

The Health Management Academy

Strategic Survey Q4 2019: The Evolving Payment Model & Physician Alignment

December 2019

The Evolving Payment Model & Physician Alignment

Introduction

With increased participation in risk-based contracting and value-based delivery models, health systems are continuing to focus on improving quality and managing the total cost of care. While the transition to value-based payments is gradual, movement is accelerating. As value-based care (VBC) continues to gain traction across the health system landscape, health systems are working to strengthen alignment through compensation models and integrating value-based metrics that account for an increasingly larger proportion of physician compensation.

In this report, The Health Management Academy (The Academy) continues to track the evolving payment model and physician alignment among Leading Health Systems (LHS).

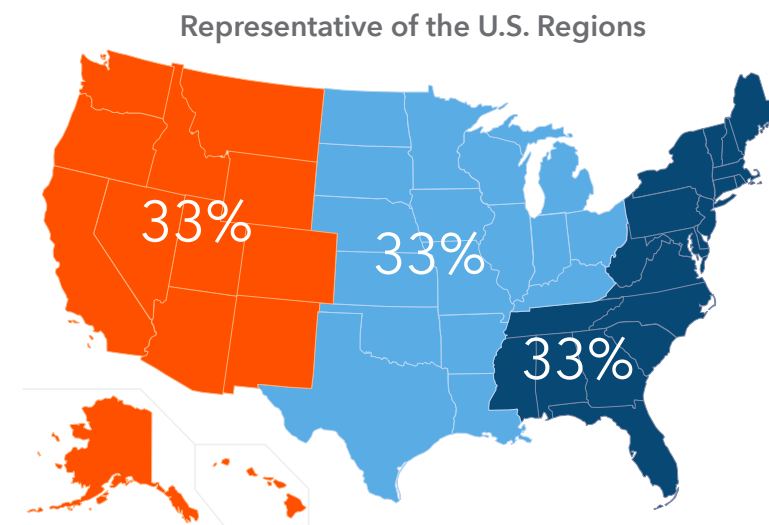
Methodology

In October and November 2019, The Academy conducted the twenty-first round of phone interviews for its quarterly strategic survey among LHS executives, including: CEOs, COOs, CFOs, CMOs, CNOs, and CSOs.

The survey for the interview consisted of:

1. A tracking section that provides insight into trends around primary strategic areas; and
2. A special topic area that allows for an in-depth look into a timely developing issue.

Profile of Participating Health Systems



**MEDIAN
REVENUE**
\$3.6
BILLION

OWN OR OPERATE
197 HOSPITALS
WITH **39,106 BEDS**

SINGLE-STATE SYSTEMS: **47%**
MULTI-STATE SYSTEMS: **53%**

Key Findings

1

Value-Based Payment

The percentage of revenue from value-based models now accounts for 29% of health system revenue, up 14 percentage points since Q4 2014. On average, LHS anticipate that 33% of revenue will be tied to value-based care by the end of 2020.

2

Pace of Change

For most health systems, the percentage of revenue coming from value-based care is directly proportional to the system's perceived pace of change towards value, indicating that health systems more committed to value-based care are able to move more quickly towards increasing the number of covered lives under such models.

3

Physician Compensation

On average, primary care physicians have 21% of compensation tied to value-based metrics, notably higher than specialist physicians (12% on average). The most commonly used value-based metric incorporated in physician compensation models is quality performance.

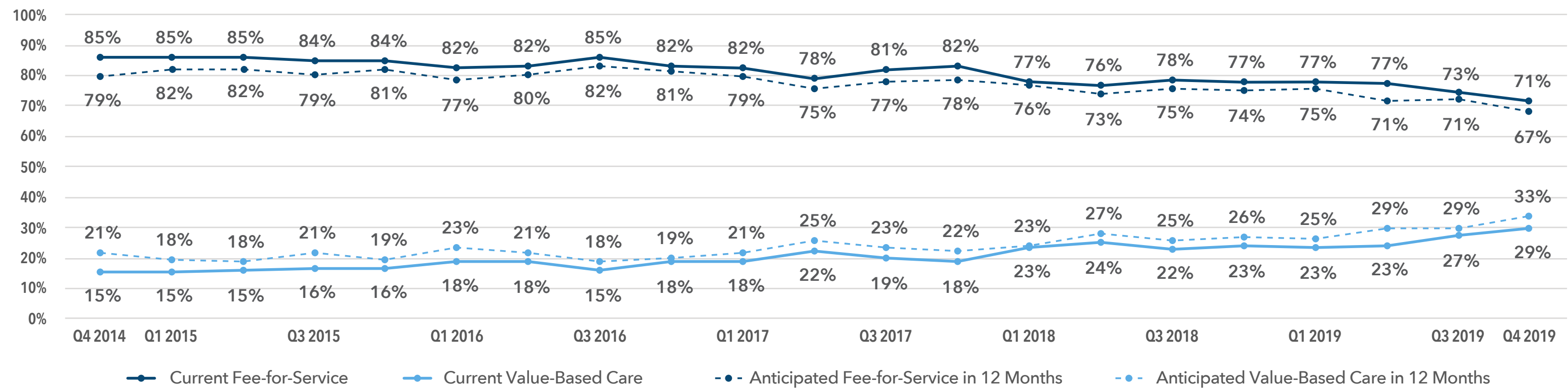
Percent of Revenue Tied to VBC Continues to Rise

