FINDING THE VALUE
IN VALUE-BASED CARE

The State of Value-Based Care in 2018

A Signature Research report commissioned by Change Healthcare

Original research by ORC INTERNATIONAL

2018**VBC**study.com

CHANGE HEALTHCARE

Executive Summary

Welcome to *Finding the Value: The State of Value-Based Care in 2018.*

This report is the third in a series of national research studies produced by ORC International and commissioned by Change Healthcare. Past reports were published in 2014 and 2016.

This year's study continues in the tradition of past research by revealing where payers (and, by extension, healthcare) are on the journey from pure fee-for-service to pure value-based care (VBC) and reimbursement models.

In a change of pace from past studies, this year we also selected a popular VBC model (episode of care) and asked ORC to drill into the financial and operational aspects around it.

The results are both enlightening and compelling.

CHANGE HEALTHCARE

Executive Summary

While this year's report is packed with interesting and actionable information, several takeaways stand out.

- Value-based care is bending the healthcare cost curve, reducing unnecessary medical costs 5.6% on average while improving care quality and patient engagement—effectively starting to achieve the long-sought triple aim.
- Despite easing or ending of federal mandates, commercial lines of business are investing in value-based innovation.
- The use of fee-for-service is falling faster than projected in the 2014 and 2016 studies. Today nearly two-thirds of payment are based on value.

Overall, the report reveals how payers are responding to rapid changes and demands in an uncertain market, what reimbursement models and technology are being used, how models are being operationalized and scaled, what's working, what's failing, and where payers expect value-based care to be in the future.

CHANGE HEALTHCARE

Executive Summary
Top 10 Findings

1. **Payers report success in reducing unnecessary medical costs as a result of their value-based care strategies**. Medical cost savings topped 5.6% on average, with almost a quarter of respondents noting savings in excess of 7.5%.
2. **Almost 80% of payers report improvements in care quality**, while 64% report improvements in provider relationships and 73% report patient engagement improved—significant headway toward achieving the elusive "triple aim" of healthcare through value-based care initiatives.
3. **For the first time, commercial lines, not government lines of business, are leading** adoption, advancement, and innovation of value-based care models and strategies.
4. **Pure fee-for-service is fading faster than predicted in past studies**, now accounting for only 37.2% of reimbursement, and projected to dip below 26% by 2021.
5. **Innovation agility remains a problem**, with only 21% of payers capable of rolling out a new episode of care program in three to six months. Over a third of payers need up to a year to launch a new program, 21% require up to 18 months, and 13% need up to 24 months or more—more than enough time for conditions to change in a fast-moving healthcare market.

CHANGE HEALTHCARE

Executive Summary
Top 10 Findings

6. **Payers are struggling to engage providers in episode-of-care programs**, with 43% to 58% reporting it is very or extremely difficult to generate interest among providers to participate; agree on episode definitions; and gain consensus on budgets, risk/gain sharing, and performance metrics.
7. **Exceptional medical cost savings are motivating 66% of payers to invest in administrative staff** to support future growth of episode-of-care programs.
8. **A third to half of payers find episode-of-care models very to extremely effective at improving care quality**, across all types of episodes.
9. **Episode models deliver savings from 5% to 5.4% on average, depending on the episode type**. Some payers report savings as high as 7.5% or more.
10. **Over half of payers are not very satisfied with their current value-based analytics, automation, and reporting capabilities**—despite the fact that many of these are designed and developed in house.

CHANGE HEALTHCARE

How Change Healthcare Can Help

Who We Are

Change Healthcare is one of the largest, independent healthcare technology companies in the United States. We are a key catalyst of a value-based healthcare system—working alongside our customers and partners to accelerate the journey toward improved lives and healthier communities.

Our solutions enable improved efficiencies and insights for all major stakeholders across healthcare, including commercial and governmental payers, employers, hospitals, physicians, and other providers, laboratories, and consumers.

$2.0 Trillion Healthcare Claims	**5,500** Hospitals	**800,000** Physicians	**2,100** Payer Connections
130,000 Dentists	**600** Laboratories	**1 in 5** U.S. Patient Records	**12 Billion** Healthcare Transactions

CHANGE HEALTHCARE

How Change Healthcare Can Help

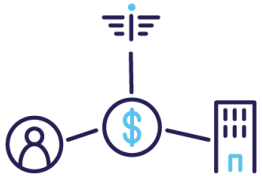
Our Solutions

We champion improvement, before, after, and in-between care episodes, striving to provide a visible measure of quality and value.

Software & Analytics

Software and Analytics help improve financial performance, payment accuracy, clinical decisions, value-based payment, provider and consumer engagement; and imaging, workflow, and extended care.

Network Solutions



Network Solutions enable financial, administrative, and clinical transactions; electronic B2B and C2B payments; and provide aggregation and analytics of clinical and financial data.

Technology Enabled Services

Technology Enabled Services provide solutions in revenue cycle management, value-based care, consumer engagement, payments services, pharmacy benefits administration, TPA services, and healthcare consulting.

CHANGE HEALTHCARE

How Change Healthcare Can Help

Who We are Helping

Payers

- Payment accuracy
- Consumer and member engagement
- Network management
- Transition to value-based payment
- Claims and payment management
- Support for clinically appropriate care

Providers

- Revenue and financial risk management
- Patient access
- Support for clinically appropriate care
- Claims and payment management
- Optimize diagnostic and clinical data
- Imaging, workflow, and extended care

Consumers

- Access to personal health information
- Engagement with providers
- Electronic payments
- Tools to help evaluate healthcare choices based on quality, cost, and convenience

CHANGE HEALTHCARE

How Change Healthcare Can Help

Our Promise

Change Healthcare is inspiring a better healthcare system. We are dedicated to accelerating the journey toward improved lives and healthier communities through:

- Delivering solutions that enable better patient care, choice, and outcomes
- Building strategic relationships to innovate and solve your biggest challenges
- Building trust through our commitment to customer service
- Building customer communities to enhance feedback and customer interaction

CHANGE HEALTHCARE

Definitions: Roles

Payer
A health insurer/health plan that finances or reimburses the cost of health services.

Provider
A hospital or hospital system that provides healthcare services to patients. For clarity, this paper does not refer to clinicians (see below) as providers.

Hospital
Same as "provider."

Clinician
A physician, nurse, or other healthcare professional who works directly with patients in a doctor's office, clinic, hospital, hospice, home setting, etc., as part of a provider network.

CHANGE HEALTHCARE

Definitions: Regions

Collaborative Region
A market where 1 or 2 payers have 50+% share of covered lives and 1 or 2 hospitals have 50+% share of discharges.

Fragmented Region
A market where there are no clear market leading payers and hospitals.

Provider-Centric Region
A market where 1 or 2 hospitals have 50+% share of discharges.

Payer-Centric Region
A market where 1 or 2 payers have 50+% share of covered lives.

CHANGE HEALTHCARE

Definitions: Payment Models

Fee for Service (FFS)
A payment model where each medical service is billed and paid for separately. It tends to incentivize overutilization of the healthcare system because the payment is influenced by the quantity of care.

Capitation/Global Payment
A payment model where providers are paid a specified amount per patient to deliver services over a set period of time, often determined on a per member/per month basis. Under global capitation, this includes all care (primary, hospitalization, specialist, etc.).

Pay for Performance (P4P)
A payment model that incentivizes providers for meeting performance goals for care quality and efficiency.

Episode-of-Care/Bundled Payment
A payment model where a single payment to providers is rendered for all services to treat a clinically-defined care episode (e.g., a knee replacement).

Shared Savings with Upside
A payment model where providers can share in savings (upside benefit) for the total cost of care for a defined group of attributed members.

Shared Savings with Upside and Downside
A payment model where providers can share in savings and budget overages (upside and downside risk) for the total cost of care for a defined group of attributed members.

CHANGE HEALTHCARE

Research Goals

Change Healthcare commissioned ORC International to conduct a national research study to determine the state of payers' value-based care programs, and drill into operational aspects of bundled payment/episode-of-care programs—one of the fastest growing program models.

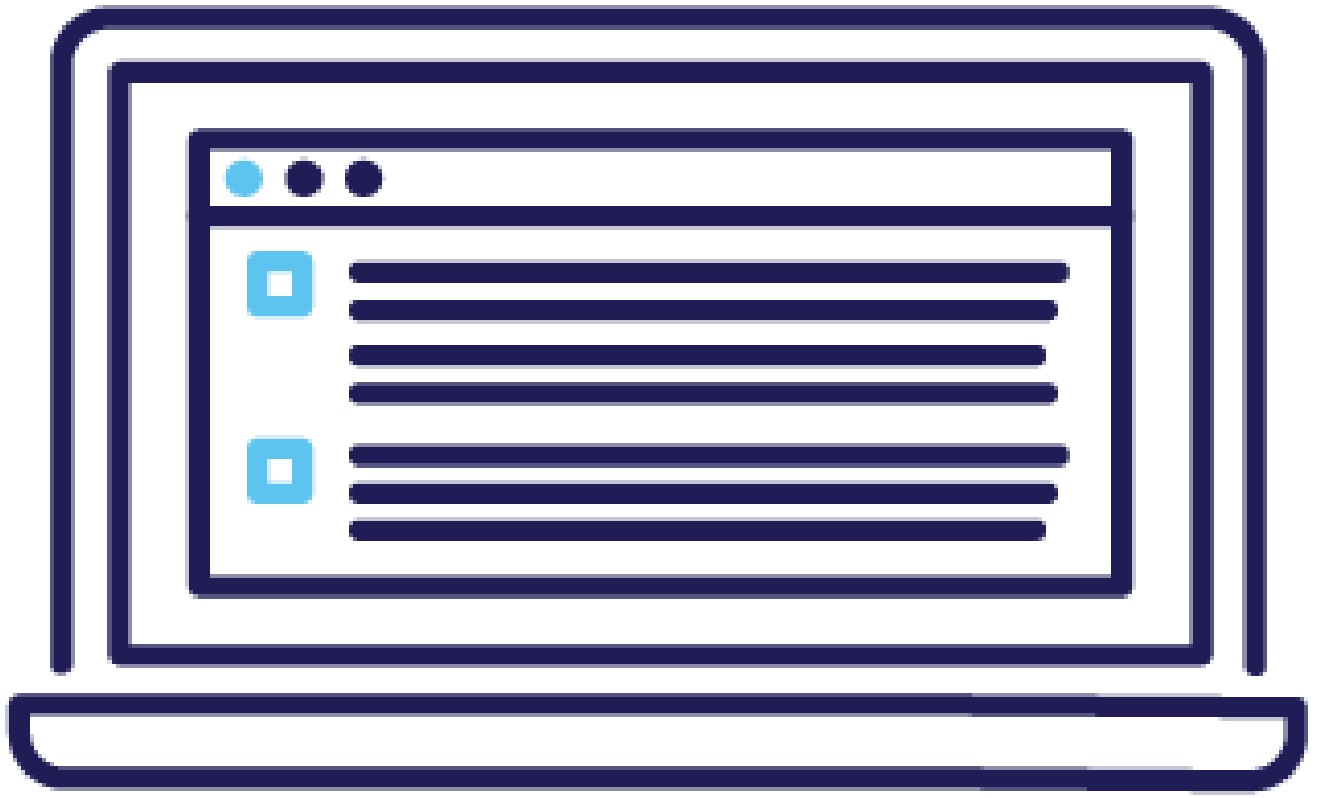
1 LEARN	What are payer maturity levels across a variety of value-based care strategies?
2 UNDERSTAND	What strategies and tactics are being used to accomplish value-based care goals?
3 DETERMINE	What approaches are proving most effective in bundled payment/episode-of-care programs?

