



Aligning Financial Incentives

Pursuit of Value for Medical Devices: Strategies for Collaboration May 2008

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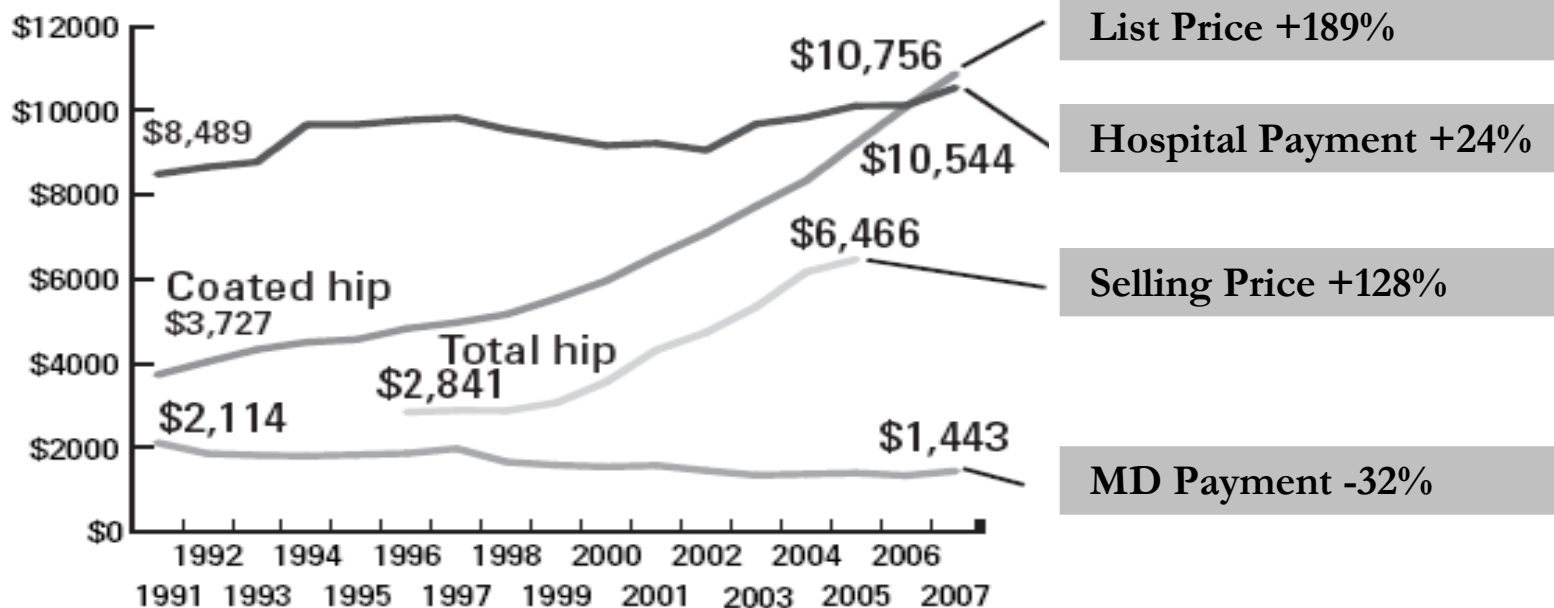
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Changing Healthcare

Hospitals and Physicians Face Continued Financial Challenges

Orthopedic Implants



Hospitals, Physicians and Vendors Face Continued Demand for Public Data

Transparency becoming the buzz word...

