

# AEMH Conference 2008

The Price is(n't) Right?

Financing Quality and Demand in Healthcare



Zagreb, 1 May 2007

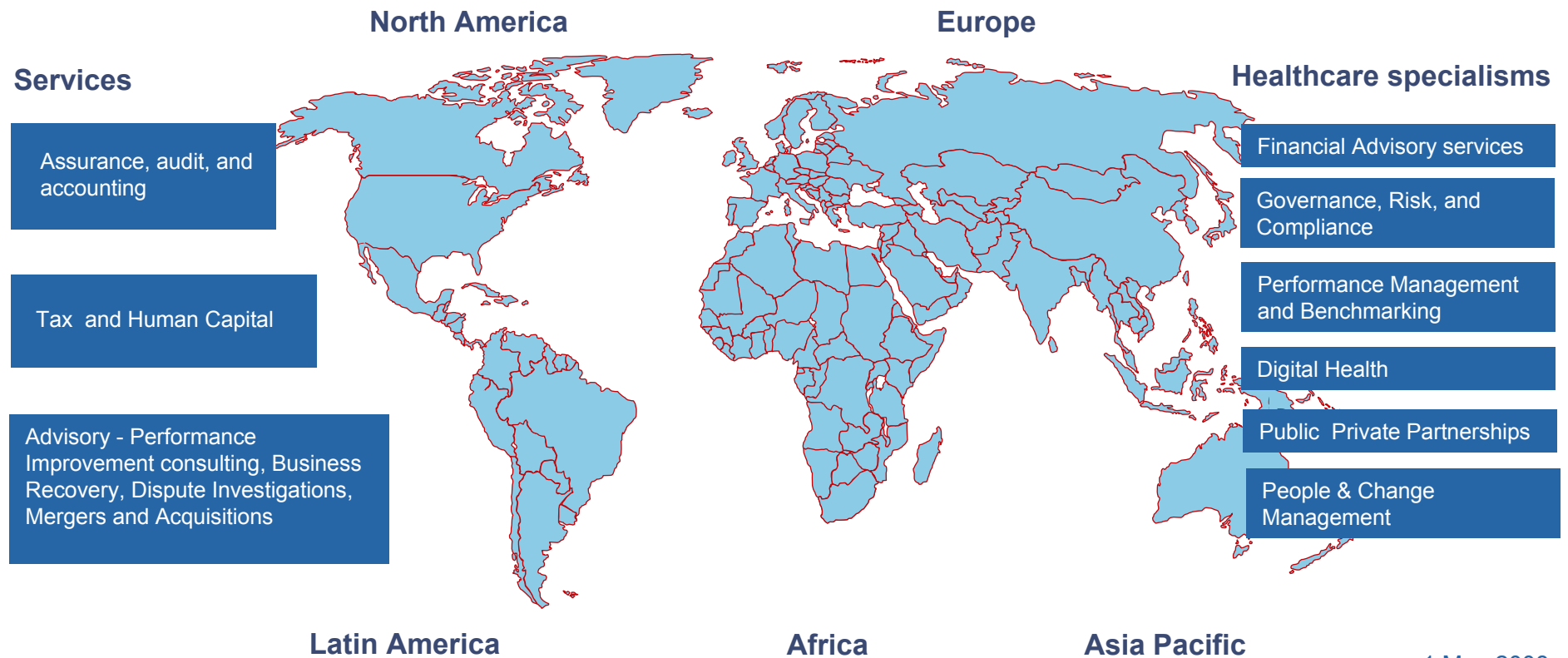
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# PwC Global Health Network

PwC provides a full and integrated range of advisory services to leading global, national and local healthcare organisations, and public institutions including governments, industry regulators and international agencies. By understanding the needs and issues of **providers, payers, pharma and life science**, as well as the complex interrelationships of these segments, we are able to help address our client's specific needs.



# Healthcare Research Institute (HRI)

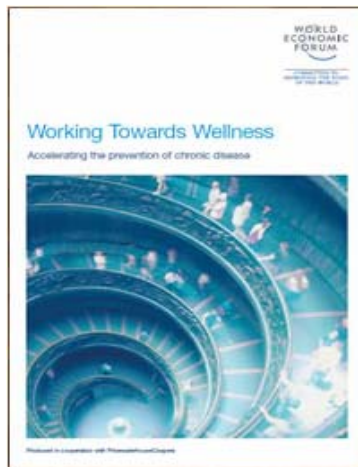
**PwC- HRI is an investment in research-based, connected thinking.**

We bring our clients intellectual capital from around the world to help develop solutions to their most complex problems. **HRI** is globally renown for thought leadership; and PwC knowledge management leadership was recognized by a panel of Fortune 500 senior executives who ranked **PwC as one of the Most Admired Knowledge Enterprises.**

- Builds on expertise of firm's top experts to help clients solve complex problems.
- Works with most influential industry executives and organizations on research (World Economic Forum, global quality experts, leading health ministers)
- Led by partners and directors with deep backgrounds in strategy, policy, research and publishing.
- Staffed by research analysts from PwC's advisory, assurance and tax practice who rotate through the institute.
- Governed by multi-territory board of U.S., U.K. and EMEA health industries leaders.