CHANGE HEALTHCARE

Research Methodology: Survey

ORC fielded a 15-minute online survey of 120 payers, targeting a mix of:

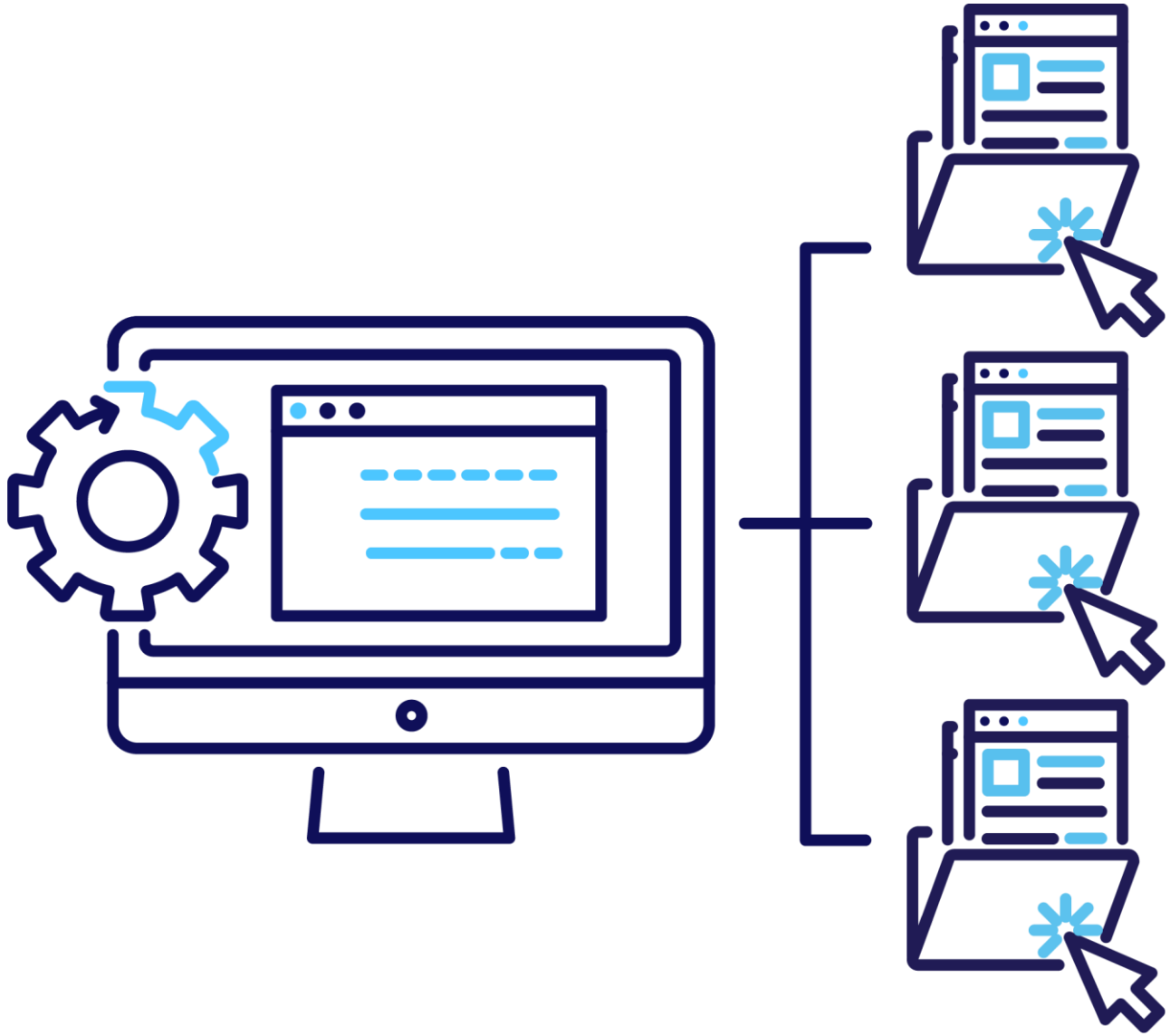
- Plan sizes
- Regions
- Job functions
- Lines of business covered



CHANGE HEALTHCARE

Research Methodology: Data Collection

- ORC fielded the research survey nationally in April 2018
- Characteristics of each respondent were closely monitored to ensure targeted sample diversity

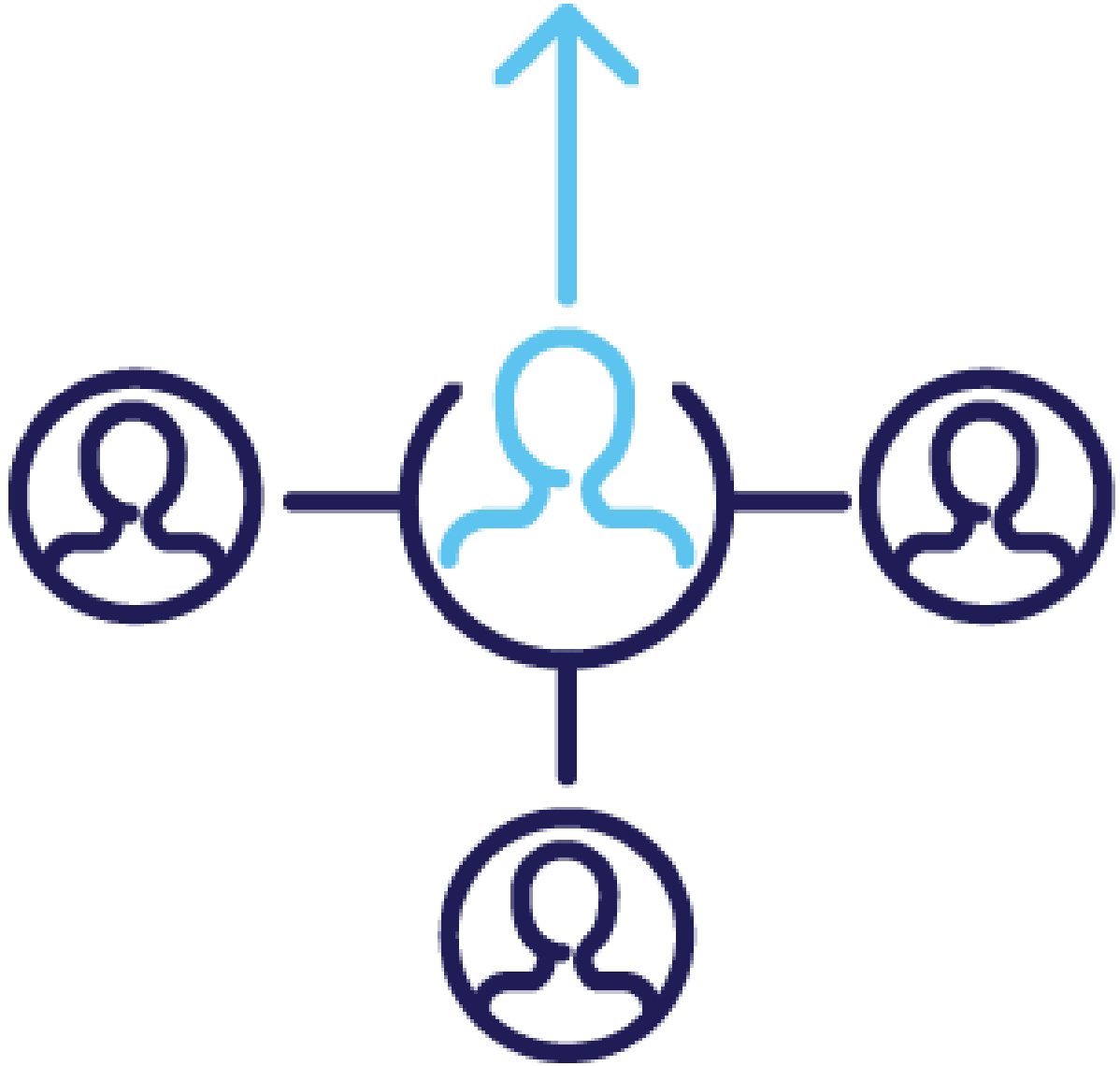


CHANGE HEALTHCARE

Research Methodology: Screening Criteria

The screening criteria consisted of:

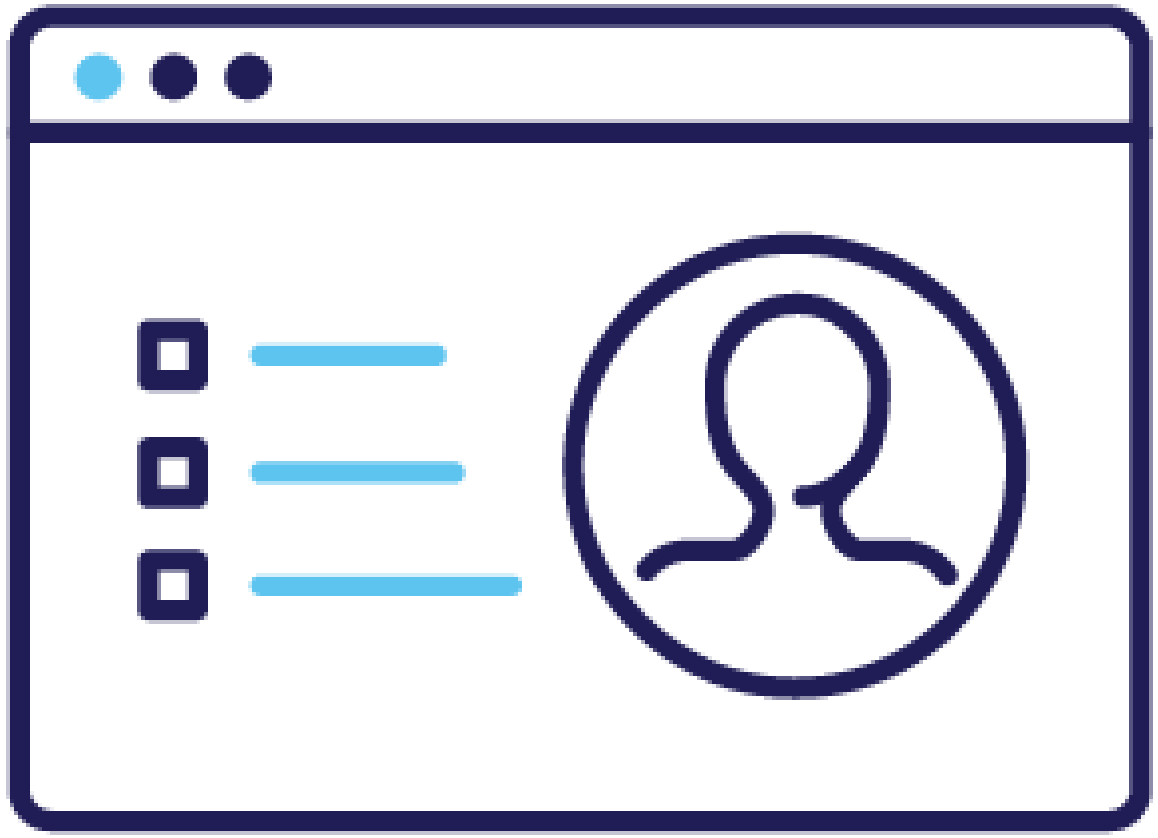
- A payer based in the U.S.
- A title of Associate Director level or above
- Works in Finance/Ops, Network Management, Medical Management, Technology, Strategy, or Analytics
- In a health plan covering 250K lives minimum
- The health plan covers Commercial, Public Exchange, Medicare Advantage, or Managed Medicaid business lines
- Is knowledgeable about value-based care strategies, bundled payment, and/or episode-of-care strategies at their organization



