



Performance Solutions

MARSHALL | STEELE

Our New Reality
Providers Taking Risk

Bundled Payments

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Marshall Steele, MD
VP, Medical Director
Stryker Performance Solutions



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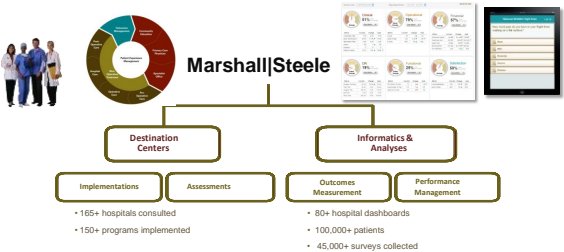
- Orthopedic Surgeon
 - Anne Arundel Medical Center, Annapolis, MD (1977-2008)
 - Founder Orthopedic Sports Medicine Center (16 Surgeons)
- Medical Director
 - Operating Room (1992- 2005)
 - Surgical Business Development (1995-2008)
- Founder, CEO Marshall| Steele



Disclosure
Implementation Company 2005



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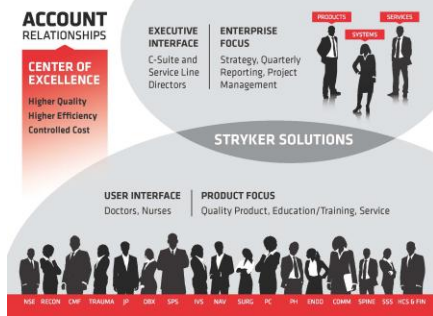


Alignment / Structure / Processes Proof / Management / Innovation

Oct 2011
Acquired By Stryker Performance Solutions
Services Division

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Current Reality
Camelot As We Have Known It
Is Going Away

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Camelot of The Past

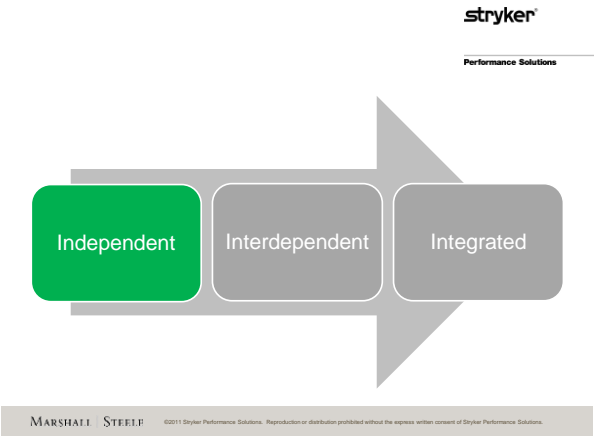
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- Volume Not Value Rewarded
- Overutilization – Positive Economic Impact
- Outcomes Irrelevant to Reimbursement
- Physicians Revered - Not Challenged
- Providers Not Patients Had All Information
- Everyone Could Claim Excellence
- Keeping Score Wasn't Necessary
- Do It My Way!! Was The Only Way!!

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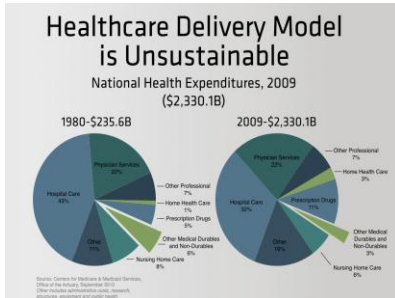


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- Care
 - Inconsistent
 - Siloed
 - Fragmented
 - Great Cultural Divide - Lack of Trust
 - Physicians – Clinical Concerns Only
 - Administrators – Financial Concerns Only
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Costly

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Public Dissatisfaction

"Half of the \$2.3 trillion spent today does nothing to improve health"
Gary Kaplan, Chairman, Virginia Mason Medical Center

"U.S. is not getting what we pay for"
Washington Post

"I am puzzled as to why we are not doing more to improve the efficiency of the health system."
Peter Orszag, Former Head of Congressional Budget Office

"A high-performance 21st century health system must revolve around the central goal of paying for results"
Newt Gingrich