# PwC Publications

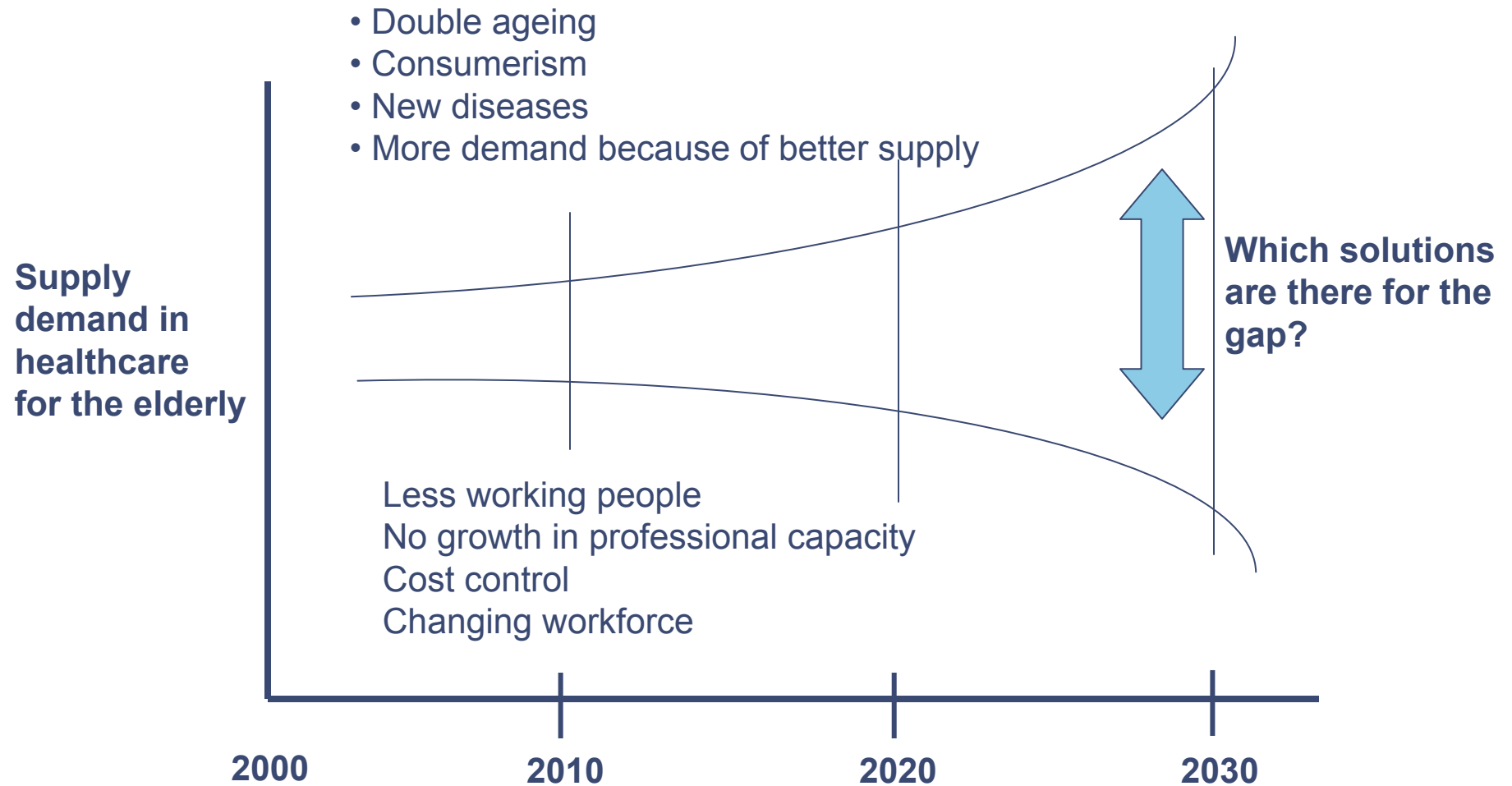


# Healthcast 2020: Key findings

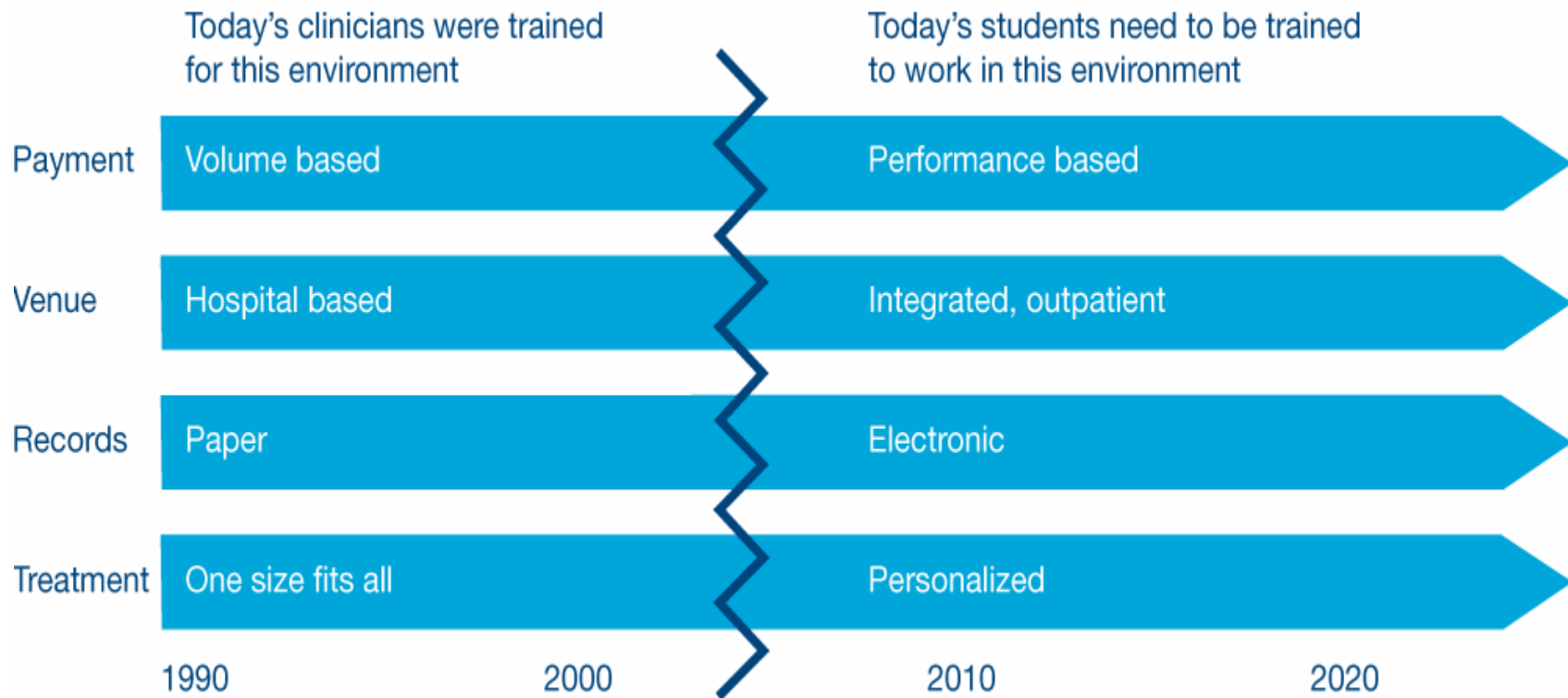


1. Provide insight in **worldwide trends in healthcare.**
2. Bring together a **variety of transferable lessons** which can support the improvement of the national, more and more converging health markets.
3. Identify **potential solutions** which are achievable for individual managers and policy makers, and with which governments and the strategic leadership within the health economies can implement the changes needed.
4. **Motivate all parties with the health sector** to look across their own boundaries and improve a sustainable health system.

