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

- 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)

- **POPULATION**: Health Plan Members
- **REVENUE**: Group/Individual Contracts, Global Budget
- **EXPENSE**: Operating Budgets, Capitation to the Group, Salaried Physicians

**Kaiser Foundation Hospitals**
- Hospital Service Agreement
- Operating Budgets

**Kaiser Foundation Health Plan**

**Permanente Medical Group**
- Medical Service Agreement
- Capitation to the Group, Salaried Physicians
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*
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
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

- 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

- 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

<table>
<thead>
<tr>
<th>Category</th>
<th>US spending</th>
<th>Hypothetical KP equiv. use</th>
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<tbody>
<tr>
<td><strong>Lipid Lowering Drugs</strong></td>
<td>$18.3 billion</td>
<td>$6.7 billion</td>
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<tr>
<td><strong>PPIs</strong></td>
<td>$14.1 billion</td>
<td>$3.3 billion</td>
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<tr>
<td><strong>Antipsychotic</strong></td>
<td>$13.1 billion</td>
<td>$5.1 billion</td>
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<tr>
<td><strong>Antidepressants</strong></td>
<td>$11.9 billion</td>
<td>$4.3 billion</td>
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<tr>
<td><strong>Seizure medications</strong></td>
<td>$10.2 billion</td>
<td>$5.3 billion</td>
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</tbody>
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**Total difference** $42.8 billion (5 classes) (IMS)
Performance Levers

- 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?