Percent of Revenue from VBC up 14 Percentage Points over Five Years

Among participating health systems, VBC delivery now accounts for 29% of patient revenue, up six percentage points from Q4 2018 and 14 percentage points since 2014. This trend emphasizes the increased engagement of these health systems in value-based contracting and the desire to continue taking on greater financial risk. Notably, health system executives anticipate that value-based payment will account for one-third of their revenue (33%) by Q4 2020.

"We are moving very quickly toward taking risk on a larger proportion of our patient population." - CMO

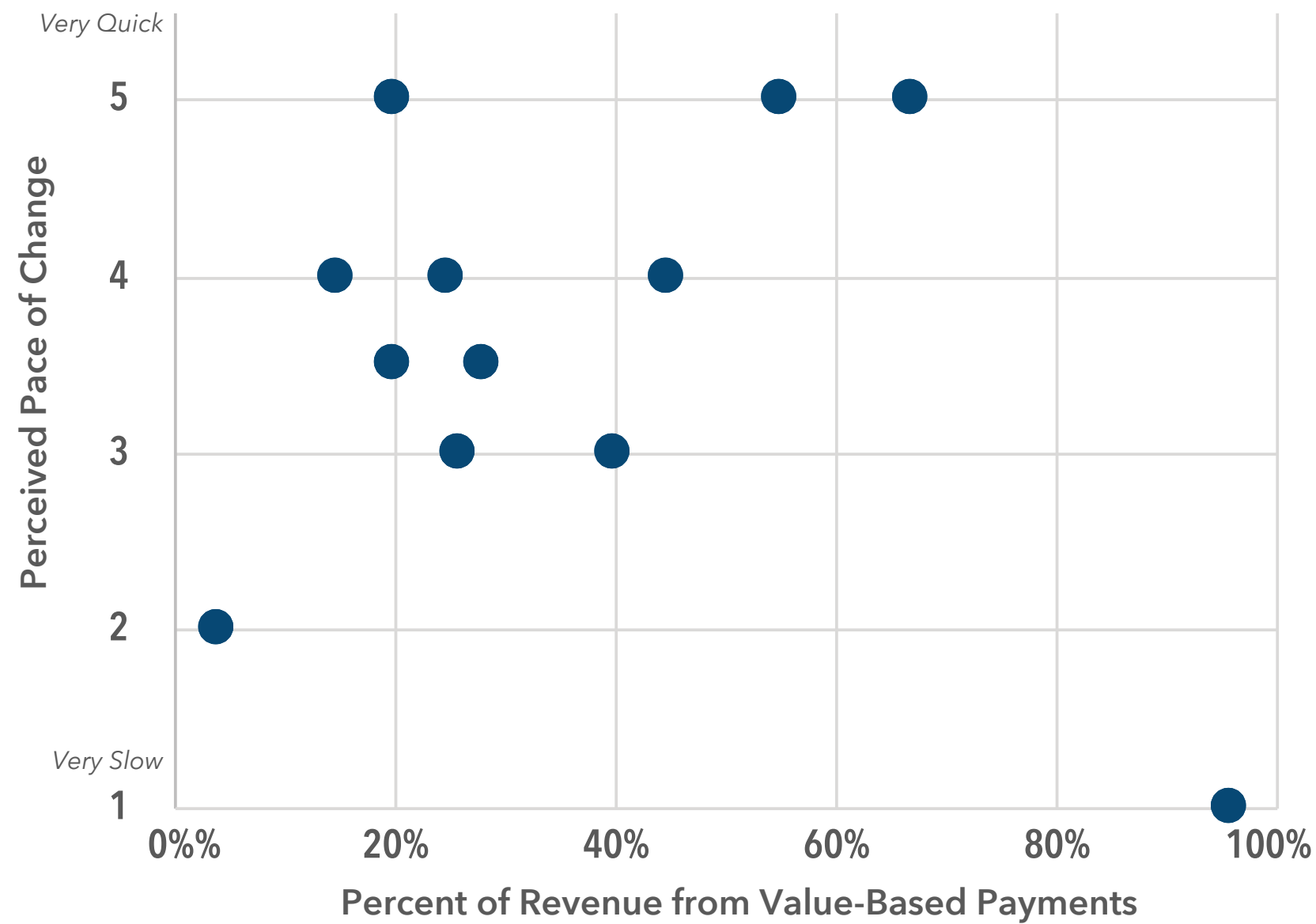
Fee-For-Service vs. Value-Based Care Delivery: Current and Anticipated