# Growing gap between demand and provision of care



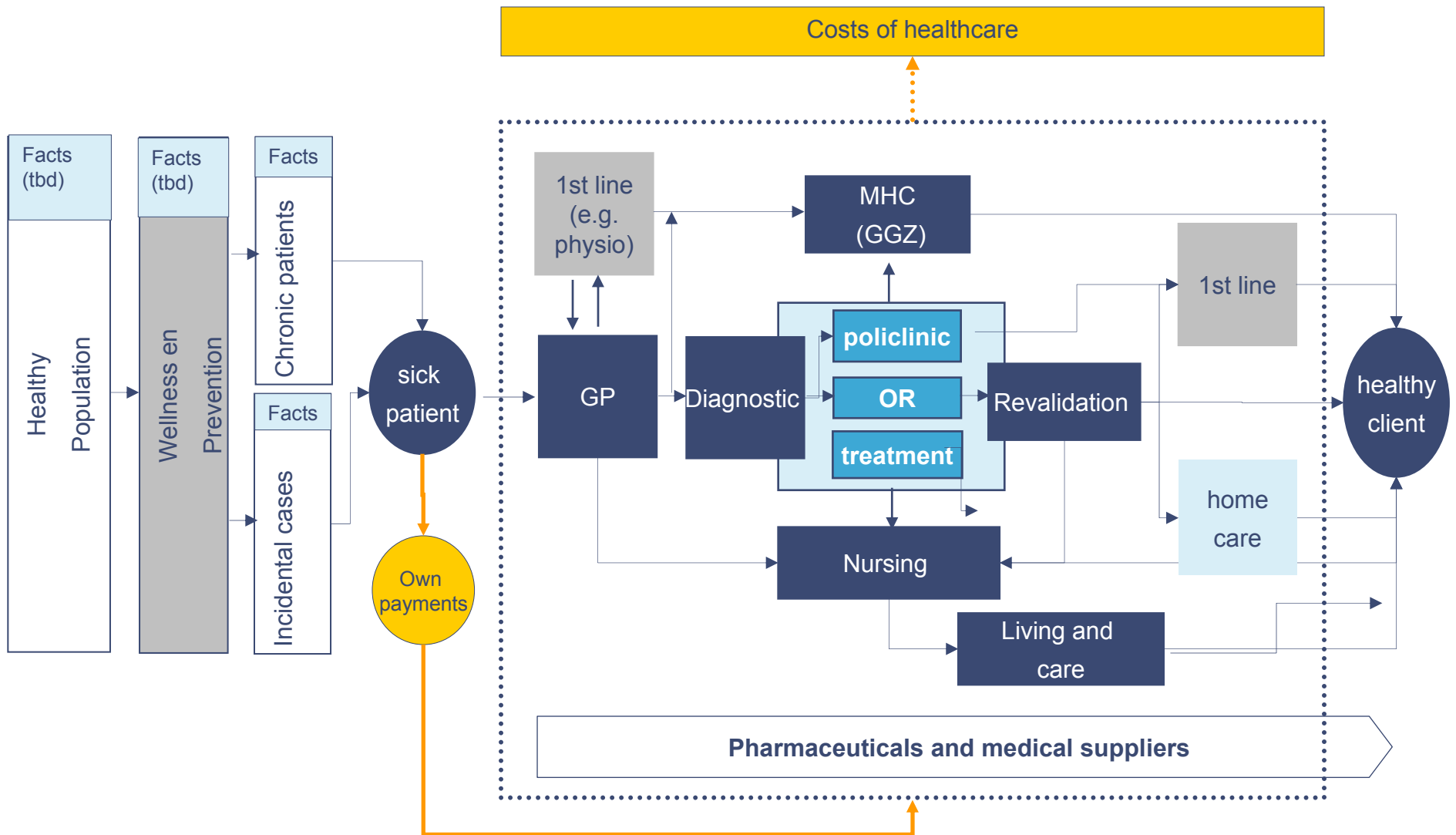
# As opportunities for clinicians grow and change, hospitals must find their competitive edge.



Source: PricewaterhouseCoopers' Health Research Institute

More than ever, physicians and nurses are placed in a stronger position to dictate the terms of their employment, and employers are increasingly finding that flexibility is central to attracting and retaining quality staff.

# Healthcare chain



# Global Payment Report: You Get What You Pay For – Balancing Demand, Quality, and Efficiency in Healthcare Payment Reform

## Healthcare payment systems are not built to meet coming demands.

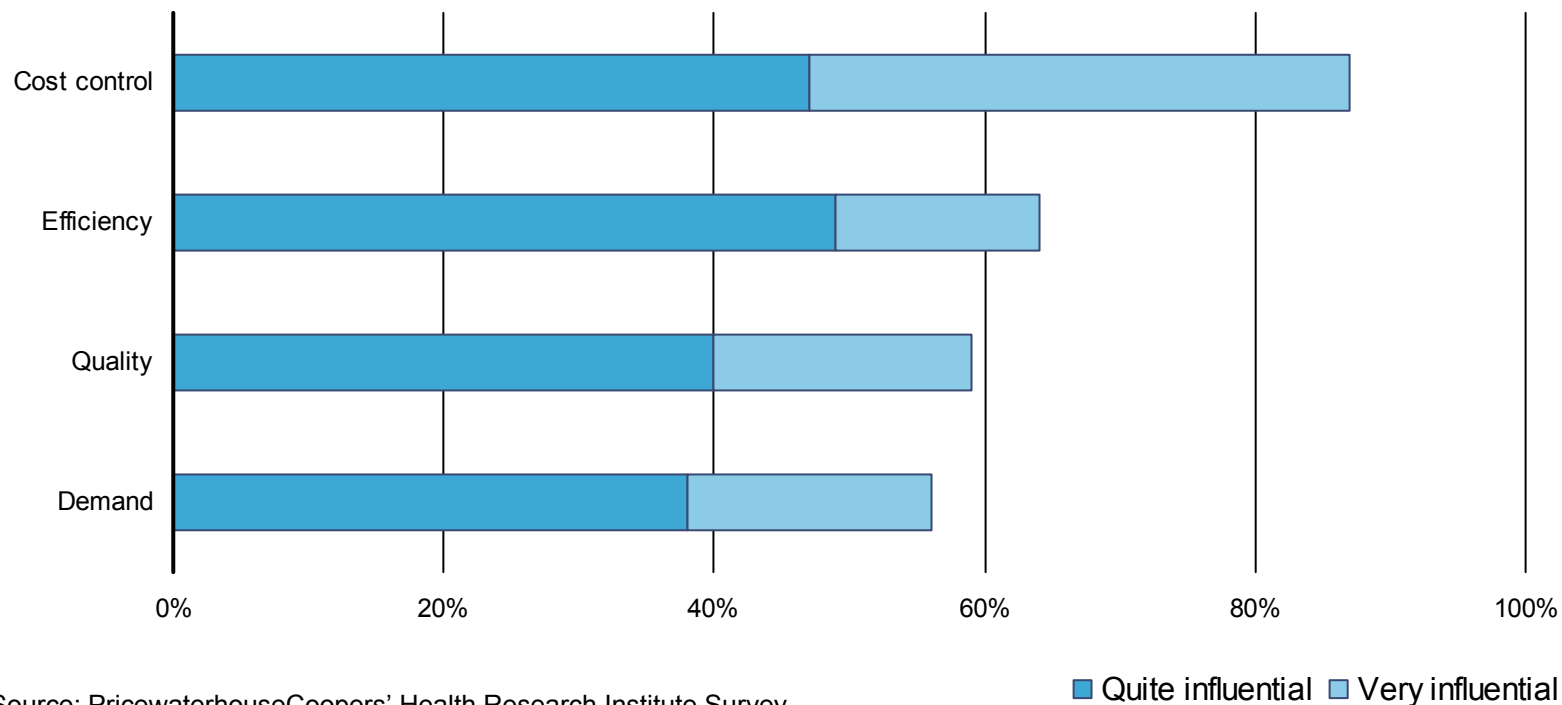
- Health leaders are concerned that payment systems will not meet the requirement of an **ageing population, new consumer demands, and technological progress**.
- **A new payment model needs** to be developed that can ensure quality and efficiency while meeting these demands. It will be a hybrid system (elements of P4P, salary and bonuses) that is responsive to technology and clinical change.

