Healthcare Purchasing in an Era of Accountable Care: How Will Provider Groups Define and Deliver Value?? What will it take?

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June 2013

Kaiser Permanente (KP)

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- Integrated system : delivery system (hospitals and clinicians) and financing scheme (health plan) – equal partners, separate legal entities, monogamous, mutually exclusive relationship
- Established as a private sector “social insurance scheme” in the 1940’s
  - Single funding stream – member dues
  - Community rating, single product for > four decades
  - Global budget
  - Accountable for total health of a population

Defining Features

- 65 years of provider organization (independent medical group) accountable for the quality, cost and value of the care and service delivered
- “Extreme consciousness” of the 80/20 rule
- From the beginning, broad and deep collective involvement in evidence-informed therapeutic choices for drug, device, supply formularies – which drive purchasing decisions
- Collective accountability ***without*** direct at-risk arrangement for the cost of drugs, devices, inpatient care
- Clear line-of sight to where the $’s saved from unnecessary care, cost avoidance go - “enlightened self-interest”

KP Operating Model (since 1955)

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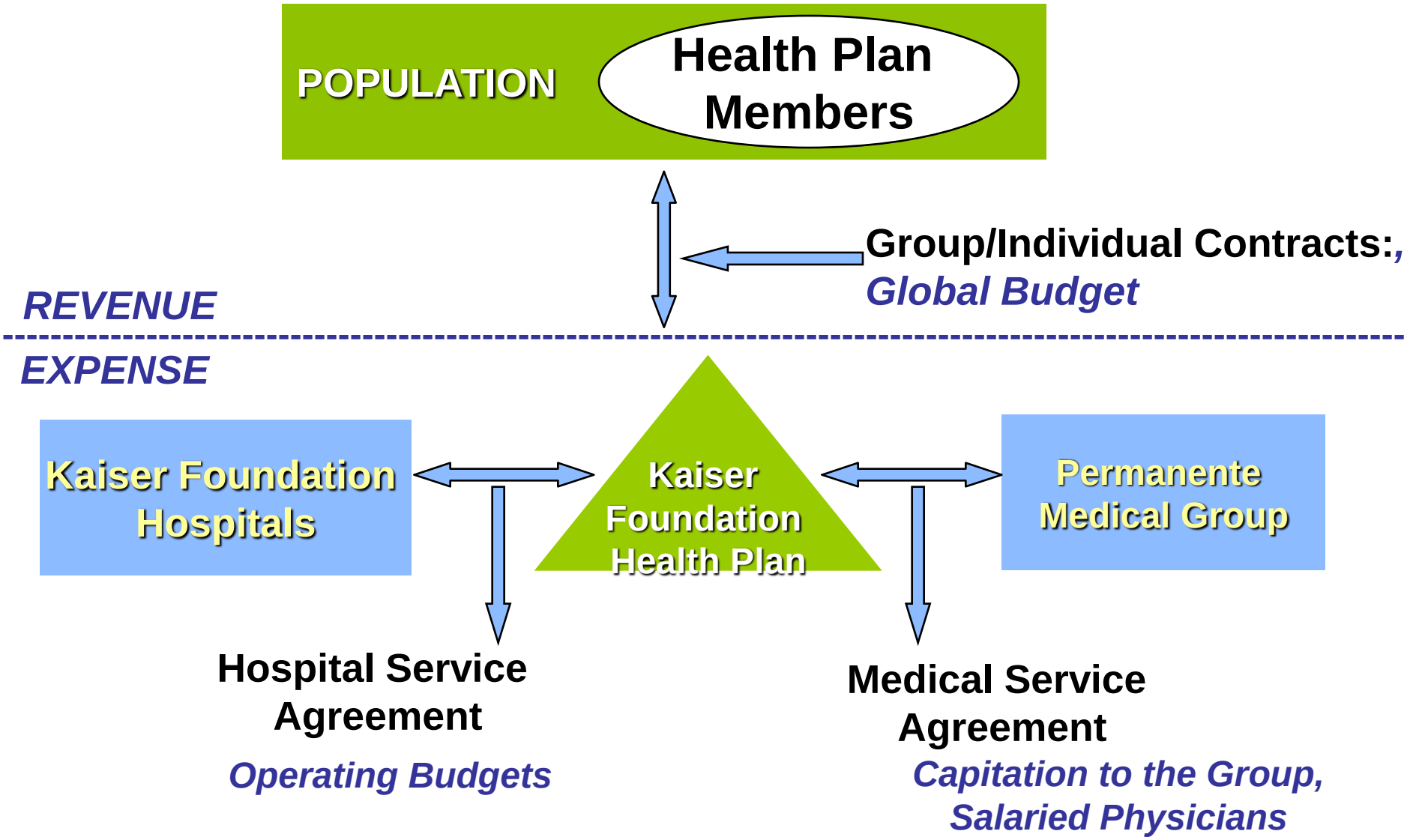

