

# surgerate



## AMERICAN HEALTHCARE IN THE DIGITAL AGE

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Surgerate - Surgery Ratings Online

February 10, 2018

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### INTRODUCTION

#### **It's all about retaining the power by owning the information**

We have been blessed to live in the network age. By network I don't mean "provider network" although this paper is about healthcare. Obviously the "network era" is all about the cloud network, social network, IT network, and many other virtual networks that influence our lives profoundly mainly because they all transferred the power from the seller to the consumer.

Seems like only yesterday Garmin "had it made" with their GPS devices, enter Waze and nips them in the bud. Some of us still use the already-obsolete thumb drives, while realizing that we are being followed everywhere by a digital cloud. Do you still raise your hand for a taxi or rather to order an Uber or Lyft on your mobil phone? Anyone uses Yellow Pages or is it Google that you turn to for any and all information purposes?

We are hooked on apps these days. Our books, devices, maps, guides, stores, and rides, turned into one accessible anytime format - the mobil app. And what is the significant common denominator of most all of these apps? Aggregation and processing of big data to serve the needs, wants, and curiosity, of a 21st century spoiled consumer. A consumer who has been handed the wheel to special deals and opportunities need not be directly and individually negotiating anymore. No human proficiency would be compatible to an online free market in which sellers post their provisions for consumers to explore in real time.

Guess who hasn't joined the network age, and has been pushing back on this online consumerism revolution. Healthcare is still stuck in yesterday's negotiation world. The refusal to be transparent and publish prices online maintains payers' dependency on the healthcare establishment. Proprietary confidential negotiated prices, with either inpatient or outpatient providers, represent the refusal to transfer the power to the consumer. It's all about owning the information and If you don't believe me just try to ask for your own medical file.

#### **It is all about keeping the power**

Healthcare is purposely still stuck at the confidential negotiated rates age:

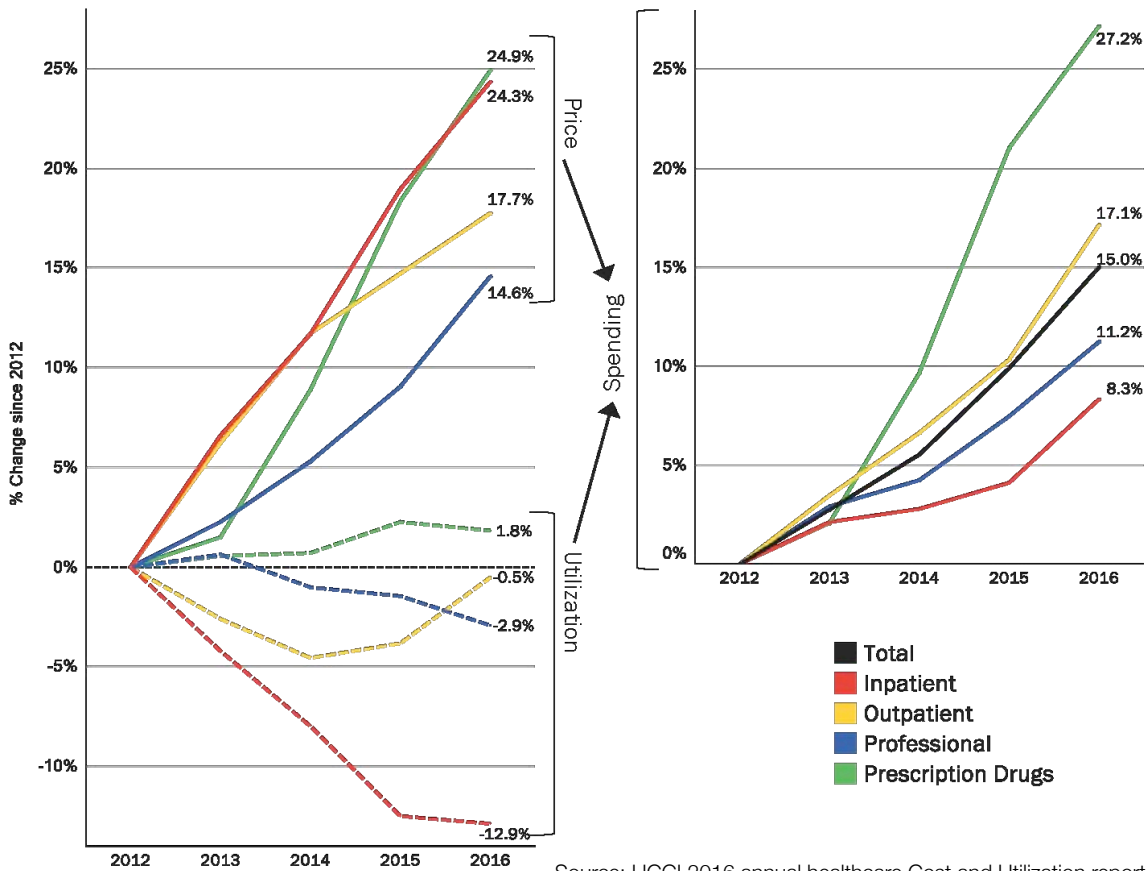
- PPO/HMO type discounted provider networks, negotiated upfront.
- Bundled prices, negotiated up front with ambulatory Surgery Centers.
- Reference Based Pricing, negotiated on the back-end post procedure.