## High performing health systems require high-performing payment systems

- What gets paid for gets accomplished!
- Joop Hendriks, chairman of the board of the Bronovo Hospital in the Netherlands: **“If the government pays for Christmas trees, hospitals will produce Christmas trees”**.

# Cost control ranks as the most important factor in developing payment systems of the future

**How influential will the following factors be in terms of influencing future reimbursement?**

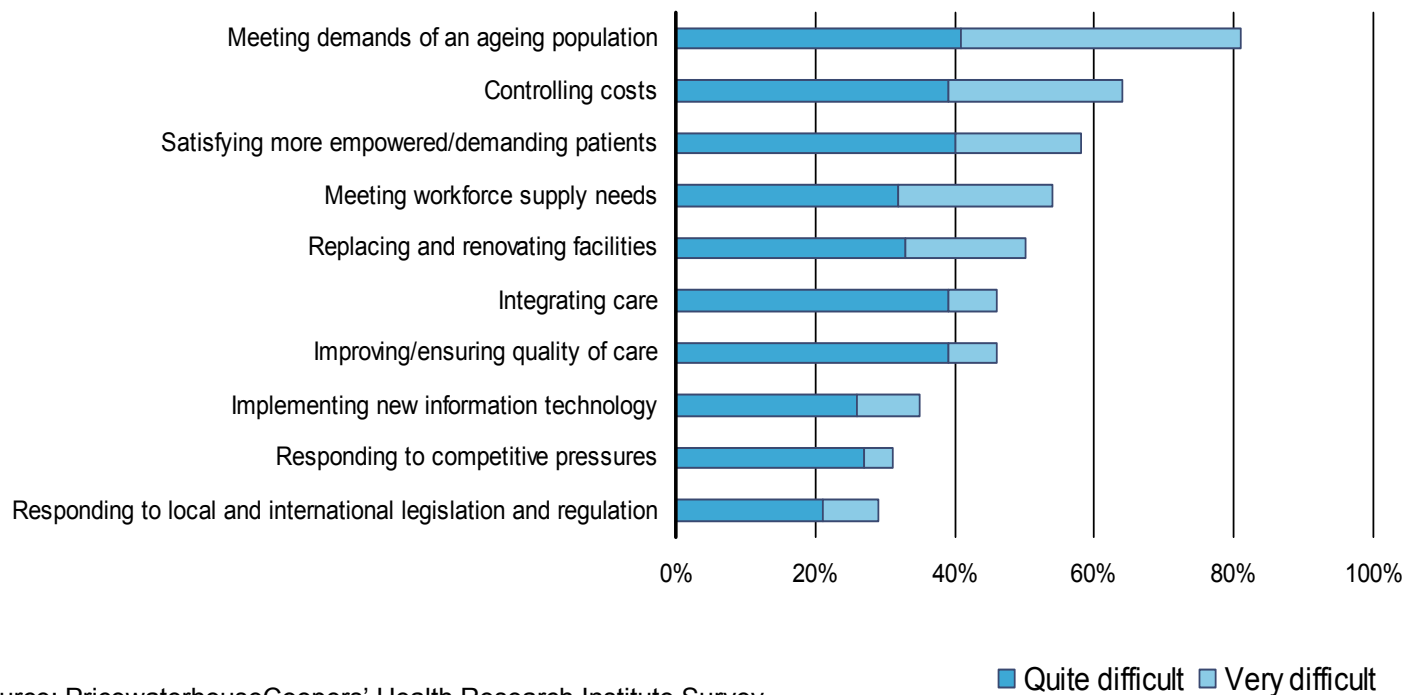


Source: PricewaterhouseCoopers' Health Research Institute Survey

■ Quite influential ■ Very influential

# Demand of an ageing population and controlling costs are now top of mind for health leaders

**How would you rate the difficulty of the following challenges which may impact on your health care system?**

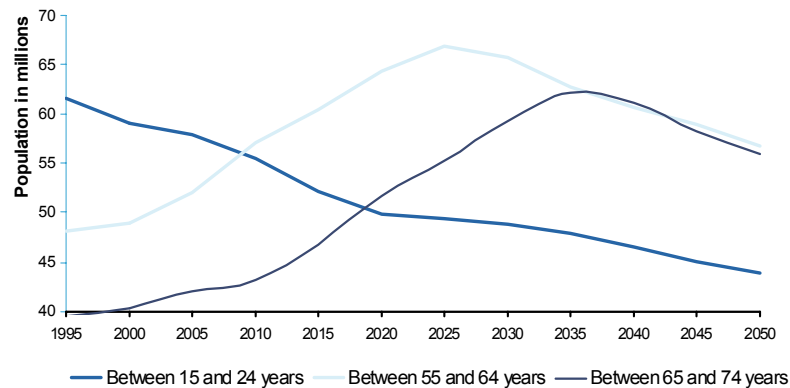


Source: PricewaterhouseCoopers' Health Research Institute Survey

■ Quite difficult ■ Very difficult

# Rising healthcare costs threaten sustainability of health systems

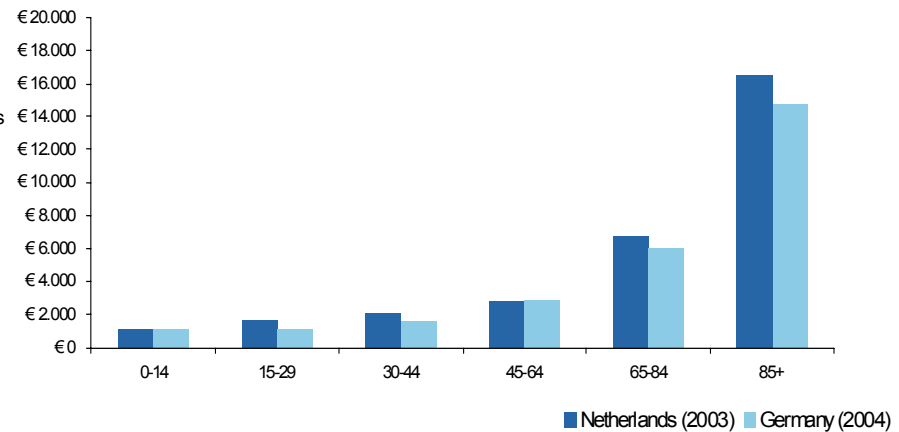
FIGURE #: Development of elderly and young population within the EU



**The number of elderly is increasing while the number of young people is decreasing, raising a troubling formula for health spending growth.**

**Average cost of illness rises significantly per capita in older age categories:**

FIGURE #: Average health spending costs per capita in the Netherlands and Germany (euro)



Source: Eurostat, RIVM, GBE

# Payment systems vary globally but what works?

Different methods have various advantages, disadvantages, and unique attributes:

Key Attributes of Healthcare Payment Systems							
	Cost Control	Administrative simplicity	Ability to use incentives for:				Specific attributes
			Efficiency	Productivity	Quality	Patient Satisfaction	
Salary (for GPs and physicians)	✓	✓	X	X	X	X	Physicians unable to avoid more complex patients
Capitation	✓	✓	✓	X	X	✓	Could incentivise underutilisation of care
Case-payment (DRG)	✓ / X	X	✓	✓	X	X	May encourage admissions, early discharge
Fee-for-service	X	X	✓	✓	X	X	May encourage unnecessary services
Budget	✓	✓	X	X	X	X	Dependable source of funding, but incentive is to spend full budget
Pay-for-performance	X	X	✓	X	✓	✓	Incentives can be misaligned if they become too complex
Day rates, per-diems (for hospitals)	X	✓	X	X	X	X	Incentivises admissions and length of stay
Fees	X	X	✓	✓	X	X	May encourage unnecessary capital investment

# Hospital reimbursement has moved towards case rates, but methods for reimbursement vary greatly

In general, countries with low levels of tax funding pay their general practitioners by fee-for-service. As the levels of tax funding increases, general practitioner reimbursement becomes a mixed system.

