

Trustee Insights

INNOVATION



Understanding Affordability and Value in Health Care

Hospitals and systems can help reconcile differing perspectives

BY PRIYA BATHIJA

Affordability is one of the most important challenges influencing Americans' ability to access health care.^[1] However, no single, agreed-upon definition of health care affordability exists because it is influenced by many complex factors (see first sidebar).

Affordability also is of increasing concern for many citizens. Individuals and families report difficulty paying for health care services and prescription drugs, as depicted in Figure 1 (see page 2). Americans' premiums, deductibles, co-pays, and other out-of-pocket health expenditures are growing faster than their earnings and consume almost 8 percent of the average household budget, according to a Bureau of Labor Statistics publication on household health spending in 2014.^[2]

Meanwhile, employers are

TRUSTEE TALKING POINTS

- Affordability must be discussed in the context of value.
- Value, however, can mean different things to different people.
- Hospitals and systems must consider the needs and wants of patients.
- A common understanding of value can lead to changes that reduce costs.

anxious about their increasing contributions to employee health plans. In addition, federal and state governments are troubled by rising per capita spending on health care, growing

budget deficits, and which priorities to fund, such as Medicare and Medicaid, education or infrastructure.

A Broader Context

While affordability is highly subjective and means different things to different consumers, patients, employers, government, providers and payers, “affordable health care” is often viewed generally as an issue of the cost of care. Yet, discussing affordability solely in terms of cost provides an incomplete picture that fails to consider the level of access and quality of care received for each dollar spent. With this in mind, AHA considers affordability through the lens of value.

There has been significant interest in and discussion around what value in health care delivery means; however, there is no agreed-upon definition or expectation of value across the health care field. Perspectives vary widely, are at times inconsistent and, in many instances, do not align among consumers, employers, payers, health care providers, policymakers, and community partners.

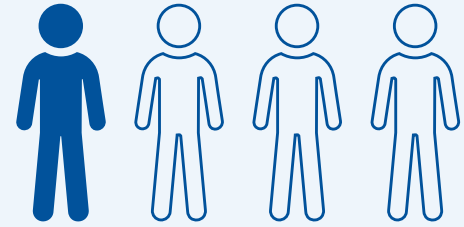
Hospitals and health systems, for example, offer greater value to individual consumers by investing in strategies that lower costs, improve quality and enhance the patient experience of care. These strategies include, among other things, coordinating care, reducing clinical and operational variation, addressing the social determinants of health, and managing the health of the populations they serve — all of which are occurring in a fragmented payment landscape.

Health care payers, including

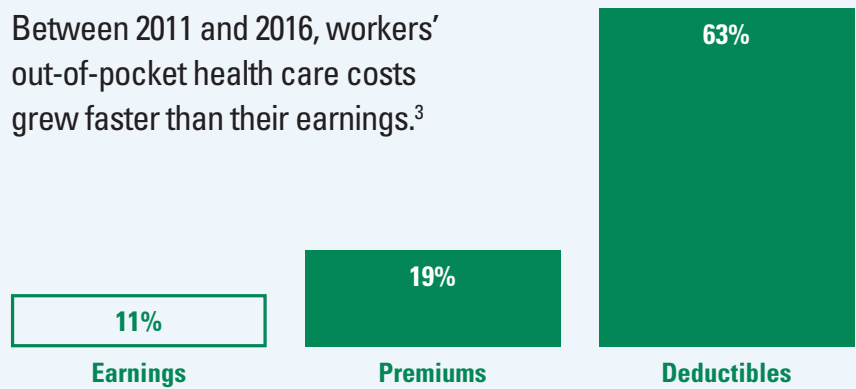
FIGURE 1

Consumers are concerned about affordability

One in four Americans (25%) say the cost of health care is the biggest concern facing their family.¹



One in three Americans (33%) report that they could not access care in the last year because of cost.²



Roughly one in four people (26%) taking prescription drugs report difficulty affording their medicine.⁴



1. Monmouth University Polling Institute. Health Care Is Top Concern of American Families. Accessed at https://www.monmouth.edu/polling-institute/reports/MonmouthPoll_US_020717.
 2. Kaiser Family Foundation. Average Annual Workplace Family Health Premiums Rise Modest 3% to \$18,142 in 2016; More Workers Enroll in High-Deductible Plans with Savings Option over Past Two Years. Accessed at <https://www.kff.org/health-costs/press-release/average-annual-workplace-family-health-premiums-rise-modest-3-to-18142-in-2016-more-workers-enroll-in-high-deductible-plans-with-savings-option-over-past-two-years>.
 3. The Commonwealth Fund. Mirror, Mirror 2017: International Comparison Reflects Flaws and Opportunities for Better U.S. Health Care. Accessed at: <http://www.commonwealthfund.org/interactives/2017/july/mirror-mirror/>.
 4. Peterson Kaiser Health System Tracker. What Do We Know About People with High Out-of-Pocket Spending? Accessed at: http://www.healthsystemtracker.org/chart-collection/recent-forecasted-trends-prescription-drug-spending/?_sf_s=recent+trends#item-people-taking-rx-drugs-say-can-afford-treatment-1-4-difficult-timeaffording-medicine.