Note: Participants may vary by quarter. For the purposes of this survey, fee-for-service is comprised of self-pay, Medicare DRGs, Medicaid, and commercial payments. Value-based payments include: shared savings ACO, Medicare Advantage, Medicare Shared Savings Program (MSSP), bundled payments, partial or full capitation products, Medical Home contracts, and commercial shared savings.

Pace Towards VBC Accelerates with More Revenue from Value

Percent of Revenue from Value-Based Payments vs Pace of Change towards VBC



Higher Percentage of Revenue from VBC Results in Faster Pace of Change

For most health systems, the percentage of revenue coming from VBC is directly proportional to their perceived pace of change towards VBC. As health systems gain traction in risk-based contracting and further engage in value-based models of care, they are able to accelerate the pace of change and manage more lives under such arrangements. However, for the one health system that has more than 95% of revenue coming from VBC, the pace of change has slowed to a 1, indicating saturation in the market and an inability to move additional dollars away from FFS and into VBC.

Executives report that local market dynamics and payer willingness to engage in value-based contracting strongly affects their health system’s ability to accelerate their movement towards VBC. Most health systems indicate a desire to move more quickly towards value than their market currently allows.

“We would do 100% capitation if we could find partners. We would like our pace of change to be a 5, but the appetite doesn’t yet exist among the payers in our region.” – CMO