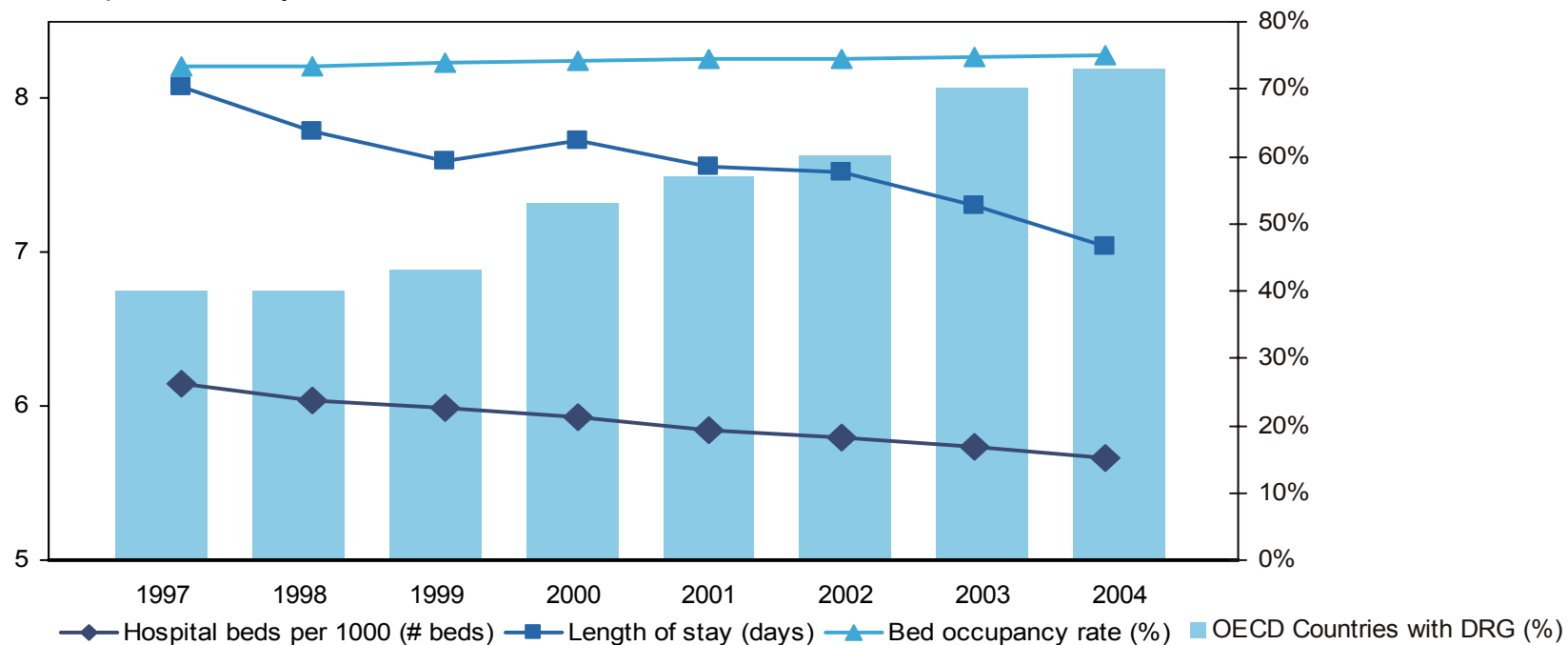
Reimbursement for General Practitioners and Physicians by Country		
	General Practitioners	Physicians (Inpatient)
<b>Fee-for service</b>	<p><u>Tax-based countries:</u> Australia, Canada, Finland, Ireland, Norway, Sweden, UK</p> <p><u>Insurance-based countries:</u> Austria, Belgium, France, Germany, Netherlands, Switzerland, US</p>	<p><u>Tax-based countries:</u> Australia, Canada, Finland, Ireland, Italy, Norway, Spain, Sweden, UK</p> <p><u>Insurance-based countries:</u> Austria, Belgium, France, Germany, Netherlands, Switzerland, US</p>
<b>Capitation</b>	<p><u>Tax-based countries:</u> Canada, Finland, Ireland, Italy, Norway, Spain, Sweden, UK</p> <p><u>Insurance-based countries:</u> Austria, Netherlands, US</p>	<p><u>Tax-based country:</u> Sweden</p> <p><u>Insurance-based countries:</u> Switzerland, US</p>
<b>Salary</b>	<p><u>Tax-based countries:</u> Canada, Finland, Norway, Spain, Sweden, UK</p> <p><u>Insurance-based country:</u> Switzerland</p>	<p><u>Tax-based countries:</u> Australia, Canada, Finland, Ireland, Italy, Norway, Spain, Sweden, UK</p> <p><u>Insurance-based countries:</u> Austria, France, Germany, Netherlands, Switzerland, US</p>
<b>Bonuses for quality or efficiency</b>	<p><u>Tax-based countries:</u> UK, Finland</p> <p><u>Insurance-based country:</u> US</p>	<p><u>Insurance-based country:</u> US</p>

HOW do we align payment incentives across all providers so that patients receive efficient care at the right time, location, and with the best resources throughout the care continuum?

