

What it Takes to Move to:  
**Value-Based Hospital Payment Models** in  
the Commercial Market



**EMPLOYERS' FORUM OF INDIANA**  
Addressing the challenges of the local healthcare marketplace

A Panel Discussion at the

**National Price Transparency Conference:**

**PATH to AFFORDABILITY**

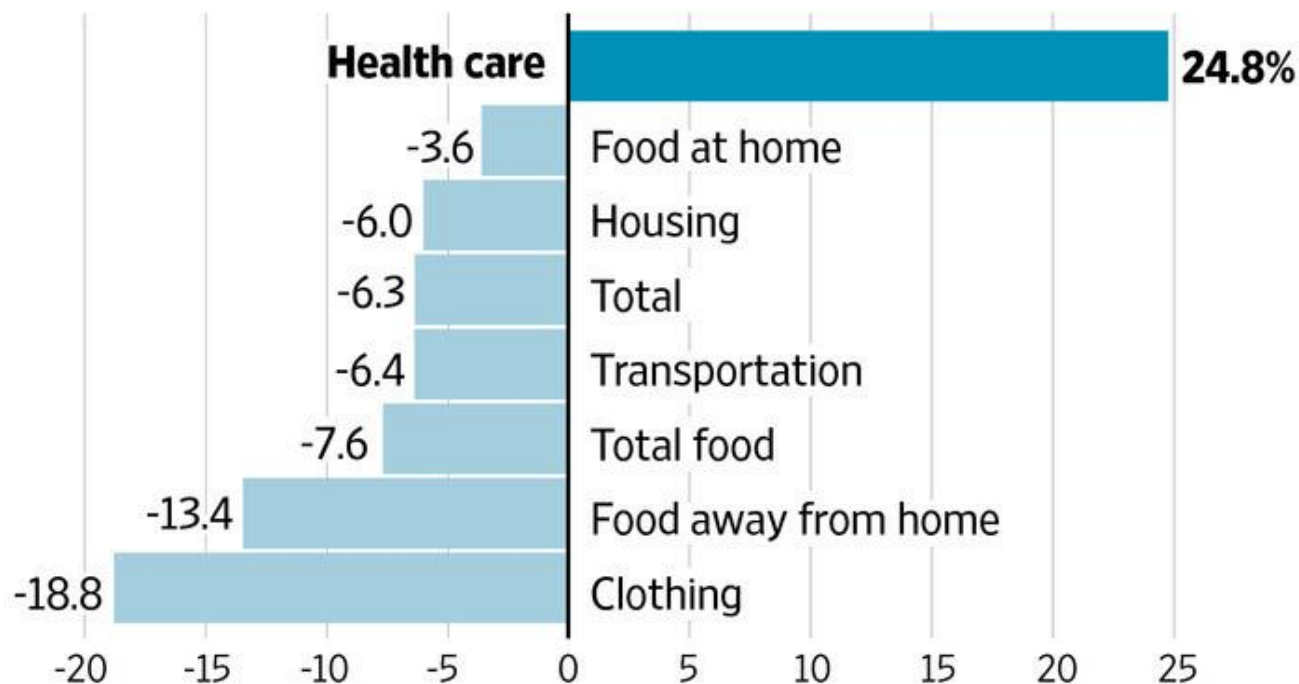


March 5<sup>th</sup>, 2019

## A Bigger Bite

Middle-class families' spending on health care has increased 25% since 2007. Other basic needs, such as clothing and food, have decreased.

**Percent change in middle-income households' spending on basic needs (2007 to 2014)**



Sources: Brookings Institution analysis of Consumer Expenditure Survey, Labor Department  
**THE WALL STREET JOURNAL.**

## The Health Market Place: Providing a Failing Value-Proposition

“Twenty years of wage stagnation on the middle class has been 95% caused by exploding healthcare costs.” - WSJ

# Edging Out Salary Growth & Economic Development

Opinions

## Where did our raises go? To health care.



Personal finances, budgeting, living paycheck to paycheck. (Mark Jensen/Istock)



By **Robert J. Samuelson**  
Columnist  
September 2

It's wages vs. health benefits. On this Labor Day, just about everything seems to be going right for typical American workers, with the glaring and puzzling exception of wage stagnation. The unemployment rate is 3.9 percent, [near its lowest since 2000](#). The number of new jobs exceeds the peak in 2008 by about 11 million. Then there's [wage stagnation](#).

Corrected for inflation, wages are up a scant 2 percent since January 2015, according to the Bureau of Labor Statistics. The gain is roughly one-half of 1 percent annually. Little wonder that many workers feel they're not getting ahead. They aren't.



While it is inconsistently effective, consistently inefficient and increasingly expensive,  
**We do not have a “*broken system.*”**

