What Defines Success Now & In the Future for Value-Based Care Efforts?

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So a good example of how value-based models, value-based contracting models with health care delivery partners, can really manifest itself in a patient and their experience, in an employer and what they see in terms of cost, and then the outcomes that are created by that might be a knee replacement.

So in our world today, a knee replacement with all of the things that happen in the course of a knee replacement episode –and we call them episodes because it's an encounter, a discreet encounter with health care system—is about $25,000 in cost.

So that means…and the way that we calculate that episode and calculate that cost…is the day of surgery is the trigger event. We look back 30 days and then we look forward 90 days from the actual knee replacement occurring. Then we're going to look at a set of codes and say what's included in the episode. So if the person had an urgent care visit for something not related to the knee 60 days after their knee replacement, that wouldn't be included in the episode.

And in doing and measuring these this way, we can create like-with-like episodes out of a whole bunch of claims that allow us to compare over time. So if the knee replacement is expected to cost us $25,000—and has pretty reliably over a period of time for particular orthopedic surgeon cost $25,000—and we go to that orthopedic surgeon and say we would like to create a value-based model where if you are able to get better outcomes on costs and maintain good quality for the knee surgeries that you do for CareFirst members, we're willing to offer you a portion of the savings as an incentive.

So the opportunities that the orthopedic surgeon has to reduce the cost of care would be imaging. For example, if you really only need one MRI to perform surgery, just do one MRI. Don't do additional imaging.

The second really big opportunity is the source of the site collection. Is the orthopedic surgeon gonna choose to do this this knee surgery in a hospital with hospital facility and OR charges, which is very expensive, or will they choose to do it in a community-based ambulatory care center where the cost of that OR time is significantly lower?

And the third area of follow-up and potential cost control could be better oversight over the amount of physical therapy the patient receives and how much they need. If this is not something that has the oversight of the physician, the physical therapy may max out the benefit, whereas when it is under the control of the physician, miraculously, and the physician has an incentive to reduce costs, it may come in at significantly less than the number of physical therapy visits that would otherwise be needed.

So when you put all that together, in the performance year—so the year that we enter into this agreement—the $25,000 knee replacement on average becomes a $23,000 knee replacement on average. We've created $2,000 dollars in savings.

Now, let's imagine that we've negotiated, just for simple numbers, to share 50 percent of that savings with that orthopedic surgeon. They're going to get $1,000 dollars. But the group who is paying the bill for that surgery is still saving $1,000 on each knee surgery versus what they would have paid for that

surgery if the program wasn't in effect. So everybody wins. The surgeon gets rewarded for improving outcomes on costs, the employer spends less on health care. Many patients have high deductibles. So that may also mean that patients are spending less on health care.

And then, of course, the patient is going to have a better outcome. They may have a more convenient site of service to go to. They may have to do less imaging. They may have shorter recovery time from physical therapy. And then the employer may also get the employee back to work a little bit more quickly because we've had a better outcome from the overall surgery and the episode of care here for orthopedic surgery.

So hopefully that is helpful at explaining how various stakeholders from the surgeon to the patient to the employer would benefit from a new contracting model that changed the focus of the physician who is managing that particular episode.