Value Purchasing in Orthopedics: Price Transparency, Bundled Pricing, and Reference Pricing

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Overview

- The importance of prices
- Price transparency
- Bundled pricing
- Reference pricing
- Implications for surgeons and hospitals
The Importance of Prices

- **Reimbursement**: Prices cover costs. Buyers pay what providers charge.
- **Purchasing**: Prices determine costs. Providers develop services that buyers are willing to buy.
- Health care payment is shifting from reimbursement to purchasing.
- For this to be successful:
  - Prices need to be bundled and coherent.
  - Prices need to be transparent.
  - Consumers need to care about prices.
Importance of Price Transparency

- We all believe in price transparency
  - Supports informed consumer choice
  - Gives incentives to providers to compete on price
  - Creates pressure to reduce prices and costs
  - Everything else is on Facebook: why not prices?

- Mobile technologies enable transparency
  - Consumers are interested (only) in the prices THEY must pay, not average or list prices
  - New technologies can show them what they will need to pay at each provider, given their plan, where they are on their deductible, etc.
  - Hand-held PDA make the data real-time
Price Transparency is Coming

- State mandates for hospital price transparency (chargemasters 😞)
- Medicare release of CMS payments to individual physicians
- Private insurers are putting negotiated fees (“allowed charges”) on their websites
- Start-up technology firms are contracting with employers, offering employees price information from multiple insurers
- Legislators are looking for new ways to mandate price disclosure
Health care prices are inscrutable and irrational. Making them transparent is good for jokes but not for choices.

For simple components of care, transparency of existing prices is okay.

But for health services, such as orthopedic surgery, that are consumed as part of an episode of care, the episode price is the one that counts for the consumer.

We want the price of the car, not of the sparkplugs, transmission, drive chain.

Price transparency needs bundled pricing.
Importance of Bundled Payment

- Fragmented payment undermines incentives for physicians, hospitals, and post-acute providers to coordinate care, improve efficiency, and enhance quality.
- Consumers cannot act on fragmented prices even if the prices were transparent.
- Health plans cannot develop “Centers of Excellence” with hospitals that are unable to coordinate with surgeons & suppliers.
- Medicare, and private payers/employers have experimented bundled payment for orthopedics and cardiology.
Challenges to Bundled Payment

- Payers want savings from bundling in the first year, but providers need to invest in infrastructure, IT, cultural alignment
- They will only embrace bundled payment if they will gain more patients (or avoid losing the patients they already have)
- But, to date, bundled initiatives have not had a consumer cost sharing component
- Bundled payment without benefit re-design is an idea that no one adopts
- Bundled payment needs reference pricing
Consumer Cost Sharing

- Traditional cost sharing instruments do not influence consumer choice for orthopedic surgery
- The annual deductible targets low-cost preventive and primary care, not high-cost specialty care
- Coinsurance exposes patient to only 20% of the cost, and is limited by annual payment maximum
- Copayments charge same price to consumer regardless of price charged by provider, and is small relative to price of specialty services
- ‘Reference pricing’ may be a major new design
- A better term is ‘reference-based benefits’ (RBB)
Reference-based Benefits

- The employer or insurer establishes a maximum (reference-based benefit) it will pay for a particular service/product
  - This limit is set at the minimum or median of the prices charged by comparable providers
- The patient must pay the full difference between the sponsor’s contribution limit and the negotiated price (allowed charge)
  - Patient payment is not limited by OOP max
  - Patient has good coverage for low priced options but full responsibility for choice
  - RBB is a ‘reverse deductible’
Challenges to Reference Pricing

- Placing financial responsibility for choice on the consumer is inappropriate if prices are confidential or inscrutable.
- Consumers also need data on clinical processes, outcomes, and patient experience in order to compare price with quality.
- The US has made greater strides in disseminating quality and satisfaction data.
- Reference pricing needs price transparency.
Price transparency needs bundled pricing
Bundled pricing needs reference pricing
Reference pricing needs price transparency
More on Reference-based Benefits