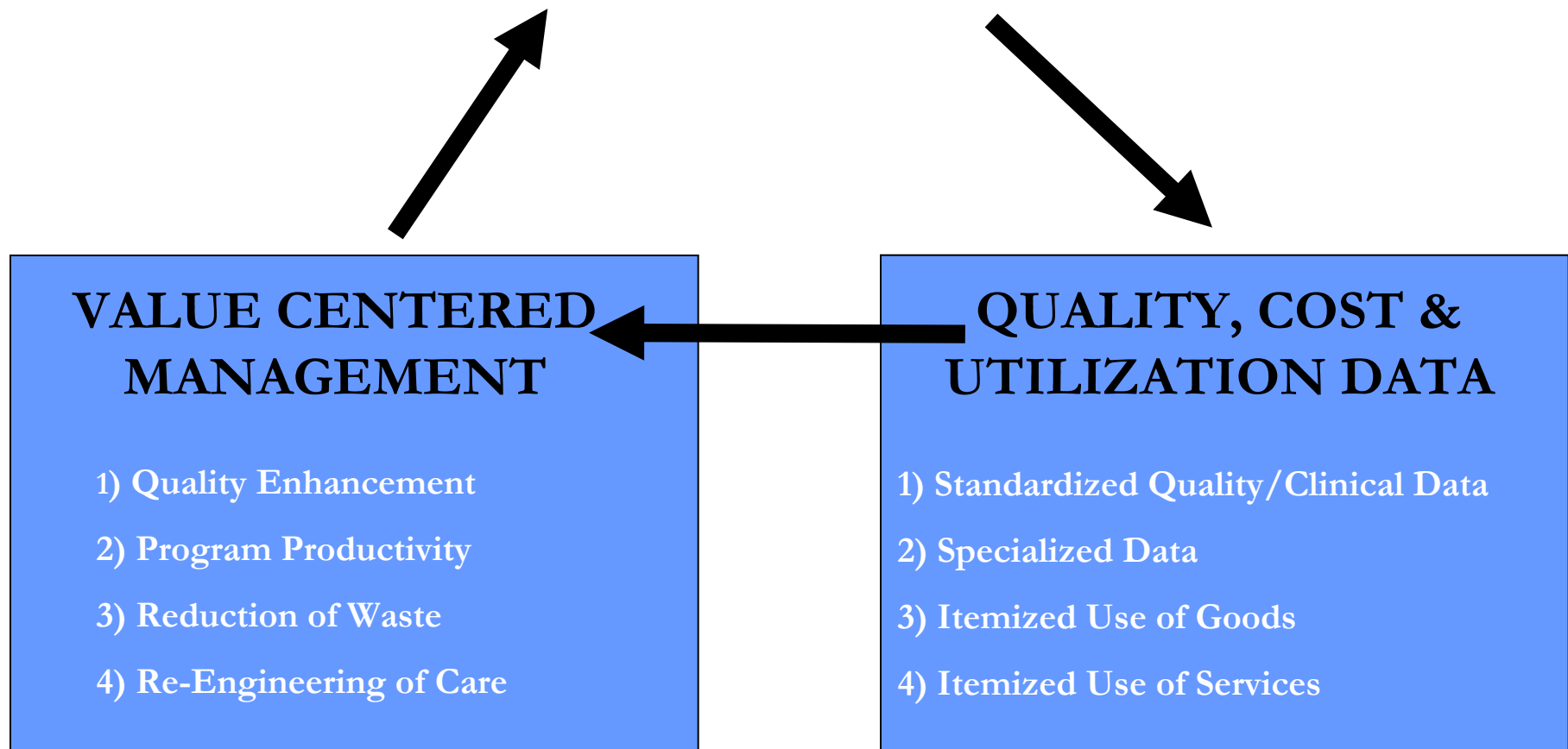
- **Medicare quality initiatives:**
 - Hospital Quality Alliance
 - Proposal for mandate to submit STS data
 - Demonstration Projects
- **DOJ requirements for implant manufacturers**
- **Physician Payments Sunshine Act and Transparency in Medical Device Pricing Act**
- **Leapfrog, private payers, state requirements**