## “THE HUNGER GAMES” IN AMERICAN HEALTHCARE

### Mysterious increasing prices and spending, while utilization decreases

American leadership has been pulling a classic third grade magic act for the last two decades. Much like the oldest trick in which one hand draws the attention while the other is hiding the card, politicians and media keep the country’s attention focused on the cost of coverage, while the cost of care and subsequent spending keeps soaring consistently year over year.

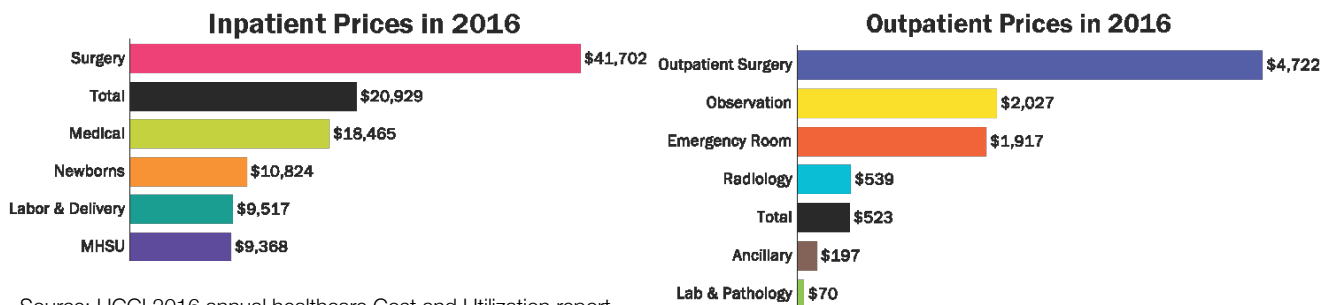
Everyone who knows anything about healthcare cost would tell you that the carriers and PPO’s are colluding with the health systems to keep raising the price of care and keep it from the public. That allows carriers to compete over market share and health systems to maintain their absolute inpatient and outpatient dominance. This historic combination of carriers’ market share and health systems’ acute care dominance creates the anomaly of rising prices and spending on care, while patient utilization keeps decreasing.



Source: HCCI 2016 annual healthcare Cost and Utilization report

### Containing costs and spending on surgery procedures

In 2016 inpatient surgery prices increased by 30% and commutative spending per person rose by 28%. Outpatient surgery prices has risen by 31% and spending per person increased by 34%. Among all different spending categories, within both hospital inpatient and outpatient settings, surgery was still the largest spending item, priced about double the second place. Surgery accounts for 52% of all inpatient spending and 37% of all outpatient spending.



