ. Press 2012

But wait... There's more...
Baby Boomers are Retiring

11,000 People per day are joining the ranks of Medicare

And We are Not Healthy People…

- 5% of the US population accounts for **HALF** of the nation’s Healthcare spending
- 60% of this group are >55 and 91% have at least one chronic condition.

Source: “The Concentration of Health Care Spending” NIHCM Foundation Data Brief, July 2012
Why don’t we just let the free market fix this mess?

Can it?

THE AMERICAN ECONOMIC REVIEW
VOLUME 51 DECEMBER 1961 NUMBER 3

UNCERTAINTY AND THE WELFARE
ECONOMICS OF MEDICAL CARE
By Kenneth J. Arrow

I. Introduction: Scope and Method
This paper is an exploratory and tentative study of the specific differences of medical care as the object of normative economics. It is intended here, on the basis of comparison of obvious characteristics of the medical-care industry with the norms of welfare economics, that the special economic problems of medical care can be explained as adaptations to the existence of uncertainty in the incidence of disease and in the efficacy of treatment.

It should be noted that the subject is the medical-care industry, not health. The usual concern is health care, and the provision of medical care is only one. Peculiarities at low levels of income, other commodities such as food, clothing, and utilities may be much more significant. It is the complex of services that center about the physician, private and group practice, hospitals, and public health, which I propose to discuss.

The focus of discussion will be on the way the operation of the medical-care industry and the efficacy with which it satisfies the needs of society differ from a norm, if at all. The “norm” that the economist usually uses for the purposes of such comparisons is the operation of a competitive market, that is, the flows of services that would be

Ken Arrow
Five Principal Distortions

- **Unpredictability.**
  - The need for healthcare is unpredictable, costs are substantial and cannot be budgeted.
  - Unlike buying a car or a flat-panel TV, you can’t just live without it if you can’t afford it.

- **Barriers to entry.**
  - Can’t just set up shop – Extensive training and licensing is required (even if it isn’t necessary).
  - Supply is artificially constrained by the system resulting in higher prices

- **The importance of trust.**
  - You can’t “test-drive” surgery before buying it

- **Asymmetrical information.**
  - Doctors know far more about medicine than their patients – patients are vulnerable to exploitation
  - Third-party payers are too far removed from the process to effectively advocate/intervene

- **Idiosyncrasies of payment.**
  - If you are in an Ambulance, you don’t have the opportunity to shop around for value and price.
  - Patients don’t see the bill until after the non-refundable service has been consumed.

Significant debate: Is Healthcare Unique?
Regardless – There are Significant Challenges to Overcome

Question: How to you price insurance for this?

Cumulative Distribution of Personal Healthcare Spending – 2009

- Patient with 3+ Chronic Conditions can spend $75K/Month
- What do you charge them for Insurance?

Source: “The Concentration of Health Care Spending” NIHCM Foundation Data Brief, July 2012
Fundamental Question

• Is a trip to the Cath-Lab more like a trip to Best Buy to buy a Flat Panel TV or… more like the fire department coming to your house to put out a fire?

• Is Healthcare a Right or a Privilege?
  – Claim: Passage of EMTALA made it a Right….

![Graph showing supply and demand for cancer treatment](image)

So… What do we do?
Keep Cost Shifting?

Don’t think so.... Employers are done with this game

Percent of Patients
“If something cannot go on forever, it will stop”

- Herbert Stein

“The Jig is Up”

“The jig is up… There is no unending supply of money and we’re up against the wall. The [healthcare organizations] who succeed in the future will be those who deliver a better quality outcome for a lower cost. That’s an undeniable truth.”

-Brian Klepper

CEO, National Business Coalition on Health
But How?

• Government Actions:
  – VBP / Readmissions Penalties / Meaningful Use….
  – Public Exchanges

• Employer Actions:
  – High Deductible Health Plans
  – Private Exchanges

• Market Actions:
  – Price Transparency
  – Disruptive Business Models

Substitutes and Disruptive Technology
Disruptive Innovation*

Incumbents nearly always lose

Why?