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Baby Boomers 10,000 Day >65

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Increased Patient Expectations

The Importance of Patient Expectations in Predicting Functional Outcomes After Total Joint Arthroplasty
M. A. Mayman, S. M. Lin, E. Cook, L. Daltroy, P. Fortin, A. Fossel, J. Katz. *The Journal of rheumatology* 2002; 29:6

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The Perfect Storm
Fear Uncertainty Doubt

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Disruptive Trends
Transparency - Results

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"... committed to eliminating the current pay-per-procedure
and replacing it with one focused on **quality outcomes**"
Senator Max Baucus

"Much of the savings in healthcare can be realized by
paying for results, not procedures"
Barack Obama

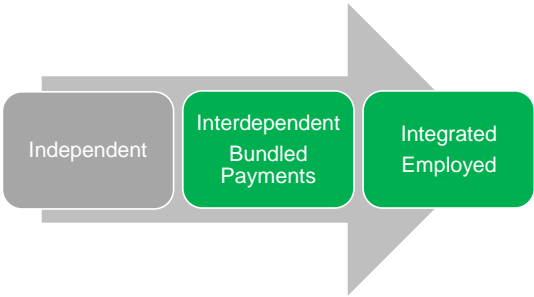
"Reward hospitals not just for reporting data,
but for the **results** of that data."
Don Berwick M.D.

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Clinical / Financial Integration

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Hospital Physician Employment
Changing Referral Patterns



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- Primary Care – Networks
- Specialists – Competition

Putting Providers at Risk



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- Pay For Performance
- No Pay For Complications
- Value Based Purchasing
- ACO's
- Bundled Payments

Why?



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- Burden of Distributing Less Money To Us
- Simpler
- Predictability For Them
- Guaranteed 3-5% Discount

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Traditional Payments
A La Carte

Payor

↓

Hospital Surgeon Anesthesia Hospitalist Outpatient PT Skilled Nursing

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Bundled Payments

Payor

↓

Hospital

↓

Surgeon Anesthesia Hospitalist Outpatient PT Skilled Nursing

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Pro's Of Taking Risk

- Gain Experience With Accountable Care
- Hope
 - Strengthen Hospital – Physician Collaboration
 - Reduce Fragmented Care
 - Reduce Variation
 - Reduce Waste and Costs
 - Improve Quality
- Financial Gains
- Spill Over Effect

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Con's of Taking Risk



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- Not Our Core Business
- Poor Business Analytics
- Financial Losses
 - Further Discounting Services
 - Not Creating Costs Savings

Past History



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- 1986 – Heart Bypass Project
 - Reduced costs 42.5 million (10%)
- 1993 – Cataract Project
 - Reduced costs 500K
- 1997 – My Own Experience
 - AAMC
- ACE Project (Acute Care Episode)

1997 - Total Joints



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- Prospective Payment – Private Insurance
 - Hospital Administered
 - Included All Costs
 - 30 days preoperatively
 - 30 days postoperatively
 - Tracked Outcomes
 - Patient Reported
 - Hospital Reported
 - Outlier Exclusions



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- Patient Choice Preserved
- Patients Encouraged
 - Newsletter
 - Reduced Co Pay
- Physicians Paid 180% of Normal Fee
- Volume Increased 20%
- Profitability Increased Additional 4K

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Major Reasons For Profitability

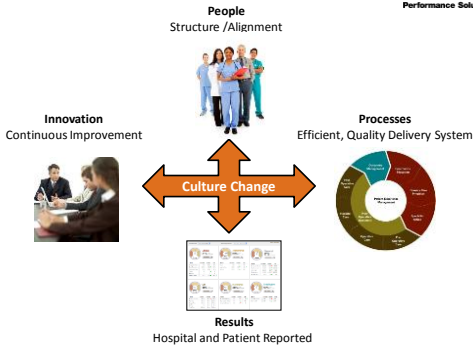
- In Patient “Joint Camp” Program – First in Country
 - Hospital – Physician Collaboration
 - Eliminated Non Value Added Activities
 - Lowest Hospital Cost in State
 - Standardization – Family Involvement - Low LOS
- Outpatient
 - 90+ % of Patients Went Home
 - Minimal Use Of Home Health
 - Low Complication - Readmission Rates

