

***Reducing Variation In  
The 'Real' World:***

***"It's The Reimbursement System, Stupid"***

***Robert S. Galvin, MD  
Princeton Conference  
May 15, 2003***

# ***Variation and Payers***

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***Why It Matters:*** Want to Pay for the Right Level of Service,  
Done Well

***Options:*** ***Either:*** All Providers Begin Using The  
Right Level of Service

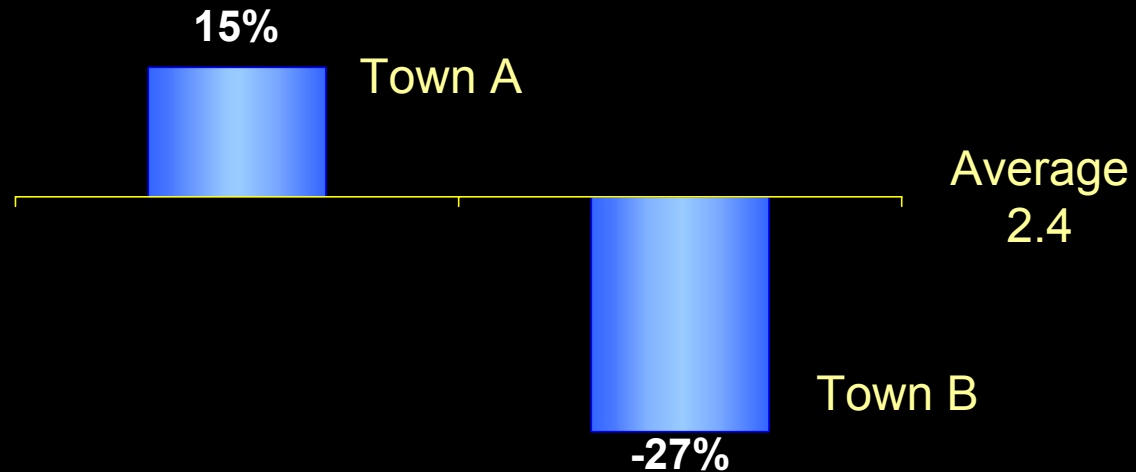
***Or:*** Shift Population to Those Providers  
Using The Right Level of Service,  
and Cultivate Them

***To Payers Variation Within Regions As  
Important As Between Regions***

# ***Real World I: “Let’s Reason With Them”***

**CABG – 1992 - 1993**

(Use/1000, Age/Sex Adjusted)



## ***Dialogue:***

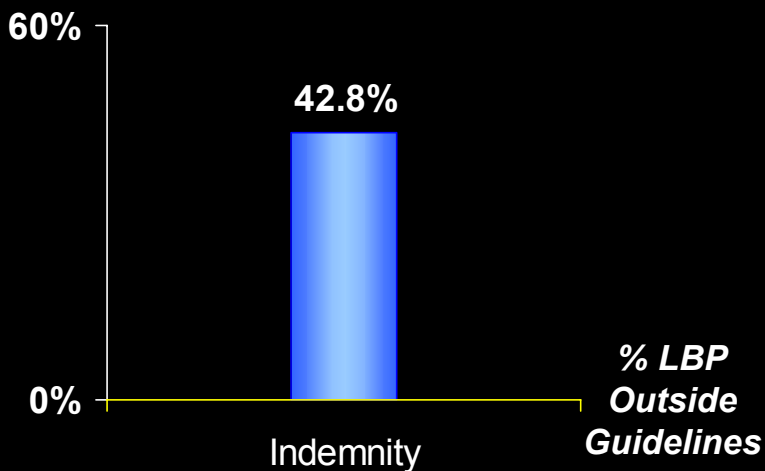
***Payer:*** “We’re not sure which frequency is the right one, but we don’t see any obvious differences in outcomes. Town A, Why are you so high?”

***Town A:*** “We’re just an operating kind of town.”

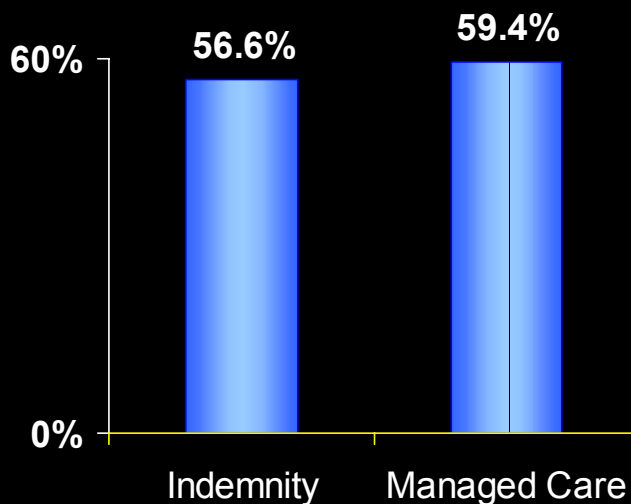
***Variation Without Gold Standards A Non-Starter***

# Real World II: "Let's Manage Them"

1994



1997



**One Person's Variation Is Another Person's Revenue . . . And A Patient's Choice**

# ***Next Act: Transparent Marketplace***



“Employers believe that consumer pressure is a powerful, underutilized lever for improving quality and efficiency. They believe that higher quality and lower cost will result if consumers spend more of their own money for services they believe are high quality, and if providers respond by improving their performance. For this strategy to succeed, consumers will have to be activated to seek more efficient, higher quality care and physicians will have to be rewarded for delivering it.”

