

Improving Value for Medical Devices

HASC / April 17, 2009

OVERVIEW



- **The National Context**
- **Orange County Value Purchasing Initiative**
 - **Data: implantable cardiac defibrillator**
 - **Data: total knee replacement**
- **Statewide Value Purchasing Project**
 - **Benchmarks and best performance**
 - **Episode of care payment method**

Promoting Value in Health Care

- Sophisticated purchasers reward innovative producers
- The biomedical industries have long enjoyed unsophisticated purchasers (hospitals and insurers) and cost-unconscious demand (patients and physicians)
- This has permitted extensive innovation but also consistently high prices, inefficiency, and unjustified variation in use
- Remember: $\text{value} = \text{quality} / \text{cost}$
- There is an important role for physician organizations, hospitals, and health plans in evaluating performance, aligning incentives, and supporting coordination among participants in the delivery of care

Challenges to Surgeons

- Downward pressure on surgical fees
 - Medicare RBRVS and SGR, commercial insurers
- Rising chorus of adverse publicity
 - Device consulting: conflicts of interest
 - Specialty hospitals and ASC: cream skimming
- Concerns over quality and appropriateness
 - Unexplained geographic variation in procedure rates
 - Hospital readmissions and 'never events'

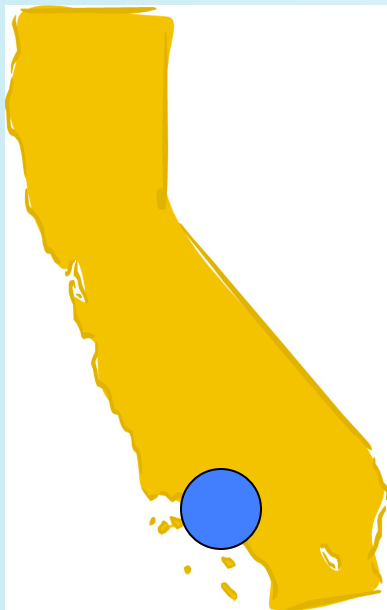


Challenges to Hospitals

- **Surgical procedures are core**
 - Volume of procedures, revenue per procedure
 - Margins, especially from private insurers
 - Visibility: high tech and hopefully high touch
 - Center of excellence branding
- **Essential that hospitals overcome challenges**
 - Cost management
 - Revenues and pricing
 - Physician relationships



IHA Orange County Pilot Project 2006-08



- Develop complete and comparable data sets
 - Focus on Orange County/Long Beach
 - 11 hospitals, 20,000 patients
 - Comparable data on device costs, total procedure costs, case mix, reimbursements
 - Feedback to hospitals: performance relative to local and national benchmarks
 - Hospitals share data with their physicians
- Highlight best practice strategies in managing the cost of medical devices and fostering hospital-physician collaboration
 - Collaboration with CA Hosp Assoc (CHA)
 - Statewide survey of best practices

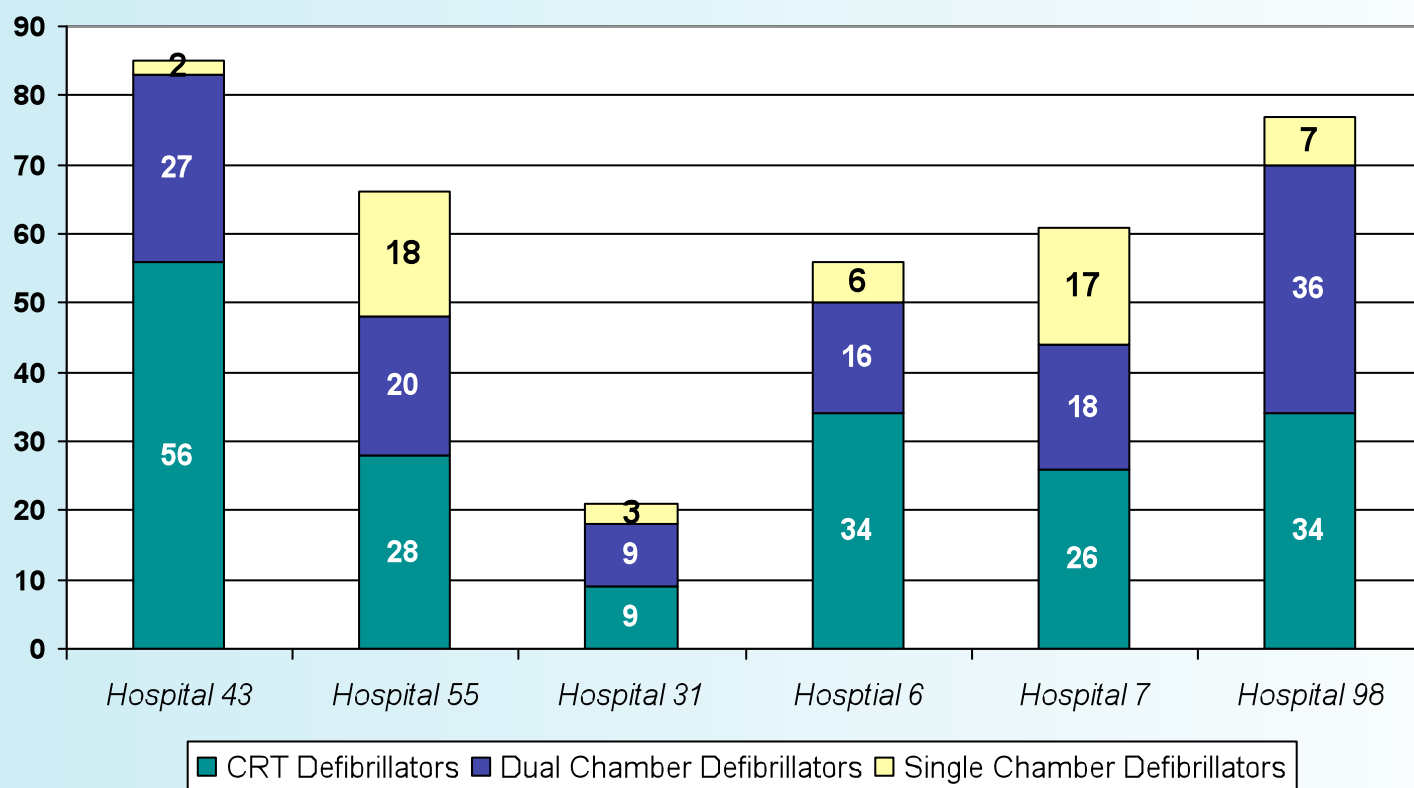
Value Assessment and Purchasing for Medical Devices

Cardiac Defibrillator Implant w/ o Cardiac Cath (DRG 515)



Cardiac Defibrillator (DRG 515)