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Core Elements of Superior Performance



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Consistent with Principles Lean Manufacturing

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Structure

- Empowerment of Frontline
- Aligning Incentives
- Leadership That Enables



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Processes

- Customer Focused
- Understanding Value
- Finding Waste
- Reduce Variation
- Avoid Workarounds
- Address Continuum



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Metrics

- Avoid Complexity
- Trended and Benchmarked
- Identify Best Approach
- Real Time



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- Program Lasted 5 Years
- Private Insurance Company Bought by United Healthcare



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ACE Project

- Bundled Payment
 - Acute Care Episode (admission to discharge)
 - Discounted 4- 5% From Historical Average
 - Physicians Paid 100% MC Rate by Hospital
 - Losses Absorbed By Hospital
 - Gains Shared 50/50 With Surgeons – 125% Cap
 - Patients Received Payments for Choosing (\$1500)



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Players

- Hillcrest Medical Center Oklahoma
 - 727 Beds
 - Cardiac, Orthopedics
- Baptist Health Texas
 - Cardiac, Orthopedics
- Oklahoma Heart
 - 78 beds
 - Cardiac
- Lovelace Medical New Mexico
 - 218 Beds
 - Orthopedics
- St Joseph's Colorado
 - 565 beds
 - Cardiac

Results

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- Reduced Vendors
- Reduced LOS
- Implant Cost Reduction 6-16%
- Lower Complications 3.5% - 1%
- Lower Readmissions 7% - 1 %
- 2.2 Million Dollars in Savings
- Overall Cost Reductions 10%

- 300+K Shared with Physicians per Year

Lessons Learned

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- Gained Valuable Experience For Accountable Care
- Physician – Hospital Relationships Improved
- Make it Zero Sum Game For Physicians
- Added FTE's - \$356 / Case
 - Clinical Coordinator
 - Finance
- Current Data Analytics Insufficient
- Real Economic Benefit- Spill Over Effect

Current Bundled Payment Program CMS

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- Launched August 2011
- 4 Models
- Retrospective
 - Models 1-3
- Prospective
 - Model 4
- Deadline June 28, 2012

Model 1 - Retrospective
Inpatient Stay Only

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- Discounted IPPS Payment Vs Historical Trends
- All DRG's
- Inpatient Hospital Services
- Discount 0% First 6 Mos- 2% By Year 3
- Payments
 - Hospital IPPS Less Discount
 - Physician – FFS No Discount
- Quality Measures - IQR
- Gainsharing – Risk Payback Fees

Model 2 - Retrospective
Inpatient Stay plus Post Discharge Services

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- Retrospective Comparison – Target Price Vs FFS Payment
- Proposed DRG's
- Hospital/ Physician/ Post Acute Services/Readmissions
- Minimum Discount
 - 3% - 30-89 Days Post Discharge
 - 2% - >90 Days
- Payment - Traditional FFS With Reconciliation Vs Target
 - Gainsharing Or Repayment
- Quality Measures
 - Proposed By Applicants

Be Aware
First 90 Days

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- 50% Provider Payments On DRG's Are Inpatient Expenses
- 50% Provider Payments On DRG's Are Outpatient Expenses

Model 3 – Retrospective
Post Acute Discharge Services

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- Comparison Actual FFS vs Target
- Proposed DRG's
- Post Acute Services / Readmissions
- Discount – TBD
- Payment FFS With Reconciliation
- Quality Measures – To Be Proposed

Model 4 – Prospective
Inpatient Only

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- Prospective Set Payment
- Proposed DRG's
- Hospital/Physician/ Readmissions
- Minimum Discount 3%
- Payment To Hospitals
- Hospital Distributes Payments
- Gainsharing
- Quality Measures To Be Proposed

