

Value-Based Reimbursement Trend and Implications for Innovation in Orthopedics

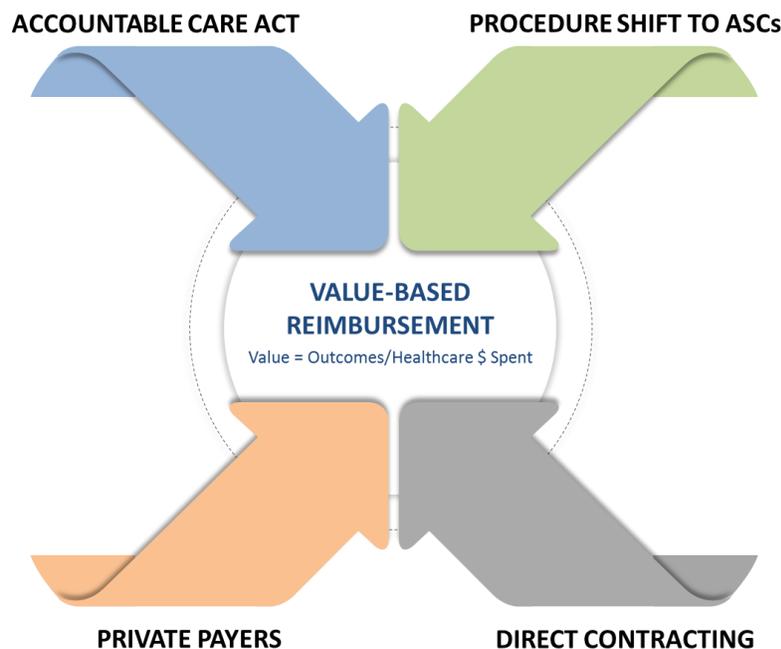
SITES Medical Commercial Affairs

Increasing Focus on Providing Value for Payers & Patients

We are witnessing a tectonic shift in US healthcare service provider reimbursement from a ‘fee-for-service’ (FFS) model to a ‘value-based reimbursement’ (VBR) model, where value can be defined as

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

The implications of this changing reimbursement paradigm are significant for orthopedic industry manufacturers as innovations should now squarely 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, broadening the trend. For example, Anthem is currently paying out 58% of its reimbursements via value-based care models.¹ The result has been a keen 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 screen for younger, healthier patients who can be discharged within 23 hours. The result

is fewer complications and shorter length of stay which translate to reduced cost of care. Second, ASCs are highly cost-conscious due to the lower reimbursement. They scrutinize every element of procedure cost. In addition, surgeon ownership (or profit-sharing) in ASC's ensures they have a financial stake in procedure economics, and all ASC stakeholders are aligned in terms of what really creates value for the payer, patient and themselves. Third, ASCs have lower overhead costs from simplified operations.²

Further accelerating the focus on value is the emergence of care providers who will directly contract with large employers for the provision of high quality orthopedic care at fixed prices. One such group is the National Orthopedic and Spine Alliance (NOSA) which is comprised of the Rothman Institute, Cleveland Clinic, OrthoCarolinas, OrthoCalifornia, and The CORE Institute. To be able to offer fixed price (or 'bundled') care, these institutions have focused on elements that create best-in-class outcomes and eliminated non-value-added expenditures associated with a given procedure and episode of care.³

We think the shift to VBR is far from over. With the US spending 17% of GDP on healthcare, about 50% more than any other high-income country, but with poorer health outcomes, payers, providers and patients can't help but demand better value.⁴

Shift to VBR Amongst Healthcare Service Providers is Driving Innovation

A walk through the exhibit area at the recent AAOS 2017 meeting shows how the industry is responding to the increased focus on value delivery in orthopedics. The larger industry players have begun to offer "Bundled Payment Consulting Services" to help hospitals and ASCs improve outcomes and patient satisfaction at reduced cost during the 90-day episode of care. It may be instructive to note that this kind of service is relatively easy to copy/adapt and affords little in terms of sustainable competitive advantage.

We also witnessed more surgical robots on the exhibit floor than ever before. The companies touted an improved accuracy of implant placement and improved short- and long-term outcomes for Total Joint Replacement and Spine procedures. Clearly, there are more significant barriers to entry for surgical robotics and they provide a wider competitive moat.

These are just two examples of innovations focused on the 90-day episode of care. While innovations promising improved longer-term outcomes are still valued by healthcare providers and their patients, there is less willingness to pay more now for a potential payback that is years away. Thus, innovations today must have demonstrable benefits in the short term if there is an increase in price or offer a potential improvement in the long term but at no greater price today.

SITES Medical Value-Driven Innovation

SITES Medical, an organization entirely focused on Value-Driven Innovation in orthopedics, has responded to the market's call for value by creating a suite of orthopedic implant technologies and manufacturing process improvements that can reduce cost, improve outcomes and increase patient satisfaction. These technologies are available to OEMs today. More information can be obtained by contacting SITES Medical, or by visiting www.sitesmedical.com.

References

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