

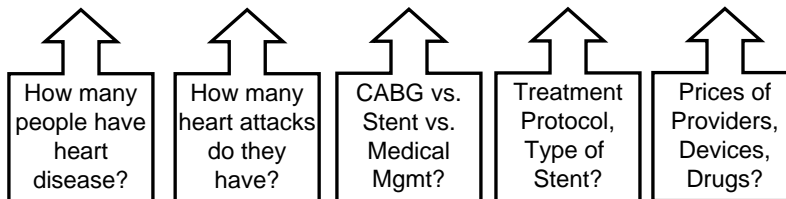
## FROM VOLUME TO VALUE: Better Ways of Paying for Health Care

**Harold D. Miller**  
President and CEO,  
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and  
Executive Director,  
Center for Healthcare Quality and Payment Reform

## The Health Care Cost Equation

### VARIABLES CONTRIBUTING TO THE COST OF CARE

$$\frac{\text{Cost}}{\text{Person}} = \frac{\# \text{ Conditions}}{\text{Person}} \times \frac{\# \text{ Episodes of Care}}{\text{Condition}} \times \frac{\#/\text{Type Services}}{\text{Episode of Care}} \times \frac{\# \text{ Processes}}{\text{Service}} \times \frac{\text{Cost}}{\text{Process}}$$

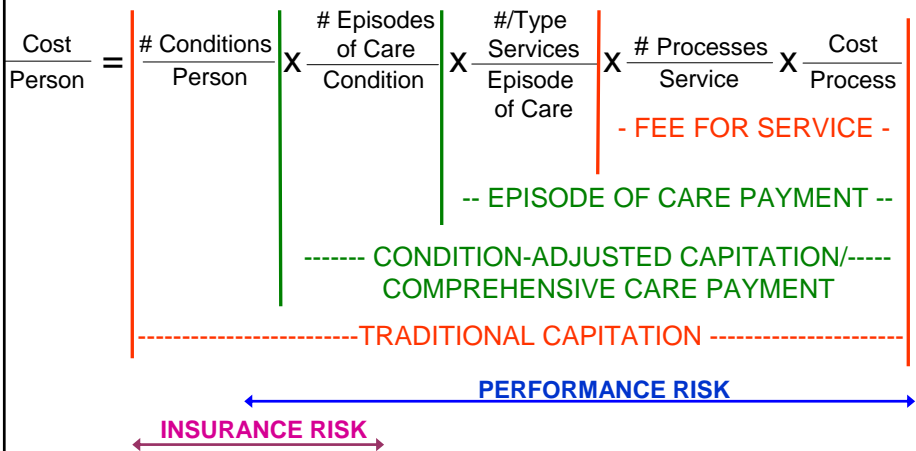


Cost of Treating Heart Disease



# Different Payment Systems Control Different Cost Drivers

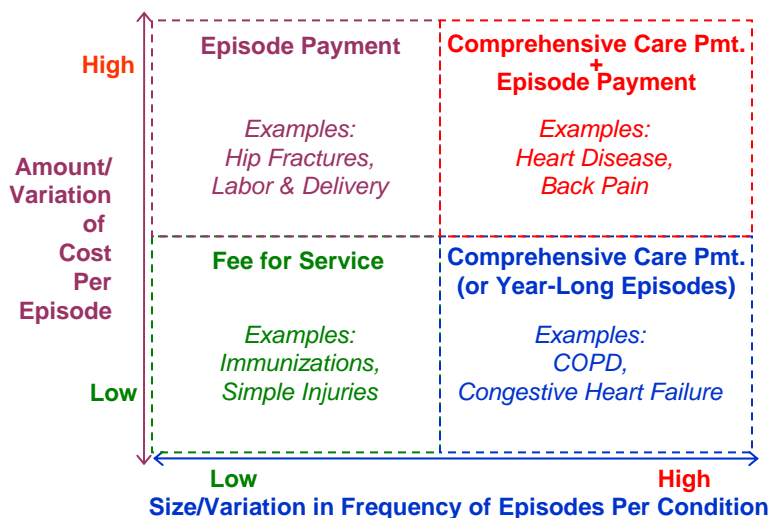
## VARIABLES FOR WHICH THE PROVIDER IS AT RISK UNDER ALTERNATIVE PAYMENT SYSTEMS