Physician Compensation Models Integrate Value-Based Metrics

RVU Model is Dominant, but Physician Compensation is Variable

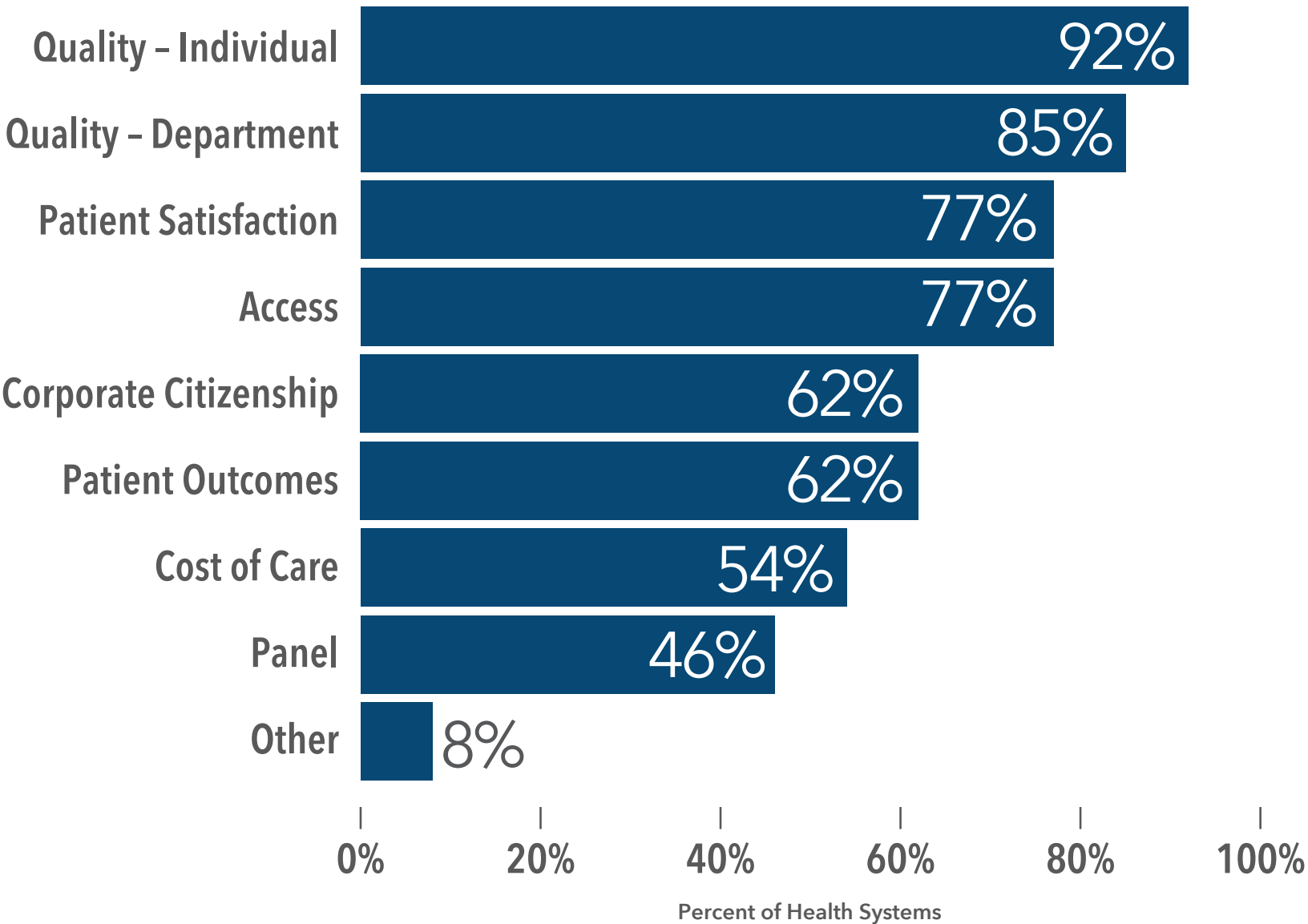
As LHS continue to expand their employed physician groups¹, systems are looking to leverage adjustments to physician compensation models to more closely align providers to value-based models of care. Most commonly, health systems use a relative value unit (RVU) physician base compensation model with additional incentives dependent on value-based metrics. Fewer health systems use a traditional salary model with value-based incentives. Regardless of preferred model, compensation structures are not typically ubiquitous across any health system. Executives report substantial variation in compensation across different medical groups and regions within their own health systems.

PCPs Have Higher Percentage of Compensation Tied to Value-Based Metrics

Primary care physicians (PCPs) tend to have a greater percentage of their compensation tied to value-based metrics than specialists, 21% vs 12%, respectively. However, the proportion at risk for all has increased in the last year, up from 17% of PCP compensation and 10% of specialist compensation.

The most common value-based metric used in physician compensation models is quality performance, both at the individual (92%) and departmental (85%) levels. Other commonly used value-based metrics include patient satisfaction, access, corporate citizenships, and outcomes.

Value-Based Metrics for Physician Compensation



¹ Strategic Survey Q2 2019: Physician Alignment. The Academy. 2019.

About the Academy

The Health Management Academy (The Academy) is a membership organization exclusively for executives from the country's Top-100 Health Systems and most innovative healthcare companies. The Academy's learning model identifies top priorities of health system leaders; develops rich content based on those priorities; and addresses them by convening members to exchange ideas, best practices, and information. The Academy is the definitive trusted source for peer-to-peer learning in healthcare delivery with a material record of research and policy analysis. Offerings include C-suite executive peer forums, issues-based collaboratives, leadership development programs, research, advisory, and media services. The Academy is an accredited CE provider. More information is available at hmacademy.com.

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About Lumeris

Lumeris is a value-based care managed services operator for health systems and providers seeking extraordinary clinical and financial outcomes. Lumeris aligns providers and payers across populations with technologies, processes, behaviors and information to achieve high-quality, cost-effective care with satisfied consumers – and engaged physicians. For the past eight years, Lumeris with Essence Healthcare, its inaugural client with more than 63,000 Medicare members in Missouri and Illinois, has received 4.5- to 5-Star Ratings from the CMS and produced the highest consumer and physician satisfaction scores in the industry along with significantly better clinical outcomes and lower costs. For more information, go to www.lumeris.com.

**The Health Management Academy extends its appreciation
to Lumeris for the financial support for this project.**