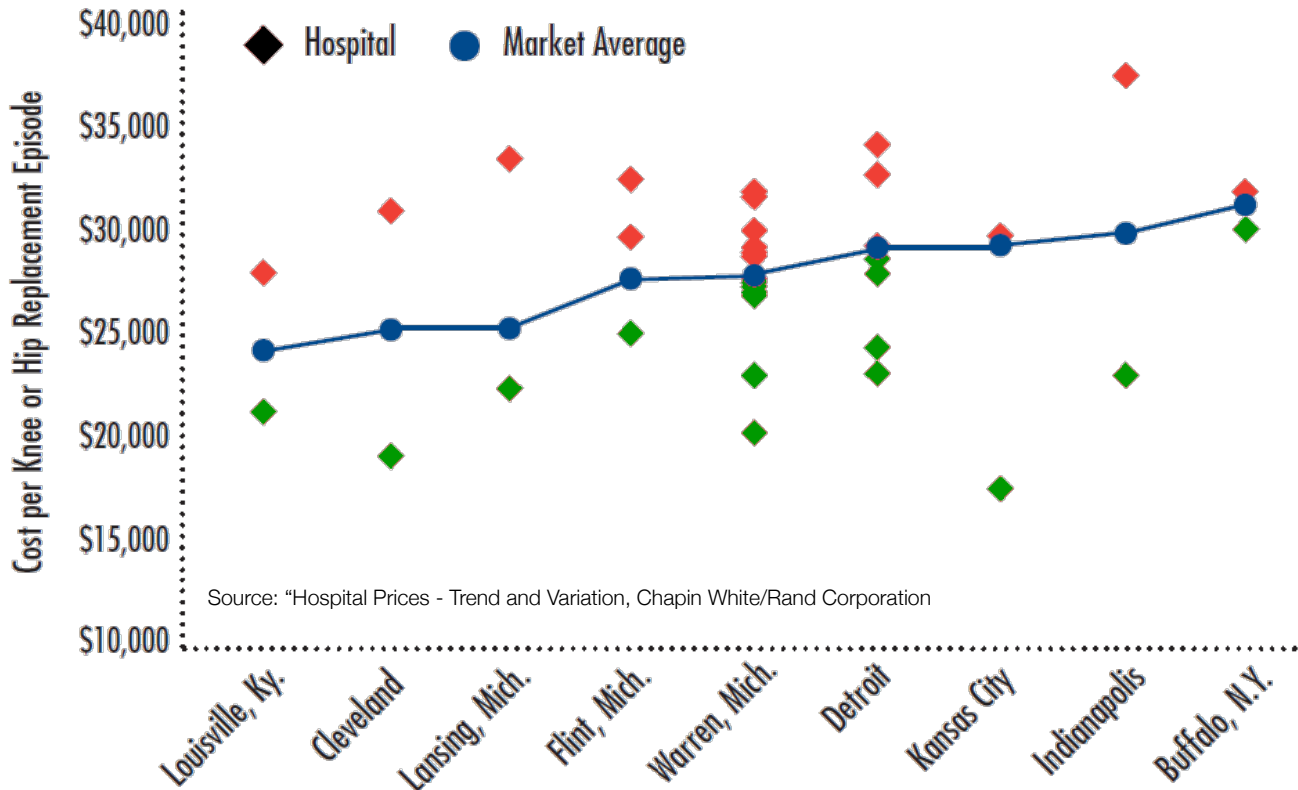
Source: HCCI 2016 annual healthcare Cost and Utilization report

Now we know that 1) surgery is both the most expensive inpatient and outpatient item, 2) surgery makes for the lion share of all spending in both categories, 3) inpatient surgery price is 10X the outpatient surgery price, 4) Inpatient surgery price is a combination of human and facility resources, 5) the price of inpatient surgery resources is roughly divided to 85-95% facility charge and 5-15% human charge (surgeon and anesthesiologist).

