

Reimbursing Quality and Effectiveness

Medical Solutions asked an expert journalist to cast a look into the future of reimbursement. Read why the 'episode-of-care' or 'pay-for-quality' approach will become commonplace across the globe, while personalized medicine will become firmly established during the period 2030 to 2050.

By Anthony Beachey

Western European countries and the United States have traditionally reimbursed healthcare providers by using a 'fee-for-service' approach, whereby a payment is received following the provision of a service. However, one of the main drawbacks of this system is that there isn't necessarily a relationship between the actual cost of the service and the amount of money that is reimbursed, which inevitably has implications for cost containment.

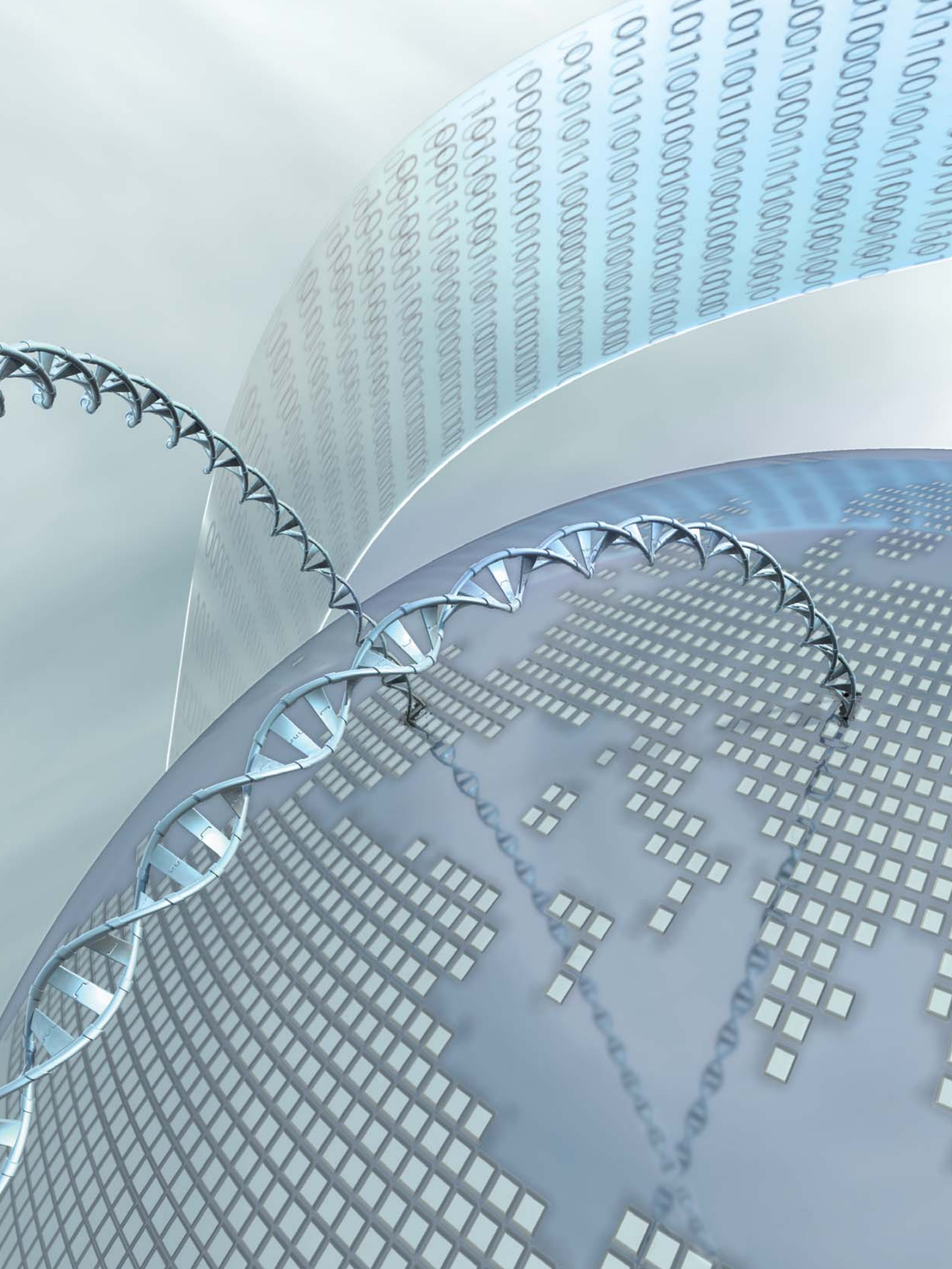
What's more, the fee-for-service approach evolved before the advanced economies began to face the increasing healthcare burden associated with aging populations. The epidemiological environment

has partly shifted, and the highly sophisticated technology commonplace today had yet to be introduced.

Unsurprisingly, in light of demographic and other changes and its disadvantages in terms of cost containment, the fee-for-service approach is now giving way around the globe to payment of a lump sum for all services related to a condition or a disease. Hence, a provider receives a single, bundled fee for an episode of care, such as a hip implant, a few months' cancer therapy or the treatment of a chronic disease.