CHANGE HEALTHCARE

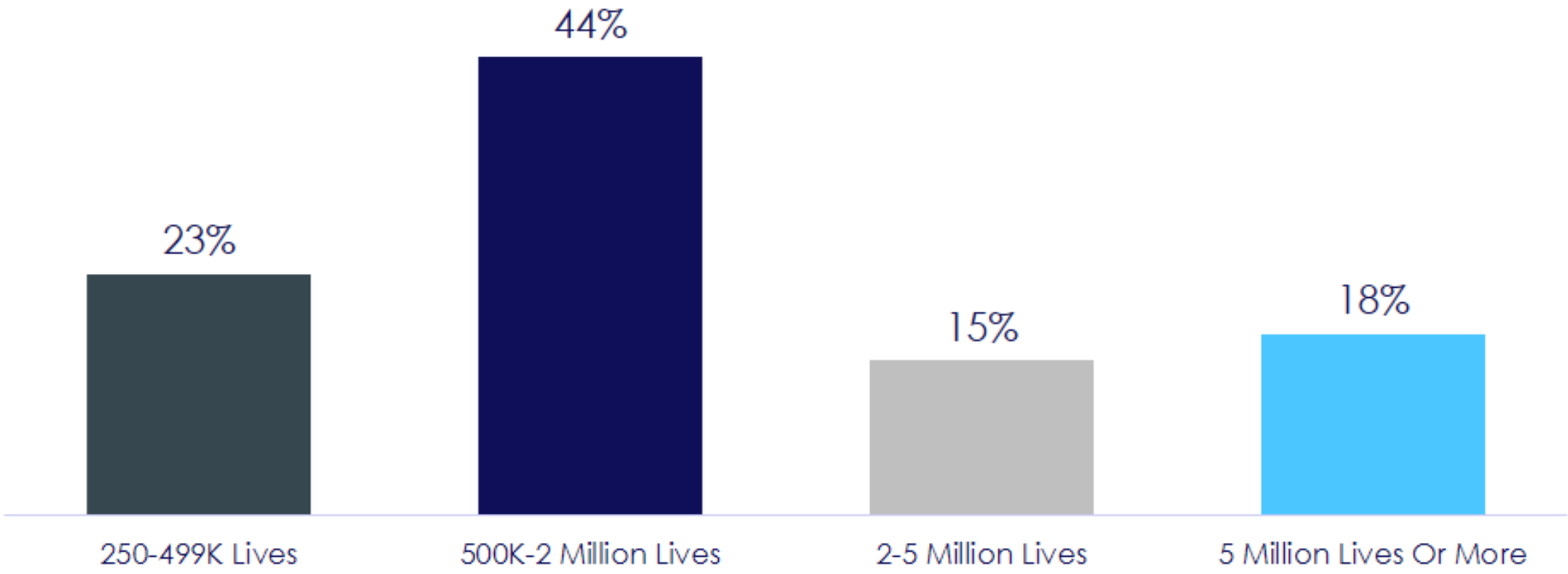
Respondent Demographics: Functions

- Finance/Ops
- Network Management
- Medical Management
- Technology
- Strategy, Innovation, Business Planning
- Analytics