In this price reality, why is everyone pounding on the poor doctors? Is it because it's easier to look for the keys under the light? Doctors are less influential and are less represented by lobbyists than health systems? Why do so many innovative cost containment tools offer access to "the best" physicians and surgeons and not to facilities first? A certain well funded transparency tool even allows access to surgeons sorted by their hospital affiliations, even if these selected hospitals are the most expensive in the area. Savings?

Surgeons may be affiliated with several facilities that run completely different charge masters for the same exact procedure. Surgeons have no clue what the ultimate facility bill will look like and tend to assign patients to facilities based on availability, day of the week, or date of the month. Sometimes all that is needed in order to save 50% of the average area price is to select the more efficient facility first and then ask our surgeon to operate in that particular facility.

Variation in spending on knee and hip replacement episodes by hospital in 9 markets



Quality/price correlation - 2015 average charges for a knee or hip replacement

Hospital	Ranked	Charged
Centinela Hospital Medical Center (CA)	N/R	202,415
Santa Monica UCLA Medical Center (CA)	# 18	62,950
12 Miles Apart		
Chestnut Hill Hospital (PA)	N/R	178,752
Thomas Jefferson University Hospital (PA)	# 7	53,696
13 Miles Apart		

Sources: CMS provider charge inpatient DRGALL FY2015 & USNWR Best Hospital Program

### UNTYING THE MEMBERS' ENGAGEMENT KNOT

***“Information leads to realization, only emotion leads to action”***

The most powerful engine of a free market and biggest enemy of fraud is obviously transparency. And so during the second decade of the 21st century many have been consumed with the “price transparency” buzz, shooting all weapons in all directions in an obsessive attempt to cast some light on the darkness surrounding healthcare pricing. So much so that a whole new segment of American healthcare, named “transparency tools”, has evolved and is growing rapidly.

Consistent with the ever resourceful human spirit, when such a critical mass of human and computing power becomes obsessed with one subject, a vast amount of information on healthcare pricing has been flowing. New algorithms, sexy applications, RBP models, alternative provider networks, Centers Of Excellence (COEs), direct negotiations, and an abundance of other suggested solutions, have been manifesting frequently, with their own versions of price prediction methodologies to dispel the non-transparency curse.

However, while this litany of price prediction information keeps emerging, a disturbing phenomenon is being reported by some credible sources and implementors of these new approaches. Turns out that the massive flow of price transparency data hasn't increased plan participant engagement with these innovative transparency tools. In fact it seems like the opposite has been happening. The more information is being pushed to patients the less engagement is being recorded. What in the world is happening here?

One obvious reason for this inverse reaction to the abundance of information may be that *“Information leads to realization but only emotion leads to action”*. In fact, information overload, at the wrong timing, may lead to frustration and disengagement. I'm sure you would agree that during stressful times when in need for care, it is the wrong timing for information processing.

The most basic rule that every sales professional knows, about the necessity of emotion for a successful sale, has been missed in this race to demystify price transparency. If we yearn for a creation of a free market in healthcare, we need a combination of both necessary components of a free market - equal parts of information and emotion, or what I often refer to as *e-motion* in the network era.



### What's in it for me?

Imagine your employer sends you to a professional conference in a nice hotel. At the reception you are being asked whether you'd like the presidential suite or a standard room. What would your first reaction and question be? I bet it would be: *"is there an upgrade fee I need to pay for that?"*. "No", replies the smily receptionist, *"your company will cover whichever you select"*. What are the odds of you selecting the standard room under these circumstances? Would you even ask how much this luxurious stay is going to cost your employer? If you would, it would only be for the purpose of bragging about it to everyone back home.

*"An employee's health insurance card is an open-ended credit card to pay any medical, pharmaceutical, dental, and vision, expenses exceeding (or up to) an agreed upon threshold"*. Handing out such a powerful guarantee creates a misaligned, even conflicting, payer/user interest. Under these circumstances, the expectation to engage employees, by educating them to shop more sensibly for care, is unreasonable. Unless there is something more powerful in addition to this card, that can sweeten ethereal even more in exchange for engagement.