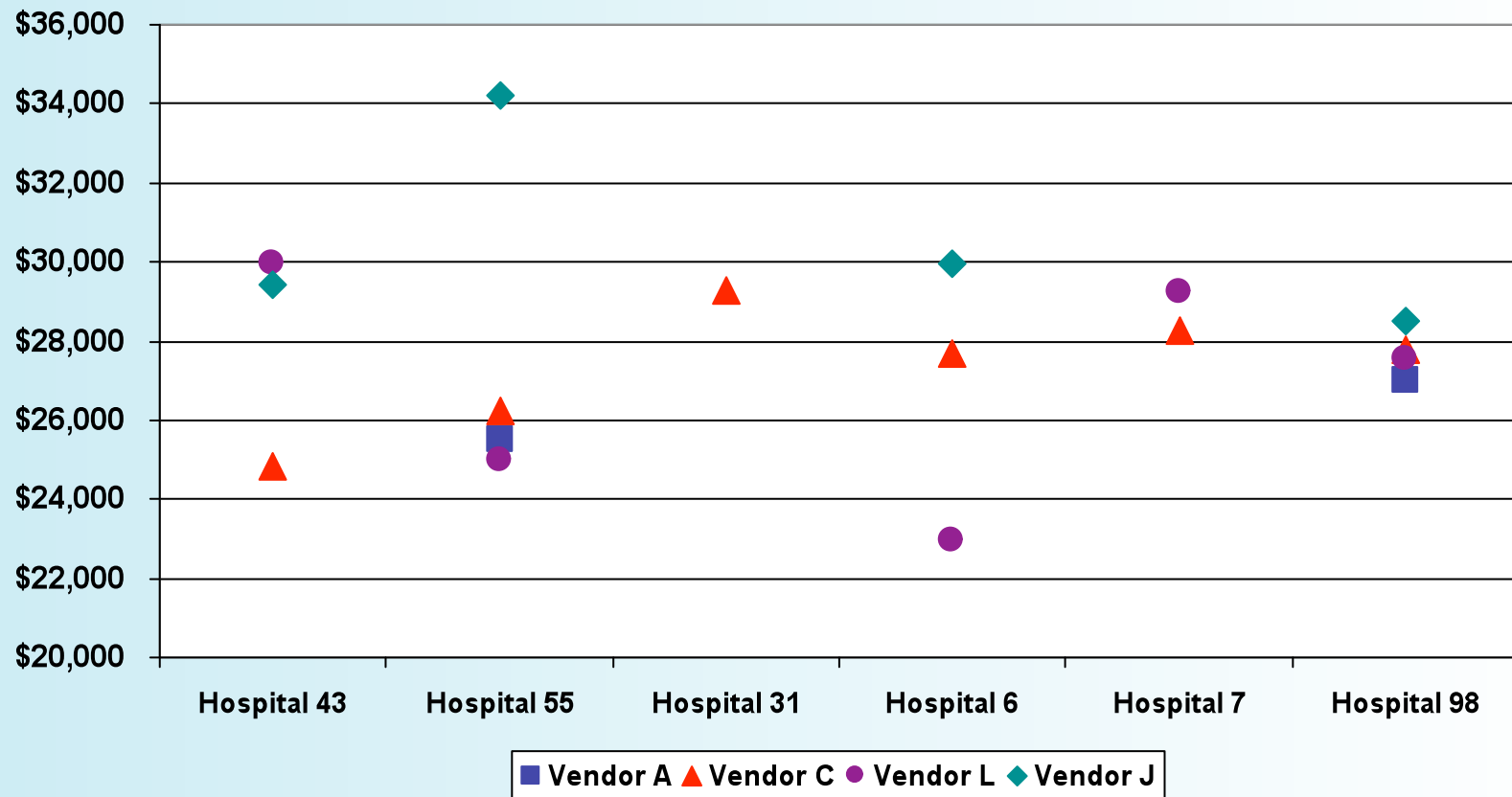
Procedure Volume by Type of Implant



Cardiac Defibrillator (DRG 515)

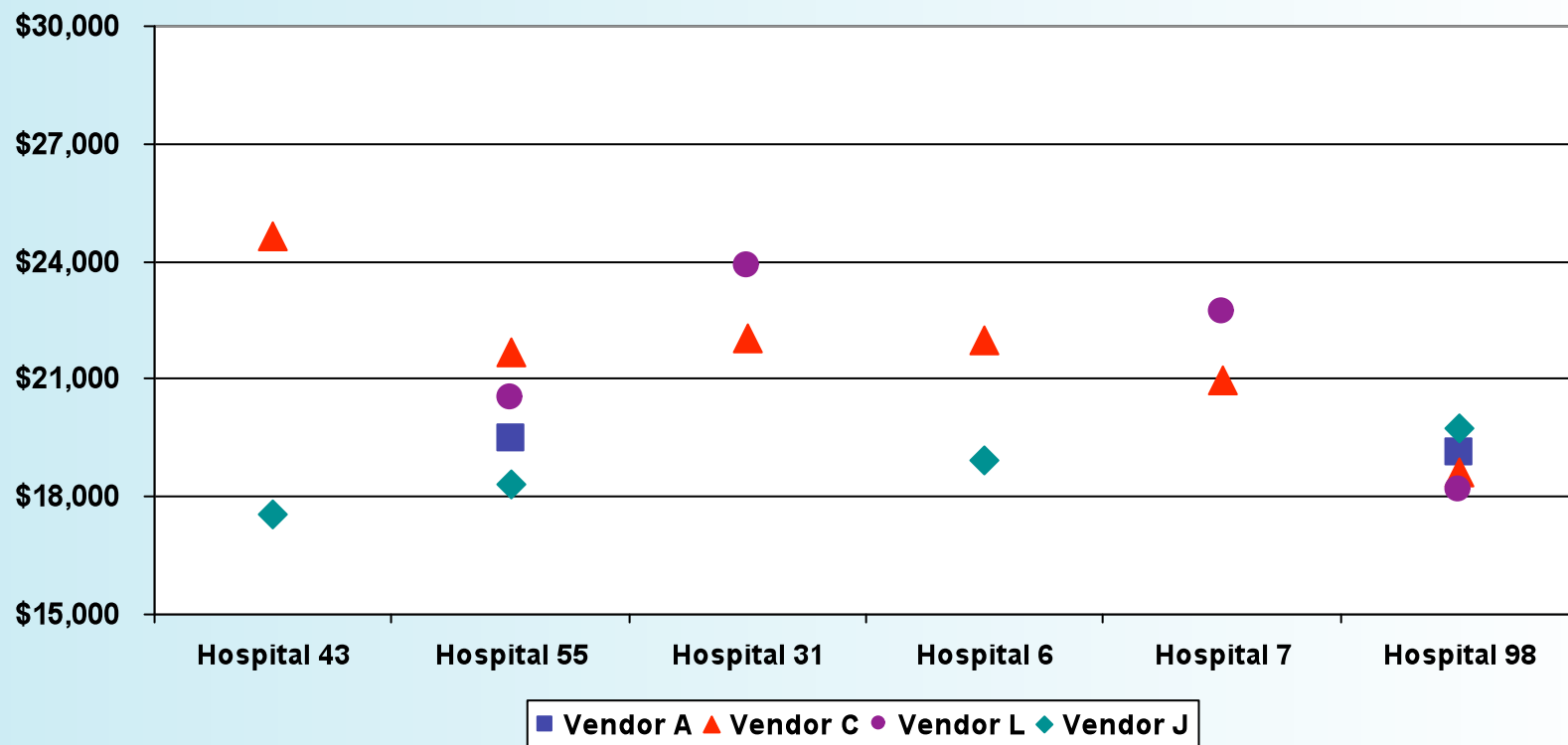
CRT Defibrillators

Implant Cost per Case, by Vendor



Cardiac Defibrillator (DRG 515)

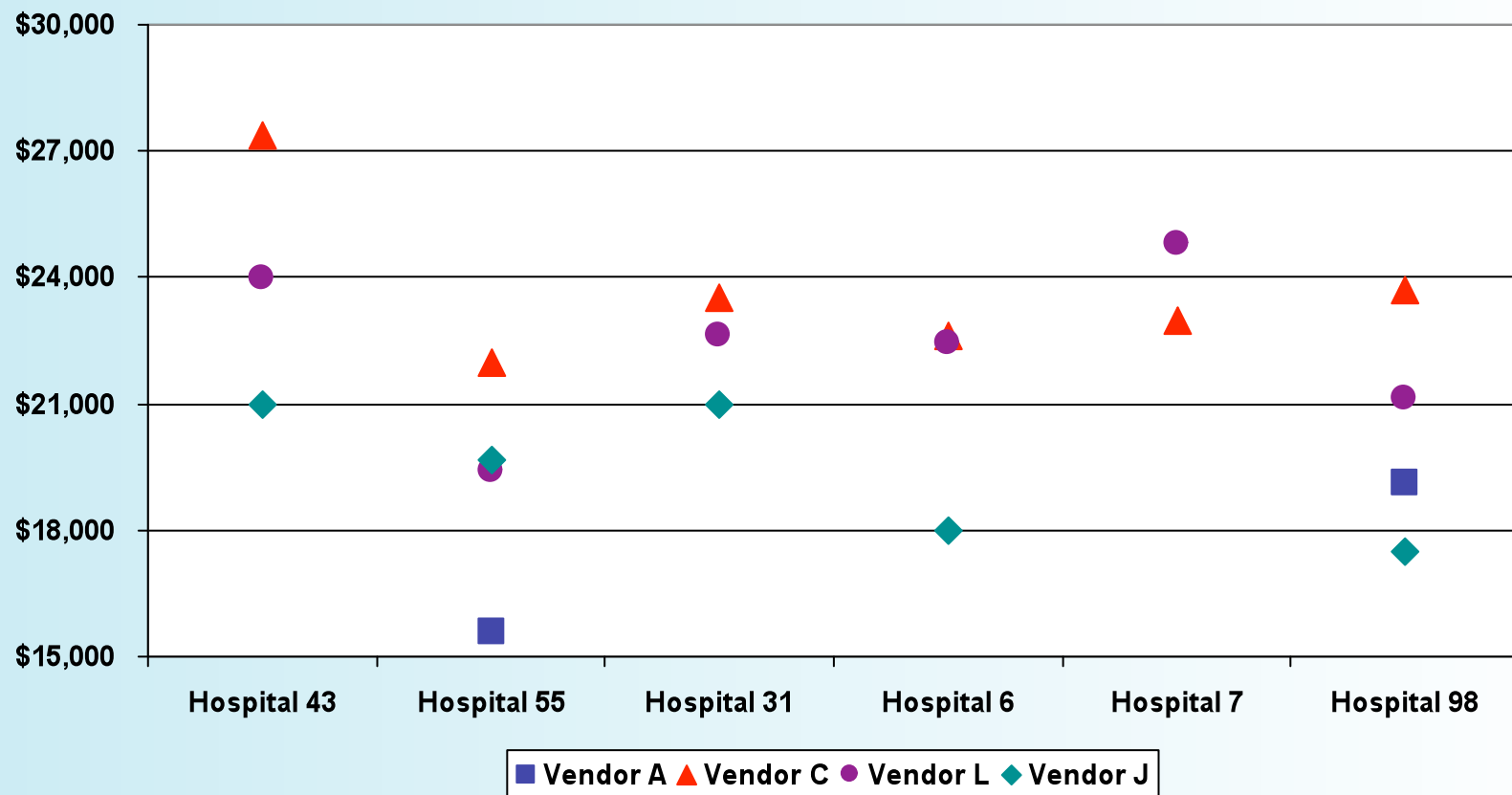
Single Chamber Implant Cost per Case, by Vendor