- Reference pricing is best applied to products and services where there is wide variation in price and where patients have time to ‘shop’
  - Pharmaceuticals, laboratory tests
  - Diagnostic tests and advanced imaging
  - Scheduled, non-emergency surgery
    - Inpatient, ambulatory
- Purchasers are increasingly concerned with price variation, due to hospital consolidation and to indifference of consumers to prices
- They have lost the ability to obtain price discounts, due to inability to exclude hospitals from networks
CalPERS covers 1.3M public employees, of which 450K are in self-insured PPO

In 2009 it was paying $20K to $120K for joint replacement

In January 2011 established RBB of $30K

It identified 46 hospitals as “value-based purchasing design” (VBPD) facilities (charge less than $30K, geographic dispersion, score well on BCBSA quality)

What happened, compared to trends for Anthem Blue Cross enrollees without RBB?
Percentage of Surgery Patients Choosing Low-Priced and High-Priced Hospitals before and after the Implementation of Reference Pricing

Source: California Public Employees Retirement System (CalPERS) and Anthem Blue Cross.
*Through September of 2012 only.
Prices for Knee and Hip Replacement Surgery in California Hospitals before and after the Implementation of Reference Pricing

Source: California Public Employees Retirement System (CalPERS) and Anthem Blue Cross.
All prices in 2011 dollars. VBPD: Value Based Purchasing Design. *Through September of 2012 only.
CalPERS expanded RBB to ambulatory procedures, with intent of convincing beneficiaries to select lower-price ambulatory surgery centers (ASC) over hospital outpatient departments (HOPD).

- Exemptions for patients with special clinical or geographic needs
Prices for Colonoscopy in Hospital Outpatient Departments (HOPD) and Freestanding Ambulatory Surgery Centers (ASC) Prior to Implementation of Reference-Based Benefits
Percentage of Patients Selecting Ambulatory Surgery Centers (ASC) over Hospital Outpatient Departments (HOPD) for Colonoscopy Before and After Implementation of Reference-Based Benefits

Anthem
CalPERS
Reference Price Implementation

2009 2010 2011 2012 2013
Average Price (Allowed Charge) for Colonoscopy Before and After Implementation of Reference-Based Benefits

- **Anthem**
- **CalPERS**

Reference Price Implementation

Price Range:
- $1,400
- $1,600
- $1,800

Years:
- 2009
- 2010
- 2011
- 2012
- 2013
Rate of Surgical Complications for Colonoscopy Before And After Implementation of Reference-Based Benefits

Reference Price Implementation

Anthem

CalPERS
Limits of Price Transparency

- Price transparency is not a panacea for the ills of the health care system but:
  - It helps support patients as shoppers for value
  - It is consistent with our larger culture of sunshine, truth, honesty, and Facebook
- But to transform health care it requires bundled payment and reference pricing
Limits of Bundled Pricing

- Bundled pricing is not a panacea but:
  - It gives incentives to doctors and hospitals to work together for efficiency and cost reduction
  - It allows payers to compare price with performance
- But to transform health care, it requires reference pricing and price transparency
Limits of Reference Pricing

- Reference pricing is not a panacea but:
  - It helps convert patients into shoppers for value
  - It stimulates price competition among providers
- But to transform health care it requires price transparency and bundled pricing
Implications for Physicians, Hospitals, and Purchasers

- The US health system continues to shift responsibilities to the patient
  - Shared decision-making, engagement, cost sharing
- Physician, hospitals, and plans will win in the emerging environment if they develop aligned organizations, accept bundled payment, and publicly report prices
- High prices must be justified by high quality
  - Low quality can only charge low prices
- Drugs, lab tests, imaging, surgery, interventional cardiology are the best domains for price transparency, bundled pricing, and reference pricing
- Get ready