Obviously, the Achilles heel of the card guarantee is in the end: *"...expenses exceeding (or up to) an agreed upon threshold"*. If this threshold gap can be waived or reimbursed, under certain choice conditions, then a reasonable consumer would be inclined to meet these conditions. Under these assumptions, there are numerous employee healthcare steerage programs, rewarding employees by waiving their deductible if they do the right thing. Alas, these programs have not caused as much engagement as was expected. First, people tend to not remember what they didn't pay. Second, the habit of scheduling elective procedures at year end, when most of one's deductible has already been met anyway, has eroded this incentive.

Another flaw in rewarding with deductible only is that it offers the same exact reward for any preferred provider selection. However, the price of surgery varies so widely among facilities that there can be large percents of difference, even among the lower charging ones. To account for that, and to create an instinctive consumer sensation, any savings created by participants' doing the right thing must be shared with them to stimulate engagement. Only such sharing would differentiate between facilities based on their individual charges, to create a simulated shopping environment, which is essential for creating and maintaining e-motion.

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## AMERICAN HEALTHCARE IN THE DIGITAL AGE

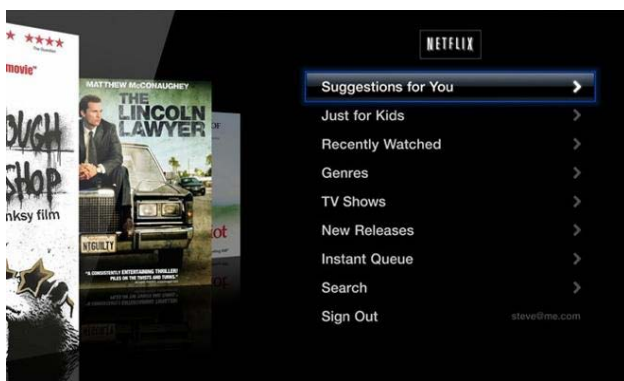
### ***“Start with Customer experience and Work Back Towards technology” - Steve Jobs***

For me it is that sensation when I search for a hotel or a flight. After hours of endless sorting and filtering on different online travel sites, all of a sudden it pops up on top and I can't wait to click on the “Book” button before the offer disappears forever. Excited I turn to my wife and hear myself say *“Honey, you won't believe what I just booked for us”*. Or the sense of confidence I feel when clicking “Return Item” on Amazon knowing that it will be picked up from my doorstep the next morning, no questions asked.

I keep hearing a repeating complaint about plan members not engaging or utilizing innovative transparency/engagement tools. *“We tried engaging participants, it doesn't work”* they say. Of course it doesn't work if we do the same thing expecting different results. The question is not if but how would it work. Pushing unfriendly, template, directory sites loaded with long paragraphs, price information irrelevant to a non-payer user, and obscure or professional quality data, is not an experience consistent with the quote on top of this page. I've lived to hear people say they do not believe anyone would ever use their credit card online, or that an online flight booking cannot be trusted and you need a live travel agent to book it securely.

A good example demonstrating the effect of user experience is ironically related to Steve Jobs' brainchild “Apple TV”. For years I have been accessing the Netflix streaming movies application via Apple TV. I kept wondering how my friends knew about different Netflix programs they kept recommending, while I had no idea about them. Until I signed up for Dish Hopper and started accessing Netflix through their service. The different Netflix interface drew me in and now I spend 80% of my TV time on Netflix and can recommend programs to my friends.

### **Netflix on Apple TV**



### **Netflix on Dish Network**





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## AMERICAN HEALTHCARE IN THE DIGITAL AGE

### ***“The perfect is often the biggest enemy of the excellent”***

Imagine you had to select a facility in which your prescribed heart bypass surgery is to be performed. As a savvy healthcare consumer you log on to a few healthcare quality sites to research which facility in your area is rated the highest for your procedure. Let's say you are looking for three main factors - complications, readmissions, and infections. To your frustration you find that each of the three “prominent” facilities around you is better than average on a different one of these factors, and worse than average on the other two. Now what?