# Key Findings: Efficiency

**The move to case-rates has improved efficiency: payers incentivised providers to reduce length of stay and deliver care in less expensive outpatient venues. However, capital resource planning and financing has not followed for healthcare delivery shifts from inpatient to outpatient in OECD countries.**

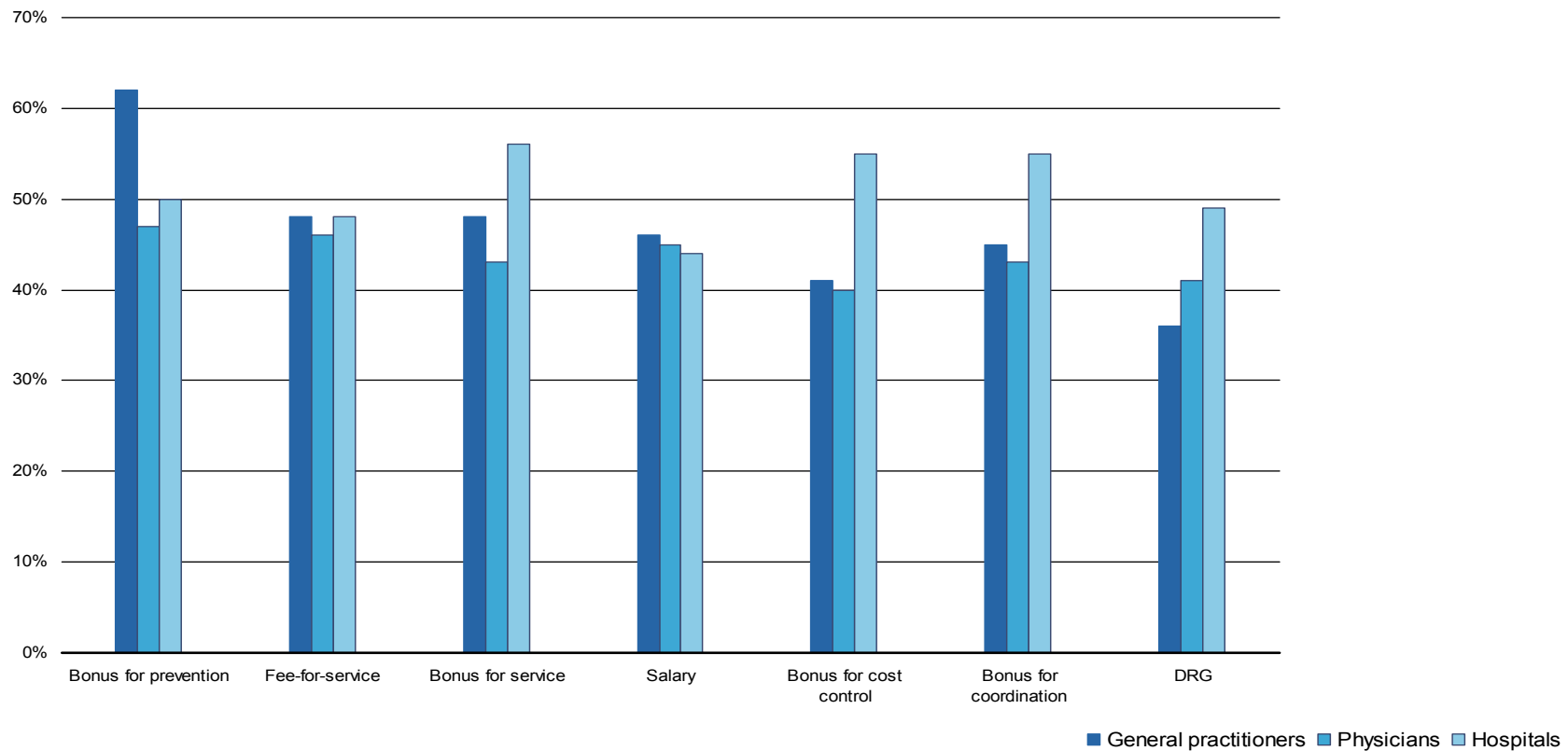
Hospital efficiency increases in OECD countries



Source: OECD Health Data 2007, OECD Economic Department Working Papers, WHO: Health Systems in Transition, HOPE, CIHI, ESRI, IHJ