Cardiac Defibrillator (DRG 515)

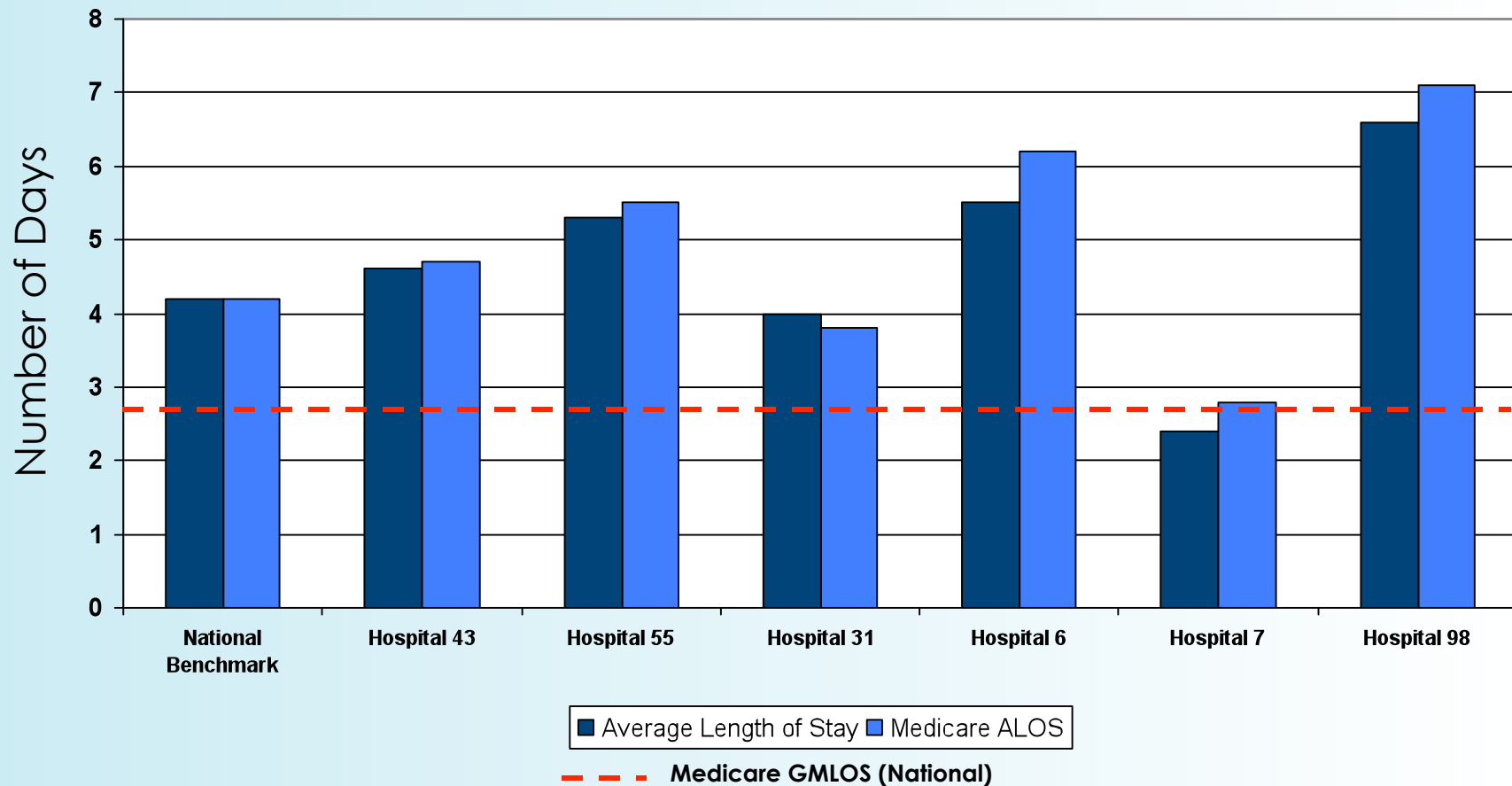
Dual Chamber

Implant Cost per Case, by Vendor



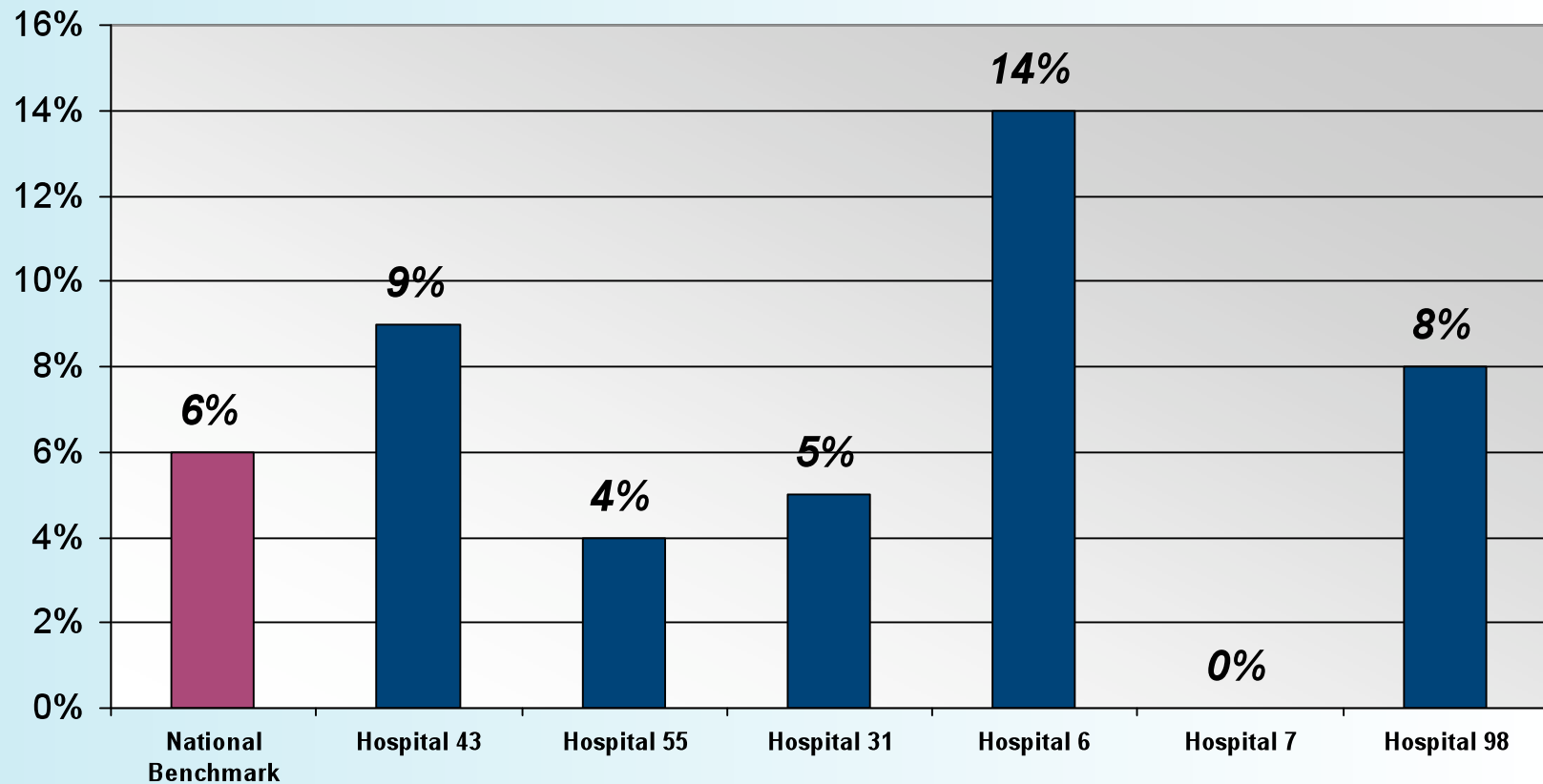
Cardiac Defibrillator (DRG 515)