Solving the Dilemma of Healthcare Reform

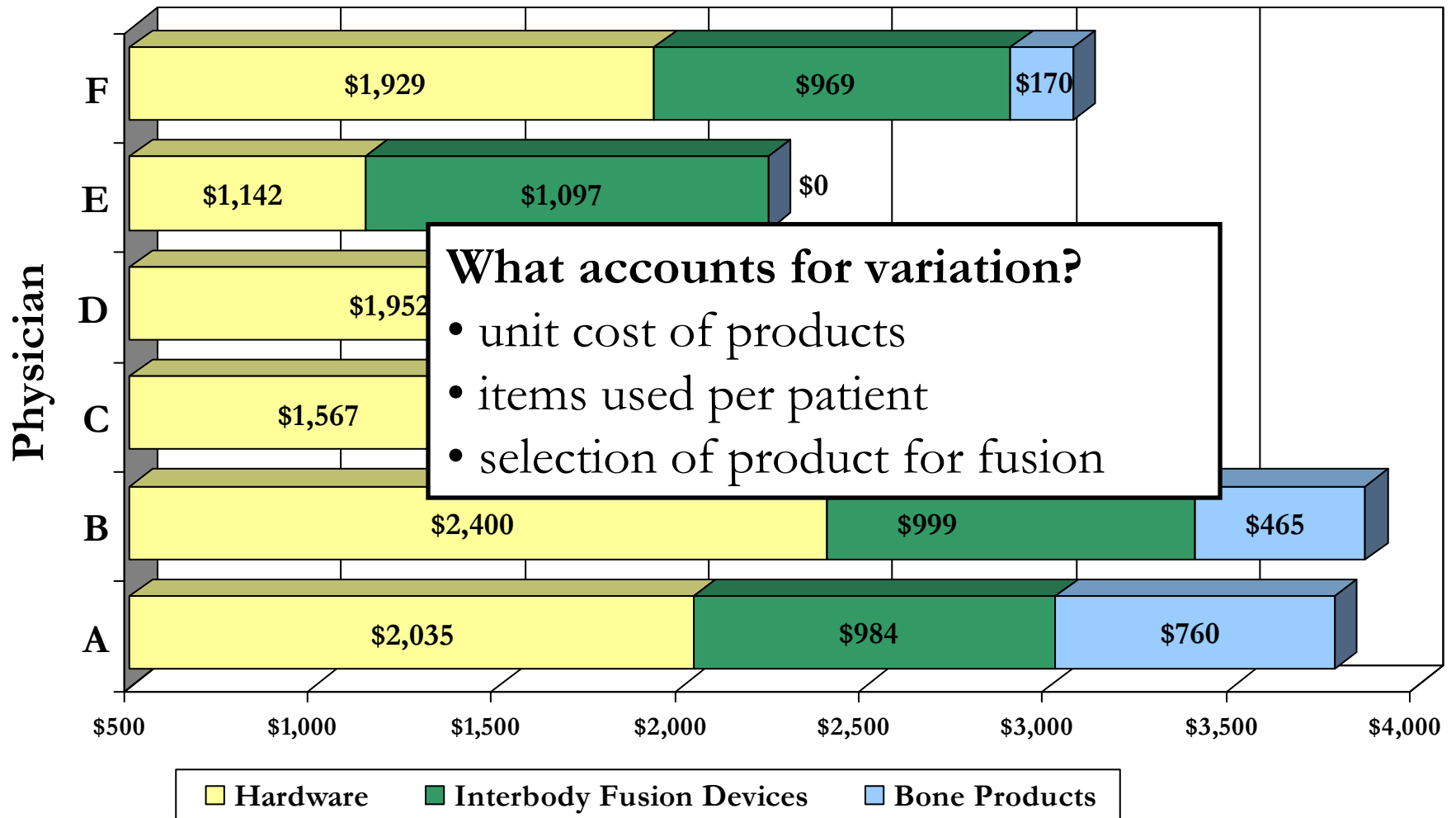
- **Must balance financial pressures with demand for public data**
- **Hospitals must recognize:**
 - Physician decisions control 87% of the health care dollar
 - Physicians know where waste is located and/or could find with better information
- **Hospitals, physicians and vendors must be committed to:**
 - Assuring accurate data shared with public and each another
 - Improving supply chain process
 - Aligning interests