Some examples of disruptive innovation include:

<table>
<thead>
<tr>
<th>Disruptor</th>
<th>Disruptee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal computers</td>
<td>Mainframe and mini computers</td>
</tr>
<tr>
<td>Mini mills</td>
<td>Integrated steel mills</td>
</tr>
<tr>
<td>Cellular phones</td>
<td>Fixed line telephony</td>
</tr>
<tr>
<td>Community colleges</td>
<td>Four-year colleges</td>
</tr>
<tr>
<td>Discount retailers</td>
<td>Full-service department stores</td>
</tr>
<tr>
<td>Retail medical clinics</td>
<td>Traditional doctor’s offices</td>
</tr>
</tbody>
</table>

*From www.claytonchristensen.com

How Did the Incumbents React to This?

![Steve Jobs holding an iPad](Image1.jpg)

![iPad on a table](Image2.jpg)
This is not a REAL computer....

<table>
<thead>
<tr>
<th></th>
<th>Stone (40,000 B.C.)</th>
<th>iPad (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camera</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Multitasking</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Changeable Battery</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Standard Ports (USB, SD Card, etc)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Touchscreen</td>
<td>x</td>
<td>✔</td>
</tr>
</tbody>
</table>

Is this Real Healthcare?

Walgreens
AT THE CORNER OF HAPPY & HEALTHY

![Image of Walgreens Take Care Clinic]
This Really Can Happen Here…

1996
Market Cap: $28B
Employees: 140,000

2012
Bankrupt
Employees: 17,000

Our Mission:

Baylor Scott & White Health exists to serve all people by providing personalized health and wellness through exemplary care, education and research as a Christian ministry of healing.
If we can’t deliver personalized health and wellness to all people, then someone else will…

...One segment at a time

‘All People’ Includes:

- **Different Risk Status**
  - Chronic 5%
  - Rising Risk 15%
  - Young and Healthy → “Invincibles”

- **Different Diseases or Medical Conditions**
  - People with Cancer
  - People who need Emergency Care
  - People with End Stage Renal Disease
  - Pregnant Women

- **Different Demographic Groups**
  - Children
  - Frail elderly people who need Nursing or Home Care
  - Wealthy people who are willing to pay for Concierge Services
  - Domestic or International Medical Tourists

- **Different Payers**
  - The Uninsured
  - People on Medicare
  - Large local Employers looking to reduce their medical expenses.
  - Commercially Insured Surgery Patients willing to go out of network for Cost and Service

What is our ‘Value Proposition’ for these People?
These guys have a value proposition:
And these guys...

And these guys...

---

Forest Park Medical Center is a different kind of hospital. Designed for warmth. Designed for comfort. Forest Park Medical Center is that rare hospital that puts patients first. Come see for yourself what medical care should look like.

---

Wal-Mart plans to offer primary care in 5-7 years

Wal-Mart Stores Inc. plans to offer "primary care services" in five to seven years, a company vice president said Jan. 11 at a health conference in Orlando.

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Walmart Clinics, Health Insurance Sales Plans Show Retailer’s Rising Interest In Health Care Business

The world’s largest retailer wants a bigger piece of America’s growing health care market.

Walmart, which already makes a lot of money from health care through its pharmacies and retail stores, is eyeing a line of businesses that would sell health plans directly to consumers, and the company also wants to add to its roster of in-store health care clinics, the Orlando Business Journal reported in two stories Friday.
And these guys...

Hello New York, We're Oscar.
A new kind of health insurance company that's using technology to make insurance simple, intuitive, and human. In other words, the kind of healthcare we want for ourselves.

YOUR PERK
Stay healthy with our free perks

1. Free Generic Drugs
2. Free Doctor Visits
3. Smart Technology

Get your quote in just seconds

I am single with no kids. I make $50,000 per year. My ZIP code is 10012.

And these guys...

And these guys...

MedBid
Where Needs Meet Solutions

PATIENTS
What is the competitive price on medical care? Start an online auction to get affordable medical care.

DOCTORS
Trusted relationships in the doctor-patient relationship? Register to list with new patients today.

MEDICAL FACILITIES
Medical facilities give you access to new patients. Register and list your facility for an increase in patients.

EMPLOYERS & TPAS
Competitive pricing for the employers and the facilities. Medical facilities get an increase in patients and your medical marketing.

Matt Lauer and The Today Show explain how the Medibid service works!

Health to the Highest Bidder
And these guys…

Do they serve ALL people
What is **OUR** value proposition?

