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Health Care 2.0—Massive Implications of System Transformation

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We are in the middle of extraordinary times. Transformation of the health care industry is happening. Yet the transformation has been uneven. Activity is widespread; major initiatives are underway. A few organizations have **already** achieved major successes at the "three-part aim" of "better care for individuals, better health for populations, and reduced expenditures." Others are still fighting inertia and have either stalled or settled for incremental changes.

There is widespread implementation of initiatives such as accountable care organizations (ACOs), patient-centered medical homes (PCMHs) and bundled payments. Progress is underway on "organization" and "care" such as improved quality on many pilots. "Accountability" (and the twin goal of affordability) is moving far slower.

So, actuaries have an enormous opportunity and responsibility. Our existing expertise, combined with new analytic tools, when implemented alongside collaborative providers can make a major difference. It is time for our active engagement—to create accountable and affordable programs, and to forge partnerships with responsible providers.

This article outlines the direction of the industry leaders and massive forces driving change, and then identifies implications to health actuaries.

Industry Direction

Industry leaders have agreed on two fundamental problems in the industry: the fragmented health system and the historic fee-for-service payment system that often rewards volume rather than value and results. Multiple initiatives are underway to address both problems in parts of the country.

There is a much larger toolkit of solutions, including new data sources, analytics and provider-based solutions. Various initiatives to implement and test these potential solutions are moving through a variety of pilots.

Government buyers have implemented many significant new programs. These include various federal (Medicare/CMS/CMMI) programs such as 259 federal ACOs with 4 million beneficiaries and over 400 hospitals participating in the bundled payment initiative.

In addition, there are hundreds of other additional PCMH programs and private sector ACOs.

Activity is high, but the health care industry is one-sixth of the economy. So, even though there is high potential, much needs to be done to implement solutions across the entire country.

The transformation across the industry is unstoppable. However, a transformed environment, by itself, will not create the results you or your organization want. Industry transformation does not mean that you or your organization will be successful. "Standing still" or incremental improvement means long-term failure; so, your active involvement is needed.

Forces Driving Change

Transformation of the health industry is driven by the same powerful forces that have transformed other industries. Major innovations in technology and new competition create high potential for improved personal service and economies of scale. Then, financial pressures from buyers overcome inertia to drive implementation of innovations.

In a time of transformation, it is very important to understand the external environment and major new solutions and initiatives being tested. Each initiative under way has its own advantages and disadvantages. Some previous solutions will no longer be needed; others become far more powerful. And, a much wider toolkit of potential solutions is available when carriers and providers work together. We have seen industry leaders begin to integrate highly diverse elements into comprehensive programs, including:

- Deeper evidence-based management of hospital and acute care.
- Payment reform (provider reimbursements that pay for value and results).

- Major advances in measurement systems for quality and resource use.
- Major quality improvements in many recent pilots.
- High industry collaboration, especially among leading providers.
- Health information technology (patient-centric single sources of data).
- Member engagement (including increasingly customized web and multimedia tools).
- Personal responsibility (including value-based benefit design and less generous insurance coverage).

Additional resources are available to understand the key innovations and major players:

- An overview is at "The Opportunities During Transformation: Moving To Health Care 2.0" [1]

- The Society of Actuaries sponsored research on "Measurement of Healthcare Quality and Efficiency: Resources for Healthcare Professionals" by me, Ian Duncan and Sheryl Coughlin. The research provides an overview on many major programs and initiatives.

The following table outlines the major forces that are driving this transformation.

Element	What Is New	Force for Change
Financial costs	Health costs are a massive problem. Cost increases drive out other government services. "Family coverage equals the cost of a mid-sized car."—*Milliman.com*	↑ Force
Employer support	Changed employer commitment, from formerly covering health plan cost increases, even if far higher than other compensation Higher contributions and more patient cost-sharing greatly change the engagement with employees.	↑ Force
Visible consensus	Widespread visible public discussion of financial problems and need for affordability More balanced objectives of improving quality and reducing premium increases Objective is total reform of health care delivery, not just a specific issue	↑ Force
Leadership	Innovation and change driven from the provider community Common, widely discussed policy consensus on problems and major concepts Many local initiatives	↑ Force

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Element	What Is New	Force for Change
Inertia	Inertia, as always, is a major obstacle	↓ Obstacle
Delivery system	Massive scope and energy in multiple voluntary pilots throughout the provider community Integration can lead to excellent performance, monopoly abuses, or both. The ultimate impact on affordability is yet to be determined.	↑ Force
Expertise on system reform and value-based payment	Many pay-for-performance programs over recent years More providers familiar with capitated Medicare Advantage (MA) in several parts of the country	↔ Mixed
Analytics and metrics	Substantive improvement in analytics and metrics (quality, resource use, episodes, prospective and retrospective risk adjustment) with continuing changes on the horizon Pilots underway for illness-specific metrics (such as complication-based risk sharing)	↑ Force
Data availability	Technical barriers to shared information mostly gone Short-term operational and political barriers remain	↑ Force
Care management	Major new data sources, systems support and successful illness-specific pilots including the various topics discussed earlier Implementation is still uneven, and some elements can be expensive to establish.	↑ Force
Contractual arrangements	Wide variation, but some key programs have sophisticated multiyear arrangements with more strongly aligned incentives In some cases, explicit transition arrangements are being developed.	↔ Mixed

Element	What Is New	Force for Change
Aligned incentives (payment reform arrangements)	Deeper and more sophisticated payment reform options on the table, but implementation is just starting and/or uneven Builds on years of pay-for-performance programs Alignment across Medicare, Medicaid, and commercial under discussion	↔ Mixed
Expertise in provider community	Widespread sharing of information at least in the short term Deeper internal staff and external consultants in some locations based on pilots, pay-for-performance, or other programs Alternative provider-level compensation arrangements	↑ Force
Health information technology (HIT)	Major improvements in provider level HIT Widespread Web-based patient support	↔ Mixed
Member "backlash" and "entitlement"	Lower benefits (bronze plan) and higher contributions create "skin in the game"—especially very high dependent contributions. Provider fees and total premium far more visible Backlash is not automatic. During prior reform attempts, minimal backlash occurred in some locations.	? Impact unclear
Benefit design	Some innovations, for instance three-tiered pharmacy benefits More provider interest in channeling volume through benefits The major system transformation is behind the scenes, so the ultimate patient/member role remains unclear. Open issues remain, such as the balance between choice and efficiency (for example, choice of a primary care physician).	? Impact unclear

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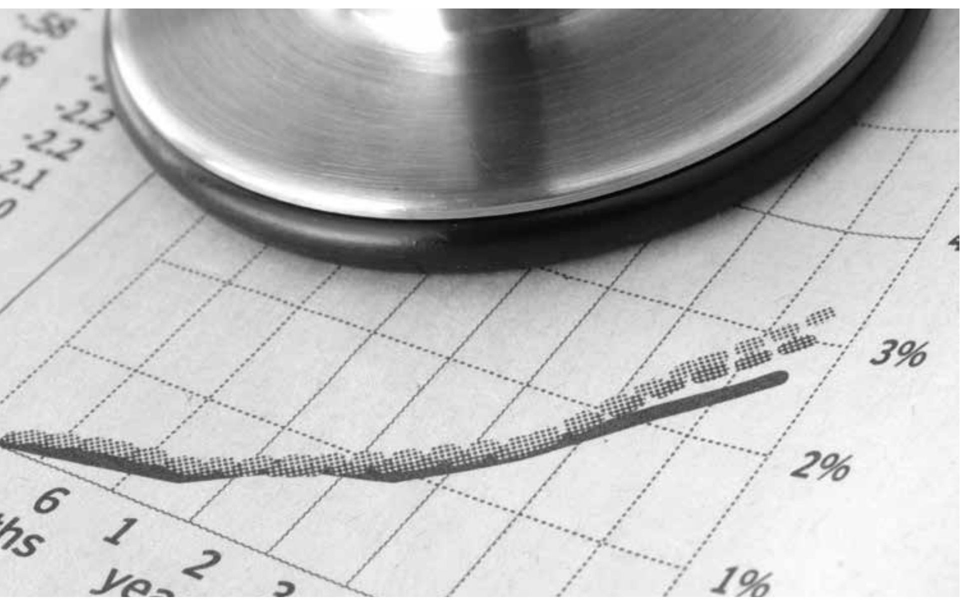
It is very different this time!

The energy and environment are massively different this time: these major forces were not there in the '90s. However, inertia is still a challenge. Any behavior change takes effort, and, beyond the generic problems for any change initiative, the local memory of a failed health reform initiative from a decade ago can create obstacles throughout some communities. So, although major transformation is inevitable, the pace and impact in your community is up to you.

Many important financial, technical and policy questions remain.

- How hard should buyers push for financial results in the early years?
- How do buyers and providers create the right working arrangement?
- Does integration lead to great performance, monopoly power, or both?
- Do new payment reform arrangements lead to expense reduction and lower waste?
- In a transformed system, what is the appropriate role for the member?



Implications to Health Actuaries

The many driving forces show that transformation is inevitable. This is easy to predict, since it is already underway. However, successful financial results are not inevitable. As mentioned, early financial results have been very uneven. Managing waste and creating affordable programs is tough. There are substantial trade-offs between short-term results and long-term system stability, and expert financial advisors are essential.

Health actuaries need to be the ones who bring solutions. As medical cost trends remain far higher than general costs of living, we must create opportunities for improvement. Status quo is not satisfactory in this new world. Regardless of your current position, it is essential to expand and deepen your role.

- For those connected to providers, you are at the forefront of a new industry.
- For executives, these major environmental changes offer new resources, create massive opportunities and risks, with major impact to your strategy and operations.
- Those with pricing responsibilities will need to quantify the future financial implications of these new approaches.
- For those with an analytic role, you will need to understand the new analytic tools and metrics.
- If you are new to the profession, major changes create massive opportunities, leveling the playing field between you and those with more historic experience.

Given the breadth and depth of changes, it is essential to track the external environment and be prepared to expand your role. For example, you should understand the following:

- How forces creating transformation are changing the ways the industry and actuaries work.

- The newest analytic tools and next generation of tools on the horizon and how they impact your job.
- New data sources, including clinical and patient data.
- Health system integration, including changes such as ACOs and PCMHs.
- Financial implications of techniques for attribution of patients.
- How providers can supplement your traditional toolkit.
- How to work with allies outside of your organization (whether providers, carriers, vendors).
- The strengths and weaknesses of new competitors.

During this time of change, the Health Section Council is expanding its continuing education content, including *Health Watch*, ongoing educational groups, webcasts and stand-alone seminars. Let me or other council members know your thoughts and suggestions.

The cost of health care is the burning issue for our times. For many of us, our core business is financial management of health care programs. We have the opportunity to create an improved and affordable health system for ourselves, family, friends, and the community as a whole.

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END NOTES

[1] *www.soa.org/library/essays/health-essay-2009-vigen.pdf*