Key Factors to Aligning Interests

HOSPITAL - PHYSICIAN ALIGNMENT



Average Total Implant Cost Per Patient 1 Level ACDF



Quality Data Needed to Understand Practice Variation and Make Informed Decisions

■ Patient demographics

- Age
- Gender
- Risk factors

■ Complications

■ Patient outcomes and satisfaction

■ Evidence supporting product use in various patient populations

Choosing an Alignment Model

- **Start by determining what is important to physicians:**
 - Information sharing
 - Enhanced efficiency
 - Operational control
 - Governance
 - Financial return
 - Reinvestment into capital, education, practice resources, etc.
- **Then discuss alignment models and levels of integration**

Alignment Model Options to Consider

Equity Investment

- Under arrangement joint venture
- Outpatient joint venture
- Integrated delivery system
- Specialty hospital
- Acute care hospital

Non-Equity Investment

- Medical directorship
- Co-management
- Shared governance
- Program reinvestment
- Gainsharing



Gainsharing

IG

- 10 favorable advisory opinions issued 2001-2007
 - 6 cardiac surgery, 3 cath/EP/peripheral, 1 anesthesia

Medpac

- 2005 Report to Congress: Recommended gainsharing be permitted and regulated

CMS

- 2006: Introduced 2 gainsharing demonstration projects
- 2008: Considering exception to Stark for gainsharing*

Examples of Implant Patient Savings Opportunities

- **Utilization and cost:**
 - Implants, supplies and pharmaceuticals

- **Patient throughput:**
 - Delays in service to patient
 - Use of CCU/ICU versus telemetry or med-surg bed

- **Quality:**
 - Reduce readmission rate
 - Reduce complication rate
 - Improve door to balloon time
 - Develop clinical criteria for use of new technology

Cath Lab Case Study in Gainsharing

600 Bed Non-Profit Hospital

5 Cardiology Groups and 1 Vascular Surgeon



Case Study Overview

- 3 year cumulative savings = \$5 million

- Savings Examples
 - Defibrillator system:
 - Average net cost from \$19,360 to \$16,389
 - No change in market share
 - Dual chamber usage from 88% to 64%

