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Withdrawal Treatment

A Novel Plan Helps Hospital Wean Itself Off Pricey Tests

It Cajoles Big Insurer To Pay a Little More For Cheaper Therapies

By VANESSA FUHRMANS
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SEATTLE -- Virginia Mason Medical Center has made unusually aggressive moves in the past two years to cut health-care costs. Consulting with the big insurer **Aetna** Inc. along with **Starbucks** Corp. and several other big local employers, the hospital revamped how it treated some expensive ailments, cutting down high-tech tests and high-end specialists.

But a troublesome pattern emerged: The more cost-effective it became, the bigger financial hit the medical center took. "Everyone gained but Virginia Mason," says its chief of medicine, Robert Mecklenburg.

A novel solution, crafted with the help of the big employers, ultimately let Virginia Mason share in some of the savings it created -- by paying the medical center more for some cheaper treatments. It offers a lesson in dealing with one of the most confounding elements in America's health-care crisis: a perverse system of payments that rewards doctors and hospitals not for how well they treat patients, but for how much they treat them.

Robert Mecklenburg

Insurers often reimburse high-tech procedures richly, while simpler remedies and visits to doctors, therapists or nurses earn far less and sometimes incur losses. With each MRI that Aetna and the employers avoided at around $850, Virginia Mason lost about $450 in profit. The payment system of government-sponsored Medicare, which private health plans also use as a template, tends to reward the big capital expenses of buying high-tech machines such as MRIs. The more the machines are used, the bigger profit margin they pack. Meanwhile, reimbursement fees for doctors' visits have stagnated.

"The payment system is so toxic," says Francois de Brantes, a former health-care program director at **General Electric** Co. "Unless you tackle it, any health-care reform doesn't have much chance." Mr. de Brantes coordinates a program funded by employers that pays doctors bonuses based on patients' outcomes.

Even Medicare has experimented recently with performance bonuses, to correct a system that it acknowledges "rewards volume over quality," says Herb Kuhn, acting deputy administrator for the Centers for Medicare and Medicaid Services.

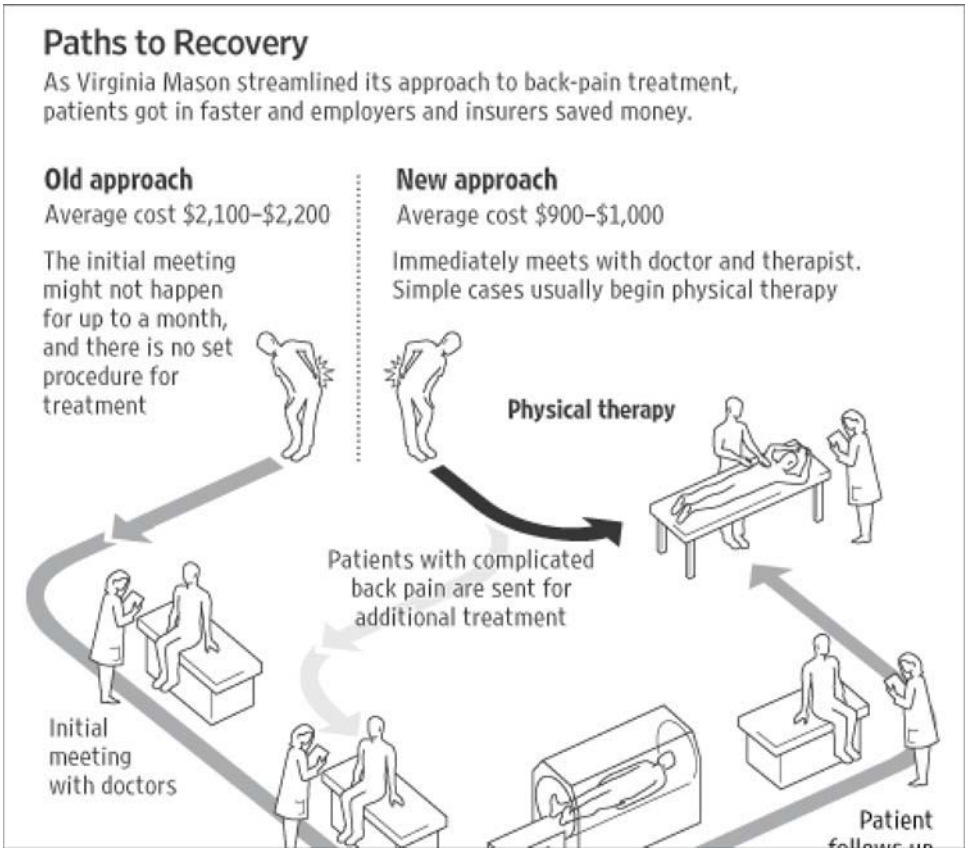
A Gamble

Virginia Mason's move is a gamble. Only Aetna, which accounts for 10% of the medical center's business, has adjusted fees to reward its more efficient care. Seattle's two biggest health insurers, Regence Blue Shield and Premera Blue Cross, haven't matched the move so far. Medicare, despite its own experiments, doesn't have the flexibility to change its payments for one hospital -- and it accounts for a third of Virginia Mason's business. Virginia Mason, a not-for-profit that is satisfied with an annual 1% to 3% operating margin, still hasn't replaced all its lost revenue.