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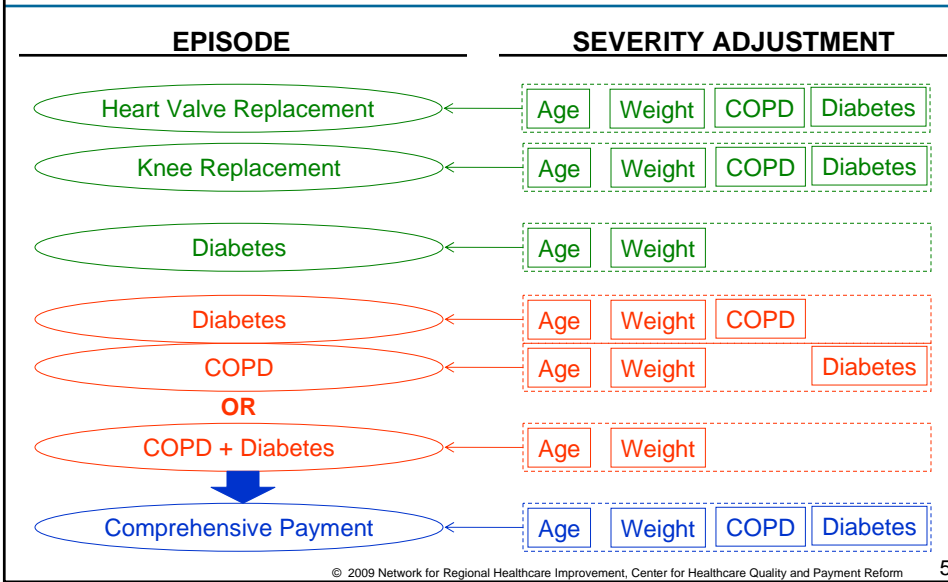