Average Length of Stay



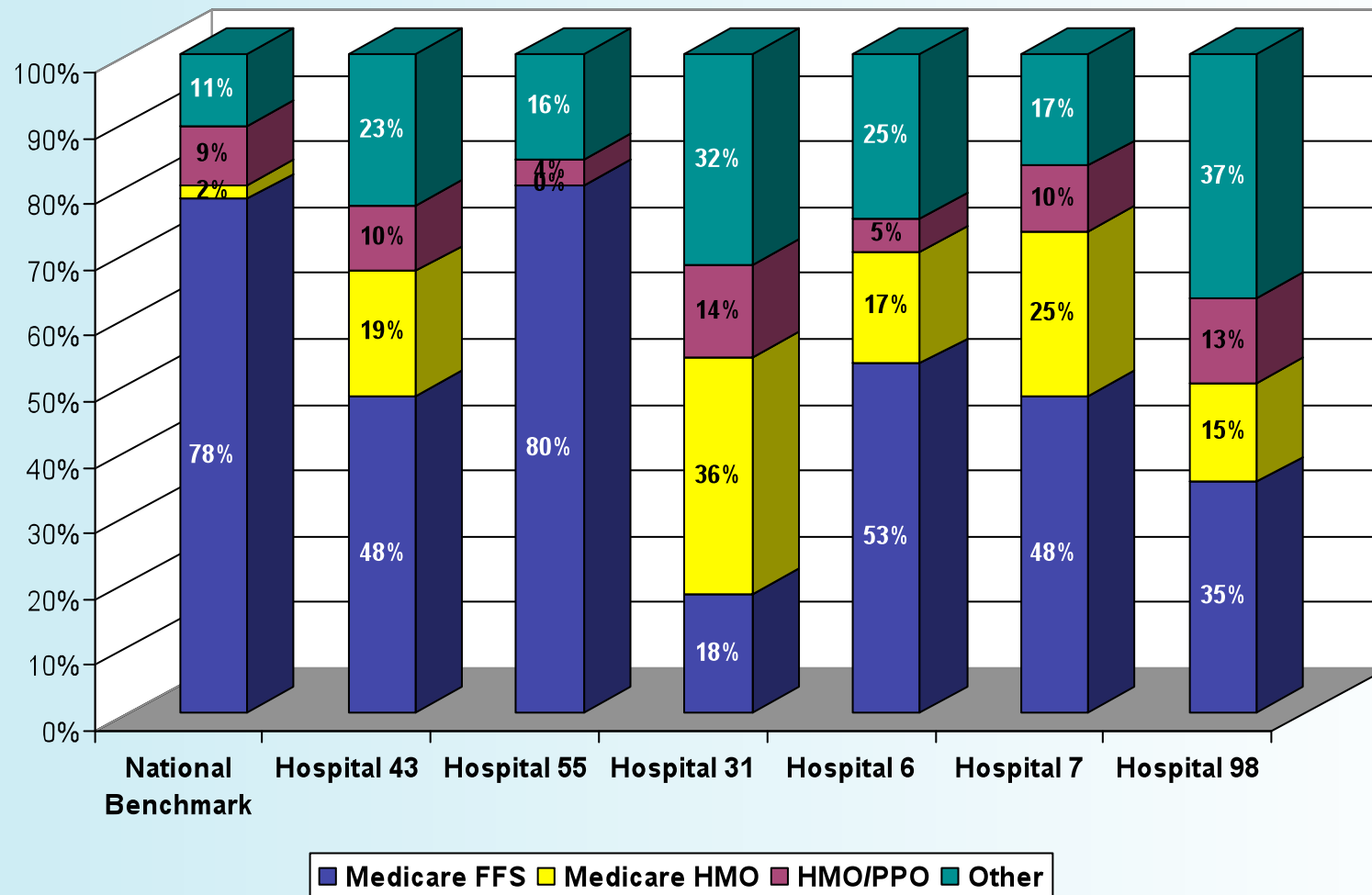
Cardiac Defibrillator (DRG 515)

Complication rate across hospitals



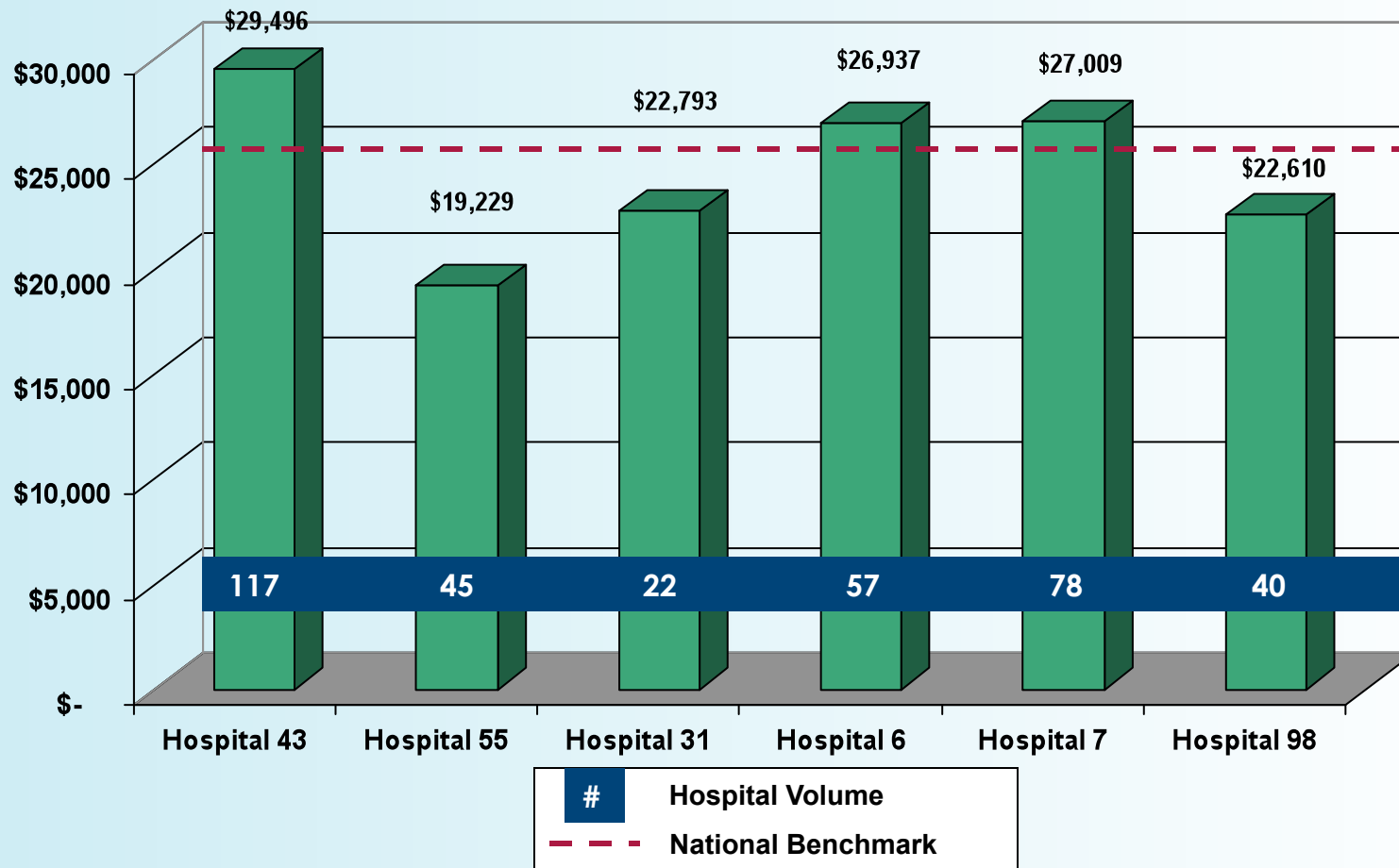
Cardiac Defibrillator (DRG 515)

