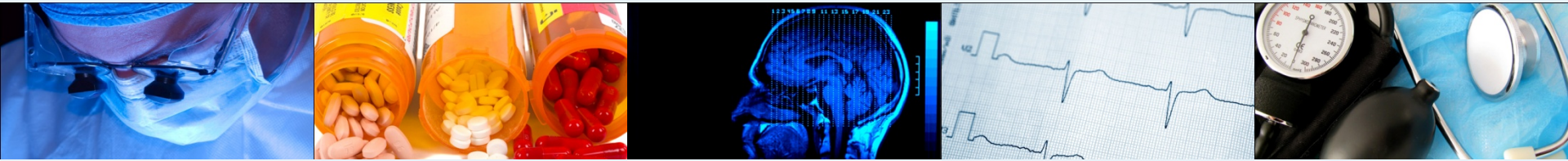


## Healthcare Transactions in a Post-Reform World: Creating the Next Generation U.S. Healthcare Delivery System

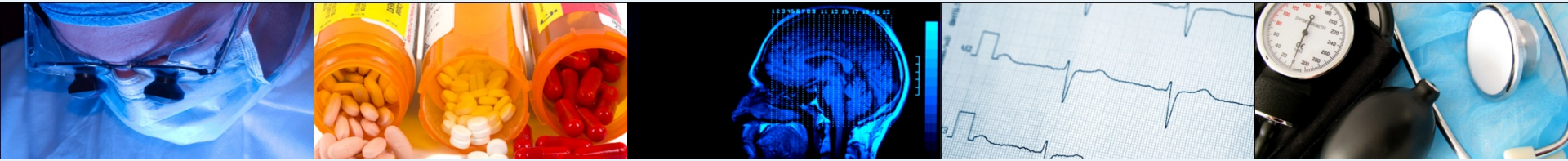
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**The Bankers Club**  
**September 23, 2010**  
**Miami, Florida**



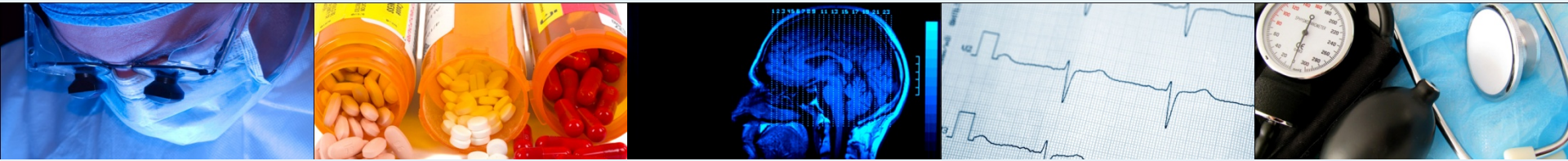
# Discussion Topics

- Problems with the U.S. Healthcare Delivery System
- Focus of Health Reform – Did we get it right?
- Episode-Based Bundled Payments – Key economic driver
- Accountable Care Organizations – A framework for integration
- Significant Transactional Responses to Health Reform
- Implementation Challenges – New legal paradigm needed



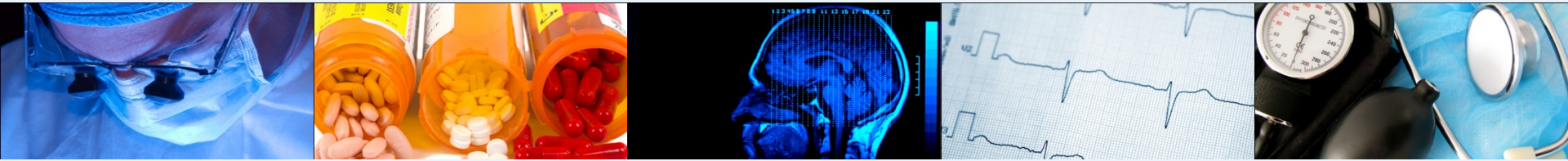
# The Problems

- Access (50M Uninsured)
- Care Fragmentation
- Large Scale Inefficiencies
- Unsustainable Cost Curve