# Different Payment Systems Solve Different Cost/Quality Problems

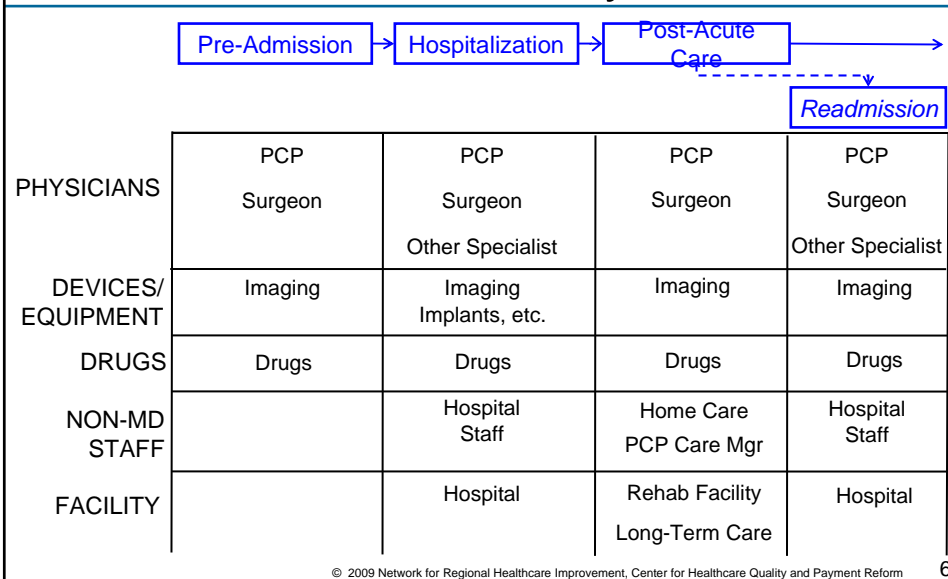


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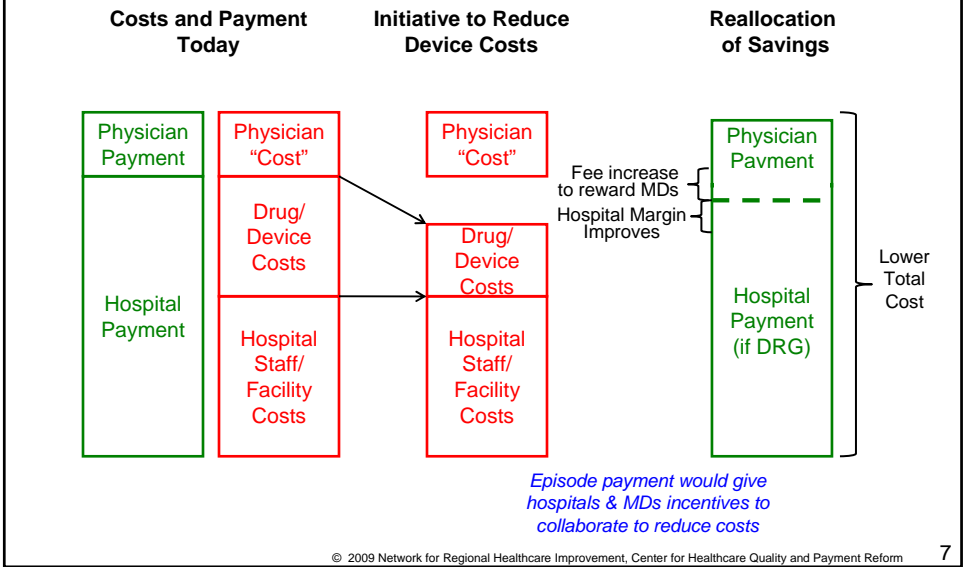
**nrhi** Episode Payments vs. Capitation  
in Chronic Disease



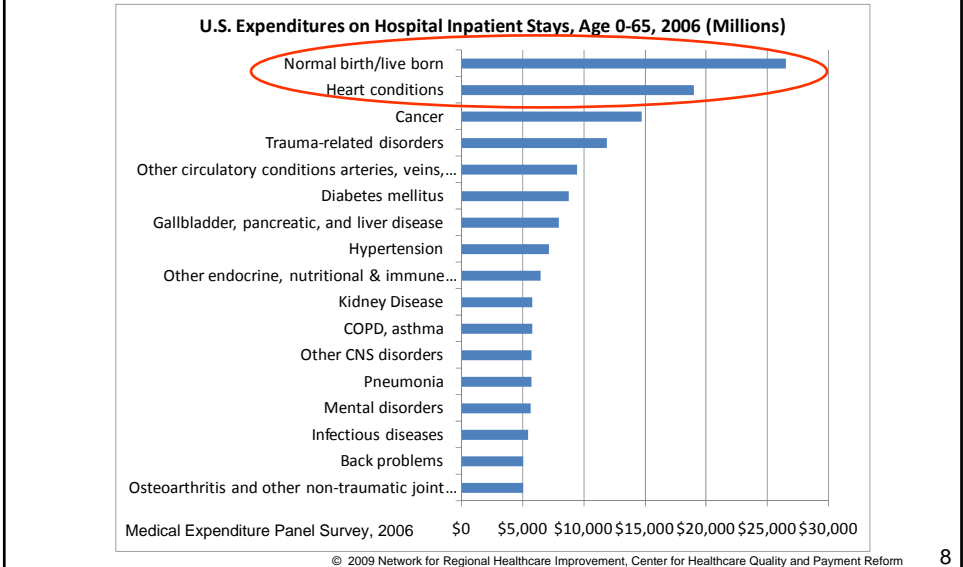
**nrhi** Defining an Episode or  
Bundled Payment