Sounding Board  
NEJM, September 19, 2002

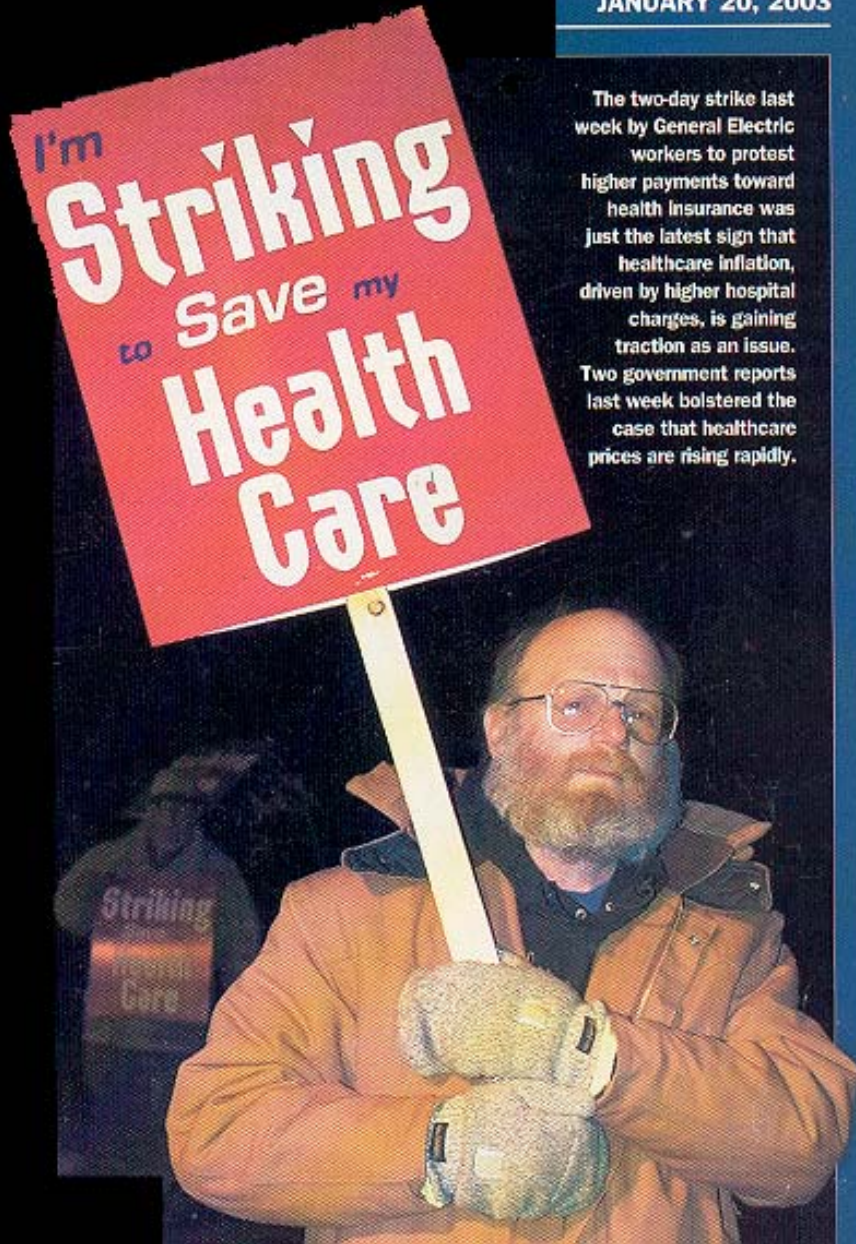


**THE LEAPFROG GROUP**  
for **Patient Safety**  
Rewarding **Higher Standards**

- ❖ 138 Members – Represents 33 Million Lives
  - ❖ Publicly Release Performance Measures
  - ❖ Educate Consumer-Patients
  - ❖ Reward Quality

# Engaging Consumers?

JANUARY 20, 2003



The two-day strike last week by General Electric workers to protest higher payments toward health insurance was just the latest sign that healthcare inflation, driven by higher hospital charges, is gaining traction as an issue. Two government reports last week bolstered the case that healthcare prices are rising rapidly.

***One Person's  
Incentive Is  
Another  
Person's Wage***

# ***Real World III: “Let’s Pay Them”***

## ***Bridges To Excellence***

### ***Using Evidence-Based Literature and Actuarial Analysis***

#### Diabetes

- Quality Care Saves \$350/Diabetic/Year
- Physicians ‘Certify’ Using ADA / NCQA Criteria
  - Purchaser Keeps \$175
  - Physicians Get \$100/Patient Incentives \$75

All Payers:

For Practice with 100 Diabetics - \$10,000/Year

For Diabetes Clinic with 1,000 Diabetics - \$100,000/Year

***What It Takes To Reduce Variation in Practice:  
A Market That Rewards “Gold Standard” Care***

# ***What's Different?***

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- ❖ Employers And Providers Co-Designed Program and Rewards
- ❖ Standardized Measures . . . Begin With Process and Outcomes, Add Efficiency
- ❖ Patients With Financial Incentive – Upside Only
- ❖ Business Case for Quality – Shared Savings
- ❖ Pilots in Boston, Cincinnati, Louisville – Cardiac Program Added in Fourth Quarter 2003

***Move Volume To Providers Doing It Right . . . Reward Them . . . Address Resource Use Next***

# ***The Multiplier Effect: In The Payment Game, Size Matters***



***Employers and CMS: Strategic Partners?***

# ***What The Survivors Have Learned***

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- ❖ Variation Without Gold Standards Not Operational
- ❖ One Person's Variation Is Another Person's Income
- ❖ One Person's Incentive Is Another Person's Choice . . . And Wage
- ❖ You Get What You Pay For
- ❖ "Purchasing Approach" Requires Volume: Employers and CMS

***Follow The Money***