Factors Affecting Health Care Affordability

The AHA has classified factors influencing health care affordability and value into three broad categories based on input from hospital and health system leaders:

- SOCIETAL:** Only 20 percent of what influences the health of a group of patients is related to access and quality of health care. The other 80 percent — commonly known as the social determinants of health — is related to societal factors, such as housing, transportation, employment, education, and other nonmedical determinants of population health.^[1] According to a 2015 issue brief from The Commonwealth Fund, international comparisons show that the U.S. underinvests in these areas relative to other countries.^[2] Investing in services that address these nonmedical determinants can have a dramatic impact on preventing serious illness among vulnerable populations and, therefore, drive health cost containment. Likewise, demographic shifts have important implications for the U.S. health care system; for example, the aging of the baby boomer generation has focused attention on advanced care needs. The same can be said of consumer preferences and behaviors, such as changing attitudes toward exercise and diet.
- SYSTEMATIC:** Issues specific to the U.S. health care system also affect affordability. Systemic factors include questions of access (e.g., coverage rates); plan design (e.g., cost sharing and deductibles); equity (e.g., disparities in coverage and quality among underserved populations); and safety (e.g., variation across the delivery system). In addition, U.S. health care is undergoing a shift from fee-for-service to value-based payment models. This shift is an engine for sectorwide changes, such as an increased emphasis on population health, preventive care, and evidence-based practice.
- OPERATIONAL:** Finally, a unique set of challenges surrounds the inputs of health care delivery. These include existing and projected workforce shortages; rising prescription drug prices; rapid technology adoption; and the burden of regulatory compliance, among others.

Notes:

1. Institute for Clinical Systems Improvement. Going Beyond Clinical Walls: Solving Complex Problems. Accessed at: https://www.icsi.org/_asset/w6zn9x/solvcomplexproblems.pdf.
2. The Commonwealth Fund. U.S. Health Care from a Global Perspective. Accessed at: <https://www.commonwealth-fund.org/publications/issue-briefs/2015/oct/us-health-care-global-perspective>.

insurers, employers, and governmental programs, are continuing to transition from fee-for-service to value-based payment methodologies, which are intended to support and incentivize many of the strategies deployed by hospitals and health systems described above. For example, the Department of Health and Human Services intends to shift the majority of Medicare payments away from fee-for-service and toward quality and value by the end of 2018.^[3]

For individual consumers, the definition of value is very personal. For some, value is simply finding the right mix of health care services to meet their needs. Some only want the best there is to offer, regardless of price or convenience. Yet others focus solely on price, typically the price of front-end premiums, to determine whether the health care services offered will match their budgets.

These differing perspectives make it difficult to land on one common definition of value in the context of health care delivery. And, without a consistent definition, it is challenging to improve and enhance value across the field.

Toward a Common Understanding of Value

In 2006, Harvard Business School Professor Michael Porter offered the most commonly used definition of value for the health care field: health outcomes achieved per dollar spent.^[4] Others in the health care field have adopted this working definition. And, generally speaking, there is a consensus that value resides at the intersection of an individual consum-

er's perception of the quality of a good or service and the amount he or she is willing to pay for it.^[5]

While a starting point, this definition points to one of the true challenges in defining value: it means different things to different people. In their work on this issue, the Healthcare Financial Management Association (HFMA) set forth four factors that expand upon this definition and influence an individual's concept of value: access, safety, respect and outcomes. The HFMA explained that consumers want access to affordable health care.^[6] Once they have access, they assume that their care will be delivered in a safe manner and that their health care providers will respect their needs and desires. They also expect that the care will lead to outcomes that make them feel better and function at their desired level.^[7]

Even with this working definition of value, it is extremely hard to hone in on exactly what value means at a practical level in health care. In 2017, the AHA held a series of conversations with hospital and health system leaders to discuss the issue of health care affordability and the role hospitals and health systems play in addressing rising health care costs. As part of those conversations, the AHA asked its membership whether the association should consider affordability through the lens of value. AHA members clearly indicated that value must be at the forefront as the hospital field addresses affordability.