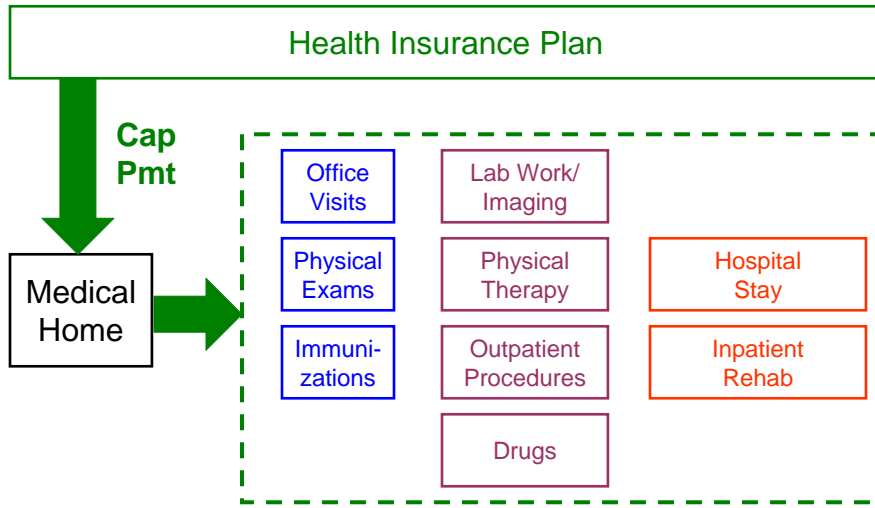
# How Bundled Payment Can Reward MDs and Hospitals



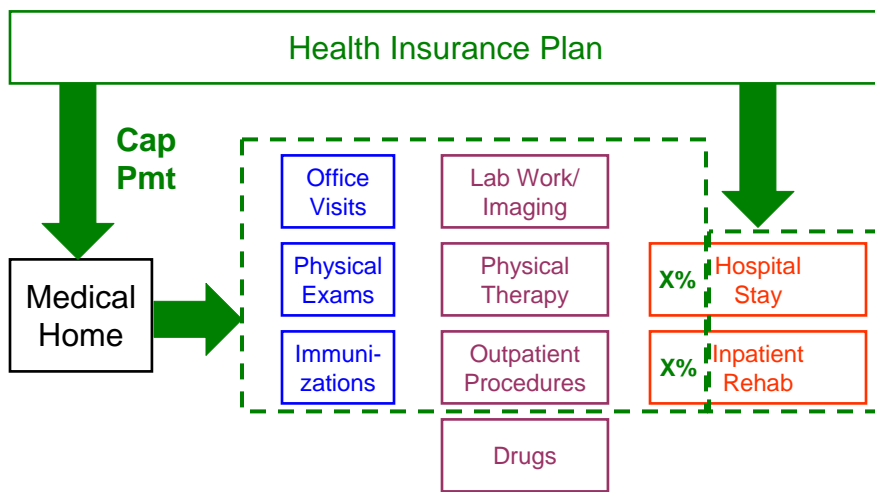
# Focus Hospital Episode Payment Where the Money Is