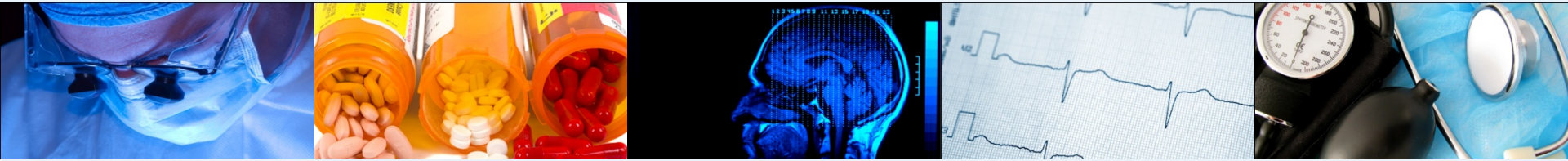
# Focus of Health Reform

- Insurance Market Changes
  - Plan design, individual mandates, larger employer “pay or play” obligations, government subsidies and insurance exchanges
- Clinical Integration → the End of “Silo” Operations
  - Both vertical and horizontal integration needed
- Value Based Purchasing → the End of Fee-for-Service
  - Quality and accountability matter – Prove it!
- Modernization with Automation (EHR; HITECH)
- Reallocation of Funds
  - Moving away from tertiary to primary care



## Key to Reform - Getting the Financial Incentives Right

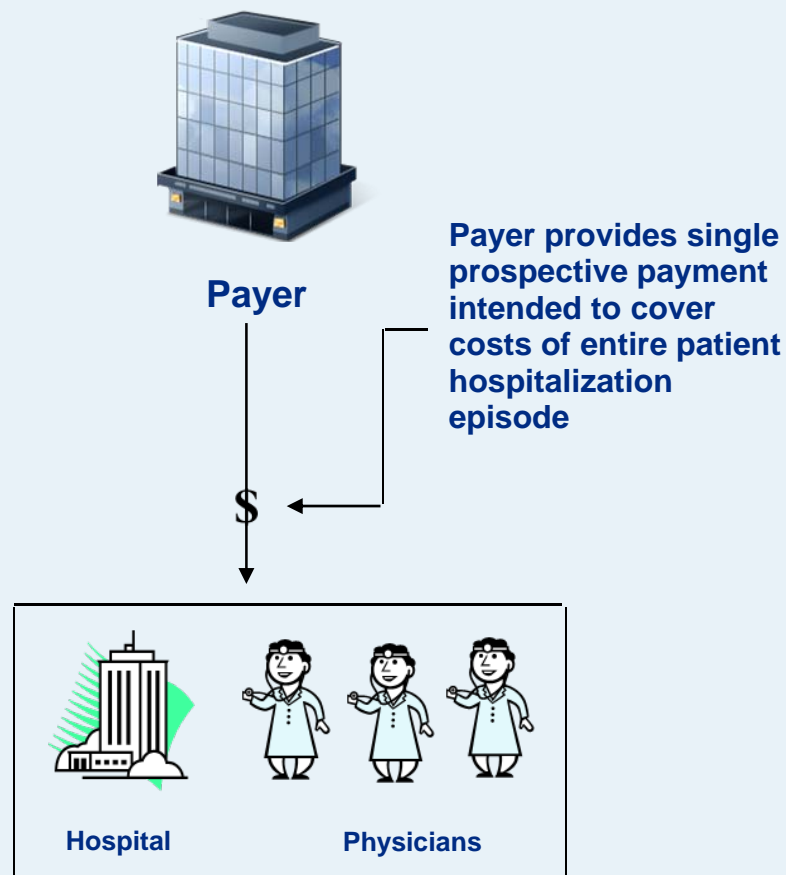
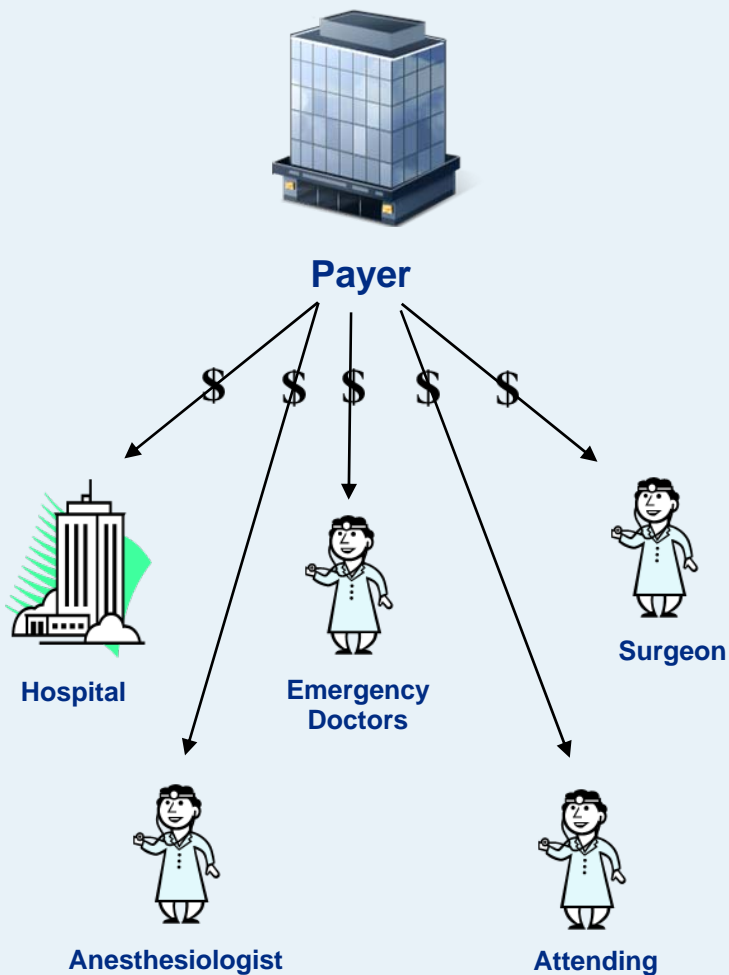
- MedPAC
  - “Report to Congress: Reforming the Delivery System” (June 2008)
- Establishment of “Center for Medicare and Medicaid Innovation”
- The Pilot Projects – What are we learning?
  - PGP and ACE Projects
- New Grants and Funding Opportunities – Follow the money
- Bundled Payments – Driving the initial transactional responses