The AHA membership agreed that value is directly linked to an individual's personal experiences

THE Value Initiative

The Value Initiative is a forum for **knowledge exchange** that provides AHA members with the tools and resources necessary to participate in the affordability discussion and fuel action that promotes value by improving quality and decreasing cost. The initiative also creates opportunities for hospitals and health systems to collaborate, share best practices, and learn from each other.

The Value Initiative allows the AHA to be a better advocate for its members. By dedicating resources to this issue, the AHA seeks to improve its **advocacy and representation** by incorporating principles that promote improved value into ongoing policy and advocacy activities. The AHA works to influence public discourse among policymakers, think tanks, advocacy groups, and academia with the goal of sustaining public programs and advancing issues, such as reducing the regulatory burden on providers or the high cost of pharmaceuticals.

The Value Initiative is a vehicle to foster and encourage **thought leadership** within the hospital field. The AHA examines ways to redesign the delivery system, improve quality and outcomes and manage risk and new payment models. The AHA also works to support hospitals and health systems around the country as they implement operational solutions and develop innovative strategies that make health care more affordable and communities healthier.

As the national voice for hospitals and health systems, the AHA is ready to serve as an **agent of change** to foster and facilitate an ongoing conversation across all sectors affecting affordability. The AHA regularly convenes multi-stakeholder conversations to ensure that representatives from other sectors in health care — payers, employers, consumers and policymakers — are working together to reduce health care costs, enhance value, and help individuals reach their highest potential for health.

and perspectives. Life circumstances, including age, health status, cultural influences, or simply one's proximity to health care services in their community, can have a significant impact on an individual's definition of value. And, while patient experience is subjective, hospitals and health systems must consider the needs and wants of patients as they move forward in the quest to enhance value.

Members also indicated that

we must consider the full story when looking at value, including not only the cost of care, but also patient experiences and outcomes. In other words, they do not view value as simply a code word for cost reduction. They view it as an opportunity to redesign the delivery system, improve quality and outcomes, manage risk and offer new payment models, and implement operational solutions that will reduce costs.

Based on this feedback, as the

AHA works to address the issue of value, it will use the following definition:

$$\text{Value} = \frac{\text{Outcomes \& Patient Experiences}}{\text{Cost}}$$

The AHA also has launched The Value Initiative (see second sidebar) to provide members with a variety of tools and resources to address health care affordability and value. For example, the “Members in Action” case studies offer real-world examples of hospitals and health systems implementing changes that promote value by reducing costs, improving quality and enhancing the patient experience.

While there are certainly challenges in defining affordability and value and each piece of the value equation, hospitals and health systems remain committed to delivering on this equation and providing leadership for the health care field.

TRUSTEE TAKEAWAYS

Boards can ask the following questions to enhance their understanding of affordability and value in health care:

- Who are our organization’s key stakeholders (e.g., patients, their families, employers, etc.), and what do affordability and value mean to them?
- How is our organization continuing to monitor what affordability and value mean to those we serve?
- What steps has our organization taken to address stakeholders’ needs related to health care affordability and value?
- How should our board keep apprised of our organization’s efforts to continue to improve the affordability and value of the health care we deliver?

Author’s note: This article is based on two resources from The Value Initiative: “Issue Brief 1: Framing the Issue of Affordable Health Care” and “Issue Brief 2: What Does Value Mean?” For more on these issue briefs, which include sources for further reading as well as additional

resources on the issues of affordability and value, visit www.aha.org/TheValueInitiative.

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Endnotes:

1. Health Affairs. Affordability: The Most Urgent Health Reform Issue For Ordinary Americans. Accessed at: <https://www.healthaffairs.org/doi/10.1377/hblog20160229.053330/full/>.
2. Bureau of Labor Statistics. Household Healthcare Spending in 2014. Accessed at: <https://www.bls.gov/opub/btn/volume-5/household-healthcare-spending-in-2014.htm>.
3. New England Journal of Medicine. Setting Value-Based Payment Goals — HHS Efforts to Improve U.S. Health Care. Accessed at: <http://www.nejm.org/doi/full/10.1056/NEJMp1500445>.
4. Harvard Business Review. The Strategy That Will Fix Health Care. Accessed at: <https://hbr.org/2013/10/the-strategy-that-will-fix-health-care>.
5. HFMA’s Value Project. Value in Health Care: Current State and Future Directions. Accessed at: <http://www.hfma.org/Content.aspx?id=1126>.
6. *Id.*
7. *Id.*