Creating lasting change: A state-level approach to healthcare delivery system reform efforts

New York State Department of Health, United States

Introduction

According to numerous international studies, the United States healthcare system is one of the most expensive in the world, while lagging behind most other western countries in terms of quality. Some 40 percent of total healthcare spending in the United States is attributed to the federal and state government funded Medicaid program (for individuals and families with low income), and the federally funded Medicare program (for individuals above the age of 65). Within Medicaid, New York State displays some of the highest costs in the country, with only average health outcomes, and below average performance on prevention and avoidable hospital use and cost.¹ New York serves the second-largest Medicaid population in the country (5.8 million beneficiaries) after California, but ranks number one in Medicaid expenditures, with $53 billion³ spent on Medicaid beneficiaries in 2012.

Stopping the bleeding: The success of early Medicaid redesign

In 2011, New York State brought together a broad range of stakeholders in a Medicaid Redesign Team (MRT), tasked to bend the steep cost curve. By rapidly enrolling most Medicaid beneficiaries in Managed Care Organizations (MCOs), attacking wasteful spending, and implementing a Medicaid global spending cap, the MRT process generated several billions of dollars in savings. The Medicaid cap limits total Medicaid spending growth to no greater than 4 percent annual global spending cap.

Since 2011, MRT efforts have successfully brought Medicaid spending growth under a 4 percent annual global spending cap.

¹ The Commonwealth Fund, Aiming higher: Results from a Scorecard on State Health System Performance, 2014.
² The Henry J. Kaiser Family Foundation: Total Medicaid Enrollment (individuals who are enrolled in Medicaid at any time during the federal fiscal year), based on FY 2011 MSIS data. For New York State, this was 5.8 million beneficiaries.
³ The Henry J. Kaiser Family Foundation: Total Medicaid Spending (does not include administrative costs, accounting adjustments), based on FY 2012 data from CMS.
the 10-year average rate for the long-term medical component of the Consumer Price Index (currently estimated at 3.8 percent). Before the MRT, total costs were projected to reach $75 billion in 2016. With the spending cap controlling growth to 4 percent, the Medicaid program is now expected to total $62 billion in 2016, saving more than $10 billion over time with respect to the original cost projections.

**Creating lasting change: $8 billion to change New York State healthcare delivery system**

With spending under control, New York has shifted its attention to ensuring these savings are sustainable and to the second part of the equation: dramatically improving quality of the delivery system and population health. On April 14, 2014, Governor Andrew M. Cuomo announced that New York has finalized terms and conditions with the federal government for a groundbreaking waiver that will allow the state to reinvest $8 billion in federal savings generated by the MRT reforms. The waiver amendment funds will address critical issues throughout the state and allow for comprehensive reform through a Delivery System Reform Incentive Payments (DSRIP) program.

New York’s DSRIP program is one of the nation’s biggest and boldest efforts to move the needle on healthcare outcomes and create a financially sustainable healthcare safety net system. Intervening directly in the provider landscape, it aims to support MCOs in creating more fundamental and lasting delivery system reform.

Although other states have gone before it, with California notably launching the first DSRIP in 2010, New York’s approach to its DSRIP is unique in the scale, speed, and level of ambition that it has set for itself and its delivery system providers.

**The New York DSRIP: It takes so much more than two to tango**

The New York DSRIP program is a multifaceted approach aimed at creating integrated delivery networks of care and significantly improving health outcomes for New York State’s 5.8 million Medicaid beneficiaries and an estimated 1.5 million uninsured citizens. Although the focus is on Medicaid beneficiaries, changes in the delivery system will also impact Medicare and commercially insured patients.

DSRIP specifically targets a 25 percent reduction in avoidable hospital use over the next five years by improving access to appropriate care and shifting the focus of care to communities, away from costly acute inpatient and emergency department (ED) services. Key themes in the program are integrating behavioral and social services into somatic care locations, building up primary care capacity, setting up cross-provider evidence-based protocols, and real-time sharing of data within and between the integrated delivery networks, known as Performing Provider Systems (PPSs).