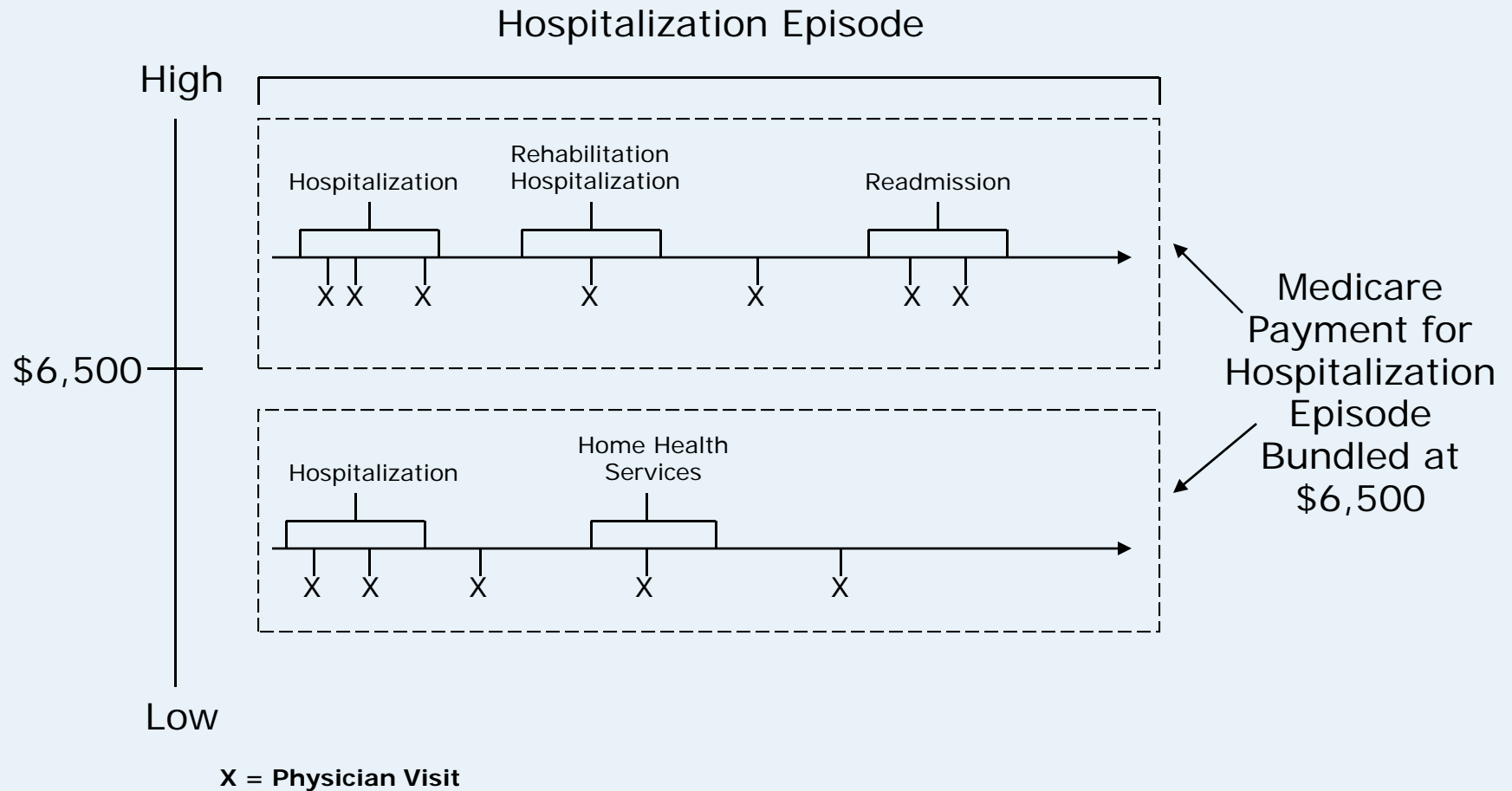
## Episode-Based Bundled Payments: The Concept