Hard to decide? Okay then let's try the surgeon first. You log on to a few of the many sites that offer doctors' evaluations and star ratings, to seek the best one for your bypass. Next you find two surgeons, in reasonable geographic proximity, rated by their past patients as follows - the first has 10 straight 5-star reviews, the second has a variety of 100 star reviews with an overall rating of 4 stars. Which is it? Life is not a simple formula but rather more like a complicated algorithm. Even more complicated than the most kept Google algorithm. And the fact that it's about your own health complicates it even more.

Let's go back to basics. What do we consider important when we hire an employee, a professional, or a contractor? Mainly experience. What is experience if not volume? Experience is mainly about how long, how much, and how many, of this task, have you performed in your lifetime and last year? Obviously, there would be differences in quality between different high-volume providers, but as a general rule these who do more, know more, are better equipped, offer more choices, are better informed, and and better trained. Volume is also the only quantifiable and non-debatable indicator of quality. It's not perfectly correlated of course but it definitely is up there above the 90% correlation.

I keep hearing that quality of care is much more complex than just the volume of performed procedures, and I agree. However, the quality characteristics of most products and services that we buy online, including the intricate airline traffic and booking systems, is no less complex, yet they have been simplified by technology in the process of transferring power to the online consumer. This pursuit of excellence and perfection in healthcare may not only be for the benefit of the patient. It may be about maintaining the power by complicating the information, which due to its importance creates what I refer to as “the black hole called quality of care”. Airlines got over this attitude and created Orbitz to transfer power to consumers.

# A SIMPLE SOLUTION TO A COMPLEX PROBLEM

### So what's the problem again?

- Unlike most other products and services, American healthcare has not joined the network age, refusing to transfer the power, associated with online transparency, to the consumer. This exclusive power allows prices to be increased, regardless of quality or utilization of care, which due to consumer ignorance drives spending up as services utilization drops.
- With a 2016 average price of \$41,702, despite a drop in utilization of 16%, inpatient surgery prices increased by 30%. Facilities only a few miles apart may issue annual average bills, for similar procedures, in a similar year, that differ hundreds of percents from one another, with no apparent correlation between their quality and their pricing. Both the surgeon and the anesthesiologist make up only a small share of inpatient surgery cost, which makes cost containment unlikely if patients continue to select the surgeon before choosing the facility.
- Despite the emergence of many transparency tools in the last decade, which have been providing a good amount of price and quality information, there seems to be insufficient motivating emotion for plan member engagement. In the network age patients are online consumers and do not like to feel powerless, so they vote with their feet and, almost as if in spite of the program, end up at the highest priced facilities.
- Holding a health plan member card is similar to holding a credit card, backed by a company, providing almost unlimited financial collateral. That creates an incentive to select the most expensive facility, thinking that it is probably better or at least nicer (which is not always the case). The incentive of waived deductible seems not to suffice because of reduced deductible at year end and because it doesn't differentiate among quality lower priced providers. Members sharing in employer's savings seems to be a good motivator for smart consumer choices since it participates in stimulating user experience.
- User experience is key to creating motivating emotion. The assumption that "if you tell them they will go" seems to have not been working. The 21st century patient is a spoiled, independent, all powerful consumer, who at the lack of familiar consumerism tools, relies on the healthcare establishment that exploits the situation to turn a huge profit.
- Finally, mysteries such as "treatment outcomes", creating the "black hole called quality", represent another attempt to maintain ultimate power by keeping clear and simple information from the patient. Sources are so divided and obscure, and the display of parameters is so vague, it almost seems like it's purposely meant to confuse. Yet in every other purchase or hire decision common sense has us consider experience (mainly volume).