# “Full” Capitation Puts Medical Home at Risk for All Costs

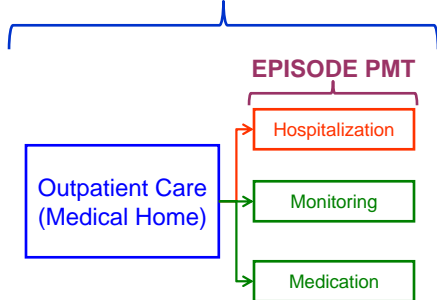


# “Partial” Capitation Limits Financial Risk of Medical Home



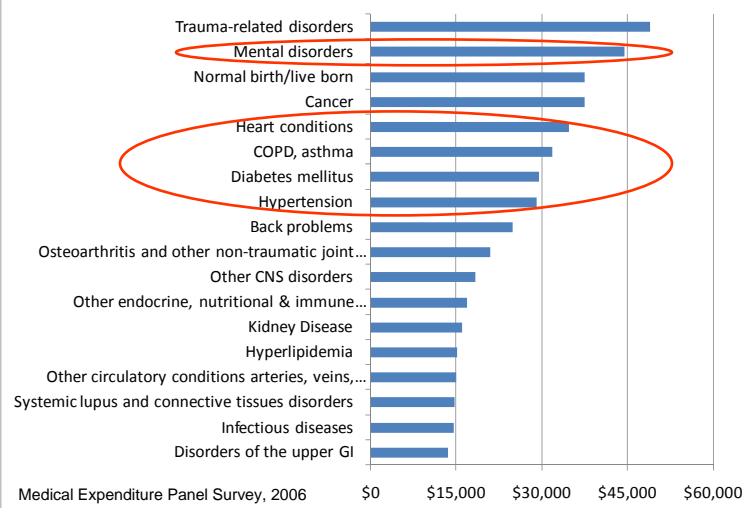
# Can Capitation Co-Exist With Episode Payment?

## CONDITION-ADJUSTED CAPITATION



# Focus Medical Homes/Capitation Where The Money Is

Total Medical Expenditures in U.S., Age 0-65, 2006 (Millions)



## Too Many Payment Reforms Are Proceeding in Silos

### SILO #1



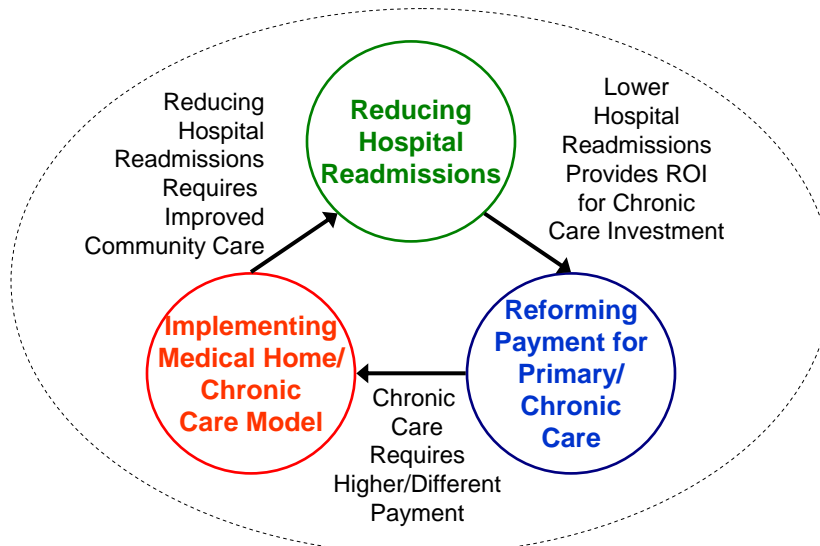
Pay More to Physicians  
For Being Certified  
As a "Medical Home"  
And Hope That Outcomes  
Improve

### SILO #2



Penalize Hospitals for  
Readmissions and  
Hope  
They Can Figure Out  
How to Reduce Them