- EBP bundles all costs of care across a clinical condition for a defined period of time and for all settings involved in direct and indirect care to the patient.
- Patient-centric (not provider-centric)
- Includes several levels and types of providers and a number of venues (outpatient, inpatient, rehab, pharmacy, home health).
- Assumption of financial risk post-hospitalization
- Alignment with evidence based best practices (clinical guidelines and quality measures)

# Bundled (Part A+B) “ACE” Hospital Payment Model

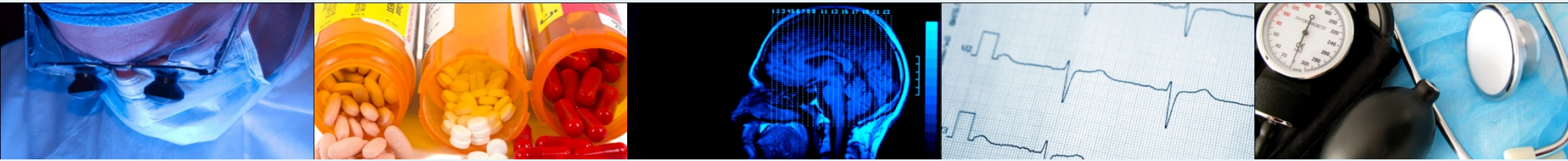


# Bundled Episode Payments (A+B+PAC) – Will Require Strategic Hospital-Physician Coordination



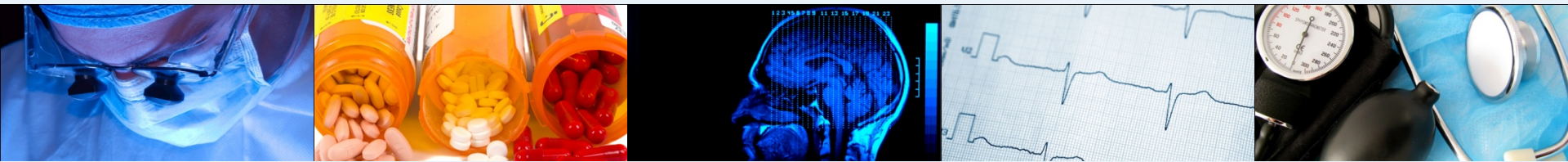
Source: Moving toward bundled payments around hospitalization, MedPac, November 8, 2007.