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## AMERICAN HEALTHCARE IN THE DIGITAL AGE

***“Go to where the puck is going, not where it has been” - Walter Gretzky***

Surgerate is the first and only inpatient “hospital-shopping”, cloud-based, dynamic, website. It transfers the full power of choice to the member (and concierge team) by ranking hospitals for their performance of covered surgeries, by distance, price, and volume of performed surgeries. Consistent with online user experience such as Priceline, Expedia, Amazon, etc, Surgerate empowers patients to sort and filter their hospitals’ search results and access quality parameters, affiliated surgeons, and hospitals’ websites, all in the right order - facility first and doctor second.

Since an inpatient surgery price is impossible to accurately predict, Surgerate scans claims’ data to find the average annual price of every covered surgery procedure, in every participant’s area of residence. Hospitals performing these surgeries for less than the area’s average should be rewarded, while those who performed them for more than the average price should be punished. The more patients select lower than average price in their area, the lower the average area price should become. Obviously, if 100% of members go to hospitals with lower than average prices, the previous average would become the new ceiling.

Being able to control the search themselves, with the optional help of a concierge representative, provides a unique emotional sense of power. Understanding what motivates consumer action, Surgerate designed its search results to show every side “what’s in it for them”. Instead of displaying a hospital’s price, the member’s interface specifies the rewards they can expect for selecting more efficient facilities. No display of above average priced facilities on the member’s interface. A member can go anywhere but should only be rewarded for making the right choice. On the other hand, the concierge team interface displays all facilities because some plans may have direct contracted facilities charging lower than registered in our database.

Surgerate is all about finding and exploiting inefficiencies. The vast price variation, in and between markets, provides the ultimate opportunity for Surgerate to do just that. Surgerate’s smart algorithm detects the higher performing lower charging hospitals, and automatically adds the member’s incentives and any optional travel expenses into every hospital’s price. Only the ones that can sustain all these expenses and still remain below average price qualify. That ensures no additional burden is incurred by the plan or its sponsor other than the procedure payment.

The algorithm uses the surgery performance volume as initial indicator of facility quality. In addition to the algorithm’s ranking by volume a user can drill into all other quality related parameters, such as survival, readmissions, infections, etc., by following the ratings button on every hospital’s card. This function is offered, but not forced on users who prefer simpler data.

## ABOUT THE AUTHOR, TIBI ZOHAR



Tibi Zohar, the President and CEO of Doctor Globe, inc., cofounded the company in January of 2014 with Yori Landau, the former leader of the Orbitz Worldwide Israel's R&D center. The company is headquartered in Oceanside California and it has R&D centers in Tel Aviv Israel and New Delhi, India. Doctor Globe, Inc. is the creator of Surgerate - the first and only domestic hospital-shopping platform helping companies and employees to discover better surgery for less. Surgerate utilizes “big data” and implements a “crowd wisdom” approach to inspire change in patient behavior.

Tibi is an accomplished financial professional with over 3 decades of experience in corporate and employee benefits in two different countries. Served as corporate executive, agency owner, founder of Custom Financial Planning and Synergy Advisers. Million Dollar Round Table 3-time Top Of The table and 5 times Court Of the Table accomplishments, as well as TOT meeting speaker in Kauai (2009) and keynote address the 2010 Insurance and Finance annual conference in Eilat, Israel.

Tibi earned his Master of Science in Financial Services from the institute of business and finance in La Jolla, California. Among his community contributions are board member at Fresh Start Surgical Gifts, a board member at T.E.A.M. and StandWithUs Israel advocacy organizations. He co-chaired Israel @ 60 San Diego, as well as co-founded and served as president of the San Diego Jewish Chamber of Commerce.”

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  - Chapin White of Rand Corporation - Hospital Prices Trends and Variations: [https://www.rand.org/pubs/research\\_reports/RR2106.html](https://www.rand.org/pubs/research_reports/RR2106.html)
  - CMS 2015 inpatient DRGALL utilization report
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