Medicare and Medicaid Shift to Value-Based Purchasing Reimbursement System in 2014, Prompting Shift of Concentration on Quality Control

In 2012, the winding path of healthcare took a momentous turn when the introduction of the Affordable Care Act made Value-Based Purchasing (VBP) by CMS (Centers for Medicare & Medicaid Services) obligatory. From that point on, CMS altered its payment in response to various domains of service, which currently include Patient Experience of Care, Outcome, Process of Care and Efficiency. Since the introduction of the VBP system and especially with the addition of the latest efficiency measure, healthcare providers have been tasked with a double-tiered challenge: reducing costs in their facilities while simultaneously improving quality across the board.

Whereas previously Medicare, along with most U.S. insurers, reimbursed based on the quantity of services provided, the VBP system requires healthcare providers to do an about-face in their approach to administering care by reimbursing hospitals based on the value they provide. All of this is part of an ongoing initiative to induce blanket improvements in healthcare. This new quality-driven approach has lit a fire under hospital administrators to find success in a value-driven environment. As of 2014, the VBP program affects payment in over 3,500 American hospitals, with this number on the rise [1].

To review, the VBP program was first implemented in fiscal year 2014, with CMS retaining 1.25 percent of Medicare’s reimbursement from hospitals in the period leading up to its introduction. The gleaned $1.1 billion was then distributed to hospitals according to their performance on quality measures based on clinical process and patient satisfaction. According to Becker’s Hospital Review, 778 hospitals lost more than .2 percent of their reimbursement, while 630 hospitals were rewarded a bonus of more than .2 percent in 2014 [2]. In 2015, CMS will retain 1.5 percent of Medicare reimbursements to fund the next wave of VBP-based payments, and in 2016, CMS will retain 1.75 percent of reimbursements [3].

Since the establishment of the VBP system, healthcare facilities have been compelled to drive improvements in the domains of clinical process of care, patient experience and outcome. A fourth domain, efficiency, went into effect in FY 2015. The strategies behind measuring quality and improvement in the healthcare system will continue to evolve as the ever-changing landscape of healthcare advances, with new domains and measurement strategies being implemented each year by CMS.

The Introduction of the Efficiency Domain to the VBP System and how CMS Will Determine its Success

The Debut of Efficiency Leads to the Marriage of Cost Reduction and Quality Control.

Beginning on October 1, 2014 (which marked the start of the fiscal year 2015), the new domain of efficiency was added to the formula of CMS’s VBP system. This is the first of the domains to be introduced dealing directly with cost reduction. In FY
2015, the efficiency measure totals 20% of a hospital’s overall VBP score and in FY 2016 the efficiency measure will encompass 25% of the score [2].

Whereas the first three healthcare domains placed predominant concentration on optimizing clinical processes, the efficiency domain brings forth a game-changing element to healthcare quality evaluation: the removal of unwarranted expenses. The increasing significance of fiscal acuity forces a new perspective on the challenge of cost reduction in the healthcare environment. Incorporating lean principles into the delivery of healthcare ensures the proper alignment of cost reduction and quality control. One will naturally lead to the other. As waste elimination forms the heart of the lean method, the implementation of this system yields cost reduction as an organic result. Applied correctly and effectively, lean principles will bring about increased productivity, timely delivery of services, expanded quality and lowered cost.

The following charts give a basic outline of the VBP system’s domain weighting in fiscal years 2015 and 2016 [4].

**VBP Domain Weighting FY 2015**

![Pie chart: Patient Experience of Care (30%), Clinical Processes of Care (30%), Efficiency (20%), Outcome (20%)]

**VBP Domain Weighting FY 2016**

![Pie chart: Patient Experience of Care (40%), Clinical Processes of Care (10%), Efficiency (25%), Outcome (25%)]}
Calculating an Efficiency Score According to the Current VPB System

In calculating a hospital’s efficiency score, the Medicare Spending Per Beneficiary (MSPB) must be determined. The efficiency measure encompasses the amount spent per Medicare patient for eligible care episodes, beginning three days before hospital admission and ending 30 days after discharge.

Each hospital has a baseline MSPB, a number which echoes its achievement for the period from May 1st, 2011 to December 31st, 2011. The efficiency score is calculated by dividing the hospital’s representative MSPB by the median amount per Medicare beneficiary.

A score of 1 signifies that the hospital meets the average efficiency on a national level. A score of under 1 signifies that the hospital is more efficient than the national average. A score above 1 signifies that the hospital is more costly than the national average [4].

Example Chart: Hip Replacement w/ $9,000 Set As National Average

<table>
<thead>
<tr>
<th>Facility</th>
<th>Cost</th>
<th>Measure</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital A</td>
<td>$9,500</td>
<td>1.05</td>
<td>&gt;1</td>
</tr>
<tr>
<td>Hospital B</td>
<td>$9,000</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Hospital C</td>
<td>$8,000</td>
<td>0.88</td>
<td>&lt;1</td>
</tr>
</tbody>
</table>

Fundamentally, a hospital’s federal efficiency score for the fiscal year will be calculated through one of two determinations: the hospital's MSPB score for the performance period of May 1, 2013 to December 31st, 2013, or its improvement since the baseline period in 2011 [4].

The takeaway? There are two ways to score in the VBP system: either through substantial improvement over your baseline, or outshining other hospitals through performance.

Using a Value-Driven Environment to Your Advantage by Employing Lean Principles – And How Lifelinc Can Help

Lean Principles Optimal in Bringing About Improvements

Driving the improvements that the VBP system demands for maximum compensation requires sophisticated strategies for identification of areas in need of betterment as well as refined implementation methods. Additional resources are nearly always necessary.

The changes that have rocked healthcare reimbursement over the past five years leave some hospital administrators and clinicians scratching their heads on the best way to proceed in driving improvements in their facilities. While the notion of cost-reduction-based measures often leaves a bad taste in the mouth of both administrators and clinicians, value-minded healthcare professionals will
see these efficiency measures as a beneficial encouragement toward bettering quality. Savvy administrators who are driven by lean principles will approach these changes with the realization that improving the quality of care naturally results in cost savings. Lean principles revolve around the premise that through waste reduction, all work adds value. Determining value-contributing and non value-contributing actions in each stage of every process marks the start of developing lean operations. The process is extensive and thorough – it cannot be approached fragmentally.

LifeLinc Anesthesia, which embraces a lean and holistic approach to improving efficiency in healthcare facilities, provides a valuable partnership in anesthesia management. In simple terms, one can describe lean as a system that encourages using less to do more. With lean principles in hand, LifeLinc uses its clinical and administrative expertise to optimize all clinical and financial functioning in the anesthesia setting. This includes the following:

- Reducing or eliminating anesthesia subsidy
- Increasing surgeon and patient satisfaction
- Improving OR utilization and turnover time
- Increasing the frequency of on-time case starts
- Improving anesthesia’s overall role as a partner in your surgical team

LifeLinc strives for cost reduction through multiple methods unique to our company strategy. These methods include creating unique, efficient staffing models for each facility and expanding services into underserved areas like endoscopy and pain management. We also routinely partner with facilities to create innovative incentive packages for providers built around our ability to measure data, such as satisfaction scores and charting accuracy.

Moreover, the LifeLinc approach to anesthesia management is made-to-measure to each facility’s unique needs – never has LifeLinc used a “one size fits all” approach. And, as a long-term partner, real success lies in our continuous review and improvement process. We understand that your business ebbs and flows in real-time and a true anesthesia partner adapts alongside you, ensuring the most efficient care across your entire perioperative process.

SOURCES: