VALUE-BASED PURCHASING OF MEDICAL DEVICES
PROJECT OVERVIEW

The Integrated Healthcare Association (IHA) has recently completed a two-year project to improve data transparency and payment methods for high-value medical devices, including orthopedic and cardiac implants, in the California health care system. This project brings together prominent hospital systems, physician organizations, and health insurance plans in the Orange County region, with the intent of subsequently applying lessons learned to the entire state.

Orthopedics and cardiology constitute two of the largest and fastest growing sectors of health care and have generated dramatic improvements in patient longevity and quality of life. Yet the utilization and cost of orthopedic and cardiac devices exhibit unjustifiable variations across geographic areas, hospitals, and individual surgeons operating in the same hospital. This variability in utilization creates a variability in patient outcomes and financial costs that is inconsistent with the principles of evidence-based and cost-effective medicine.

The primary source of variability is inadequate data on use, cost, and outcome, including an inability to compare performance among regions, hospitals, and surgeons. Hospital cost accounting systems often lack the specificity to analyze precisely which devices were obtained for which patient from which vendor, to track whether the amount paid corresponds to the contracted price, or to ascertain whether one type of device produces better patient outcomes than another. Health insurer data systems, derived ultimately from physician and hospital claims data, often lack information on volume, type, and price of specific devices. Medical groups and Independent Practice Associations (IPAs) often have data on procedures but not on the devices implanted as part of the procedure, despite the major role of the device itself in both the outcome and cost of the intervention. The various data systems of the hospitals, health plans, and medical groups do not communicate well with each other, and it is very difficult to develop benchmarks for performance.

The secondary, but also very important, source of variability is the complex mix of financial incentives that link device manufacturers and distributors, hospitals, health plans, medical groups, individual physicians, and patients. The choice of device is made by the individual surgeon, often with strong influence from the manufacturer and sometimes with influence by the patient. The cost of the device is borne by the hospital, which then seeks to pass that cost onto a third party payer. Some insurers, such as Medicare, bundle the cost of the device into one prospective payment that also covers facility fees, while others, including many commercial insurers, reimburse hospitals on a fee-for-service basis for the device, in addition to paying per-day or per-admission facility fees. Prepaid group practices and IPAs in California often pay part of the cost of the medical devices under “shared risk” and related capitation payment methods.

The value-based purchasing (VBP) project applies to high-cost orthopedic and cardiac implants the principles developed by IHA's pay-for-performance program: improved data collection and aligned financial incentives. The first part of the project focused on the most-common and best-available data systems in each sector (hospital, health plan, medical group) and the relationships among them. The goal of this component is to identify opportunities for improving data quality and comparability, promoting the ability of disparate data systems to communicate with one another, and creating benchmarks for performance. This project is exploring new financial incentives, potentially including payment methods for hospitals when purchasing devices from manufacturers and for health insurers when reimbursing hospital claims (e.g., through bundled, episode-of-care pricing).

The VBP project was launched in September 2006 and organizations in Orange County were invited to participate. The first phase has been centered around the Memorial Healthcare, a five-facility hospital system in Long Beach and Orange County, the St. Joseph Health System, with three facilities in Orange County, Tenet Healthcare, with five facilities in Orange County, and the principal medical groups that use their facilities for orthopedics and cardiology, including HealthCare Partners Medical Group, Monarch Healthcare, St. Jude Heritage Healthcare, St. Joseph IPA, and Bristol Park Medical Group. Major commercial and Medicare Advantage plans in the Long Beach and Orange County region include PacifiCare (United Healthcare), SCAN, Anthem Blue Cross, and Blue Shield of California, among others.

The Integrated Healthcare Association is a leadership group representing many of the most important physician, hospital, and insurance organizations in California, with additional representation of consumer, employer, governmental, and technology firms and organizations.

Information on the value-based purchasing project can be obtained from James Robinson, PhD, Kaiser Distinguished Professor of Economics, UC Berkeley, Chair of the VBP project, james.robinson@berkeley.edu, Weslie Kary, IHA, Program Director, Medical Technology, wkary@iha.org, or Tom Williams, IHA Executive Director, twilliams@iha.org.