***“A problem well stated is a problem half solved.”***

Charles ‘Boss’ Kettering, Founder of Delco

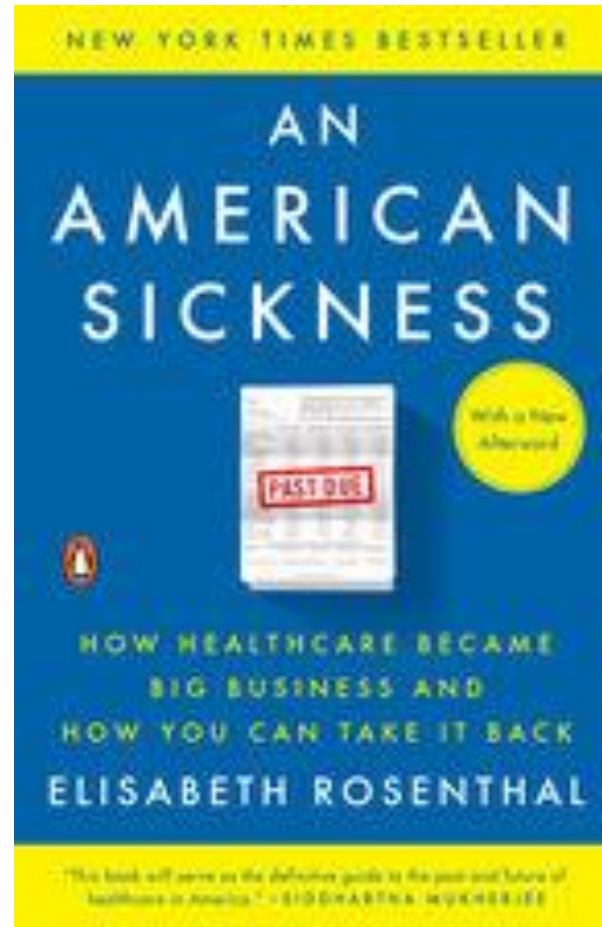
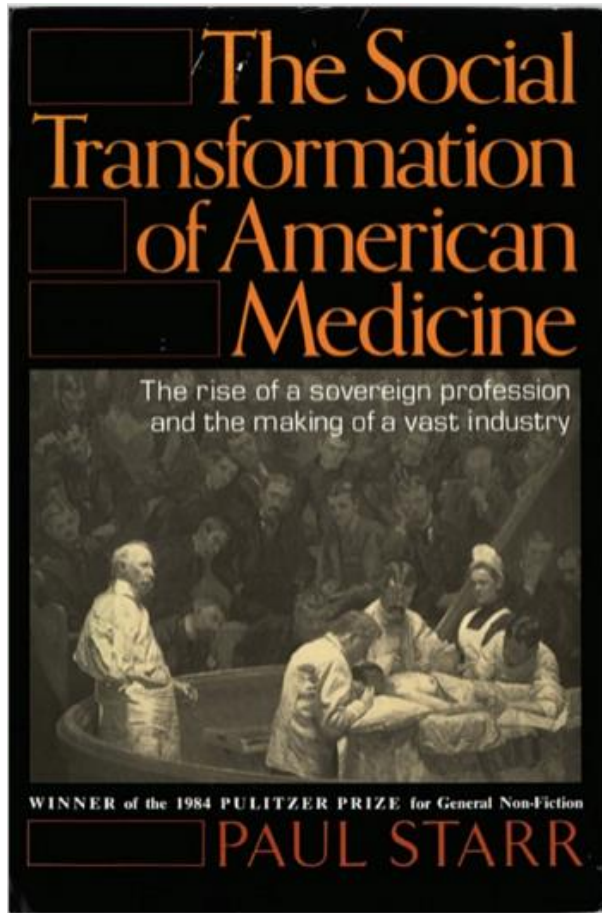
***“Every system is perfectly designed for exactly the results it gets.”***

Dr. Don Berwick (or Deming or Shewart)

***“Follow the money.”***

Deep Throat, All the President’s Men

# Following the money: From colonial times to today: US Health Care as an Economic Model



“In the past quarter century, the American medical system has stopped focusing on health or even science. Instead, *it attends more or less single-mindedly to its own profits.*”

*Elisabeth Rosenthal*  
*An American Sickness, 2017*

2003 Economist Ewe Reinhardt et al

## “It’s the Prices, Stupid”

- Higher health spending but lower use of health services adds up to much higher prices in the United States than in any other OECD country.

2019: Anderson, Hussey, and Petrosyan

## “It’s Still the Prices, Stupid”

- Despite policy reforms and despite health systems restructuring...
- Prices remain the primary reason why the US spends more on health care than any other country.

# Statewide Results: Commercial Market

## Percent of Medicare Fee Schedule Comparison/Trend

Service Type	2012 Avg % Medicare*	2016 Avg % Medicare*	Increase over Inflation adjustment
<b>Inpatient Services</b> (Top 12 By Volume/Price)	<b>250%</b> (Range 210%-300%**) ↑	<b>290%</b> (Range 260%-330%**) ↑	16%
<b>Outpatient Services</b> (Top 10 By Volume/Price)	<b>440%</b> (Range 210%-1,160%**) ↑	<b>520%</b> (Range 250%-1,150%**) ↑	18%

\* Average % Medicare reflects an average of the individual service category averages analyzed for IP and OP.

\*\* **Range** reflects lowest average % Medicare rate and highest average % Medicare rate across the individual services analyzed.

# So why are most hospitals... Losing Money on Medicare?™

“Strong market power leads hospitals to reap higher revenues from private payers. This in turn leads these hospitals to have weaker cost controls. The **weaker cost controls lead to higher costs per unit of service**. As a result, hospitals have a narrower margin on their Medicare business.”

Jeffrey Stensland, PhD  
Sr. Principal Policy Analyst  
Medicare Payment Advisory Committee





Excessive pricing creates an economic...  
**Negative Feedback Loop**

**From  
this.**



**To this...**





**Rob Hillman**

President & General Manager, Anthem  
Blue Cross Blue Shield of Indiana



**Tracy Bassett**

VP Network Strategy, United  
Health Group



**Marilyn Bartlett**

Office of State Auditor, State of  
Montana



**Lili Brillstein**

Director Episodes of Care,  
Horizon Blue Cross Blue  
Shield of New Jersey

*Changing the  
health care  
market by  
paying for  
value  
So what will  
it take?*