

Capitation: The New World of New Technology

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**Remember the “Good Old Days”
when hospitals received fee-for-service?**



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- Nearly anything we billed for, we got reimbursed for. The more line-items we billed, the more revenue we collected.

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- Nearly anything we billed for, we got reimbursed for. The more line-items we billed, the more revenue we collected.
- **Those days are long gone**, and capitated *reimbursement* has now been a way of life for us for a very long time.

Medical Device Vendors

- ***Ray's opinion:*** “This is now where our medical device vendors find themselves within the evolution of their business relationships with hospitals.”

Cap Programs

- Where do capitated pricing programs make sense?

Cap Programs

- Where do capitated pricing programs make sense?
 - Basically anywhere consistently demonstrates a high supply cost for multiple (& *constantly changing*) line-items billed from a single vendor for a single procedure.

Cap Programs

- When & where do capitated pricing programs make sense?
 - Orthopedic implants (*most common*)
 - CRM
 - Spine
 - Drug-Eluting Stents
 - Others?

Goal of Cap Programs

- **Goal of a capitated-pricing program is to achieve improvements in managing utilization and costs.**

Goal of Cap Programs

- ***Regarding utilization:***

- Vendor/provider cooperation toward responsible product selection and utilization is more likely to be successful if vendors are not paid or incentivized by line-item billing.

Goal of Cap Programs

- ***Regarding Costs:***

- 1991 to 2006 - Average list price for coated hip implants (as example) increased 171%, while CMS payments only increased 19%.

Goal of Cap Programs

- ***Regarding Costs:***

- Also, due to the complex nature typically associated with line-item billing of implantable medical devices, managing costs can become a “smoke & mirrors” endeavor.

Goal of Cap Programs

- ***Regarding Costs:***

- Procedure-based billing (the core of most cap-pricing programs) is much simpler to manage effectively than line-item billing.

We Know Cap Programs are Common

- St. Joseph Hospital – Bellingham, WA
 - Sacred Heart Medical Center – Eugene, OR
 - St. John Medical Center – Longview, WA
 - Swedish – Seattle, WA
 - CHI ROC#3 – 10 Hospitals!
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- And not just in the Northwest, but nationwide.

Cap Programs Within WSHMMA's Membership

- How many people here have cap programs at their facilities?

Evidence That Cap Programs Work

- Simply stated:
 - Successful cap-pricing programs are common nationwide.

Leadership Requirements

- Successful implementations typically require the following participants:
 - Executive Sponsor
 - OR Director
 - OR Managers
 - MM Director
 - Physician Champion
 - Others?

Defining “New Technology”



Defining “New Technology”

- Defining New Technology can be a gray area, but after discussions with numerous peers, the following definition evolved.
- It is as close to an absolute black-and-white definition as I’ve found to-date, and can be applied toward any medical device contracts with language related to New Technology.

“New Technology”

- *New Technology defined as products filed with the FDA for Pre-Market Approval (PMA) designation, and assigned a PMA number which can be referenced at www.accessdata.fda.gov/scripts/cdrh/cfdocs/cfPMA/pma.cfm and that have been on the market for less than [blank] year(s). 510(k) designated products are never classified as New Technology.*

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- (See Article Handout)

“New Technology”

- 510(k)
 - The reason 510(k) designated products should never be classified as New Technology is because they merely require evidence that the device is similar enough to something else already approved and in use in the market.

“New Technology”

- PMA
 - The FDA designates products requiring PMA status as medical devices “where insufficient information exists so that performance standards or general controls cannot provide reasonable assurance that the device is safe and effective for its intended use.”

“New Technology”

- PMA
 - In other words, if a device is not demonstrated as substantially equivalent to an existing device already in use and legally marketed in the industry, the vendor is required to pursue a PMA number.

“New Technology”

- PMA

- Once a device has been assigned a PMA number, **it retains that number for the life of the product.**
- No products have both a PMA and 510(k) number simultaneously.
- Only in *very rare* cases, some devices that were once assigned a PMA number have been reclassified and changed to a 510(k) designation.

“New Technology”

- Link to FDA’s website in definition below is easy to navigate.
- *New Technology defined as products filed with the FDA for Pre-Market Approval (PMA) designation, and assigned a PMA number which can be referenced at www.accessdata.fda.gov/scripts/cdrh/cfdocs/cfPMA/pma.cfm and that have been on the market for less than [blank] year(s). 510(k) designated products are never classified as New Technology.*

Sample CAP Program Highlights (*Ortho & Spine*)

- The following are highlights and category samples taken from successful cap programs around the country.
 - Some of these examples were merely solicited and provided on listservs like our GPOs' and AHRMM.

Sample CAP Program Highlights

- Cap programs can be as varied as the institutions they come from.

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- Cap programs can be as varied as the institutions they come from.
 - Some are Revenue-Model based.
 - For example, at a couple healthsystems in 2008, cap price is set at 35% - 40% of what CMS would reimbursement for a particular procedure.

Sample CAP Program Highlights

- Cap programs can be as varied as the institutions they come from.
 - Most common are procedure-based (*vs line-item*) capitated pricing models.
 - *See attached “Category Samples” provided from 4 actual hospitals.*

Sample CAP Program Highlights

- Important: Keep the program as simple as possible!
 - Some samples provided to me were so complex, they're not worth sharing here.

Sample CAP Program Highlights

- Important: Keep programs as simple as possible!
 - Assuring vendors the program they're being asked to sign onto or honor is ***identical*** to what their competition is seeing is critical for gaining vendor support.

Sample CAP Program Highlights

- Important: Keep programs as simple as possible!
 - Assuring vendors the program they're being asked to sign onto or honor is *identical* to what their competition is seeing is critical for gaining vendor support.
 - Separate terms or category pricing for different vendors can seriously damage the success of a cap-pricing program.

Sample CAP Program Highlights

No Carve-outs!

- “Pricing set forth shall be inclusive of ALL product charges associated with the implant, without limitation including instrumentation and consultation. Vendor shall not bill Purchaser for any other fees related directly or indirectly to the procedures and related products covered in the pricing attachment.”

Sample CAP Program Highlights

No Carve-outs!

- **Note:** It's a great goal, and one that's been achieved by at least a few Pacific Northwest facilities.

Sample CAP Program Highlights

No Carve-outs!

- If not realistic within the culture of your own institution, pursue at least getting as close to no carve-outs as possible.

Spine Programs

- When pursuing cap programs in spine, capping by construct, *not* by line-item, is the way to go.

Spine Programs – Sample Categories

- North Carolina Baptist Hospital has had success capping costs for the following constructs:
 - **Lumbar Pedicle One Level Fusion:** Includes construct with two rods and four multi-axial/variable angle screw constructs.
 - **Lumbar Pedicle Two Level Construct:** Includes construct with two rods, six multi-axial/variable angle screw constructs and a cross-linking stabilization mechanism.
 - **Cervical Plate/Screw One Level Fusion:** Includes plate and four screws.
 - **Cervical Plate/Screw Two Level Construct**

Questions?

