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Using Bidding to Get Health Prices (closer to) Right

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Overview

- A little history
- Promising developments
- A Modest Proposal
- Caveats



History

- CPAC and health plans
- Durable Medical Equipment
- Part D PDP plans



Promising Developments

- MEDPAC June 2008 report
 - Move away from FFS is clear goal
 - Bundled payments, shared savings
 - Build on group practice demo, readmission facts
- Medical Home momentum
- Accountable Care Organizations
 - As an idealized concept
- Virginia Mason, Sumner Clinic, other examples



Why Bidding?

- FFS problematic, even with performance-based targets
- In competitive markets, winning bids will reflect costs of efficient providers
- Measurement revolution makes monitoring performance feasible/imaginable
- With no bidding, we depend upon the accuracy of strangers, in committees



Desiderata of Health Price bidding

- Want providers to bundle services optimally (e.g., value streams, like back pain, from VM experiment), rather than impose episode grouper from Baltimore
- Want bundled pricing to be “system-wide,” at least across multiple sites of care
 - Easiest for integrated systems
 - Possible for others (Sumner, Hill, etc)



A Modest Proposal

- Invite alliances or IDs to submit proposals for shared savings/bundled payment experiments to CMS and to private payers
- Proposal includes:
 - Diagnosis/action trigger
 - defined bundle(s) of services/codes
 - length of “episode” bid
 - bid = % systemwide reduction off “average” spend on that bundle for that diagnosis/action episode in that area
 - PLUS quality targets required to get full payment



Modest Proposal, 2

- Pay = Average Bid plus earned Bonus
- Bonus = $f(\%$ of system savings reflected in bid; note, it *can* be negative!)
- Bonus non-linear to reward low bids
 - Full bonus IFF appropriate quality targets met
 - Extra Bonus if in low cost area
- Note: Within 5 years, cut payment for separate FFS codes in episode for all non-participants to reflect savings from these experiments



Strategy and Caveats

- Uses innovators to learn how to buy smarter
 - Game theory / moral hazard problem
 - WHY we reward first movers lavishly
 - Ultimately depend upon non-monetary (e.g., prestige) drivers of competitive behavior
- Can be harsh for those without partners willing to implement joint protocols and share savings
 - Protecting them should not subvert goal