## Marrying the Medical Home and Hospital Readmissions



## How Do You Set the Payment Level?

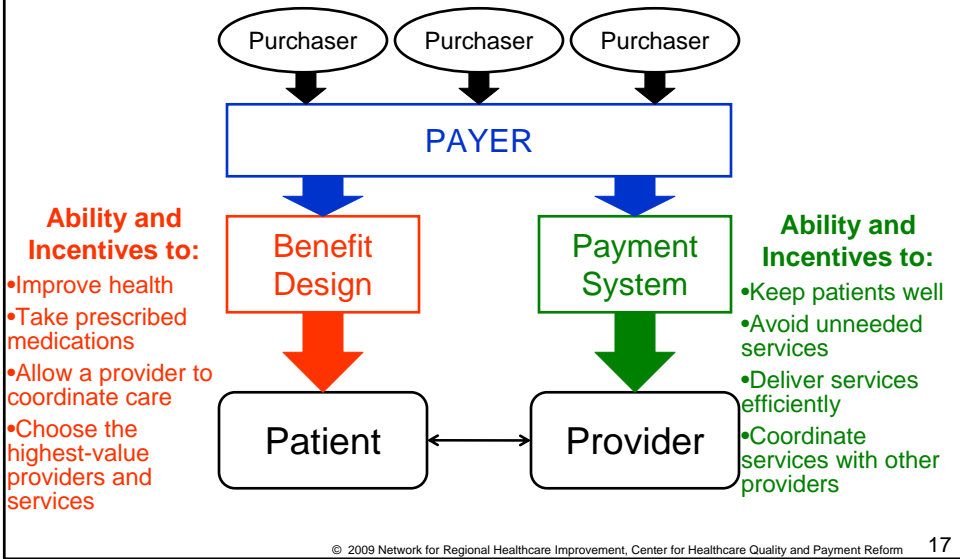
### METHODS OF SETTING PRICES

<b>Regulation</b>	Medicare/Congress establish DRG rates and RBRVS fee levels by fiat
<b>Negotiation</b>	Health plans negotiate contract amounts with providers
<b>Competition</b>	Consumers get information and incentives to choose lower-cost, higher quality providers

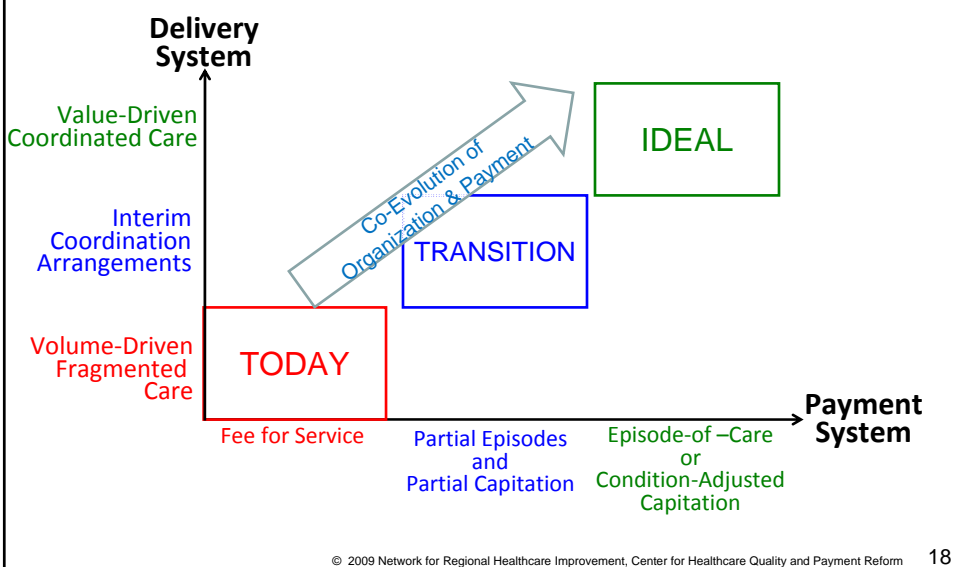
## Need Alignment of All Payers to Enable Providers to Change

- **Examples of Payer Collaboration:**
  - Minnesota: All payers have agreed to pay for care managers in primary care practices and consult fees to psychiatrists to help manage patients with depression
  - Pennsylvania: All payers have agreed to pay for medical home/chronic care services in primary care practices
  - Rhode Island: All-payer medical home demonstration
- **Facilitator of Collaboration Needed**
  - Minnesota: Institute for Clinical Systems Improvement
  - PA & RI: State Government
- **Medicare Needs to Participate in Local Projects**

