

# Innovation in Hospital Financing



**This issue brief describes the Government of Bermuda’s intention to introduce transformative innovation into the way hospital services are paid. The Ministry of Health will transition to a streamlined payment mechanism for the Bermuda Hospitals Board that will put our healthcare system on a more sustainable path and strengthen it for the future.**

The Government of Bermuda is focused on creating a stable foundation for the long-term sustainability of our health system. That is why we are committed to reforming the way we pay for the healthcare services the country requires. Building on the success of the Bermuda Health Strategy, 2014-2019, the Ministry of Health will soon announce further reforms to improve access, affordability and health outcomes.

The Bermuda Health Council estimates that two chronic diseases alone – diabetes and kidney disease – consume more than 10 cents of every dollar spent on healthcare. This amounts to nearly \$78 million a year and is unsustainable. Pressures like these lead to challenging questions about how to incentivize healthy behaviour, but also how to address these types of escalating costs in a way that is meaningful. Just as these two non-communicable diseases are to a degree preventable, so too is avoiding the fiscal cliff created by our long-established fee-for-service (or “volume-based”) payment methods.



## The Bermuda Hospitals Board

The Bermuda Hospitals Board is the biggest single component of our healthcare system. From complex care to routine visits, it serves the largest number of people, 24 hours a day, 365 days a year. Its dedicated doctors, nurses, allied health professionals as well as non-medical staff, provide care through hurricanes and public holidays. It is a vital part of our community.

But utilization of hospital services keeps growing. Today, hospital visits account for almost half of Bermuda’s spending on health. This is costly for everyone. Without decisive action to address this challenge, this factor alone will result in steep cost escalation. This year, the Ministry of Health, the Bermuda Hospitals Board and the Bermuda Health Council will continue to work with others in the community to better understand some of the health pressures and identify ways to address the resulting unsustainable costs.



While we have made considerable progress in providing the care our families depend on, further work is required to fully achieve the values we hold dear: access for all, increased affordability and better health outcomes.”

— **Hon. Kim N. Wilson,**  
**Minister of Health**

BHB accounts for 46%  
of all health spending



BHB accounts for 95% of  
Standard Health Benefit cost





These changes to how the Government funds the Bermuda Hospitals Board will not impact access to necessary care or the quality of care across our country. Over time, it will increase them.”

— **Dr. Ricky Brathwaite,**  
**Acting CEO of the Bermuda Health Council**

We are partnering to design an innovative solution that will reposition our healthcare system onto a sustainable path for future generations. In the upcoming fiscal year the Government will fund the Bermuda Hospitals Board using a streamlined payment mechanism. This will replace the current activities-based approach and move toward a payment arrangement that better supports the Board’s objectives – improving efficiency and maximizing the quality of outcomes and access to care. The new, consolidated payment method will reduce fragmentation and allow us to prevent a forecasted \$20 million of additional spending. This savings will then be used to minimize premium increases for the Standard Health Benefit and invest in evidence-based programmes for more prevention and primary care.

While there is no silver bullet, this measure will help to keep bending the health cost curve. By consolidating we can better enhance benefits available to every member of the public to truly support better health outcomes. It also presents an opportunity to expand benefits targeted at preventing chronic diseases and investing in wellness. This is important not only for this current generation but the next.



### Paying for hospital services

Currently, the Bermuda Hospital Board covers its annual cost through four primary sources:



Fees charged to public and private insurers for health services rendered (i.e. claims against the Standard Health Premium);



A Government subsidy grant towards the cost of caring for children, seniors and the indigent;



A Government grant for the Mid-Atlantic Wellness Institute (“MWI”); and



A transfer from the Mutual Reinsurance Fund (MRF).

The objective of these various payment mechanisms is to ensure the Bermuda Hospitals Board has sufficient funding to operate the hospital and MWI, and be able to re-invest in necessary building maintenance and technology upgrades.



The change in payment mechanism amounts to a \$20 million reduction in projected health system costs over the next year. It will enable the expansion of preventive and primary care.

However, fragmented approaches like these are increasingly viewed by health and finance experts as expensive, outdated and, in the long run, unsustainable in the face of an ageing population and anticipated healthcare demands. Growing global evidence and leading practice have emerged that clearly indicate these types of volume-based payment models – so-called because they depend on the quantity of care delivered rather than the quality of health outcomes – are difficult systems in which to control costs, and often result in higher spending. Alternative payment models, such as capitated payments, bundled payments and value based grants, are increasingly being proven by international health and finance communities as more cost effective and result in better health outcomes.



### Taking the next step

**These changes, while a significant shift in how the Bermuda Hospitals Board manages its funding, will not impact the quality of care or the commitment of the individuals providing that care. Individuals will continue to pay insurance premiums as usual; children, seniors and the indigent will be subsidized as before; and access to hospital services will remain consistent and fully accessible to everyone for all necessary care.**

The Bermuda Hospitals Board stands ready to be part of this important step and is already reviewing how to redesign care delivery to optimise its people, processes and systems to deliver high quality care from a fixed revenue. This could include, for example, reviewing clinical procedures of limited clinical effectiveness, scrutinising business processes and reviewing the cost base from which care is delivered. Efficiency will be paramount to ensure delivery of high quality care within the available financial envelope.

Over the coming year, the Government will continue its active consultations with insurers, healthcare providers and other key stakeholders to optimize our country's risk pool. The conversation with the public will also continue. Establishing a better way of risk pooling all of the island's healthcare participants will also improve efficiency, thus increasing long-term sustainability of our healthcare system, coverage for all and, ultimately, better health outcomes.

This is an important change in the way Bermuda views and pays for healthcare, and a necessary measure to keep our health costs in check. These upcoming transformations build on the significant progress of the Bermuda Health Strategy, and we will continue to review ways to best enhance our health system over the coming months.

Together, we have steered clear of the "billion-dollar cliff" that was forecast in 2010. Through continued collaboration and cooperation, we will implement innovation and put our healthcare system on a sustainable path and strengthen it for today, tomorrow, and the future.



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