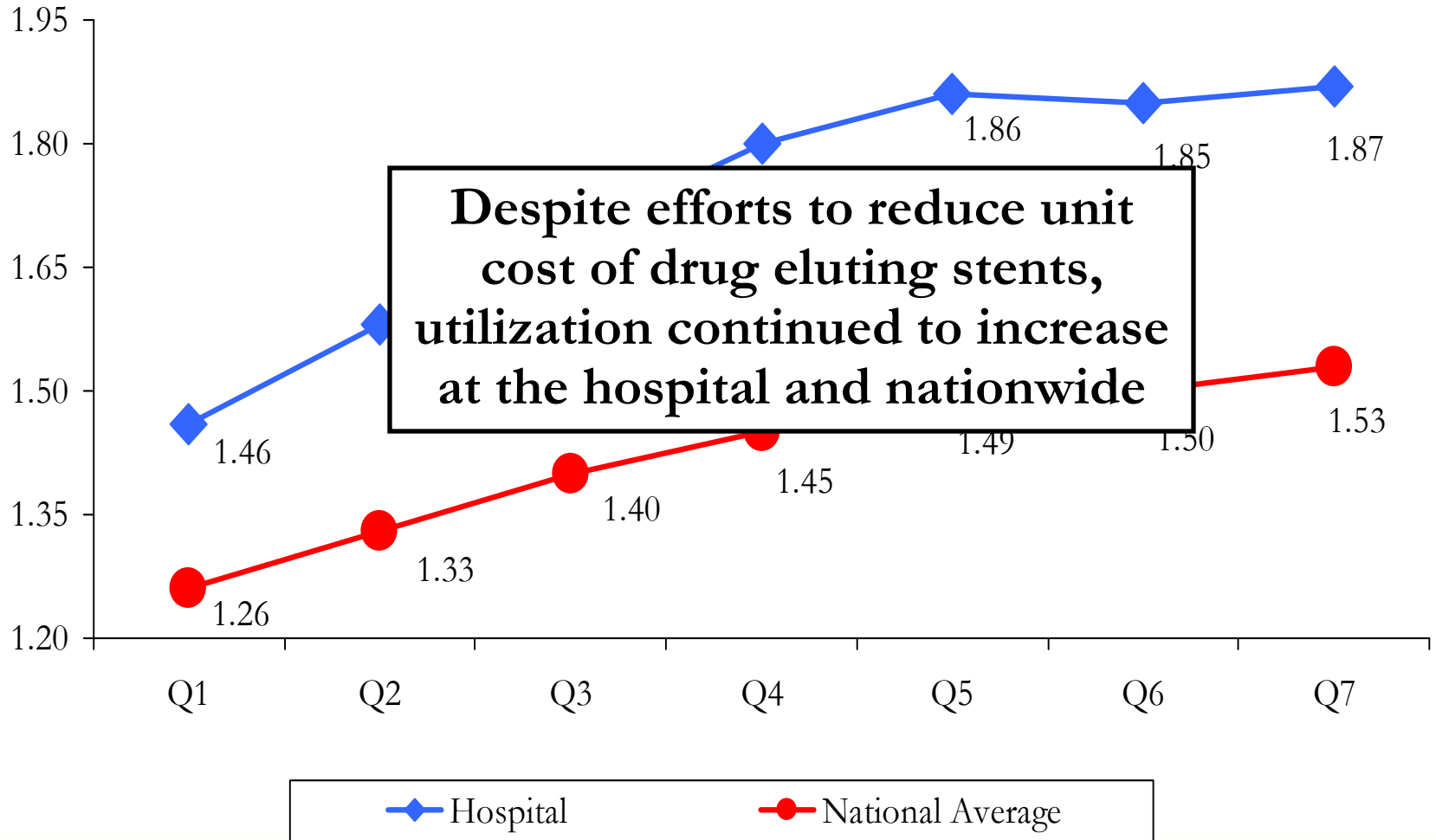
 - Drug eluting stent:
 - Average net cost from \$2,293 to \$2,150
 - Introduced new vendor and split market share