![DSRIP targets major system reform and significant population health improvements over the next five years.](image)

<table>
<thead>
<tr>
<th>April 2014: Waiver approval</th>
<th>December 2014: PPS Planning applications for DSRIP due</th>
<th>April 2015: Start of DSRIP Year 1</th>
<th>April 2018: Midpoint assessment</th>
<th>2020: Completion of DSRIP program</th>
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<td>August 2014: Emerging PPSs awarded planning dollars</td>
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4. As of September 2012, 1.4 million of the State’s 5.2 million Medicaid beneficiaries were enrolled in Medicaid fee-for-service, and 3.8 million were enrolled in Medicaid managed care. New York State Department of Health. September 2012. Medicaid Global Spending Cap Report, September 2012.


DSRIP is not only unique in its size: Key innovations

An expected 25 PPSs in the state will receive first payments in the first quarter of DSRIP Year 1 to begin implementation of selected DSRIP projects over the next five years. The majority of New York’s 100,000 Medicaid providers, as well as large numbers of non-Medicaid community-based organizations, are represented in these 25 networks, each of which must demonstrate the ability to cover the entire care continuum required to manage population health. Most of the PPSs are currently led or co-led by hospital organizations. Given that these are the organizations that stand to lose revenue through the DSRIP program, the New York DSRIP presents a unique design in which participants are incentivized to contribute directly to the reform journey, however painful.

A second key innovation is that the DSRIP program is strictly pay-for-results: DSRIP dollars will only be paid to PPSs that successfully achieve targets for measurable health outcomes. In their DSRIP applications, emerging PPSs commit themselves to achieving ambitious targets over the DSRIP five-year period (reduced hospital use, improved disease control). Higher ambitions will yield more program dollars, yet these ambitions will have to be realized for the PPS to actually receive these funds. A third key innovation in New York’s version of DSRIP is direct alignment of delivery reform with payment reform.

To ensure that changes last beyond DSRIP, more than 90 percent of all MCO Medicaid payments to providers will become value-based by the end of DSRIP Year 5—replacing the DSRIP incentives by similarly focused incentives now embedded in the heart of Medicaid reimbursement itself.

Lasting change requires reforms on all levels

In addition to the payment reform mentioned above, the New York State Department of Health (NYSDOH) has initiated concerted redesign efforts in other areas that need to transform along with the delivery system for benefits to carry on in a sustainable fashion beyond the DSRIP time frame. These include large-scale regulatory waiver amendments and innovations to statewide information management and data analytics. The latter will provide both providers and MCOs with the cost and outcomes information they require to track and compare performance on DSRIP, as well as start discussions on value-based payments.

The simultaneous approach to reforms in all areas is essential since a delivery system cannot change if it is prevented from collaborating through existing regulations, if it cannot access the required data, or if the right types of behavior are not remunerated accordingly. Neither is any of it possible without buy-in from providers, payors, and regulators. All of the abovementioned reforms are considerable in speed, scale, and ambition and represent the leading vision that New York State has claimed for itself when it comes to making a difference and instigating lasting changes in healthcare.

KPMG as DSRIP Support Team: Linking state and stakeholder

Since the kickoff of the DSRIP planning phase in August 2014, KPMG LLP (KPMG) has been engaged by the NYSDOH to serve as the DSRIP Support Team (DST) to both NYSDOH and all emerging PPSs. KPMG has assisted in streamlining planning processes on both sides and in structuring the concerted efforts that are needed from multiple parties to help prepare all players for the start of implementation in April 2015. Over the past months, KPMG has also worked closely with the NYSDOH to implement numerous innovations to enable the state to keep close communications with the thousands of stakeholders involved as well as monitor PPS progress efficiently and effectively. Lastly, KPMG’s global network of healthcare professionals has worked to support the NYSDOH in scoping out options for value-based payment designs and information management for which there is little precedent nationally or internationally.

Only just beginning

Although this period of planning and preparation marks the beginning of the five-year DSRIP program, the decisions made in this phase are crucial and will govern both the state’s and the providers’ abilities to successfully achieve shared goals. Many critical milestones in this planning phase have already been achieved. KPMG will continue its assistance as DST to help both the state and PPSs maintain their performance as the DSRIP program evolves and moves forward in implementation.
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For more information on how states are transforming healthcare by leveraging the Delivery System Reform Incentive Payments program, read our related thought leadership.

A model for healthcare transformation: Delivery System Reform Incentive Payments program, March 2015

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