

Carving the path to health care's value-based future

Insights from health system leaders



The path to financial sustainability for health systems has become increasingly difficult to navigate. Margin compression continues to intensify, due to factors like high labor expenses and the shift to lower-margin services driven by the growing Medicare population. Meanwhile, cashflow challenges often favor short-term fixes over long-term sustainability strategies.

According to the chief clinical officer at a health system in the mid-Atlantic, "We are really on the hook for inflationary costs. Labor is going up, but our hospital revenues are not. We can't outrun that."

Amid these market pressures and sustainability challenges, the shift to value continues to gain momentum throughout the health care sector. The market has the potential to hit [\\$1 trillion](#) in enterprise value in the future, according to McKinsey and Company. As of 2022, the enterprise value of value-based care was \$500 million.





Ken Leonczyk,
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Ken Leonczyk, senior vice president of provider strategy at Optum, believes health care is amid a generational shift in which organizations could fundamentally transform reimbursement and care delivery mechanisms to focus on patient-centered, community-based, whole-person health. The idea is for providers to be reimbursed for keeping patients healthy, and when patients are sick or injured, to help them return to health.

Many situations where providers are focused on VBC are working, as two-sided risk arrangements are often driving high performance. Successful examples include health systems like Baylor Scott & White Quality Alliance, Mercy Health ACO, Advocate Physician Partners Accountable Care and others, which have generated millions of dollars in shared savings while achieving high quality scores.

Yet, despite these successes, when it comes to scaling VBC, some health systems still perceive these initiatives as too risky. Common roadblocks to VBC programs include the financial burden of implementation and operating expenses, limited data access and interoperability across care settings, and insufficient change management strategies.

VBC means different things to different people and organizations

As health care organizations look to take on risk and get close to the premium dollar, they need to take care of their entire patient population, delivering the best quality care at the lowest cost, the right place and the right time, and with equity in mind.

"I think we are seeing a new consensus that value-based care is an outcomes-based care management system that delivers patient-centered, whole-person care in a cost-effective manner," Mr. Leonczyk said. "For too long, we've thought of value-based care as a payment or financing mechanism, but it's so much more than that. It's a patient-centered delivery shift powered by a new payment mechanism that rewards providers for keeping patients healthy and providing the best outcomes based on the patient's wants and needs when they are sick."

Health systems often look at VBC differently, based on variety of factors, such as the patient population that is served (i.e. Medicare or Medicaid), payer mix (i.e., public versus private payers) and the characteristics of patients – like medical complexity or social determinants of health.

As the system-wide chief nursing officer at a nonprofit health system in the Northeast noted, "A large part of our strategy focuses on delivering care to everyone, so when you're looking to take risk, you have to be able to take care of the entire population. Health equity is an

important part of reaching those who are not receiving care now, in order to reduce utilization and cost. At the same time, the approach is multi-pronged. You don't want to overly focus on your marginalized communities at the expense of the people in your communities who have good insurance and can afford things too."

Health systems are pursuing a range of different VBC strategies

To deliver the cost-effective, patient-centered, whole-person care that VBC aspires to achieve, health systems are trying different approaches.

- **Population health initiatives.** Health equity and population health initiatives are fundamental to succeeding in a value-based care world.

"The only way to effectively manage a population and improve equity is to get down to the individual human level and take care of the whole person – where they are, in the way they want and in the language they understand," Mr. Leonczyk said. "Health systems and providers need to understand populations and the individuals within them."

The challenge is getting the data and analytics that are needed to derive insights about patients, while also obtaining payer cooperation. The right partnerships with the right companies can help health systems understand

populations and provide for their medical, social and pharmaceutical needs in a way that drives the best outcomes at the lowest cost.

The women's and children's services department at a nonprofit health system in the South, for example, was seeing many repeat patients from the Spanish-speaking population and decided to take action. "We didn't have a dedicated Spanish interpreter in the clinic at all times," the vice president of women's and children's services said. "Now we have created Spanish-speaking clinic days and that has significantly reduced utilization."

