

## Hospital Finance: Part 4 Understanding Value in Health Care

*This Health Issues Brief is the fourth in a series about hospital finance. It explores the multifaceted concept of value in health care and the importance it plays moving towards our future health care delivery system.*

### From Volume to Value

A central strategy of the health reform law, known as the Affordable Care Act, is to transform the reimbursement of health care in order to encourage greater efficiency and slow the growth of health care expenditures. This will require a shift from the current predominant reimbursement structure, Fee-For-Service (FFS), to a payment system based on value. Under FFS, providers receive reimbursement for each service rendered. This has resulted in unfettered utilization and provision of services. Consequently, health care costs have climbed over the years. This necessitates payment reforms that refocus the U.S. health care delivery system from volume to value. This of course begs the following question: what is value in health care?

### Defining Value

Traditionally value is the interplay of cost-effectiveness and quality. It is the proverbial 'bang for one's buck.' However, within health care, value has not been clearly defined or conceptualized. This is because value changes depending on the perspective of the stakeholder. Unlike many purchasing decisions, health care choices are incredibly complex and often made under duress. Although patients are the ultimate decision-makers and the end consumers of health care services, it is important to remember that health care decisions have many stakeholders—patients (and their families), providers and the payers. Value looks different for these various stakeholders.

For patients, value is receiving the best care available in a timely manner. In addition to their diagnosis, patients must consider their broader health and life circumstances, such as their familial and occupational roles. Patients rely on guidance from their providers—the hospitals, physicians, nurses and other clinicians that patients trust with their care—to receive the most appropriate care for their situation. For providers, value is the ability to provide patients with the best possible care. However, providers are often under pressure due to the financial implications of patients' health care decisions, which are influenced by payers or insurance providers. For payers, value is found through the provision of cost-effective care.

### Current Challenges

These diverse perspectives and, sometimes, conflicting goals of health care stakeholders, are exacerbated by the current FFS payment system. The FFS structure has led to the fractured nature of the health care delivery system in this country. Incentives are in place for providers to deliver a greater volume of services. Payers, meanwhile, have concentrated on payment rate cuts and increases in beneficiary co-pays as a means to control costs and boost efficiency. These strategies have proven to be self-defeating. Studies show that payment cuts usually result in the delivery of higher volumes of health care services. In addition, research indicates that patients often reduce their use of preventative care when faced with higher co-pays and deductibles.

### Stakeholder Perspectives

**Patients** value the capacity of health care to help them achieve wellness.

**Providers** view value in terms of the appropriateness of health care services rather than cost controls.

**Payers** emphasize comparative effectiveness and value evidence-based health care options that are cost effective.

## Establishing a Common Goal

In response to the problematic FFS payment system, health care payment model reforms seek to better align health care stakeholders around the common goal of value. Medicare has expanded pay-for-performance and value-based purchasing initiatives and many private insurance plans have followed suit. These programs have focused, for the most part, on process-based metrics that measure whether providers complete and adequately document a predetermined set of process items. Harvard Business Professor Michael Porter has noted that “most pay-for-performance is really pay-for-compliance.” This is because the metrics often measure steps in the process of care rather than the results.

A shared definition of health care is necessary to achieve a value-based health care system. This definition of value must emphasize results and quality measures that are meaningful to patients. This includes accurate and timely diagnosis, a lack of harmful or unnecessary treatment, less invasive procedures, speedy recovery, restoration of function and lasting wellness. Moreover, health care payment models must incorporate this shared definition of value.

## Key Takeaway

Value is a concept that is always in flux, depending on the stakeholder. Fee-For-Service is a challenge to achieving a value-driven health care delivery system. However, many efforts to change payment models in order to align health care stakeholders around a common goal of value have proved ineffective. This is because much attention continues to focus on process as opposed to outcomes.

In order to achieve a value-based health care system, payment reforms must create a reimbursement environment that redirects payment from a per-service basis to one that encompasses a broader view of the patient—from prevention to post-acute. It is essential that value-based payment models reward providers for delivering high value services that keep patients well rather than a high volume of services that lead to greater expenditures over time.

## Industry Comparison

When evaluating airlines, frequent flyers rarely consider the specs of the airframes or jet engines of the airplane. Rarely do airline passengers ask to see the cockpit checklists, training logs or credentials of their pilots. This is because value depends on results, not inputs. When purchasing airfare, consumers seek on-time arrivals, proficient baggage handling and comfortable cabins. They then weigh their relevant values against costs in order to purchase the most appropriate ticket.

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