Payer Mix Across Hospitals



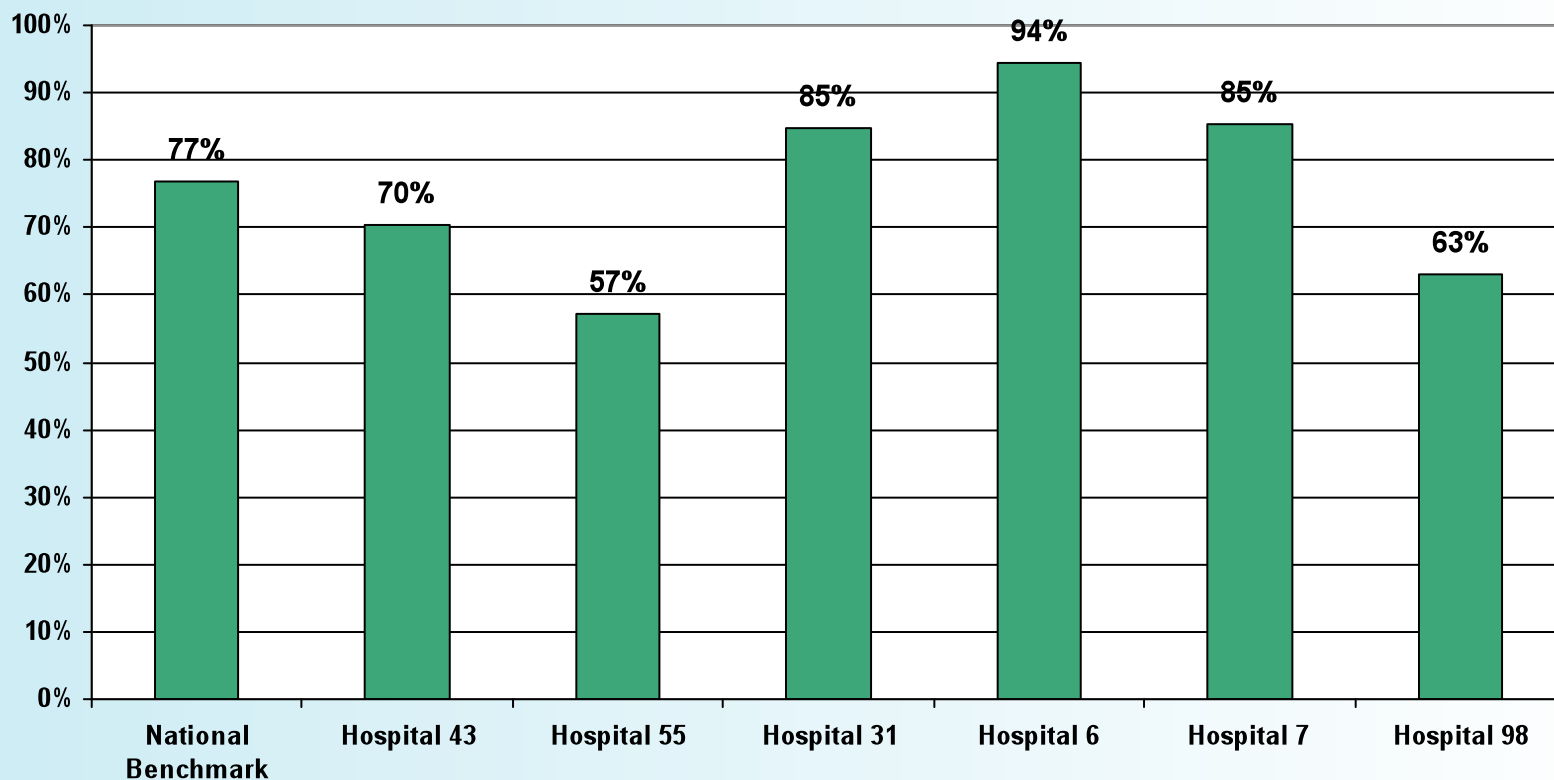
Cardiac Defibrillator (DRG 515)

Average Implant Cost per Case



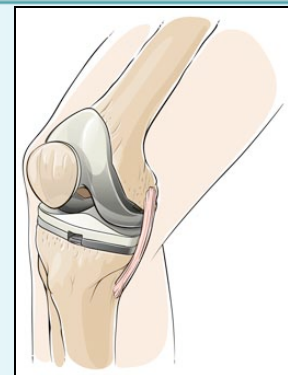
Cardiac Defibrillator (DRG 515)

Implant cost as % of average reimbursement



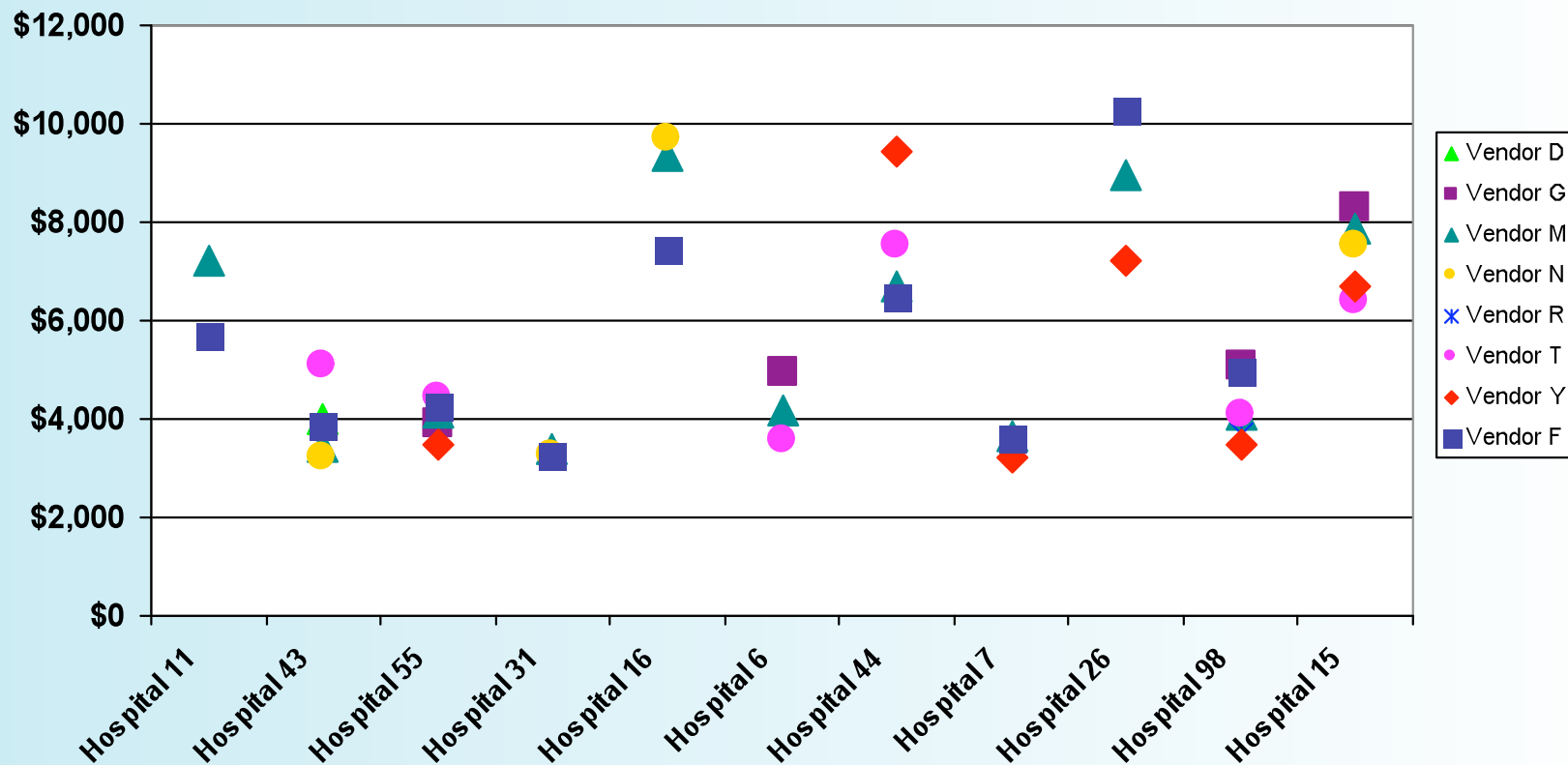
Value Assessment and Purchasing for Medical Devices