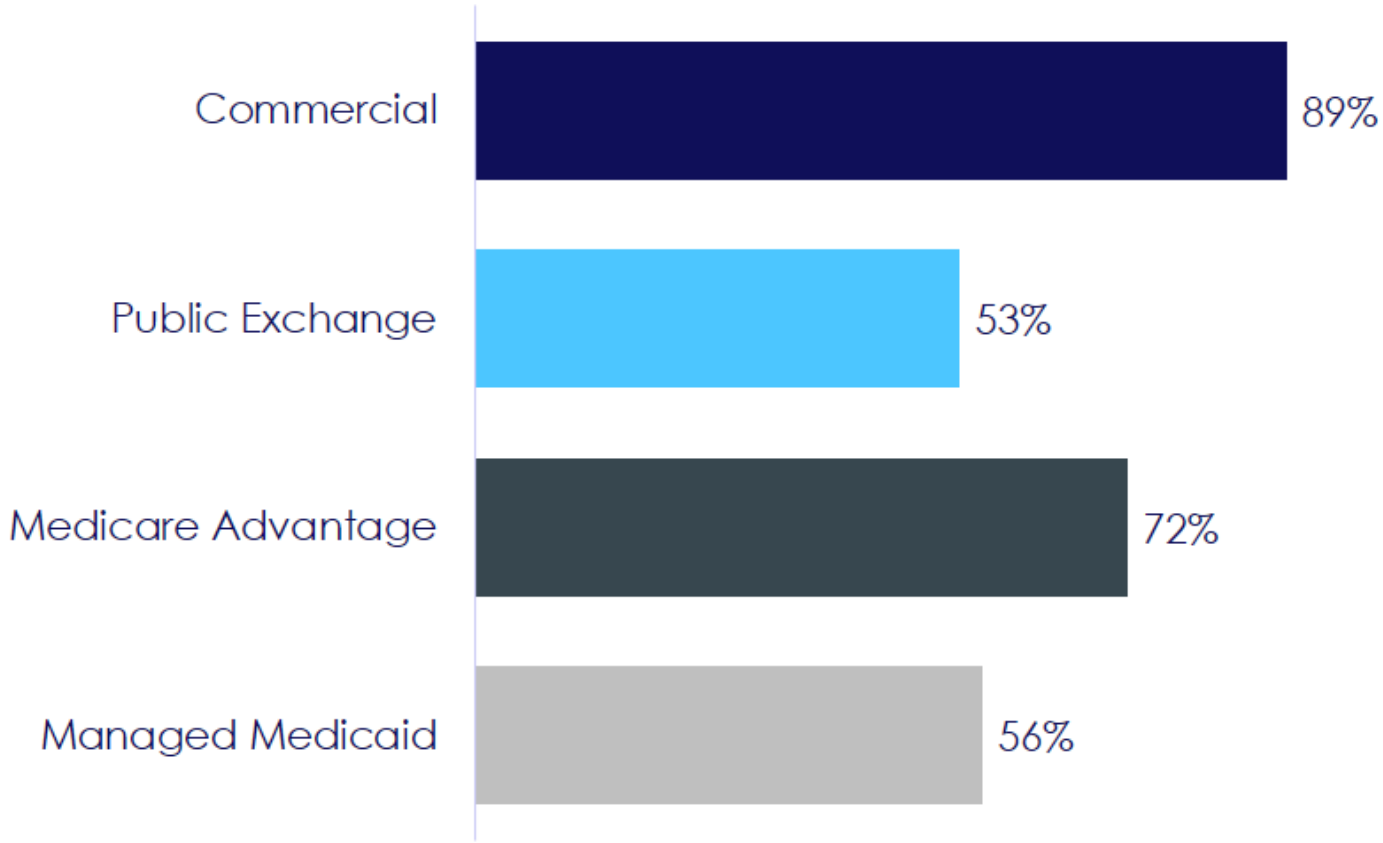
CHANGE HEALTHCARE

Respondent Demographics: Size of Company



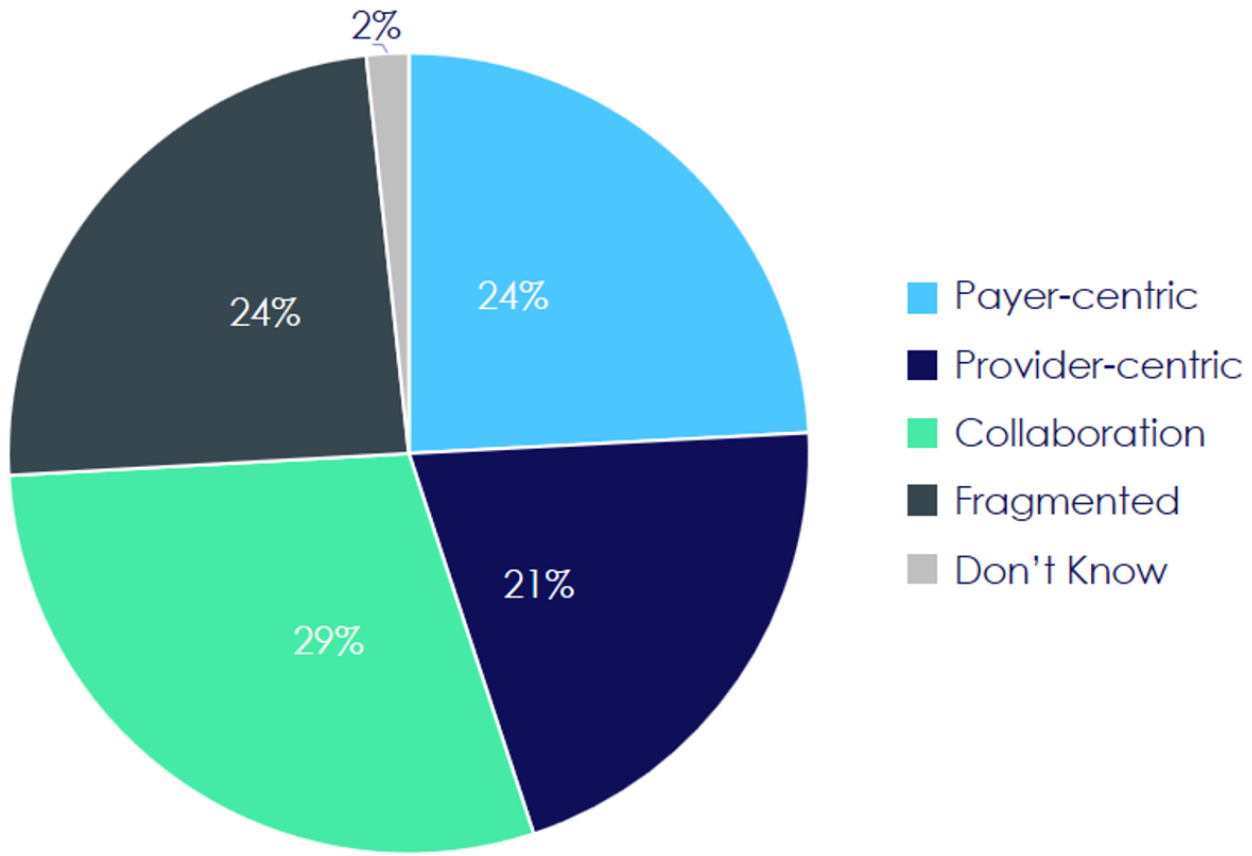
CHANGE HEALTHCARE

Respondent Demographics: Business Covered



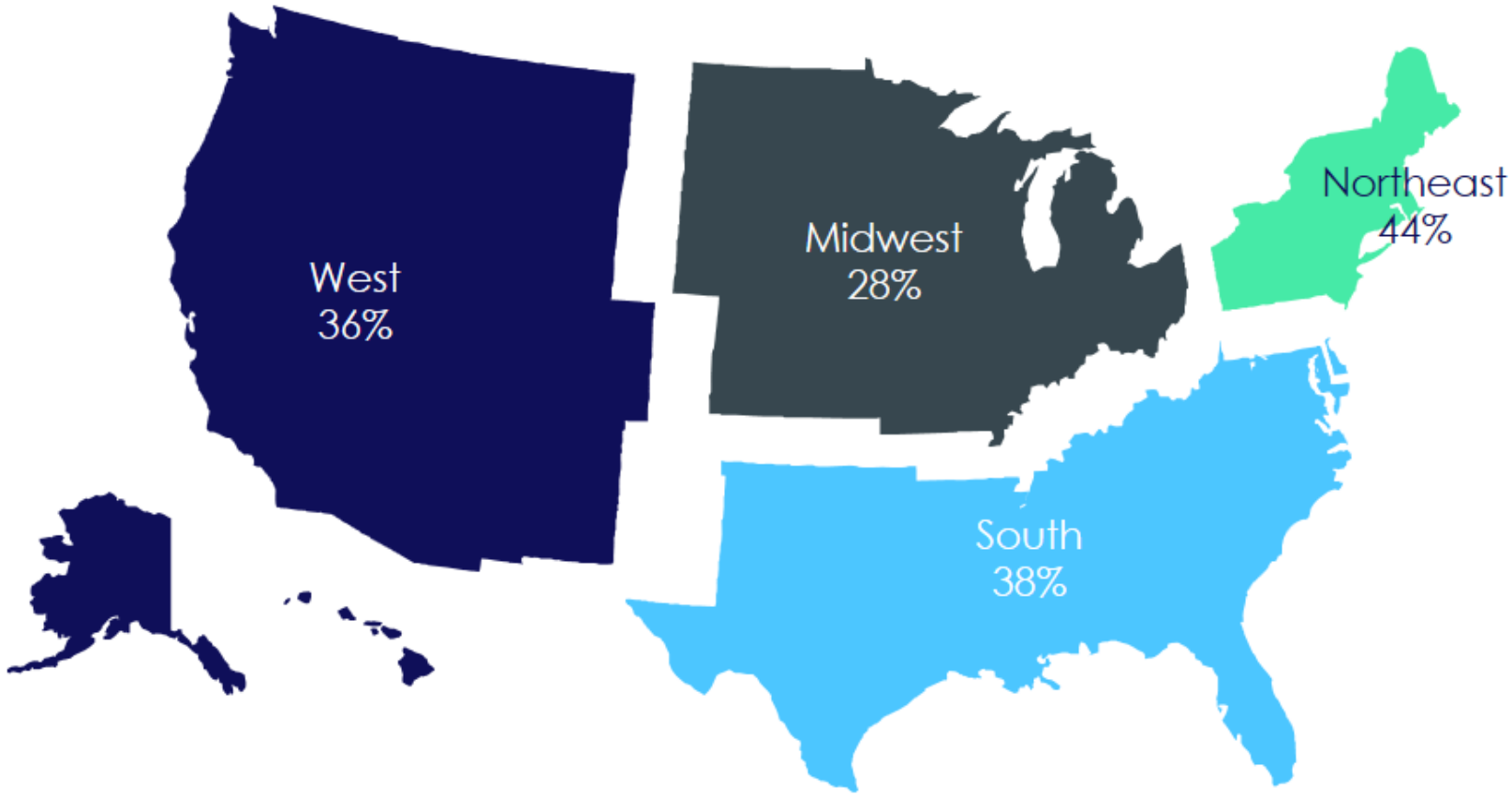
CHANGE HEALTHCARE

Respondent Demographics: Regions



CHANGE HEALTHCARE

Respondent Demographics: Location



CHANGE HEALTHCARE

DETAILED FINDINGS: The State of Value-Based Care *in 2018*

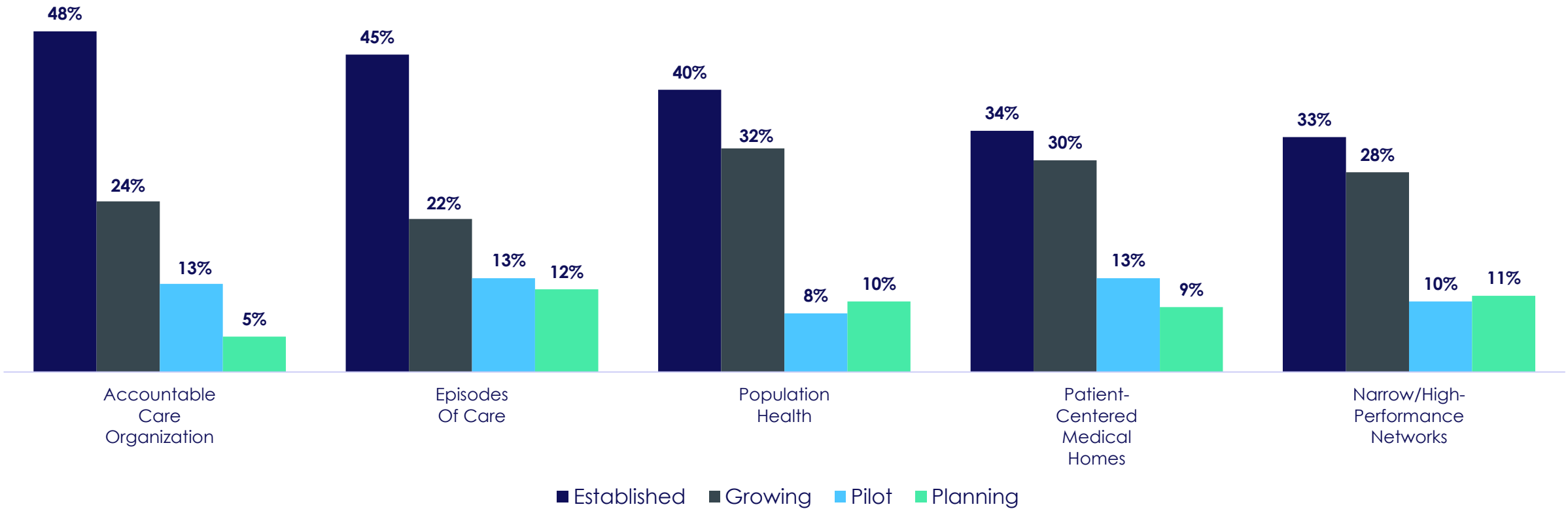
Original research by ORC INTERNATIONAL

Commissioned by CHANGE HEALTHCARE

CHANGE HEALTHCARE

Value-Based STRATEGIES Continuum: Current State

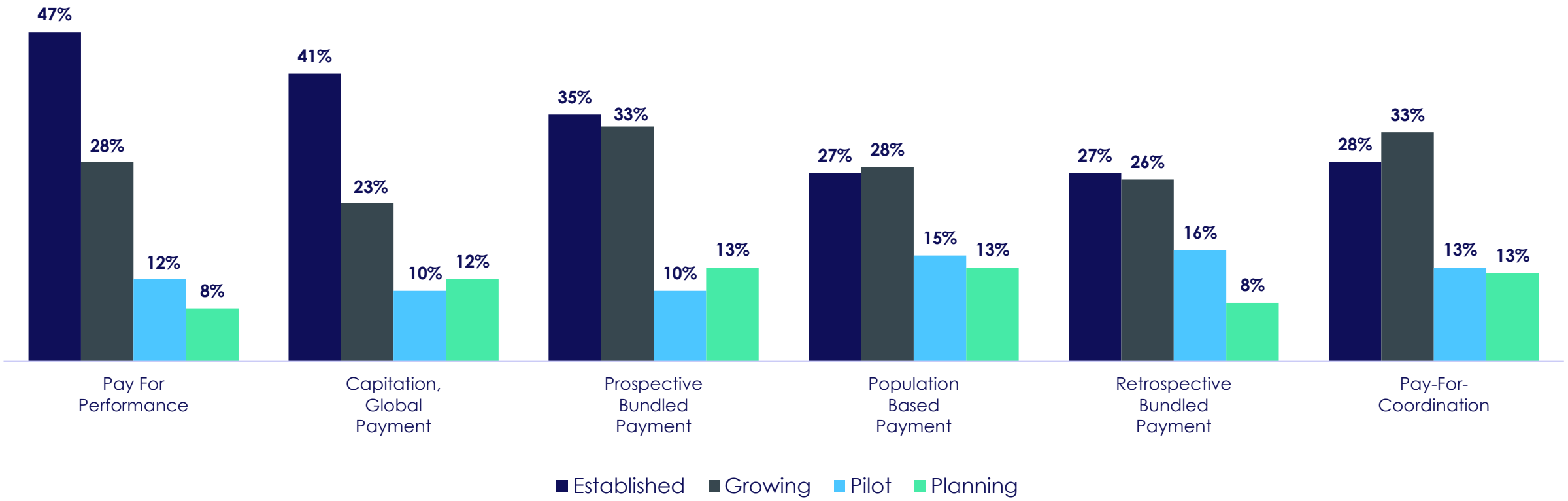
Current Level of Maturity of Value-Based Care Strategies