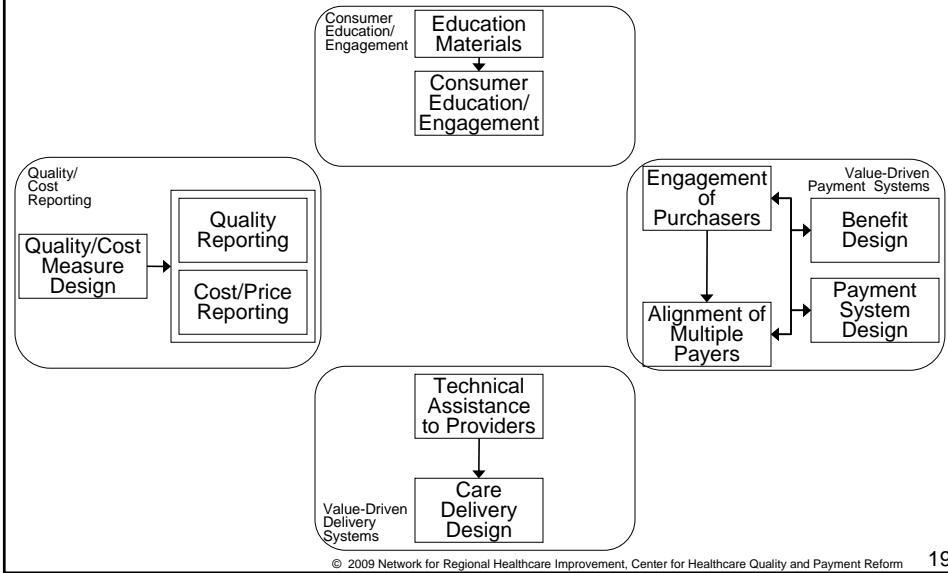
# Benefit Design Is As Important As Payment Reform



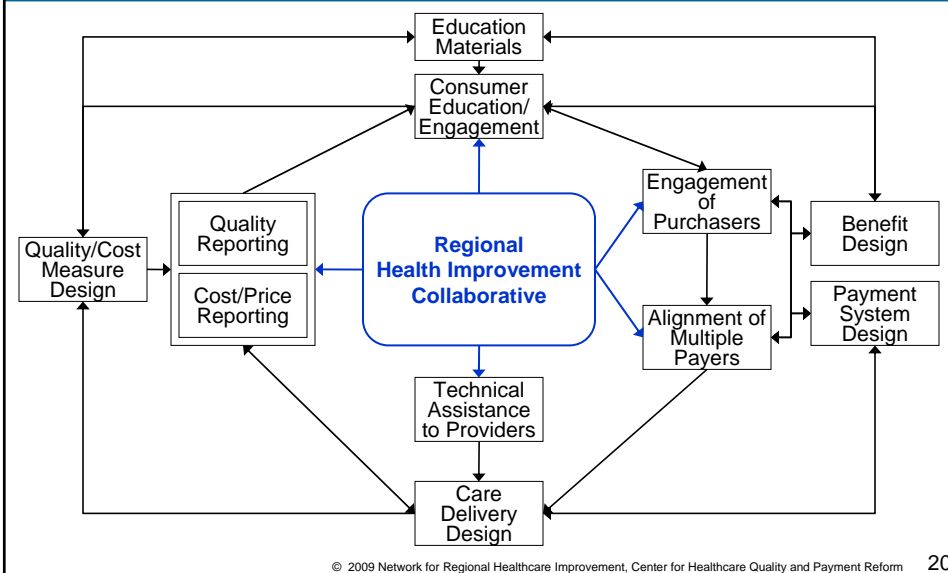
# Transitional Systems Needed to Allow Co-Evolution



**nrhi** **CHQPR** **Functions Needed for Healthcare Payment & Delivery Reform**



**nrhi** **CHQPR** **Coordinated Support for All Functions at the Regional Level**





## For More Information:

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[www.CHQPR.org](http://www.CHQPR.org)  
[www.PaymentReform.com](http://www.PaymentReform.com)