Why Hospital Cost Containment Efforts Depend On Physicians

Written by Ayla Ellison | August 03, 2016

With risk-based models like bundled payments gaining speed, hospitals and health systems need to reexamine their cost cutting strategies and include physicians in cost containment conversations.

“The business model of healthcare is changing,” said Strata Decision Technology CEO Dan Michelson during a recent webinar hosted by Becker’s Hospital Review. He illustrated the pace of change by zeroing in on the Medicare Hospital Value-Based Purchasing Program and mandatory bundled payment programs to highlight how the healthcare landscape is shifting.

The Hospital Value-Based Purchasing Program, established under the Affordable Care Act, is intended to encourage hospitals to provide high-quality care more efficiently by adjusting payments to hospitals based on the quality of care they provide. In fiscal year 2016, more than 1,800 hospitals will receive a positive payment adjustment under the program.

CMS also implemented its first mandatory bundled payment initiative, the Comprehensive Care for Joint Replacement model, in April. This is an attempt by CMS to reduce variation in costs for hip and knee replacements, since the average Medicare expenditure for surgery, hospitalization and recovery ranges from $16,500 to $33,000 across geographic areas.

Under the payment model, acute care hospitals are held accountable for the quality of care they deliver to Medicare beneficiaries for hip and knee replacement from surgery through recovery. Depending on the hospital’s quality and spending performance, the hospital may receive an additional payment from Medicare or be required to repay Medicare for a portion of the spending. In late July, CMS proposed a new mandatory bundled payment program for heart attacks and bypass surgeries that includes changes to the existing CJR model.

Under these new payment models, reimbursement is linked to health outcomes, requiring hospitals and health systems to take a much closer look at quality and cost data to deliver more efficient care.

Confusion around cost
The conversation around cost is confusing, and it is hard to know what “value” actually means until that conversation is normalized, according to Mr. Michelson.

The confusion around “cost” begins with its definition. When hospital leaders discuss costs, some refer to price, while others refer to charges or reimbursement.

The first step to designing an effective cost containment strategy is arriving at a common definition of the term. Next, organizations need to ensure the cost information they’re relying on is accurate. Mr. Michelson expanded on this point by sharing a cartoon of SpongeBob he saw on his daughter’s Instagram account.

SpongeBob and his friend Patrick, a starfish, stare at what appears to be thousands of mattresses. In the cartoon, SpongeBob says to Patrick, “Wow Patrick look at all of these mattresses! How many do you think there are?” Patrick replies, “Ten.” SpongeBob responds, “Cool.”
The cartoon reminded Mr. Michelson of healthcare, because in the absence of accurate cost information, any number will do. However, without accurate information, systems will see their cost saving efforts fail.

**Including physicians in the cost conversation**

Although cost reduction has moved to the top of many organizations' priorities, a number of missteps can cause cost containment efforts to flounder. Advanced cost accounting software can help hospitals and health systems reach their cost reduction goals, but technology alone cannot render effective change without new ways of thinking.

Hospital leaders who have been given the seemingly impossible task of improving quality with fewer resources must bring physicians into the loop, said Neel Shah, MD, an OB/GYN and founder and executive director of CostsOfCare.org, which curates and disseminates knowledge from patients and frontline clinicians to help health systems deliver better care at lower cost.

“The way physicians are taught teaches us to be terrible stewards of resources,” said Dr. Shah. However, he said people on the frontline, including physicians, have ideas for how to provide more affordable care.

To highlight Dr. Shah’s point, Mr. Michelson referenced a Health Affairs report, which revealed physicians control 80 percent of the spend in U.S. healthcare, but only one in five can correctly estimate the cost of common orthopedic devices. The study shows that systems can achieve savings when physicians are included in the cost conversation, as 80 percent of physicians said cost was a key criterion in the selection of a medical device.

Yale-New Haven (Conn.) Health System, a long-time partner of Strata’s, has seen its cost containment efforts succeed by including physicians in the conversation. “Our organization knew back in 2008 that we were going to have pressure on our revenue,” said Stephen Allegretto, vice president of strategic analytics and financial planning at Yale-New Haven Health System. The system addressed the issue head on.

After implementing an EMR and establishing a common definition of quality, Yale-New Haven implemented Strata’s solution systemwide. The academic health system now uses quality value indicators (QVIs™) to understand differences in cost based on negative quality outcomes. Through the use of QVIs and by including physicians in the cost conversation, Yale-New Haven has reduced spending by about $150 million, while improving the delivery of care — its No. 1 priority.

Learn more about advanced cost accounting and the new conversation on cost by clicking here.