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:

Value = Health Outcome/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 Affordable Care Act ("Obamacare"), which, in orthopedics, largely applies to the Medicare population for Total Joint Replacement procedures in a subset 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 50% 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 outpatient/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.