ELLIS & ADAMS
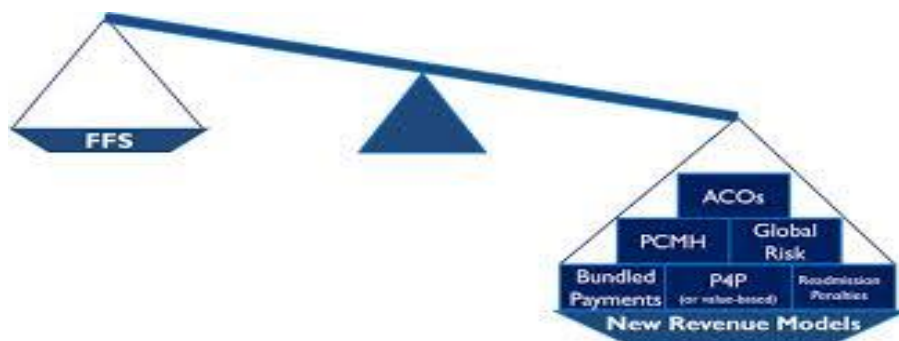
Measuring Cost & Aligning with Value

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Introduction: Currently, over 1,000 Accountable Care Organizations (ACO) are leading the way to redesign care processes that will lead to both better outcomes and more appropriate care. In June of 2015, the Centers for Medicare & Medicaid Services (CMS) announced the coming of more flexible rules and additional options for ACO plans. The number of ACO contracts is projected to soar.

Along with ACOs, payment reforms are rapidly changing the traditional business model of care delivery. In an environment with so much change, rising costs are one of the few constants. Coupled with the reality that costs to provide services are largely unknown, healthcare is presented with a potentially crippling problem for all parties involved in the care cycle, especially when it comes to value.

We understand that organizations in the pursuit of redesigning their care process need a strategy to (1) accurately measure and understand costs and (2) create a value-based environment with an IT infrastructure tailored to the organization's needs.

Becoming accountable for patient health outcomes introduces new risk to health care organizations. This will require taking control of patients' care delivery.

We suggest that organizations look into taking the following steps to mitigate the risk and take control of their data:

Measure Costs: Redesigning your care process involves dedication to understand your resources – your personnel, equipment, and facility – and the cost of each service. In an effort to understand and drive change to this problem, Ellis & Adams began research on Time-Driven Activity Based Costing (TDABC) and its application in healthcare.

TDABC is a method of cost accounting that has helped resurrect many organizations across diverse industries by assigning resource costs directly to cost objects (a cost object is defined as an item, task, or process that utilizes resources).[1] This method creates an elegant framework of time equations and cost drivers, requiring only two sets of estimates that can easily and objectively be obtained: (1) The quantity of time that each employee provides service to a patient; and (2) the price incurred by the organization for each employee to provide service.[2]

In 2014, Ellis & Adams conducted a TDABC study with an endocrinology & diabetes clinic in Texas. The study revealed that on average, the clinic incurs a cost of **$145** to

treat a patient. Our analysts identified the key cost drivers in the care cycle and recommended ways to improve efficiency and reduce costs for patient visits.[3]

Our research partner continues to look into payment reforms and their leadership is now armed with TDABC data on the true cost of a patient visit. This enables them to:

> - Target patients and processes that incur high costs.
> - Optimize the roles and structure of care delivery teams based on cost drivers and efficient processes.
> - Develop creative solutions to eliminate the root causes of waste, unnecessary inventory, idle time, and unused capacity.
> - Forecast margins of revenue with the ability to compare reimbursement with the cost to treat a patient.

Pilot projects conducted by more than two dozen healthcare organizations also demonstrate the power of TDABC to improve value[4].

Align with Value: In the movement to value-based payment systems, it is essential for ACOs to center on an IT infrastructure that enables health care providers to utilize medical data, share patient records with colleagues, and adopt technology to improve processes for care delivery.

However, poorly designed IT infrastructures are the number one hurdle to overcome in making a transition for ACOs and value-based care[5]. Healthcare organizations must have a strategy to be able to bring an understanding of clinical process to the technology team so that the systems are appropriately designed, readily adopted and effectively utilized by the clinical staff.

We believe the bridge between technical innovation and clinical process improvement can be crossed successfully. E&A suggests a three-pronged approach to building a value-based IT system:

1. **Electronic Health Records (EHR)**. Accessible clinical data is the core business function for value-driven health care and it is essential to tracking and measuring improvement in quality of care.
2. **Care Management Systems.** Being accountable for patients places high importance on aligning the right intervention to the right patient at the right time and having the ability to track treatment utilization.
3. **IT Governance.** Building an IT infrastructure is half the job. The other half is an IT governance strategy that aligns the IT functions with business strategy and clinical outcomes to ensure that an ACO stays on track to meeting quality improvement and cost savings objectives.

Conclusion:

The Department of Health & Human Services (HHS) announced its goal: 30% of all traditional Medicare payments will be tied to alternative payment models such as ACOs and bundled payments by the end of 2016. This goal will rise to 50% of payments by the end of 2018[6]. Accountable Care is at the center of our evolving value-based care delivery healthcare system. As healthcare leaders, we need to build cost-conscious, value-driven Accountable Care Organizations to meet the needs of patients and succeed in the new healthcare economy.

References:

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[3] Ellis & Adams (Fall 2014) How Much Does That Cost? Measuring True Costs in Healthcare

[4] Donovan, C. J., Hopkins, M., Kimmel, B. M., Koberna, S., & Montie, C. (June 2014) How Cleveland Clinic Used TDABC to Improve Value. *HFM Magazine*

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[6] U.S. Department for Health & Human Services. (January 2015) better, Smarter, Healthier: In Historic Announcement, HHS Sets Clear Goals and Timeline for Shifting Medicare Reimbursements from Volume to Value [Press Release]