Total Knee Replacement (DRG 544, ICD-9-CM 81.21)



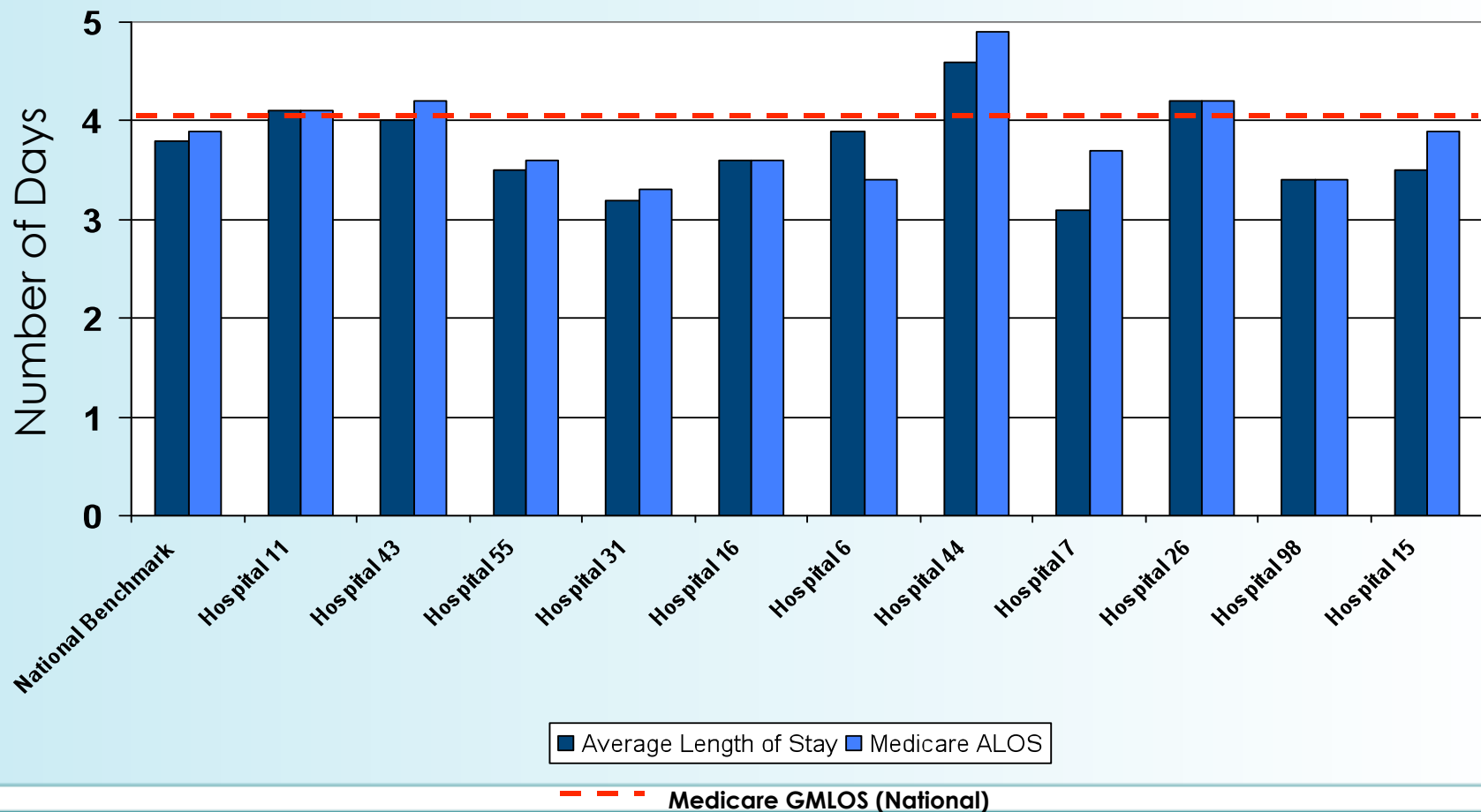
Total Knee Replacement (DRG 544, ICD-9-CM 81.51)

Implant Cost per Case, by Vendor



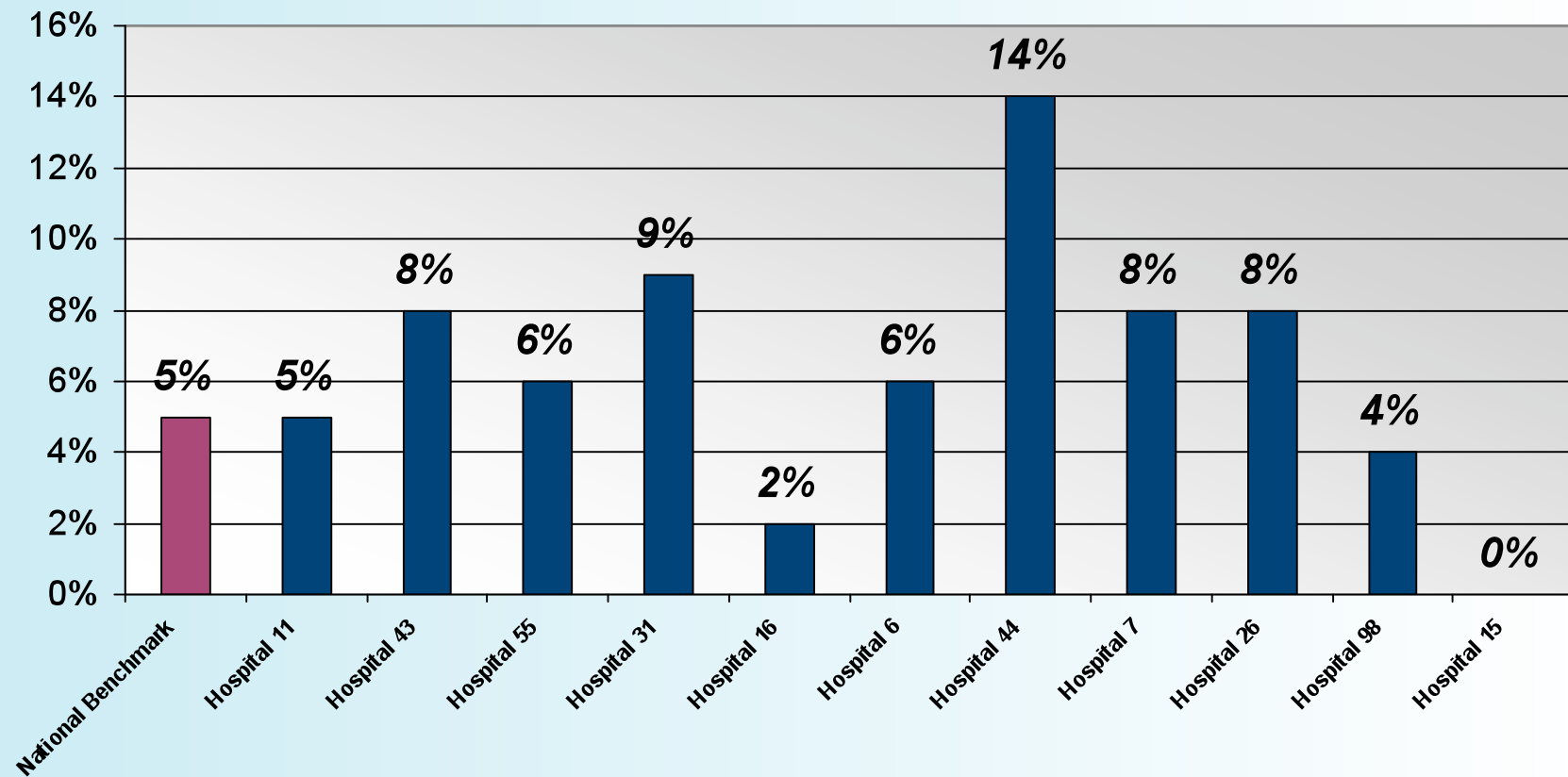
Total Knee Replacement (DRG 544, ICD-9-CM 81.51)