CHANGE HEALTHCARE

Value-Based PAYMENT Continuum: Current State

Current Level of Maturity of Value-Based Payment Tactics

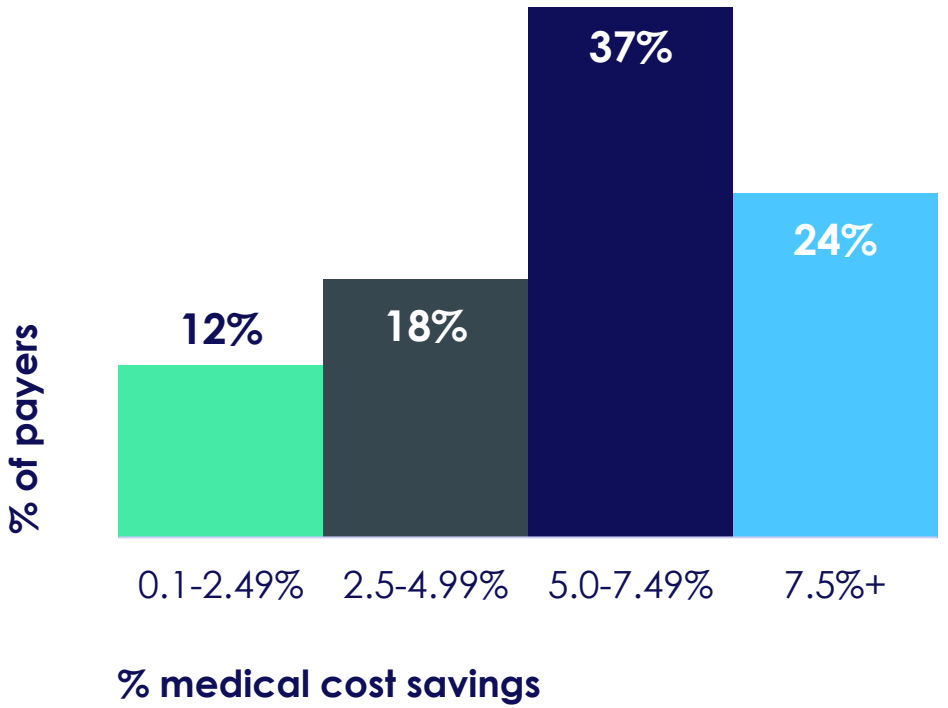


CHANGE HEALTHCARE

Compelling Cost Savings

Impact on Medical Costs from Value-Based Care Strategies

All respondents *reported medical cost savings* ***from 0.1 to 7.5+%***



2018 Actual

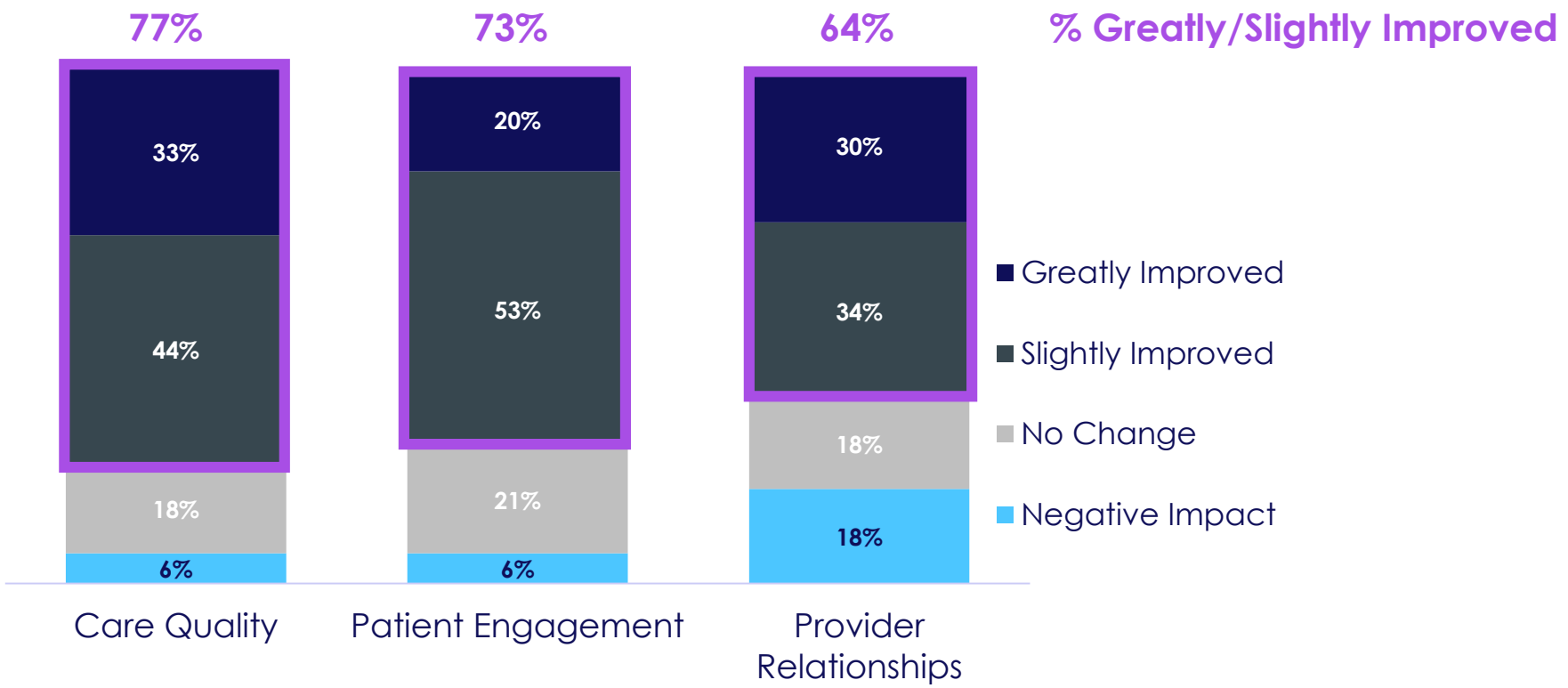
5.6%

Average Impact from Value-Based Care Strategies on Medical Cost Savings

CHANGE HEALTHCARE

Big Shift Toward the Triple Aim

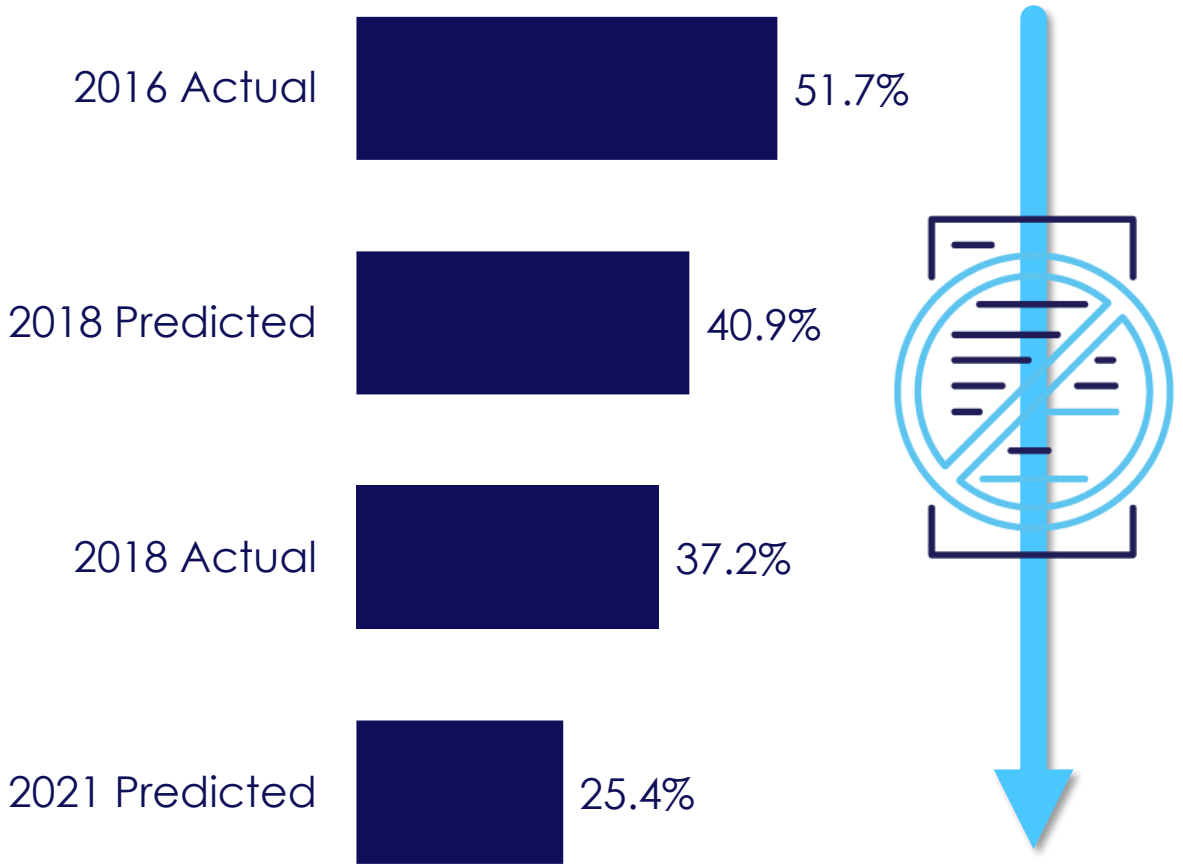
Impact on Care Quality from Value-Based Care Strategies



CHANGE HEALTHCARE

Decline of Fee-for-Service Accelerates

Proportion of Business Aligned with Fee-for-Service



Average %

CHANGE HEALTHCARE

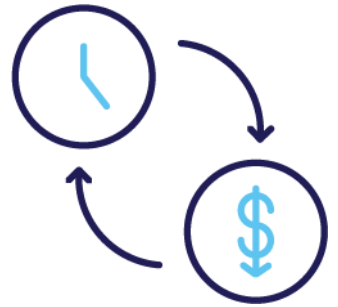
Payment Models Today & Tomorrow: Beyond 2020

Proportion of Business Aligned with Models

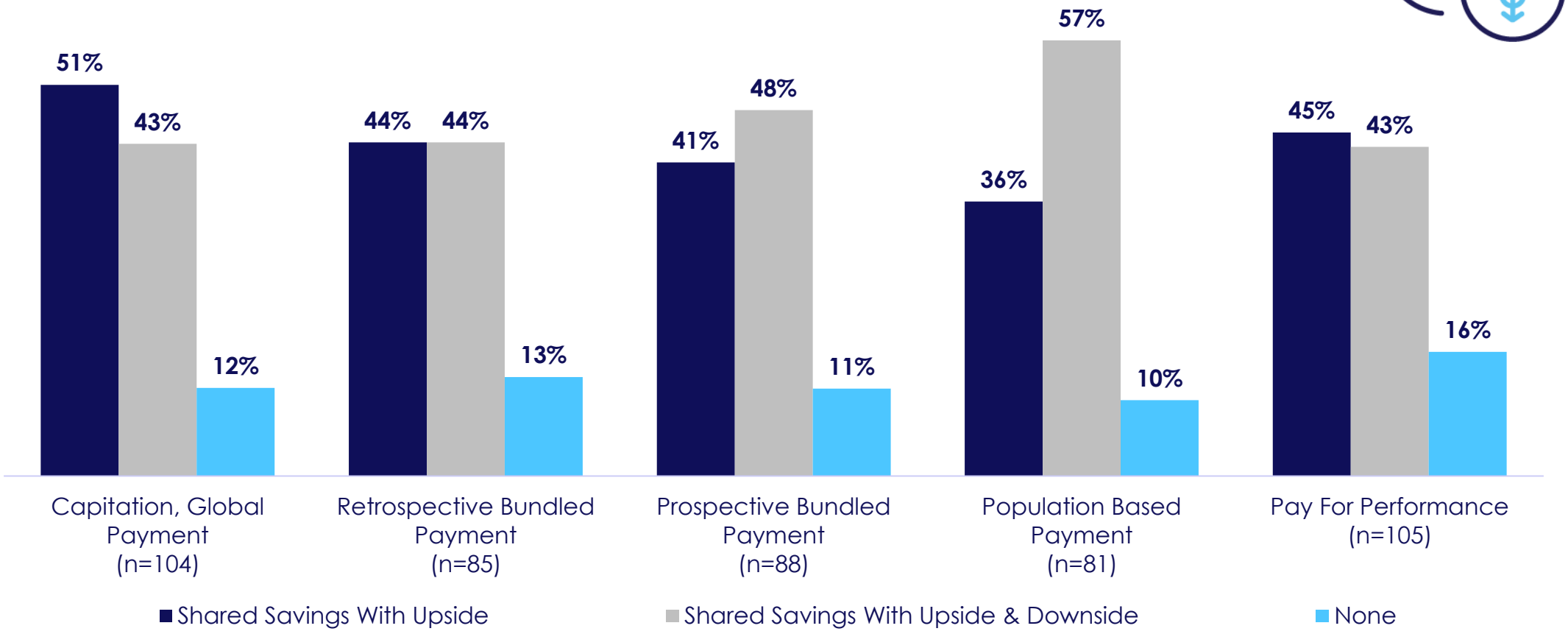
	Today	2021	% Change
Capitation, Global Payment	17.0%	19.8%	2.8%
Pay For Performance	15.2%	18.6%	3.4%
Prospective Bundled Payment	10.4%	12.9%	2.5%
Population Based Payment	10.2%	12.1%	2.0%
Retrospective Bundled Payment	9.4%	10.5%	1.1%
Other	0.7%	0.9%	0.2%
	Average %		