How Savings Were Achieved

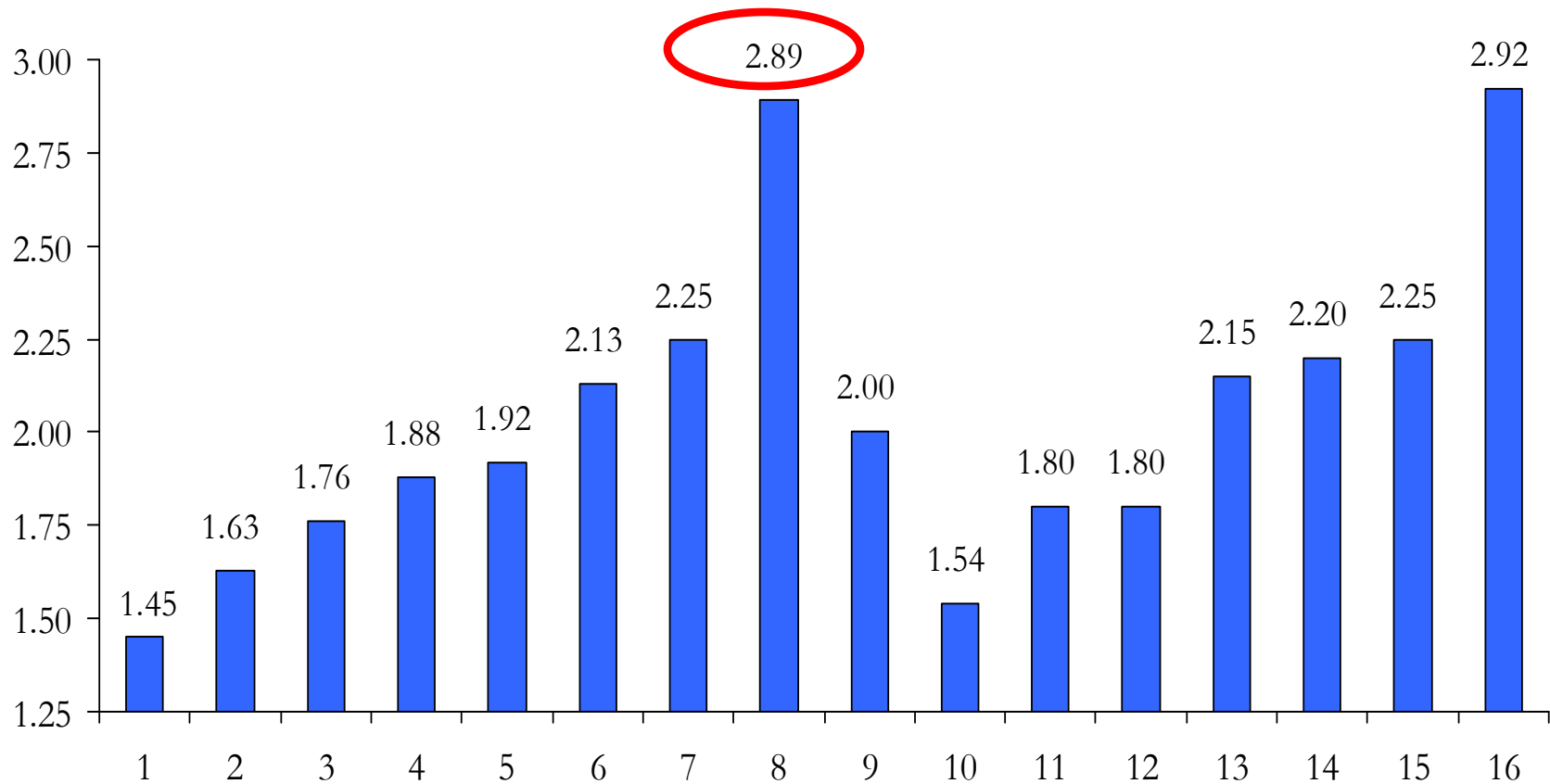
- Physicians complied with contracts
- Physicians evaluated products and used clinical criteria for device selection
- Director of Cath Lab empowered to negotiate with vendors in conjunction with Materials Management & physician groups
- Reductions a result of strategic decisions



Coronary Stents Per Patient



Coronary Stents Per Patient By Physician



■ Coronary Stents Per Patient by Physician

Physician Plan for Addressing Stent Utilization

Monthly Memo from Physician #8

Common sense and statistical analysis dictates 3 factors that relate to the number of stents used:

- 1) number of vessels treated
- 2) length of the vessel covered
- 3) length of the stents selected to implant



Result was \$985,843 annual savings

Quality Data

- **Closely monitored quality data to assure no negative impact on patients as changes made in practice**
 - Patient demographics:
 - Age
 - Gender
 - Risk factors
 - In lab complications
 - Out of lab complications
 - Interventional outcomes
 - Mortality

Key Factors to Aligning Interests with Physicians

Guiding Principles

- Accept that physicians know where waste is located and/or could find with better information
- Make commitment to alignment model
- Reliable data collected and shared
- Executive level leadership and involvement
- Ongoing commitment to above