Average Length of Stay



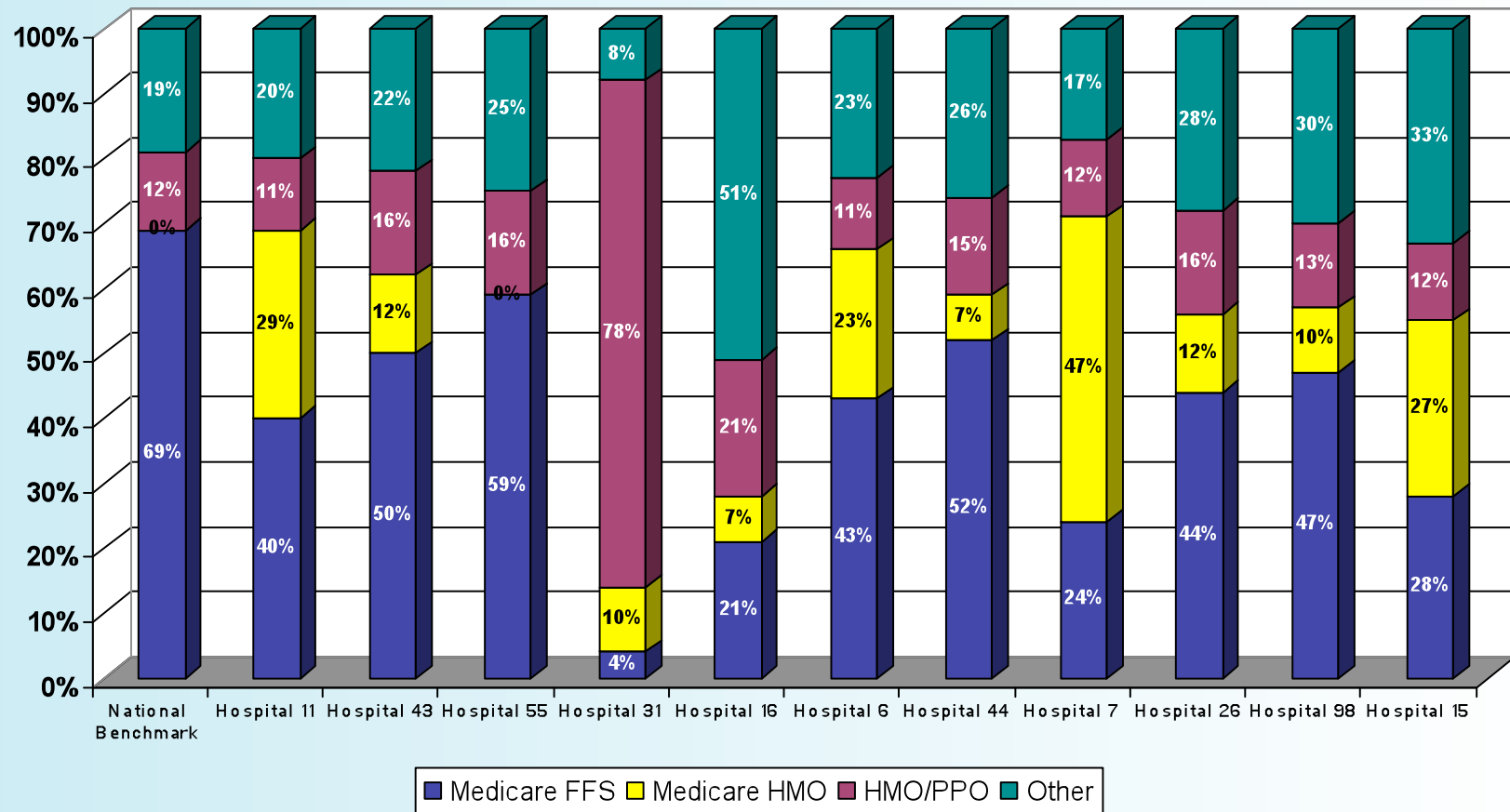
Total Knee Replacement (DRG 544, ICD-9-CM 81.21)

Complication rate across hospitals

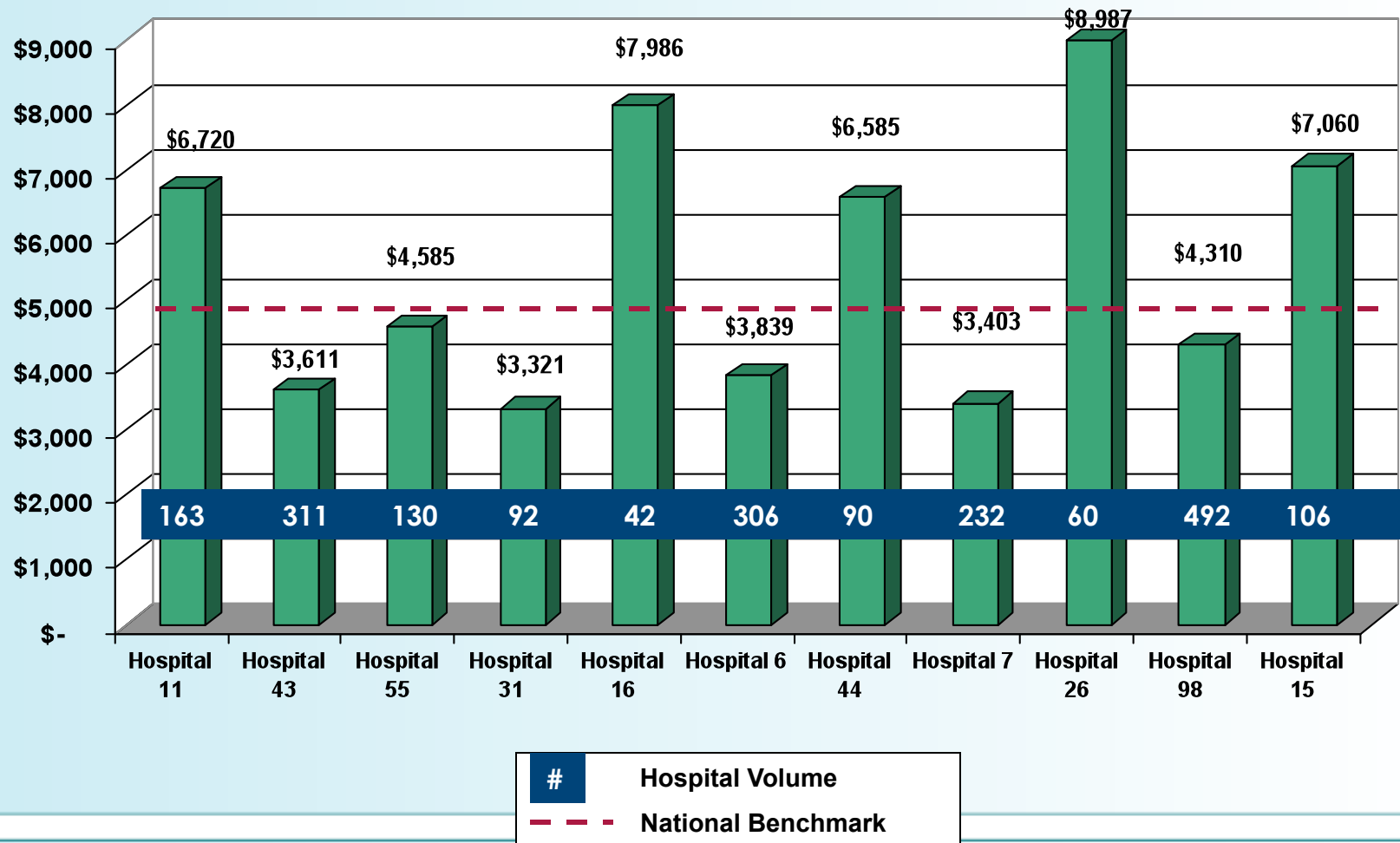


Total Knee Replacement (DRG 544, ICD-9-CM 81.51)