Certainly, the lump-sum approach facilitates a more effective containment of costs than the fee-for-service concept.

This is even more so with the pay-for-quality approach, where predefined quality indicators are strongly tied to the reimbursement and healthcare providers thus rewarded to deliver high-quality care. By contrast, under fee-for-service, providers are rewarded for fixing problems that better care might have prevented, and there are hardly incentives tied to predefined quality standards. Episode-of-care was first introduced in the U.S. and Australia and was adopted in Germany in 2003. The U.K. is currently in the process of rolling out episode-of-care reimbursement, and it seems likely that episode-of-care, as well as pay-for-quality, will sweep across the globe in the



coming decades. Pay-for-quality is certainly gaining ground in the USA, where episode-of-care has already gradually taken over from fee-for-service. Indeed, there appears little doubt that, even if the healthcare reform does not run as planned, pay-for-quality will also gain ground and will have certainly become preeminent by 2050.

Pay-for-quality not for Japan?

However, industry analysts that I have spoken to have cast doubt on the prospects of the pay-for-quality approach in Japan. They argue that for cultural reasons, this strategy is less appealing to the Japanese than to the Americans and Europeans. It is certainly true that the Japanese generally do not embrace individual financial incentives (even tipping is rare), and these schemes have had limited success where they have been introduced.

The system of reimbursement of healthcare providers in Japan currently works on a points system, determined by a government-sponsored committee. Points are given for every type of medical procedure or service. Yet year-to-year, the authorities have reduced the number of points awarded in the case of every procedure, as medical costs have risen along with the aging population. So while a private healthcare provider in the U.S. will currently reimburse a patient requiring a magnetic resonance imaging examination at a rate of around US\$4,000, a provider of the same service in Japan will receive the equivalent of just US\$500. However, it remains questionable whether reducing fees in this manner would work in all countries. Anyone visiting Japan will have encountered the culture of service in that country, and healthcare professionals are no exception. They are dedicated to providing the best possible service in the world (and having the best technology to accomplish this goal), despite falling payment levels. Japanese governments have also encouraged patients to co-pay for treatment. This sum has increased from around ten percent of a service to 30 percent currently. Authorities hope that as well as reducing the burden on the healthcare

budget, this development will encourage patients to question what doctors are doing, and that the country's citizens will no longer visit a doctor unless this is really necessary.

It is always difficult to look far into the future, but I think it is possible to make some predictions with a reasonable degree of certainty. I definitely believe that personalized medicine will become firmly established during the period 2030 to 2050. People will benefit from individual diagnostic tests and treatment and a healthcare path tailored to their needs. Of course, this will require major investments in IT so that a person's healthcare records are available to medical practitioners. Indeed, they will be able to download this information from microchips embedded in the patient.

Research Progress Saves Cost

Technological advances will also have a major impact on healthcare costs and reimbursement strategies in the decades ahead. New products are already being introduced in imaging and other areas, which will boost standards of care and also promote personalized medicine. The potential of stem cell research may have been realized, and stem cell technology could be used to produce replaceable tissues or organs and to repair defective tissues damaged by many of our most devastating diseases during the period 2030 to 2050. Nanotechnology will also have revolutionized the way we detect and treat damage to the human body and disease. Advances in molecular medicine will allow the earlier treatment of many illnesses and lead to new therapeutic regimens and the replacement of defective genes through gene therapy. Combined, these technological breakthroughs should lead to huge cost savings.

Outlook on Demographics

It shouldn't be forgotten that the pattern of aging societies that will characterize developed economies over the next decades will be even more distinct by 2050. The share of the world population older than 65 may even have doubled by then, and this will have an impact on demand for healthcare services. It also

means that there will be fewer taxpayers (in absolute terms and relative to the elderly) to pay for the latter's healthcare. This development could have a significant impact on the attitude toward reimbursement regimes in developed economies.

I believe governments will adopt a number of measures during the period 2030 to 2050 to contain the pressure of rising healthcare costs on the public purse. Germany has already adopted the copayment approach taken by Japan, and I believe that this system could expand in other countries in the coming decades, and will have been adopted by most countries by 2050.

Taxing Irresponsibility

Taxes on unhealthy foods and incentives to keep fit, such as lower insurance on people who do not exceed a waistband/height ratio, could also be introduced. There will certainly be an increasing focus on personal responsibility over the next 40 years.

Of course, it is impossible to guess exactly what the world will be like in 2050. But I believe the pay-for-quality reimbursement approach will have conquered most of the world (perhaps with the exception of Japan), the demographic outlook will be far more benign than at present, and individuals will be forced to take greater responsibility for their own healthcare than is currently the case. Moreover, advances in technology will ensure that individuals (and their doctors) will have the information they need to look after themselves and prevent serious illnesses from developing.

Anthony Beachey worked for the BBC World Service as an Economics Editor covering the Asia-Pacific region before embarking on a freelance career in 1997. He specializes in finance and economics, working for clients such as Goldman Sachs, Threadneedle, Gartmore, J.P. Morgan, and Barclays.

The opinions reflected in this article do not necessarily reflect those of Siemens Healthcare.