Many medical professionals also distrust letting insurers and employers have so much influence in deciding what medical guidelines to use. Norman Latov, professor of neurology at Cornell University's medical school in New York, objects to presenting such innovations as being done for the good for the patient. "What's driving the process is really cost," he says.

Named for the daughters of two of its founding physicians in 1920, Virginia Mason routinely receives top marks for quality and patient safety in local and national report cards rating hospitals. The medical center has pursued efficiency by adopting some assembly-line methods of **Toyota Motor** Corp. and Hitachi Ltd., which hospital officials and doctors observed on a visit to Japan in 2002. For instance, Virginia Mason rerouted patient traffic in its cancer center, cutting the time patients had to wait for chemotherapy from four hours to 90 minutes. But those types of changes didn't address the cost of its care.

In the summer of 2004, Aetna gave Virginia Mason a surprising warning. The insurer measured the costs of medical providers in Seattle, and found some of Virginia Mason's specialty practices cost up to twice as much as other top local practices for the same care. Aetna planned to exclude four Virginia Mason departments from a new network of top providers in clinical performance and efficiency.



To measure quality, Aetna crunched its claims data to see, for instance, how often their patients had unexpected complications. It then calculated how much the doctors spent in the entire course of, say, treating a heart attack -- from the initial tests to the post-treatment medications. Virginia Mason, the Seattle area's third-largest health-care provider, rated well for quality -- but not cost -- in four of the six specialties Aetna measured.

Treating a patient for a narrowing aortic valve at Virginia Mason cost $1,381 on average, Aetna found, while area cardiologists who scored in the top quarter of Aetna's rankings

diagnostics, such as MRI

Source: Aetna; Virginia Mason Medical Center

averaged only $659. Aetna members with migraines received four times the number of imaging tests at Virginia Mason as at other top specialists. Patients treated for severe acid reflux at the medical center spent four times as much on medications.

Don Storey, a senior medical director at Aetna, called on Virginia Mason's Dr. Mecklenburg to show him the findings. Taken aback, Dr. Mecklenburg proposed to go directly to Aetna's big Seattle employer customers to ask for a chance to improve.

In addition to Starbucks, Aetna's Seattle clients included locally based retail giants **Costco Wholesale** Corp. and **Nordstrom** Inc., as well as the county government. In a teleconference with them and other employers, Virginia Mason CEO Gary Kaplan mentioned that patients were Virginia Mason's most important customers. A chorus of frustration erupted from the employers on the phone, including Starbucks' benefits director, Annette King. "Yes, the patients are their customer, but I'm the customer that writes the check, or most of it," she said later. "To exclude me from the equation isn't right either."

Dr. Mecklenburg also had Dr. Storey present Aetna's results directly to the medical center's 26 department heads. Like many doctors, Virginia Mason's physicians "didn't pay attention to the cost of care" until then, says Dr. Mecklenburg. Most were trained to see cost concerns as antithetical to focusing on patients' needs. "Guys, I know Virginia Mason and I respect you, but here's how you look to the market," Aetna's Dr. Storey remembers telling the silent roomful of doctors.

Medical Maze

In early 2005, the doctors met with Aetna and the big employers again. This time they invited the employers and the insurer to work in teams with them, mapping out the medical maze patients went through and trying to eliminate wasteful steps. Dr. Mecklenburg also paid a house call to Ms. King at the Seattle-based coffee company's headquarters, to ask specifically what she'd like to see.

"I couldn't believe a doctor was making an appointment with me and asking what I wanted," she says. She pushed the hospital to tackle the cost of treating back pain, a big health-care expense for the coffee chain.

As doctors studied the course of treatment of dozens of patients at Virginia Mason's spine clinic, it was clear no standard procedures were being followed. Though Virginia Mason physicians are salaried and have no direct financial incentive to run excess tests, many had gotten into the habit of ordering an MRI, though uncomplicated back pain rarely warrants one. Many patients had to wait a month for appointments and often were bounced from specialist to specialist. Eventually some patients were directed to physical therapy, and often only then began to feel relief.

