



Health Care Strategy Insights: The Future of Value Based Care

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Over the past year, the COVID-19 pandemic has forced many organizations to reevaluate and, in many cases, adapt their business models and strategies to adjust to new circumstances. For health care systems, the pandemic exposed the vulnerability and limitations of traditional fee-for-service (FFS) payment models. A national survey, conducted by the American Medical Association, found that medical practice revenues decreased by an average of 32% during the peak of the COVID-19 pandemic, July – August 2020.¹ However, although the pandemic precipitated many challenges, it also simultaneously served as a catalyst for organizations across the health care ecosystem to disrupt orthodoxies in their care delivery and payment models through emerging practices and technologies. Specifically, the pandemic created a catalyst and a compelling case for Value Based Care (VBC) models – in turn leading some health system CSOs and their executive leadership teams to consider shifts in their organizations' long-term strategy and approach towards VBC.

A Divided Landscape to VBC Adoption

Although VBC has been increasing in prominence across health care organizations for over a decade, VBC adoption still continues to vary

significantly by market. The discrepancy is often dictated by the prominent health care organizations in the region - some markets have adopted VBC models faster because payers drive the shift, in other markets the shifts are being led by providers or employers, and some markets continue to have slower VBC integration for various other competitive reasons.

Provider Market Landscape – Although the health care provider market is not a monolith, recently providers have increasingly focused on how to improve patients’ care experiences and outcomes.² While providers utilize a myriad of strategies and hold diverse schools of thought on the best ways to improve holistic patient outcomes, some providers have used VBC models as a strategic opportunity to demonstrate their commitment to patients’ experiences and outcomes. Further, an additional potential benefit of offering VBC arrangements is that it could enable providers to stay competitive with physicians. When done correctly, the principles of VBC are intended to be aligned with physicians’ intrinsic motivation to provide the best care to their patients; refocusing incentives from quantity to quality of care can aid in providing more purpose to physicians’ work³ and reduce burnout.⁴ When physicians’ needs are addressed, this naturally can lead to a differentiated patient experience.

Employer Market Landscape – When a market is dominated by a concentration of large employer groups, employers can exert more influence on their members’ health care options. This can result in the creation of substantial progress for VBC models through the health care options/plans they offer to their employees (which can be up to hundreds of thousands of individuals). In 2020, a leading national retailer in the U.S. launched a pilot VBC program to guide employees in choosing physicians based on VBC performance metrics.⁵ Furthermore, health system CSOs observed that during the COVID-19 pandemic, the shift to virtual settings for work and personal life simultaneously broadened the willingness of employers to offer innovative care options (e.g., telehealth, virtual appointments, etc.) and health plans (narrow and broad networks) to employees in the future.

Payer Market Landscape – In markets when a prominent payer makes a clear commitment to shift towards VBC, it becomes more challenging for providers to not participate in these arrangements. In 2016, Hawaii’s largest health insurer, the Hawaii Medical Service Association, began a VBC pilot program with over 100 providers in the state to improve the “triple aim” - patient health, quality, & experience. Successful results of the pilot program included positive feedback from physicians and an 11% increase in preventative service and quality of patient care;⁶ Following this innovative program, this model was adopted by the Centers for Medicare and Medicaid Services, and in the following years, many providers in the state have made significant progress in redesigning their care and payment models to be more aligned with VBC principles.⁷

The COVID-19 pandemic has illustrated how health systems can leverage emerging technologies and practices to strengthen their approach to VBC

To build successful and sustainable VBC arrangements, health systems must focus on building capabilities needed to transform their care models. Over the past year, health care organizations were forced to experiment with new practices, such as telemedicine services, to deliver care to their patients and continue operating during the pandemic. These new practices can be incorporated into care model redesign for VBC:

- **Embracing virtual health** - The COVID-19 pandemic accelerated adoption of virtual health by health care organizations as an innovative form of care delivery. By March 2020, over 95% of health care leaders reported that they had expanded telehealth access during the COVID-19 pandemic.⁸ Some of the benefits of virtual health include increased patient access, more predictable costs, and lower hospital readmission rates. Virtual health is useful for VBC models because it can reduce the cost of care and increase access to and interaction with high-risk patients. As a result, several health care CSOs have noted they are heavily investing in and developing virtual health capabilities to provide patients with more access to lower cost care⁹
- **Clinically integrate supply chains** – When revenue decreases sharply and unexpectedly (as it did during the pandemic), health systems are faced with the challenge of lowering operating expenses to maintain profit margins. By clinically integrating supply chains and conducting value analyses, health systems can decrease costs by optimizing medical supply and equipment purchase decisions based on cost and efficacy.¹⁰ Health systems should encourage collaboration between clinical leaders and supply chain management to deliver high-quality care and the best outcomes with minimal waste and at the lowest cost of care¹¹
- **Leveraging AI** – Several artificial intelligence (AI) use cases emerged during the COVID-19 pandemic which can be leveraged for VBC. Organizations have leveraged AI techniques such as predictive analytics, machine learning (ML), and process automation; these techniques have been utilized to match patient data from disparate medical records, predict diagnoses and outcomes, and reduce waste and fraud in our health care system.¹² CSOs are building their Data and Analytics foundations to prepare for using AI to redesign care models to improve quality and lower costs. However, in order to apply AI meaningfully, health systems should ensure they have all the necessary talent: engineers and data scientists, health economists, and functional business experts who know how best to analyze, interpret, and apply AI/ML techniques for functional use cases

In order to generate change that is both transformative and sustainable, CSOs should incorporate new technologies and modern practices into their VBC strategies

Across the health care industry, there is widespread concern about when and if patient volumes will return to pre-COVID levels. CSOs can mitigate this risk by encouraging their organizations to embrace and prepare for the new normal instead of relying on the norms of the past. As the macro trend towards Value Based Care steadily grows, CSOs should prioritize developing new capabilities and utilizing modern practices to enable their organizations to be more innovative and efficient as they shift focus to VBC. The time has come for organizations to frame the industry change as an opportunity to reimagine healthcare across the ecosystem.

Please reach out to Mark or Bill with any additional questions.



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