CHANGE HEALTHCARE

Shared Savings Programs Go Mainstream



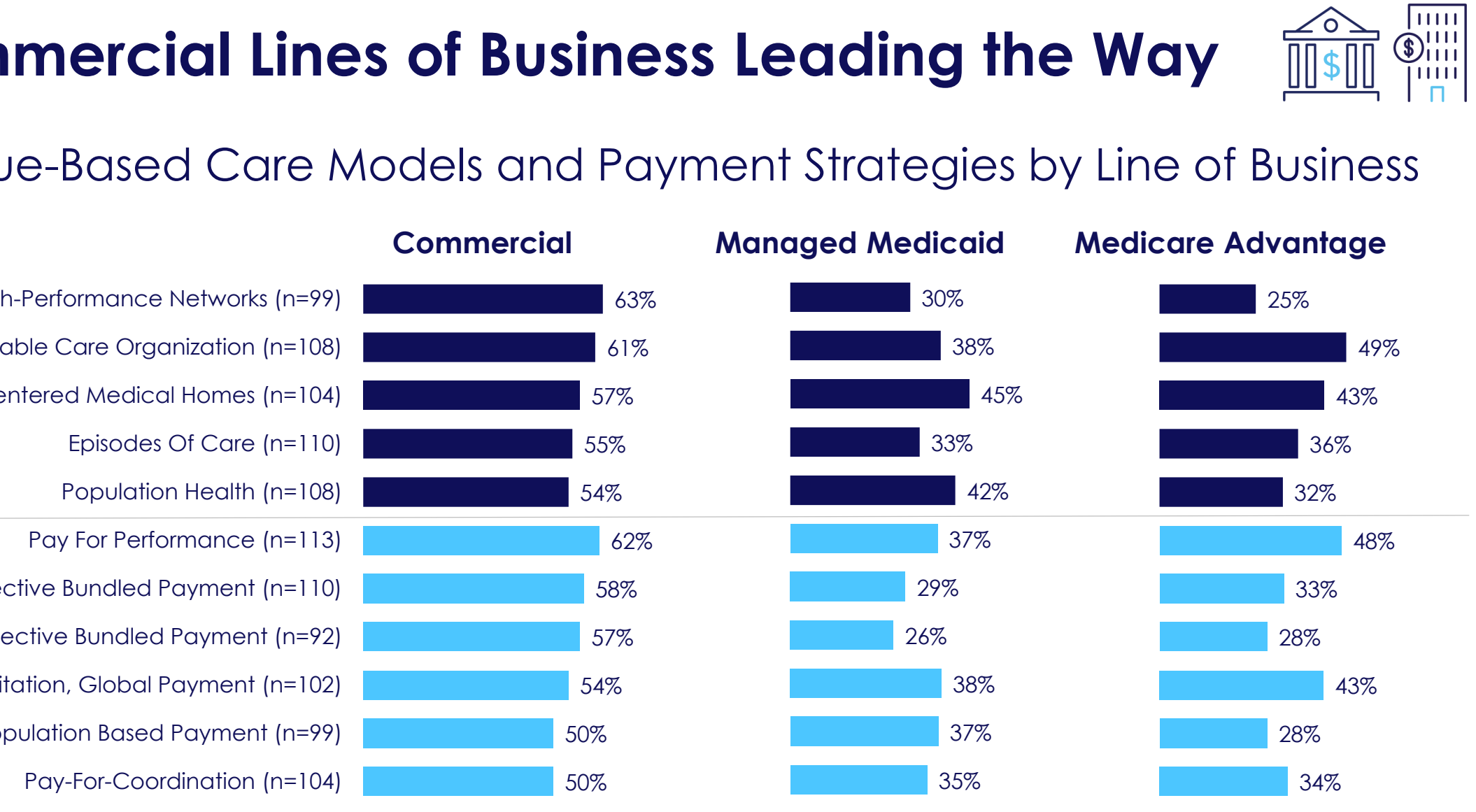
Proportion of Models with Shared Savings



CHANGE HEALTHCARE

Commercial Lines of Business Leading the Way

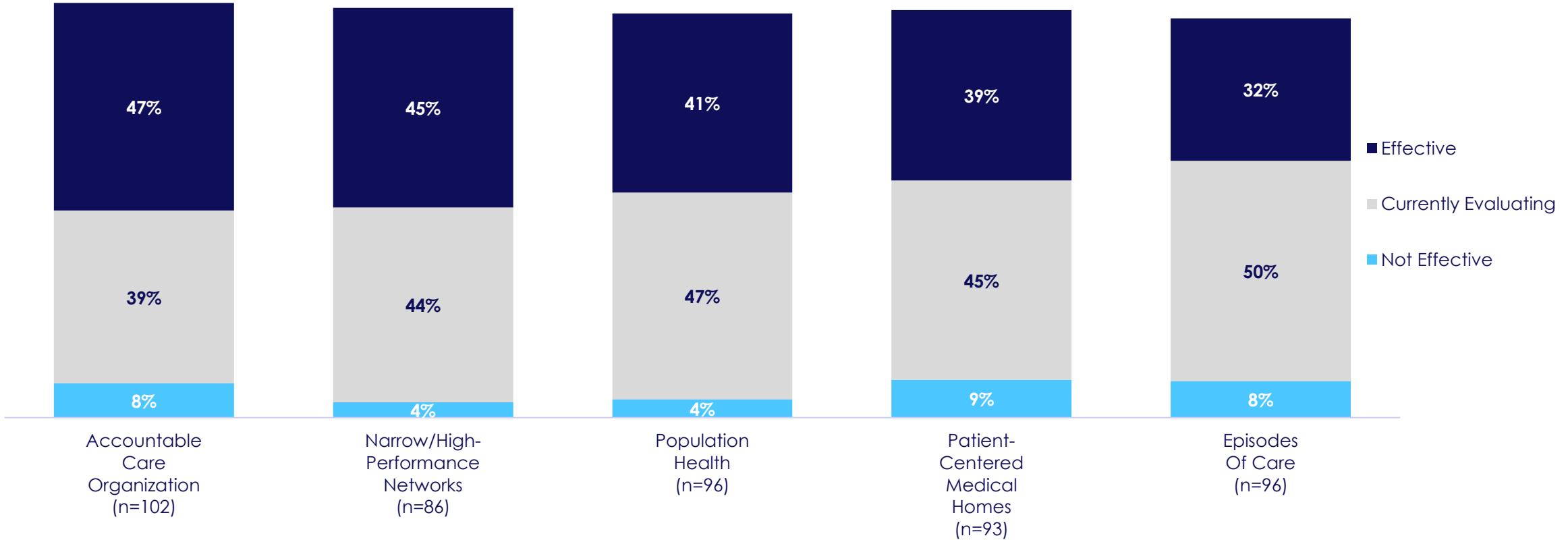
Value-Based Care Models and Payment Strategies by Line of Business



CHANGE HEALTHCARE

VBC Strategies: Effective vs. Ineffective

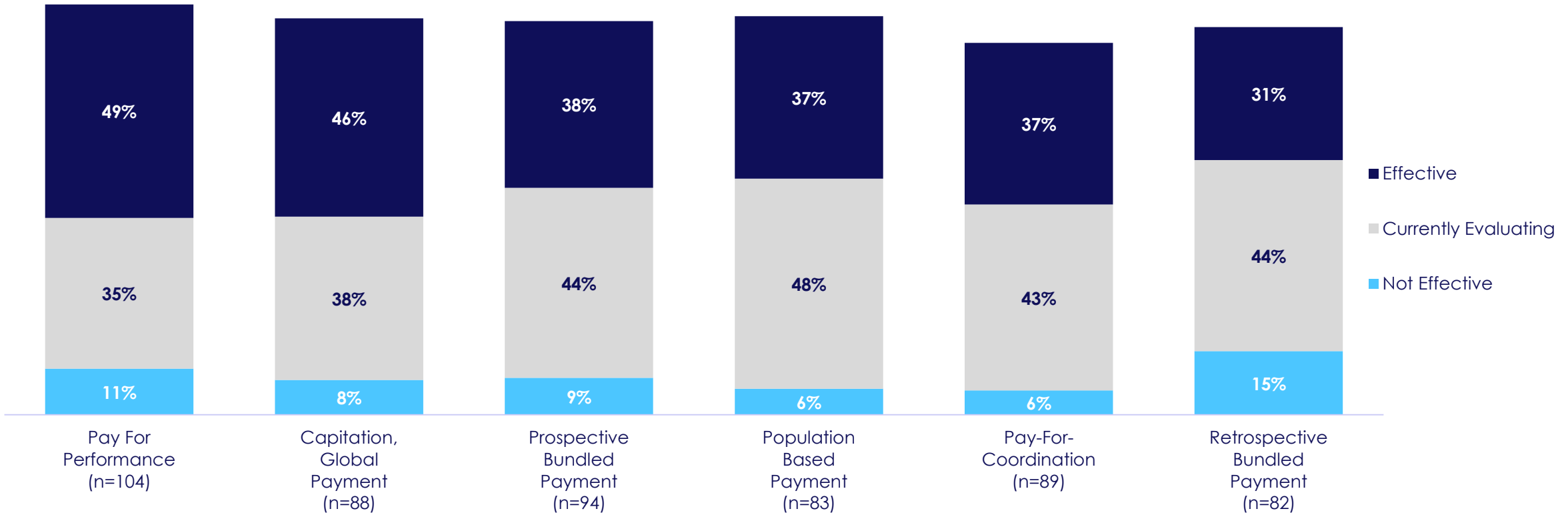
Value-Based Care Program Effectiveness



CHANGE HEALTHCARE

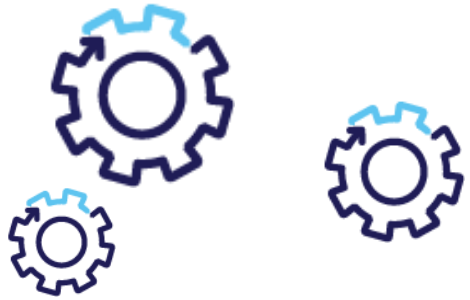
VBC Payment Tactics: Effective vs. Ineffective

