

# Value-Based Reimbursement Trend and Implications for Innovation in Orthopedics

OTIS Medical Commercial Affairs

## Increasing Focus on Providing Value for Payers & Patients

We are witnessing a steady shift in US healthcare service providers reimbursement from a "fee-for-service" (FFS) model to a "value-based reimbursement" (VBR) model, where value can be defined as:

$$\text{Value} = \text{Health Outcome} / \text{Dollar Spent}$$

The implications of this changing reimbursement paradigm are significant for orthopedic industry manufacturers as innovations should now equally focus on providing value. A brief look at the drivers of this shift in focus to value may shed some light on where to focus innovation efforts.



A key driver of VBR was the introduction of the *Accountable Care Act* ("Obamacare"), which, in orthopedics, largely applies to the Medicare population for Total Joint Replacement procedures in a sub-set of hospitals, where the level of reimbursement is based on performance to quality, cost and patient satisfaction metrics. However, private insurers have quickly followed suit, breaking the trend. For example, Anthem is currently paying out 5% of its reimbursements via value-based care models.<sup>1</sup> The result has been a focus focus on delivering improved outcomes at reduced cost during the all-important "90-day episode of care" to which payments often apply.

The increasing shift of orthopedic procedures from the hospital setting to the ambulatory surgical center (ASC) setting is also contributing to the focus on value. ASCs can provide better outcomes at a lower cost of care than hospitals can for certain patients and payers are taking notice and contracting with ASCs. Interestingly, the ASCs are also making higher profits despite lower reimbursement. How do ASCs provide better care at lower cost? There are several reasons. First, ASCs accept for payers, in other patients who can be discharged within 24 hours. The result