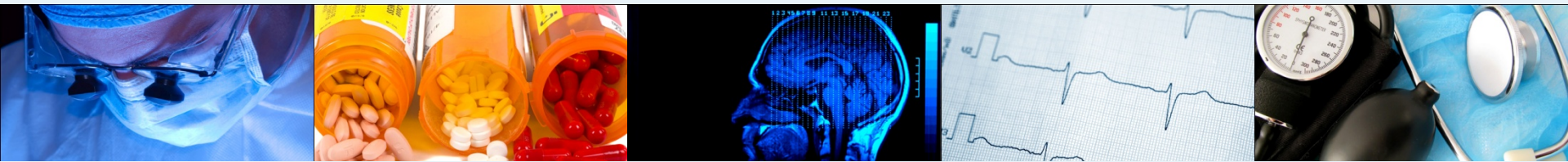
## Episode-Based Bundled Payments: Implementation Challenges

- What services are included in the episode “grouping” (Medstat Medical Episode Grouping)?
- Which provider is ultimately responsible for managing the episode?
- “Managing Provider” - held accountable for quality (new liability risks?).
- How should the bundled episode reimbursement be allocated across providers (pre-admission, inpatient, post-admission)?



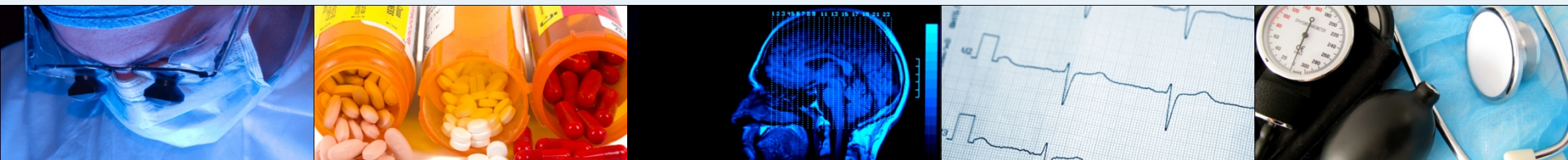
# Accountable Care Organizations (ACOs) – A New Delivery Model

- Groups of providers that are jointly responsible for the quality and cost of health care services for a population of beneficiaries.
  - Examples: combinations of one or more hospitals, physician groups including primary care physicians and possibly specialists, and other post acute or ancillary health care providers.
- Objective is improved care coordination and reduced costs in FFS Medicare.
- “Shared Savings” Model using FFS – For now.



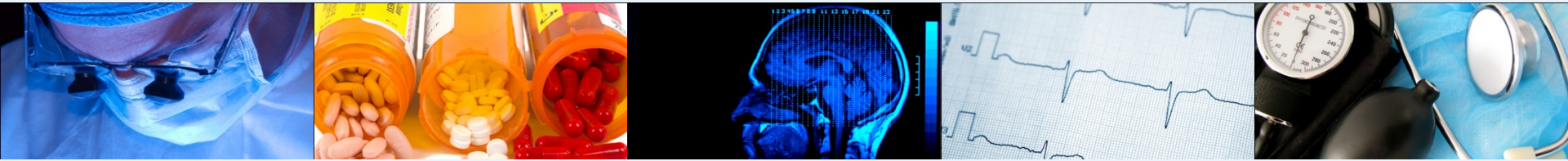
# What We Do Not Know About the ACO Experiment – ACO Rule Making Commencing

- Use of separate joint venture entity versus contractual venture?
- How far below historical Medicare costs will HHS set the cost savings target?
- What percentage of cost savings below the target will be shared with the ACO?
- What quality standards will be used by HHS to measure ACO performance?
  - Pay for performance
  - Meaningful use measures
  - What new data will need to be collected?
- To what extent will existing tax exempt, fraud and abuse, stark, antitrust laws be modified or applied to ACOs?
- How will Medicare patients be assigned to the ACO? – No lock in?



## **What We Are Seeing in the Marketplace – Significant Transactional Responses to Reform**

- Hospital-Physician (vertical) Integration
- Hospital-Hospital (horizontal) Integration
- A Race to ACO Formation
- Strategic Discussions between Acute and Post-acute Providers
- Next Generation PPM/MSO Companies – Utilizing EMR Strategies (forming virtual group practices)
- New Players on the Scene
  - Transitional care providers; remote patient monitoring companies; HIT software offering “cost and care” modeling programs
- New Strategic IT Partners (GE, Intel)



# Existing Legal Paradigm Outdated – Making Reform Challenging

- New Stark exceptions (bundled performance payments).
- New safe harbors for shared savings programs needed.
- New stand alone exceptions to CMP violations for bundled payment arrangements required.
- New "Integrated Providers" and Medicare enrollment changes.
- Anti-trust issues.
- New "Enterprise" liability issues.
- HIPAA and “comingled” patient data challenges.