Once the inefficiencies were mapped out on paper, the solution was clear to everyone, Ms. King says: Put the physical therapy in front. That's also what a lot of medical literature suggests. The hospital made the change, and also worked with its team of employers to eliminate extra steps in the medical maze for patients.

Standardized Path

Now, patients follow a more standardized path: They have an initial consultation with a physical therapist and then a doctor. Unless red flags suggest another course, the physician often prescribes some physical therapy first. The streamlining means wait times for appointments have fallen to a day. Within a year, the percentage of people receiving MRIs dropped by a third, to 10% from 15.4%. Only 6% of patients lost

time from work.

Under the old system, when Thomas Kundig's back pains from an old rock climbing accident would flare up, he'd often have to wait at least a week to get an appointment with a specialist. Often he'd get X-rays and a prescription for a temporary fix of painkillers. On one occasion he had to return for an MRI. "It's not just the money," says the Seattle architect and Aetna health plan member. "You're thinking, 'My God, I'm spending all my time in the doctor's office.' "

This summer, when Mr. Kundig's pain returned, the clinic had appointments available the next day. After a physical therapist checked his symptoms, a doctor waived the need for an MRI or any prescription drugs. Instead he prescribed several physical-therapy sessions and, if necessary, an occasional over-the-counter anti-inflammatory pill. After four sessions, Mr. Kundig felt better and his therapist showed him how to continue the exercises on his own.

"I appreciated that I didn't have to keep going back," he says. "I felt they were setting me up for more of a permanent solution." The total cost: $997. He says his back is now better than it has been in a long time.

But for Virginia Mason, losses started piling up. With the new approach, the spine clinic's income fell from a profit of about $100 per case to a loss of about $200, the medical center said.

In Virginia Mason's collaboration with employers, they agreed to look together at how changes were affecting everyone's bottom line. The medical center's finance director, Brad Senstra, showed Starbucks' Ms. King the spine clinic numbers. "It was pretty clear right away, we couldn't let that happen," she says.

Annette King

Ms. King pushed Aetna to come up with a solution, and the insurer agreed to increase Virginia Mason's physical-therapy reimbursements by about 16% -- from about $42 to $49 for each 15 minutes of therapy. Virginia Mason says it also is able to see five times the patients it used to, with fewer staff, under the new system. The hospital says it now breaks even and hopes the rising volume will push it more and more into the black.

The moves have created some tension. Building up the spine clinic shifted resources away from the hospital's state-of-the-art chronic pain center that treated fewer but more complex cases, and 15 of the medical staff left.

Aetna has begun promoting Virginia Mason's teamwork approach to get other hospitals and specialists to be more cost-effective. The insurer says it's in discussions with several other large medical groups across the country about forming similar working groups with employers. Within Virginia Mason, medical department heads have taken some doctors to task for ordering redundant tests, even though they drive up revenue in the short term.

In treating severe acid reflux, Virginia Mason's gastroenterologists traced their high costs back to a different source: a pharmaceutical contract. While doctors prescribed cheap generic drugs to patients with milder heartburn, many patients who were hospitalized were on a more expensive medication. The reason: Its hospital pharmacy had a contract for a steep discount on Wyeth's acid reflux medication Protonix. Patients would continue to refill their prescriptions with Protonix rather than a cheaper generic, driving up costs for their employers.

"It was a classic case of the right arm not knowing what the left arm was doing," says Jay Tihinen, assistant vice president of benefits at Costco, who worked with Virginia Mason on its heartburn care. "They saw how low their own [drug] costs were, but they weren't looking at the end user's." To stop the pattern, Virginia Mason ended its contract and started prescribing generic pills, even though it also meant

the hospital lost its steep Protonix discount. Ultimately, Virginia Mason negotiated a lower generic price to help make up the difference.

Also on Virginia Mason's list was migraine treatment. The migraine clinic began to give out "rescue" medications more frequently for patients to have on hand, to avoid costly emergency-room visits when the next migraine set in. In addition, doctors were coached on when and when not to order an MRI, reducing tests ordered for migraines from 50% to 5% of cases.

The big employers saved $100,000 in the first year. But Virginia Mason fell into the red on the average migraine case, instead of breaking even as before. Now the medical center is putting together a proposal to divert some of the employers' savings to pay more for the nurse practitioner at the heart of the migraine clinic.

"If we can come up with a proposal, especially if it's self-financing, they'll look at it," Dr. Mecklenburg says. Meanwhile, the medical center is watching to see whether rising patient volume will help make up the difference. With that and Virginia Mason's other changes, he added, "At the moment we're right between the trapezes."

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