Payer Mix Across Hospitals

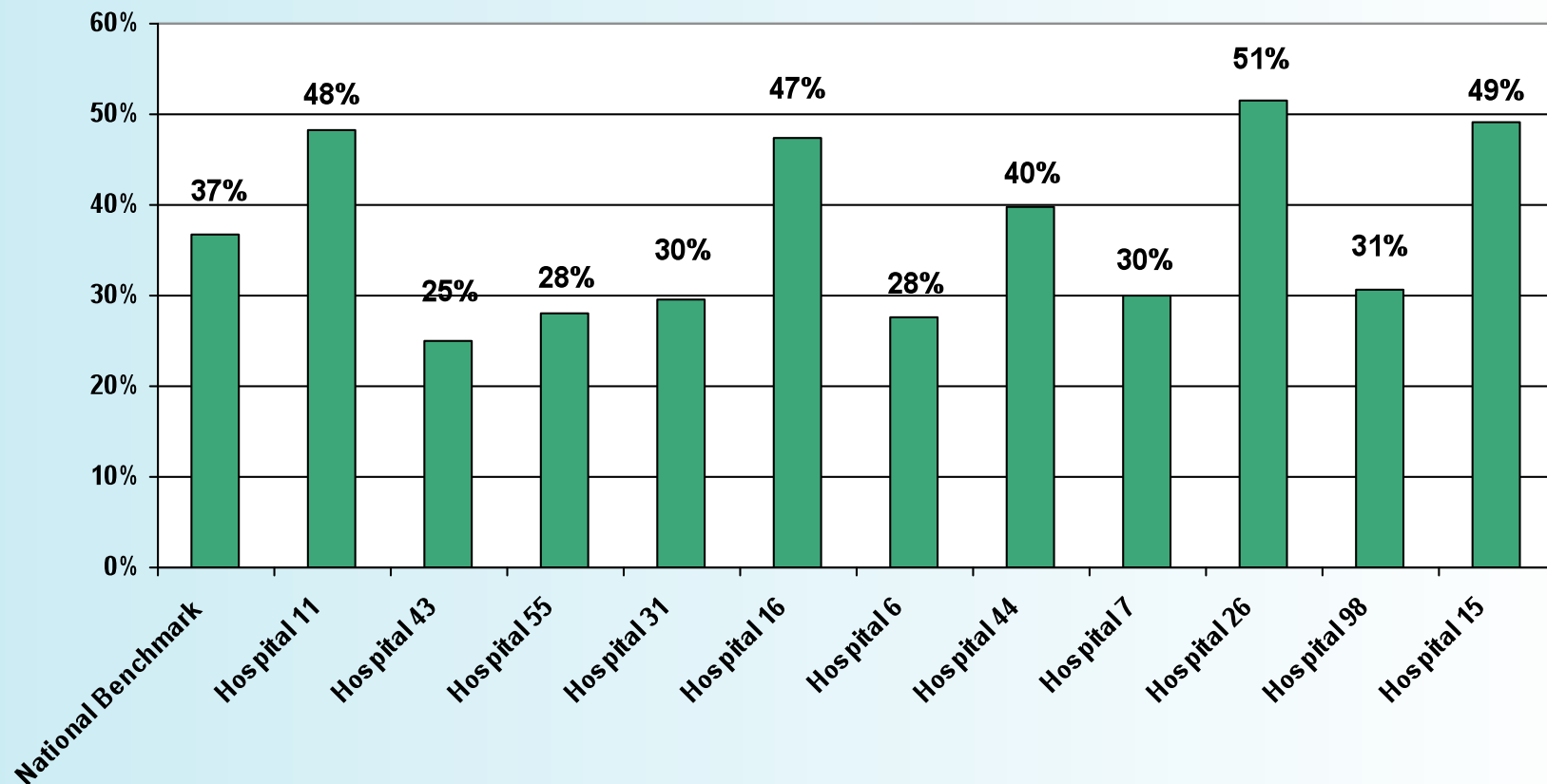


Total Knee Replacement (DRG 544, ICD-9-CM 81.51) Average implant cost per case



Total Knee Replacement (DRG 544, ICD-9-CM 81.51)

Implant cost as % of reimbursement



Value-based Purchasing: Key Components

1. Integrated data systems that measure performance across the care continuum
2. Payment methods that align incentives among all contributors and reduce conflicts of interest
3. Organizational structures that support coordination and foster a culture of cooperation



IHA Statewide Medical Device Value Purchasing Program



Two-year statewide project (June 2008 - June 2010)

- I. Hospital data aggregation, analysis, benchmarking (60+ major hospitals)
- III. Identification, dissemination of best practices:
 - Device purchasing, price transparency, physician-hospital cooperation
- IV. Episode-of-illness payment pilot using insurer claims data

IHA Goals and Principles for Medical Devices

1. Expand P4P principles (quality and efficiency) to high-cost devices in orthopedics and cardiology
2. Foster cooperation between physicians, hospitals
3. Reduce physician conflicts of interest and promote transparency of device prices
4. Pilot a payment method that aligns incentives
5. Improve quality and outcomes for patients

IHA Medical Device Project

Procedures/Devices of Interest

Data have been aggregated for the following device-intensive procedures:

Interventional Cardiac Procedures <ul style="list-style-type: none">➤ PCI (Stents)	Orthopedic Surgery <ul style="list-style-type: none">➤ Total Knee➤ Total Hip➤ Hip/Knee Revisions
Cardiovascular Surgery <ul style="list-style-type: none">➤ Cardiac Valves	Spine Surgery <ul style="list-style-type: none">➤ Spinal Fusion (Cervical/Lumbar)
Cardiac Rhythm Management <ul style="list-style-type: none">➤ Pacemakers➤ Defibrillators/CRTs	

Best Practices: Physician-Vendor Relationships

- **Financial relationships between surgeons and device vendors now are front page news as well as being the source of greater regulation and, ultimately, litigation**
- **Conflicted and non-transparent financial relationships, real or merely perceived, undermine relationships:**
 - **Between physicians and hospitals**
 - **Between physicians and patients**
- **They contribute to higher health care costs**
- **They undermine public trust in the medical profession**
 - **The first step is greater disclosure**
 - **The second step is acceptable guidelines**

The Way Forward: Transparency in Device Prices

- **The US health care system is moving towards greater a role for consumers/patients in choosing and paying for care**
- **Cost-sharing is rising and will directly impact patient care**
- **Hospitals want to be able to benchmark the prices they pay against those paid by other hospitals, but are hampered by contract clauses that prevent disclosure to third parties**
- **Proposed federal legislation would force price disclosure**
- **This should be an area of collaboration rather than legislation: Physicians need to support hospital efforts to reject confidentiality clauses**

The Way Forward: Aligned Payment Incentives

- **Episode pricing pays a single bundled fee for the entire episode and all its components**
 - Preadmission testing, procedure, rehab
 - Facility, surgeon, device, other inputs
- **Orthopedic surgery as main area of focus**
 - Medicare demonstration projects
 - IHA and others pursue private sector demonstration projects
- **Could be structured as bonus program rather than single payment to both physicians and hospitals**

Value-based Purchasing: Summing Up

1. Integrated data systems that measure performance across the care continuum
2. Payment methods that align incentives among all contributors and reduce conflicts of interest
3. Organizational structures that support coordination and foster a culture of cooperation



Conclusion

- When used appropriately, medical devices offer breathtaking value to patients and to society
- This is an arena for either conflict or cooperation between surgeons, hospitals, device firms, payers
- Having tried the alternatives, perhaps there are grounds for collaboration and gain-sharing