The Triple Aim

*Our Value Proposition?*

- **The Three Aims**
  - Lower per capita costs
  - Improve the “Experience” of care
  - Improve the “Health” of populations

*Health Affairs, 2008*
Population Health

Episodic Sick Care
Paid for seeing patients, doing procedures and filling hospital beds.
Fixed assets generate Revenue

Defined Population
Prevention and Wellness
Paid for discretionary (evidence-based) use of procedures and keeping people out of beds.
Fixed assets are cost centers

Volume → Value

Easier Said Than Done

Level of agreement on need to make changes to address financial challenges*

<table>
<thead>
<tr>
<th>Role</th>
<th>Not in agreement</th>
<th>Somewhat in agreement</th>
<th>Very much in agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your CFO</td>
<td>5%</td>
<td>19%</td>
<td>77%</td>
</tr>
<tr>
<td>Your CEO</td>
<td>4%</td>
<td>22%</td>
<td>74%</td>
</tr>
<tr>
<td>Your board</td>
<td>4%</td>
<td>33%</td>
<td>64%</td>
</tr>
<tr>
<td>Other senior management</td>
<td>3%</td>
<td>36%</td>
<td>60%</td>
</tr>
<tr>
<td>*Physicians on your staff</td>
<td>27%</td>
<td>62%</td>
<td>21%</td>
</tr>
<tr>
<td>Specialists who do a lot of procedures in hospital</td>
<td>26%</td>
<td>57%</td>
<td>17%</td>
</tr>
<tr>
<td>Nurses</td>
<td>27%</td>
<td>57%</td>
<td>15%</td>
</tr>
<tr>
<td>Other medical staff</td>
<td>18%</td>
<td>68%</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Large Hospitals are more likely to report that staff physicians are Very Much in agreement about changes

SOURCE: Strategic Health Perspectives 2012 Hospital Exec Surveys

A “Leadership Opportunity”
Is That All?

Who Do We Serve? How?

Question 1: Who is your primary customer?

We need to start thinking like Retailers
Market Forces: Wholesale → Retail

High Deductible Health Plans

Will be >> 50% by 2019

Source: Kaufman Hall (2014 Healthcare Leadership Conference)
Private Exchanges

30-41% of Large Employers by 2019

Majority ‘Buy Down’ into HDHP Products

Source: Kaufman Hall (2014 Healthcare Leadership Conference)

Reference Pricing

Percentage of Patients Choosing Low-Priced and High-Priced Hospitals Before and After the Implementation of Reference Pricing

Source: Kaufman Hall (2014 Healthcare Leadership Conference)
Direct ACO Contracting

New Retail Customers:

• Employers
  – Direct Contracting

• Consumers
  – Point of Coverage
  – Point of Sale
Employer Value Proposition

More than just Cost

Source: Kaufman Hall (2014 Healthcare Leadership Conference)

Consumer Value Proposition

• The right product
  – Tailored for a specific population segment

• The right customer experience
  – Differentiated experience → Satisfaction

• The right location
  – Convenient access including web/mobile

• The right price
  – Competitive pricing

Requires Deep Understanding of each Targeted Patient Segment
What is our Value Proposition for Mrs. Gomez?

Mrs. Gomez, a 49-year-old teacher, has hypertension and diabetes. While she has taken classes to learn how to reduce her risks and control these conditions, she still finds that both are occasionally out of control and then makes an appointment with her physician, whose office sends her reminders for immunizations, regular checkups, and monitoring for possible complications.

Patient Centered Medical Home?
Social Networking or Support Group for Hypertension?
E-Visits with her PCP to monitor her Diabetes?
Retail Clinic Visits for Immunizations?

What is our Value Proposition for Bill Turner?

Bill Turner, a 25-year-old computer programmer has several good commercial insurance options through his employer. Since he rarely goes to the doctor, he has signed up for a high deductible plan this year that minimizes his payroll deduction. He doesn’t have a regular PCP and hasn’t been to the doctor since he went to the urgent care clinic near his house 3 years ago after he turned his ankle playing basketball.

Primary Care Physician?
Virtual Visit Link on his Smart Phone?
In Network Retail Clinic for minor Episodes?
Health Club Membership?
Population Health Management

And…

Service-Level Consumerism

Are We Ready for This?
Others Will Be….

What is The Value of Providing Good Value?

*From www.claytonchristensen.com
What is The Cost if we Don’t?