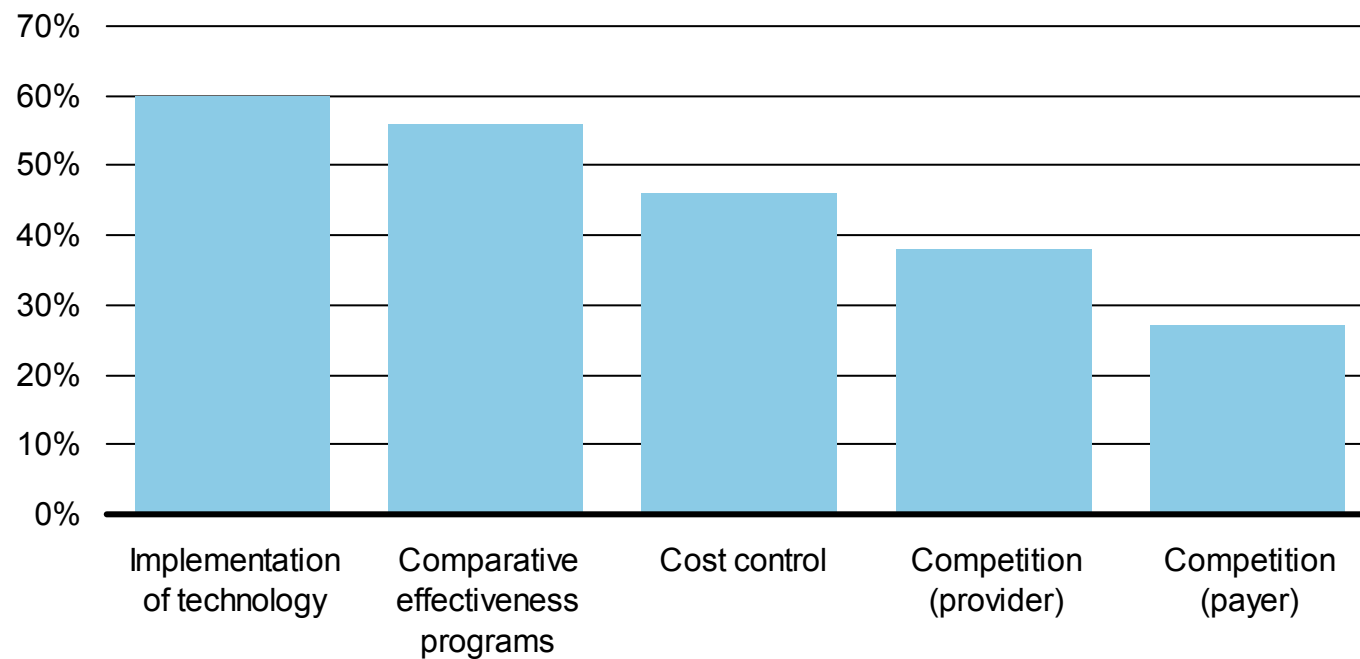
# Key Findings: Efficiency

**Which of the following payment incentives would be effective to improve cost, quality and efficiency?**



# Key Findings: Efficiency

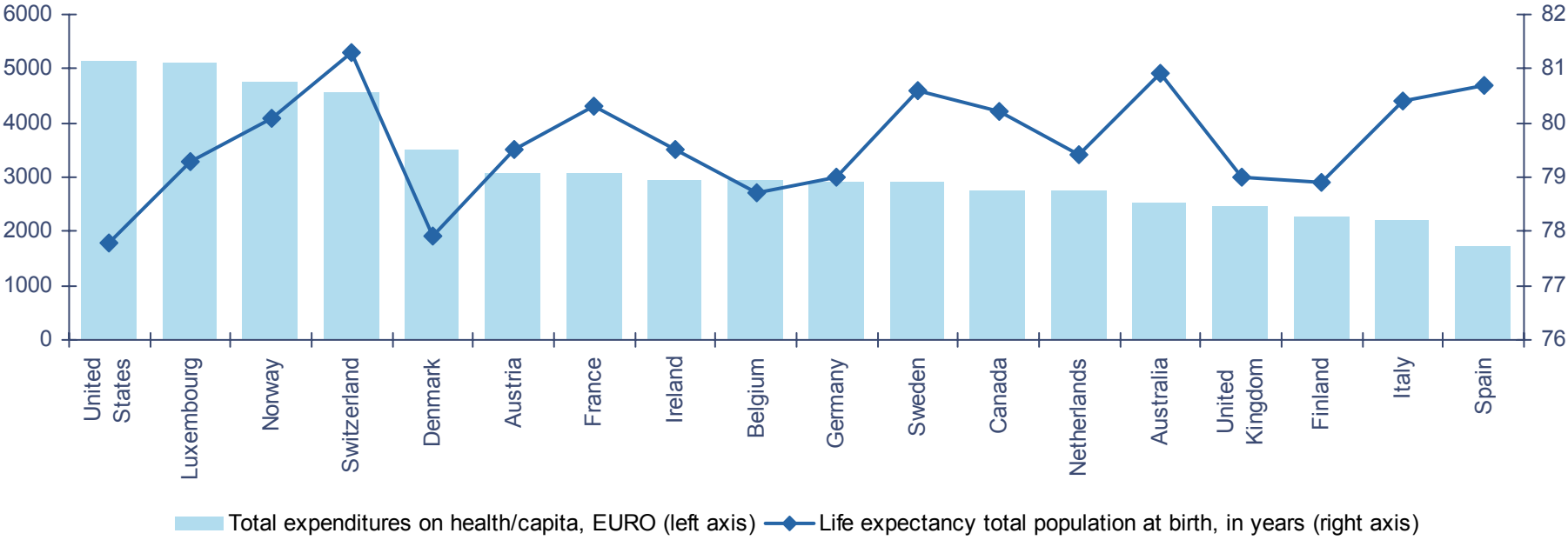
## Attributes for improving efficiency



Source: Health Research Institute Survey

# Key Findings: Quality

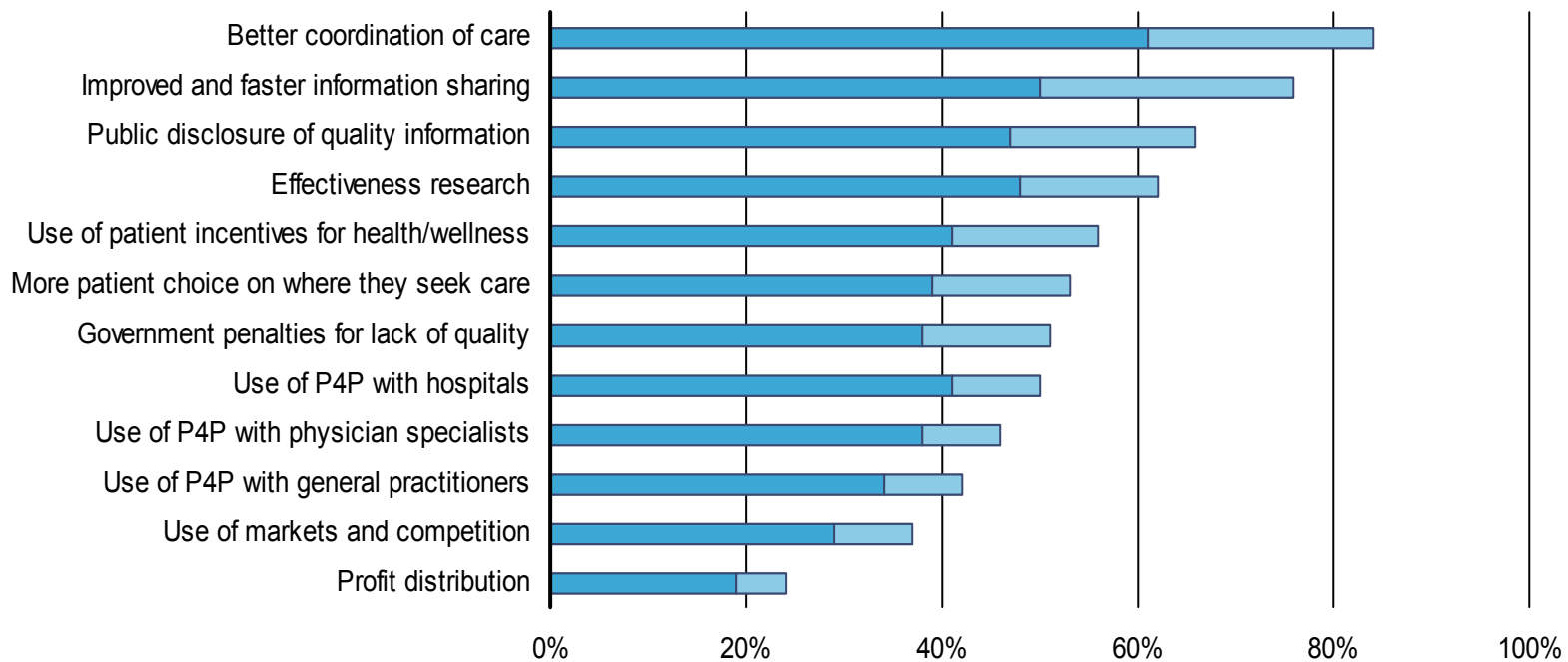
## More spending does not necessarily result in better health outcomes



Source: OECD Health Data 2007

# Key Findings: Quality

## Which of the following actions would improve quality the most?



Source: PricewaterhouseCoopers' Health Research Institute Survey

■ Improve quality ■ Greatly improve quality

**Key takeaway: Use financial incentives to spur more care coordination**

## Quality data alone is not enough to change payment systems

- Health systems worldwide are still evolving toward measurable ways of assessing quality that is meaningful to all stakeholders, including patients.
- Quality data is emerging in many countries but patients often do not act on this data. Patient choice is still largely driven by perceived quality rather than quantified medical or technical data.
- Sufficient bonus payments can improve quality – The National Health Service in England rewards quality using the Quality and Outcomes Framework.

# Key Findings: Demand

**Demographics, technology, unhealthy lifestyles increase pressure to effectively manage demand. Survey results show that better informed patients are the most effective tool in managing demand:**

Ranking of demand management attributes/forces

Ranks	Overall rank
Better informed patients	1
Health education and communication	2
Care pathway guidelines <sup>1</sup>	3
Entry point to care setting <sup>2</sup>	4
Gatekeeping <sup>3</sup>	5
Out-of-pocket payments	6

<sup>1</sup> A standardized process of care based on data and evidence.