- **Care management and care coordination pathways.** Once a health system has better understanding of their patient and community populations, they need to be able to manage where their patients are receiving care, what kind of care their patients are receiving, and the cost of that care. But just as care coordination is becoming more important, it's also becoming more difficult. Not only is the population growing and aging, but patient health needs are becoming more complex. Far more people have multiple chronic conditions compared to a generation – or even a decade – ago. These complex patients typically visit multiple practitioners, making coordination of care even more challenging.

As health systems continue towards a model of value-based care, they need to be able to connect and collaborate across the health care ecosystem and understand information critical to coordinating





care, including key patient identifiers, gaps in care, improvements or declines in population health, and complications with chronic and complex populations. These insights let care coordinators create personalized, patient-centric care plans that they can share and collaborate on with all members of a patient's care team and deliver this information upstream during the care experience.

A pediatric health system in the Northeast has doubled down on its population health programs and created a Center for Care Coordination which focuses on wrapping services around patients. "It can be hard to connect with children and some have conditions like cancer diagnoses that we can't prevent. But we are focusing on things that we can do upstream, like partnering with pediatricians in different ways, bringing care coordination and partnering on behavioral health," the vice president of strategy and care coordination said.

- **Payer-provider contracting and relationships.**

Many public programs, like Medicare Advantage, the Medicare Shared Savings Program or the Center for Medicare and Medicaid Innovation, don't have long-term measures to hold health systems accountable for better preventive care performance. As a result, VBC contracts frequently don't incentivize long-term investments in populations.

"One of the challenges is that programs are often one-to two-year oriented and are focused on structurally doing things we think will be good," the chief clinical officer at a health system in the mid-Atlantic said.

"For example, many have quality measures related to specific use cases for preventive care – like getting your colonoscopy rates up. But they don't measure long-term outcomes on things like diabetes or five-year stroke or cardiovascular risk rates. It's hard enough to get revenue from efforts 18 months after you start, and this would be an even longer-term thing. It's something that haunts value-based care."

Building more collaborative relationships with payers may be one answer. The senior vice president, CFO and chief strategy officer at an independent health system in the Mid-Atlantic has made a concerted effort to meet with payers, understand their strategy, identify areas of alignment and find ways to work more effectively together.

"It has helped us get some really innovative ideas," he said. "The payer may say, 'Hey, we would like you to try this value-based initiative. It's very important to us.' Where it intersects and makes sense, we're happy to engage. If you're going to value-based care, you have to be right there with them in a way that's transparent and authentic."



- **Physician alignment.** Getting providers on board with VBC is critically important. Unfortunately, the incentives built into value-based care programs sometimes undermine provider engagement.

"A huge challenge is creating structures that allow us to continue benefiting from being a top-quality provider," the vice president of strategy and care integration at the pediatric health system in the Northeast said. "We earned almost \$10 million in savings, but because our organization didn't improve compared to the year before, that money will be awarded to a lower-performing organization. Our pediatricians don't want to buy into this. It's important to incentivize top-quality performers so they stay at top quality, but we also learn from others' experiences and improve."

Health systems must engage with providers, so they understand why it's important to participate in these programs. "There needs to be more conversation with providers about why value-based care is the right road to take," the vice president of quality and regulatory affairs at an integrated health system in the Mid-Atlantic said. "It has to be more than just financial incentives. It also has to be the right strategy and intervention to provide the best care. Payers must understand that we have a relationship with providers, and providers need to understand the rationale for moving to value-based care so we can have a better outcome for everybody."

Looking ahead: Health system approaches to VBC will need to evolve

Coming out of COVID, the health care industry, culture, workforce, economy and patient expectations have all changed. This presents an enormous opportunity to do things differently and to get even better at meeting patient needs.

Value-based care is a fantastic way to meet the community's needs while ensuring the financial security and stability of the acute care enterprise. VBC puts the patient first and ensures that providers are reimbursed for the important work they perform.

"Let me be blunt, running a hospital is incredibly expensive, but having a strong, high-quality hospital is literally the difference between life and death," Mr. Leonczyk said.

"Community-based hospitals are a necessity and patients must understand and trust the services and support they provide across all levels of care. I'm excited about helping create a future of health systems with hospitals that provide whole-person, community-based care for patients powered by a VBC payment and delivery system that is financially sustainable, operationally efficient and of the highest quality."