Other Current Models Tested

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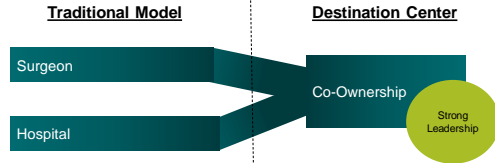
- Geisinger's Proven Care
- Cleveland Clinic- Lowe's Partnership
- Integrated Healthcare Solutions
 - Hoag Orthopedic Hospital
 - Aetna
- Prometheus Payment

Success Requirements

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- Strong Administrative and Physician Partnership:
 - Shared Vision
 - Agreed Upon Approach
 - Clearly Defined Measures Of Success



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Physicians Need To Think Differently

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Independent – Self Focused



Quarterback – Team Focused

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Lean Culture

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The Structure and Culture that Exists
will Trump Attempts
at Operational Improvement
Every Time

Leadership ---- People ---- Structure ---- Culture

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Lean Culture

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- Individual performance to **teamwork**
- Work-arounds to **fix it today**
- Variability to **standardization**
- Memory to **checklists**
- Blame to **systems improvements**
- Fairness to **excellence**
- Competence to **expertise**
- Opinions to **management from metrics**
- Secrecy to **transparency**
- Prison to **hospitality vocabulary**

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Manage The Continuum

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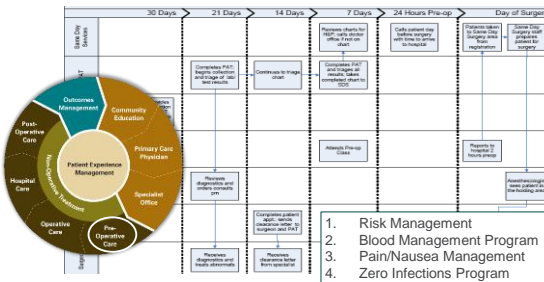


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30 Day Pre-Op Process and Flow

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Continuum Care Delivery Model

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Patients and coaches **learn** and **gain support** and **confidence** from one another.

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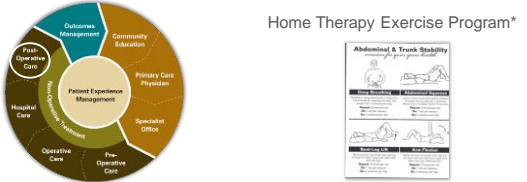
Continuum Care Delivery Model

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Coordinating Postoperative Care

Home Therapy Exercise Program*



Benefits:

- Convenient, Improves Patient Compliance
- Cost Effective Method for Preop Conditioning and Post-op Rehab
- Easy Way to Standardize Your Program
- Extends Hospital/Program Branding

*Exercise Programs are designed to allow healthcare professionals to select appropriate exercises for their patients. The programs should be provided to a patient only upon recommendation of the patient's physician and should be accompanied by instructions based on the patient's particular medical needs. Patients should use the programs only under the supervision of a physician or physical therapist.

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Things To Know

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- Market Size
- Clinical Variability
- Co Morbidity
- Hospital Costs
- Physician Costs
- Outpatient Costs

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Things to Have
Bundled Payment Calculator

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Business Intelligence Analytics Support

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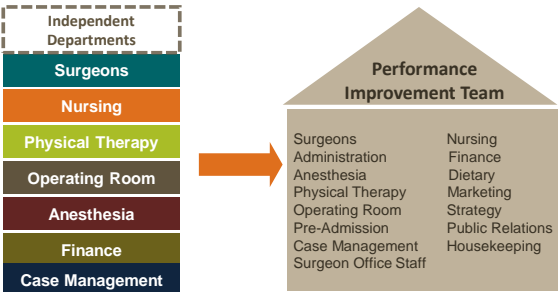
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Constant Innovation
From Silos to Improvement Teams

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To Ensure Long Term Success

The Program Improves The Metrics

Continuum of Care
Delivery Model



The Metrics Improve The Program

Hospital and Patient
Reported Outcomes



Effective Management

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Don't Expect Yesterday's Solutions
to
Solve Tomorrow's Challenges

Pressure on
Reimbursement



Prepare
Yourself
To
Take Risk
Intelligently



Pressure from
Patients

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Thank You

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