Value-Based Prescribing

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Using published evidence of benefit, comparative effectiveness research, and clinical discipline, where opportunities exist, to move market share, and force manufacturers to compete – from the beginning

Stewardship as "righteous work" and enlightened self-interest

Organized to Deliver Results: Prescription Drugs

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- Long history of integrated pharmaceutical management: 1977 50% of KP members with comprehensive drug benefit, 15% nationally
- Not-for-profit Health Plan purchases, warehouses, distributes and dispenses drugs
- Medical Groups organize and manage formulary, and carry out drug use management initiatives in partnership and with the support of Pharmacy staff
- 300 on-site, co-located outpatient pharmacies, 36 inpatient pharmacies, 10 home infusion
- 70 million Rx's, 4.5 billion $ drug spend annually (73% dispensed, 23% injected/infused, 4% inpatient drugs)
- 2600 pharmacist FTE's

Organized to Deliver Results: Prescription Drugs

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Two streams of work:

> Formulary development and management: **Pharmacy and Therapeutics Committee** – selection of drugs: quality, safety, effectiveness, relative cost effectiveness when relevant; ***Clinical decisions drive contracting, not the reverse – unlike PBM model***

> Drug Use Management Initiatives: **DRxUG Committees :** organized to exploit market opportunities to extract value

- Linked but separate efforts, overlapping but not identical membership
- Decision support at the point of care: EHR
- Academic detailing

Negotiating on Price

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- **Market share, not "volume discounts", based on**
  - The ability to say "no"
  - The ability to deliver on commitments – prescriber alignment, clinical discipline
  - Clinicians set goals, measure performance; transparent un-blinded reporting

- **Real opportunities with "crowded classes" of 3 or more drug choices**

  Statins; ACE/ARBs; PPIs; NSAIDs; SSRIs

Limited impact with sole–source drugs, without close competitors, e.g. biologics/specialty drugs/anti-neoplastics : Clinically appropriate utilization

Ownership of the process, commitment to the outcomes

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- 99.7 % generic use when AB-rated generic available
- 87% overall generic market share (higher in Medicare)
- 97% formulary adherent prescribing
- “Prudent prescribing is quality care…..”

Hypothetical U.S. Savings Opportunities — 2007

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- **Lipid Lowering Drugs**
  - US spending — $18.3 billion
  - Hypothetical KP equiv. use — $ 6.7 billion
- **PPIs**
  - US spending — $14.1 billion
  - KP hypo. — $ 3.3 billion
- **Antipsychotic**
  - US spending — $13.1 billion
  - KP hypo. — $ 5.1 billion
- **Antidepressants**
  - US spending — $11.9 billion
  - KP hypo. — $ 4.3 billion
- **Seizure medications**
  - US spending — $10.2 billion
  - KP hypo. — $ 5.3 billion

Total difference — **$42.8 billion (5 classes) (IMS)**

Performance Levers

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- Physician leadership – committed, and credible clinically
- Aligned incentives
- Data – trusted, timely, actionable
- Information technology – decision support in EHR
- Analytical and project management support
- Trusted partners
- Line-of-sight ability to track savings compared to expected
- Reward – share in the savings
- Recognition/celebration of success – “Pride4P”

CAN PHYSICIANS MANAGE THE QUALITY AND COSTS OF HEALTH CARE?

THE STORY OF THE PERMANENTE MEDICAL GROUP

JOHN G. SMILLIE, M.D.

Questions?