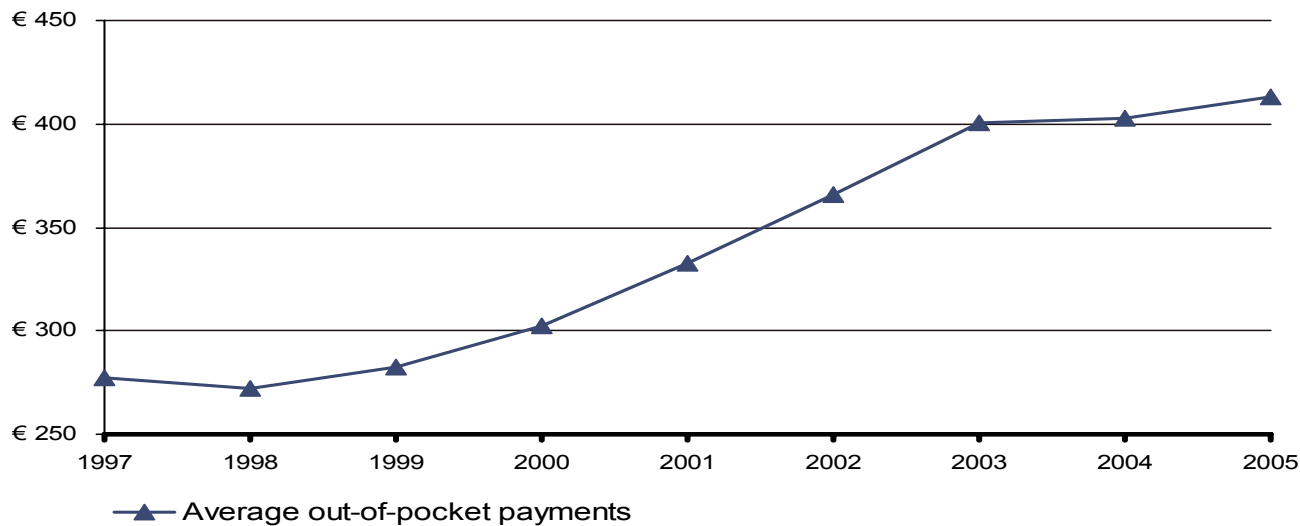
<sup>2</sup> Direct patients to the most efficient care setting such as hospitals, clinics and ambulatory surgery centres.

<sup>3</sup> Patients must get permission from general practitioners before seeking more complex or specialty care.

Source: PricewaterhouseCoopers' Health Research Institute Survey

# Key Findings: Demand

- Health executives favor transparency of information to direct both clinicians and patients. To achieve this, payers and providers need to establish incentives and produce comparison data.
- Health systems that have developed rational and efficient pricing systems will be at a competitive advantage in a global market for medical services. Cross-border treatments and out-of-pockets are expected to continue to increase:



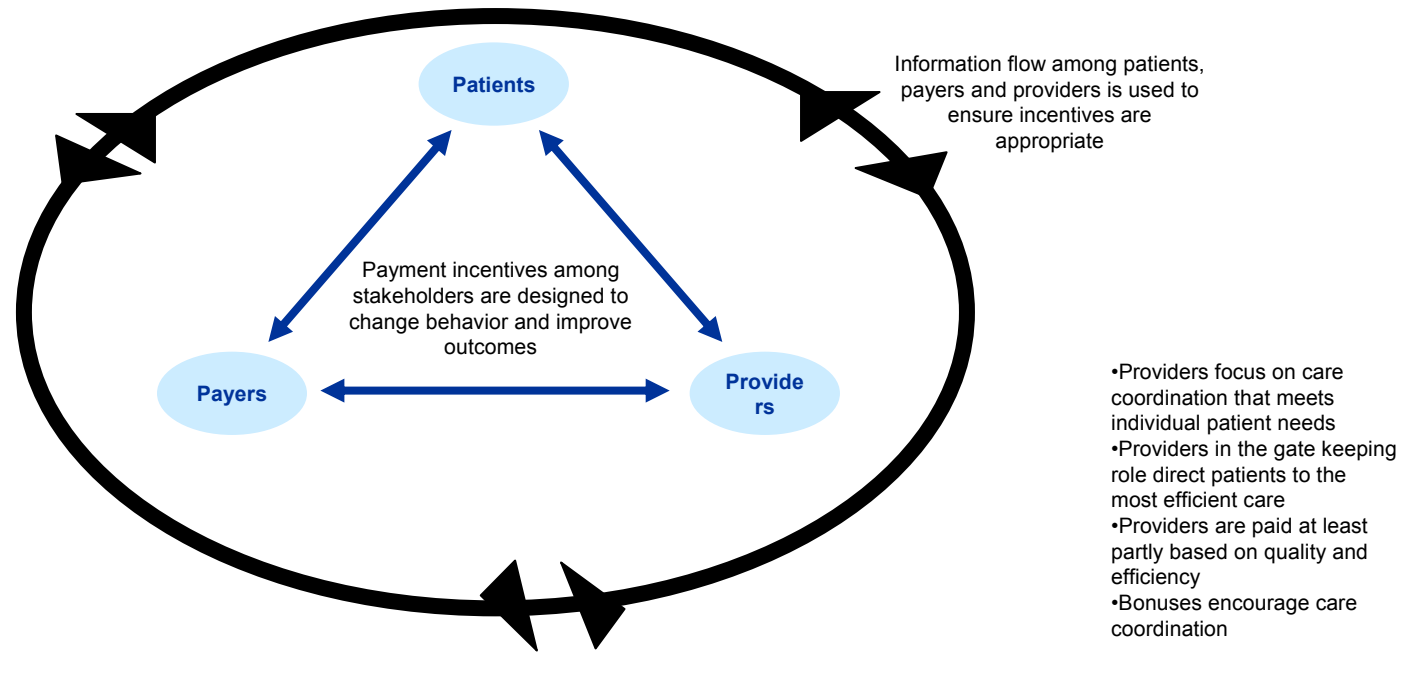
Source: OECD Health Data 2007, PricewaterhouseCoopers Health Research Institute

# The wealth of nations is increasingly linked to its health

A health system is dependent on its payment system. To be sustainable, it needs to link quality, efficiency, demand management to its structure among its key players. The elements and attributes of a new healthcare payment model are:

- Patients have access to actionable quality data from providers and payers
- Patients are incentivized to access the health system at the right place for their needs
- Patients access timely, relevant data to make better health decisions

Using incentives to develop and refine future payment systems



# How do we get there?

Payers, governments, and providers can move toward the payment model of the future by changes through people, structure, and technology

	People	Structure	Technology
Payers	Design incentives for physicians and patients that direct patients to most appropriate venue of care	Collaborate among payers and providers to standardize incentives  Design incentives that encourage coordinated care rather than silos	Build in a review cycle so metrics can be regularly evaluated and updated to remain current with innovation
Governments	Include change management processes for physicians and other clinicians when redesigning payment  Design national standards that can be implemented locally	Simplify payment structure to reduce complexity and conflicting incentives  Include incentives for teaching, research and development	Provide flexibility to encourage innovation
Providers	Develop culture of providing quality care while managing costs	Collaborate with payers to design incentives	Review capital cost deployment to incorporate information technology

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