Value-Based Payment Program Effectiveness



CHANGE HEALTHCARE

Build vs. Buy: Capabilities

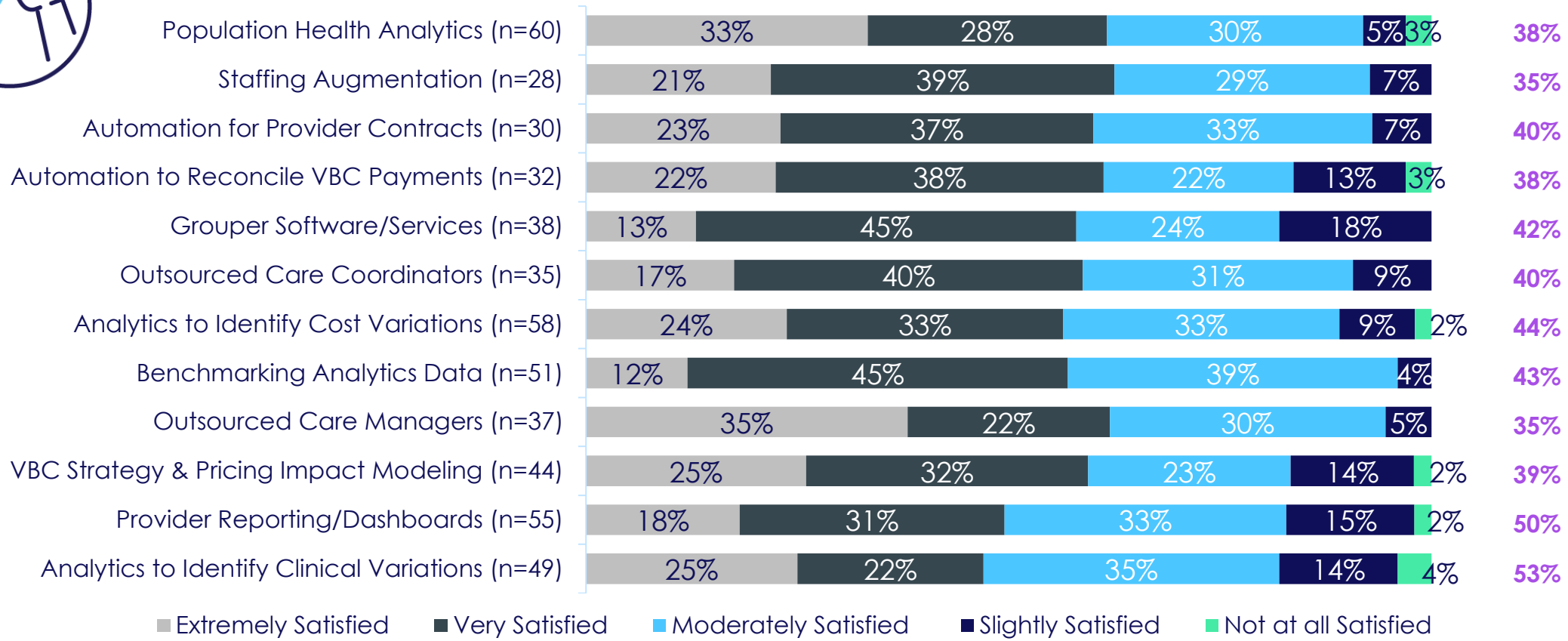


Capabilities in Place Today

CHANGE HEALTHCARE

Build vs. Buy: Satisfaction/Dissatisfaction

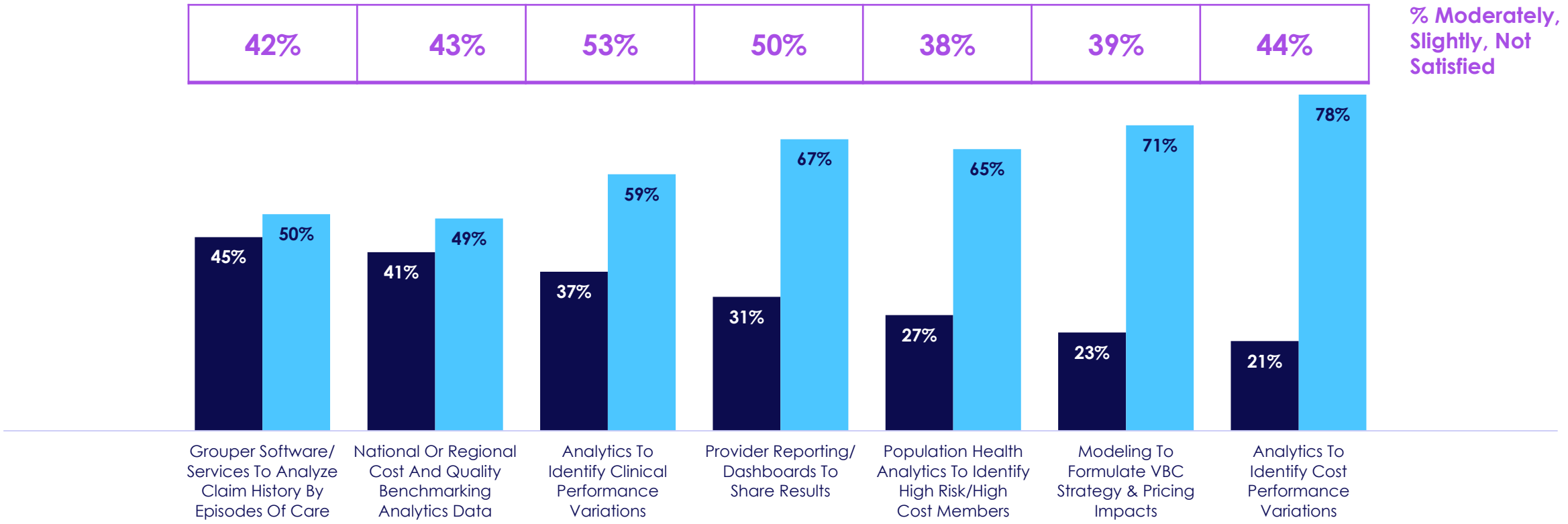
Satisfaction Level with Current Capabilities



CHANGE HEALTHCARE

Build vs. Buy: Analytic Capabilities Dissatisfaction

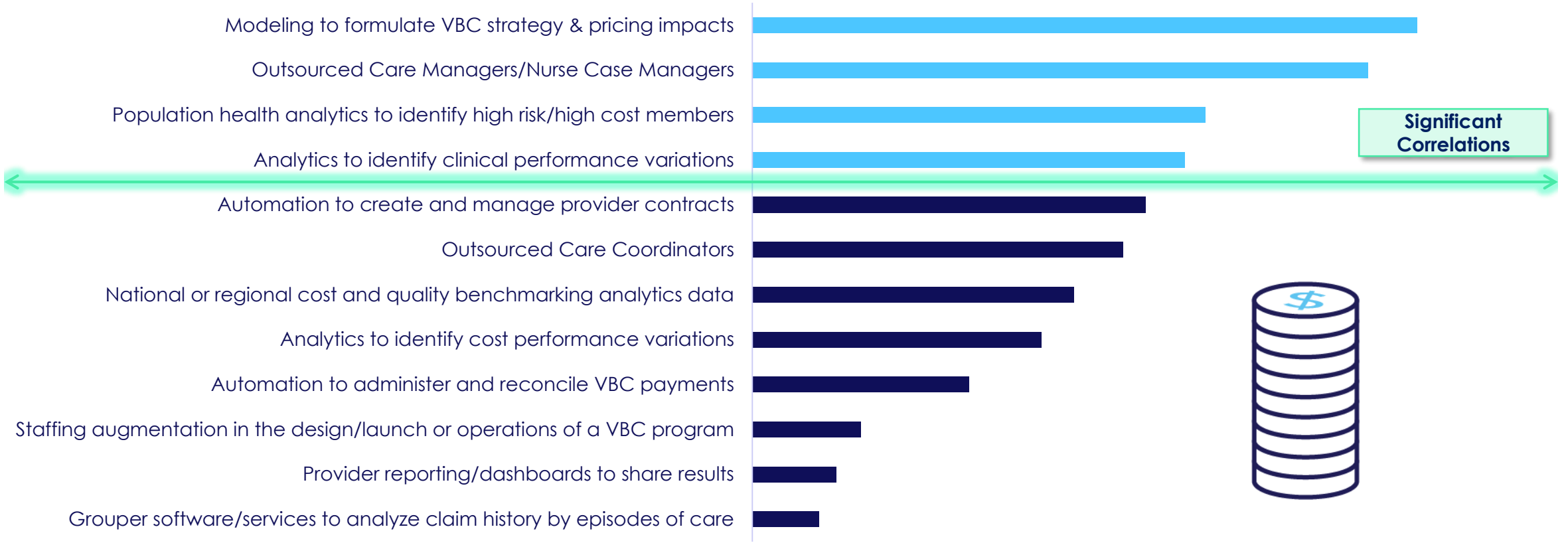
Capabilities in Place Today



CHANGE HEALTHCARE

Factors Driving Medical Cost Savings

Capabilities Correlated with Medical Cost Savings



CHANGE HEALTHCARE

DRILL DOWN: Episode Intelligence
The State of Episodes-of-Care in 2018

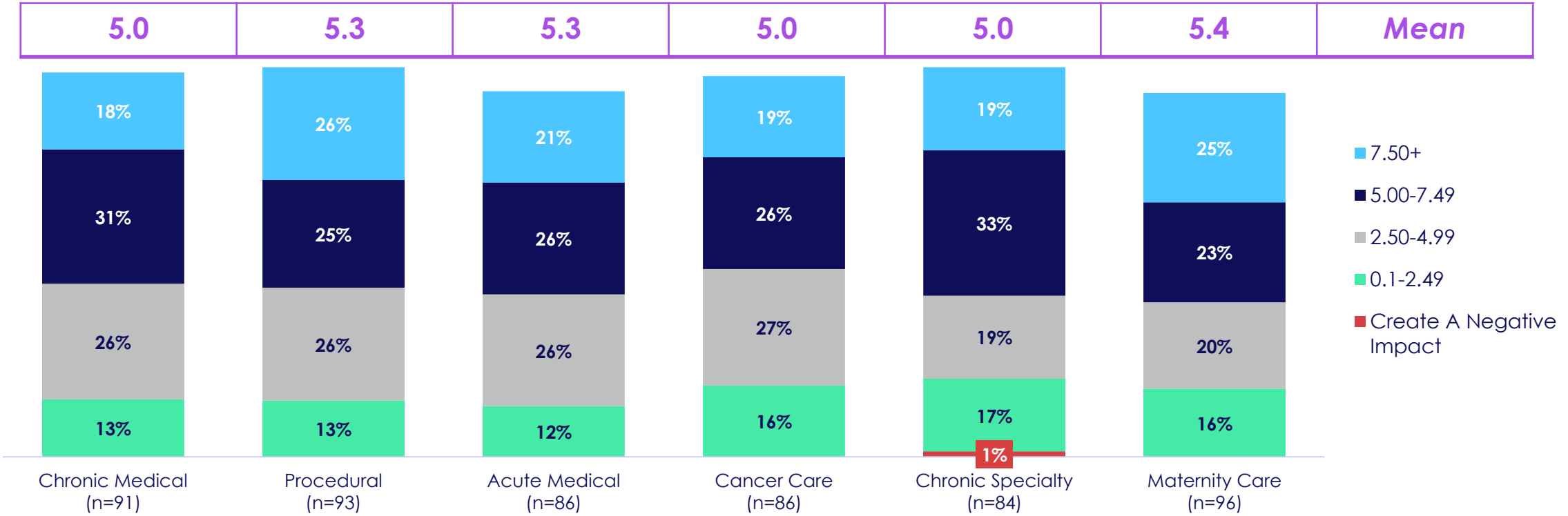
Original research by ORC INTERNATIONAL

Commissioned by CHANGE HEALTHCARE

CHANGE HEALTHCARE

Episodes: Consistent Cost Savings

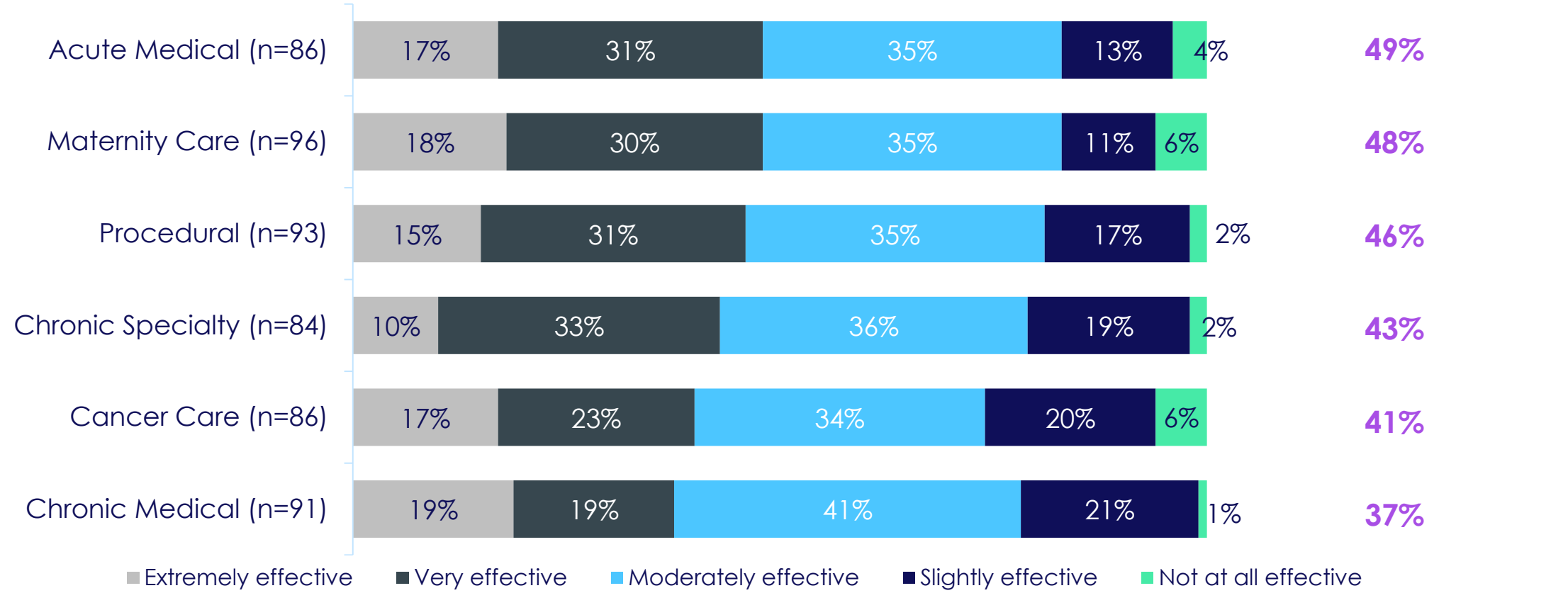
Episode Impact on Medical Costs (% Decrease)



CHANGE HEALTHCARE

Episodes: Quality Improvement Across Programs

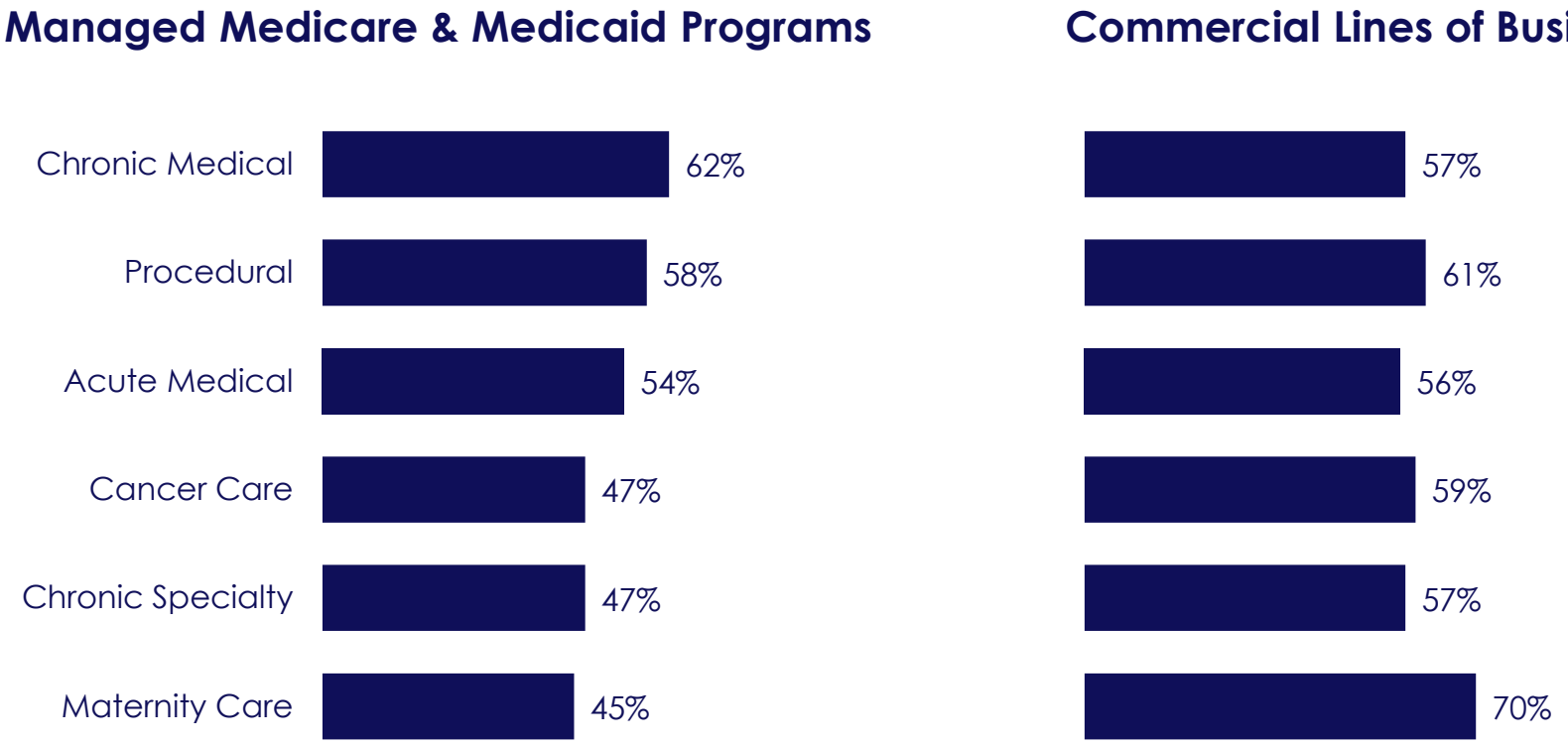
Effectiveness of Improving Care Quality by Episode Type



CHANGE HEALTHCARE

Episodes: Commercial Eclipses Government Programs

Frequency of Episodes-of-Care by Type and Line of Business

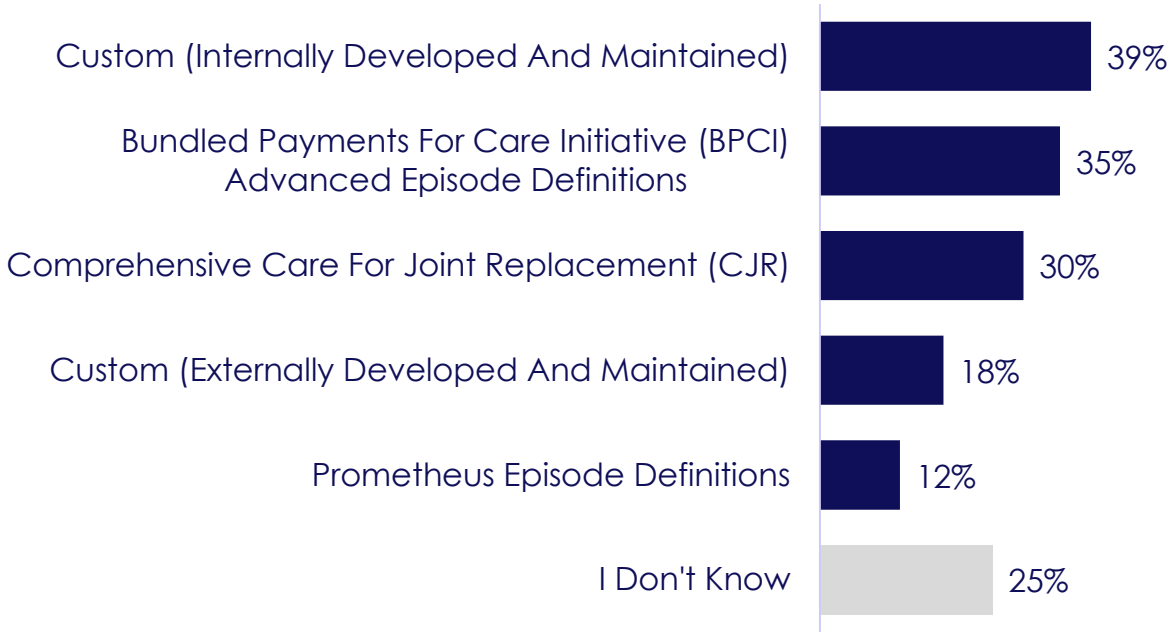


CHANGE HEALTHCARE

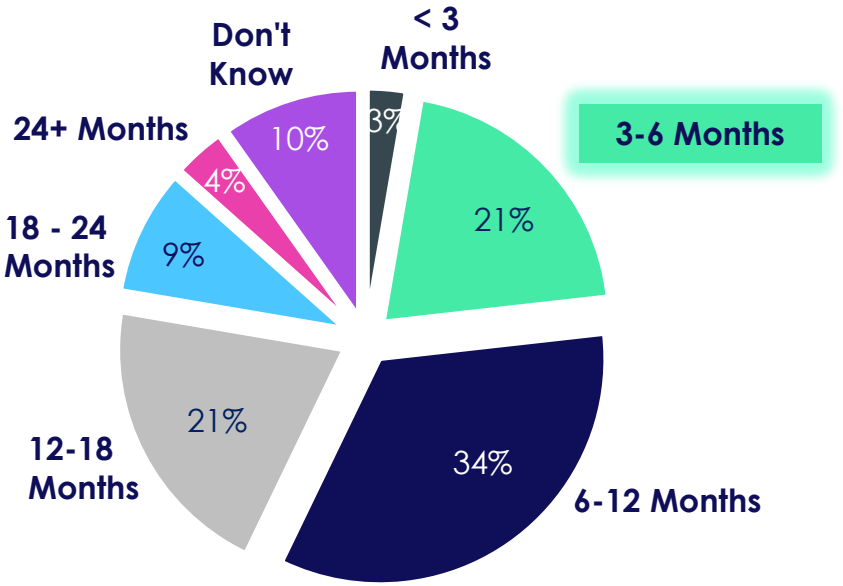
Episodes: A Need for Speed

Use and Time to Implement Groupers

Episode Grouper Types



Time Required to Roll Out New Episode-of-Care Programs

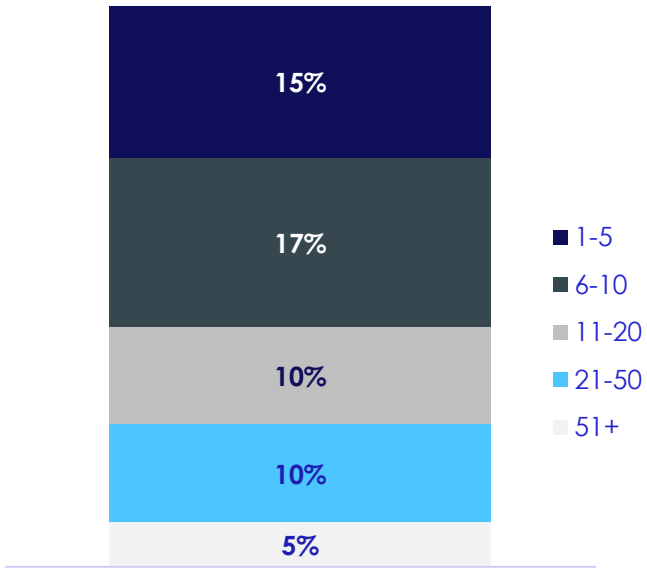


CHANGE HEALTHCARE

Episodes: Medical Cost Savings Driving Investment

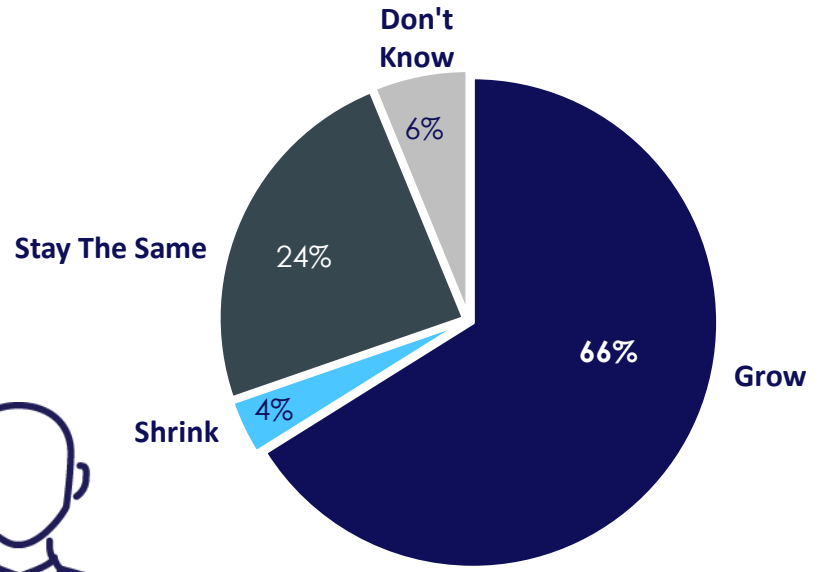
Full-Time Employees Supporting Episode-of-Care Programs

Number of FTEs Dedicated to Supporting Program



Median: 10.0

Whether Number of FTEs Will Grow, Shrink, or Stay the Same Over the Next 3 Years



CHANGE HEALTHCARE

Episodes: The Provider Engagement Challenge

FINDING THE VALUE
IN VALUE-BASED CARE

The State of Value-Based Care in 2018

A Signature Research report commissioned by Change Healthcare

Original research by ORC INTERNATIONAL

2018**VBC**study.com

CHANGE HEALTHCARE