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FOR HEALTH TECHNOLOGY

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



Challenges to Price Transparency

- 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



Let's Summarize the Presentation up to this Point

- 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

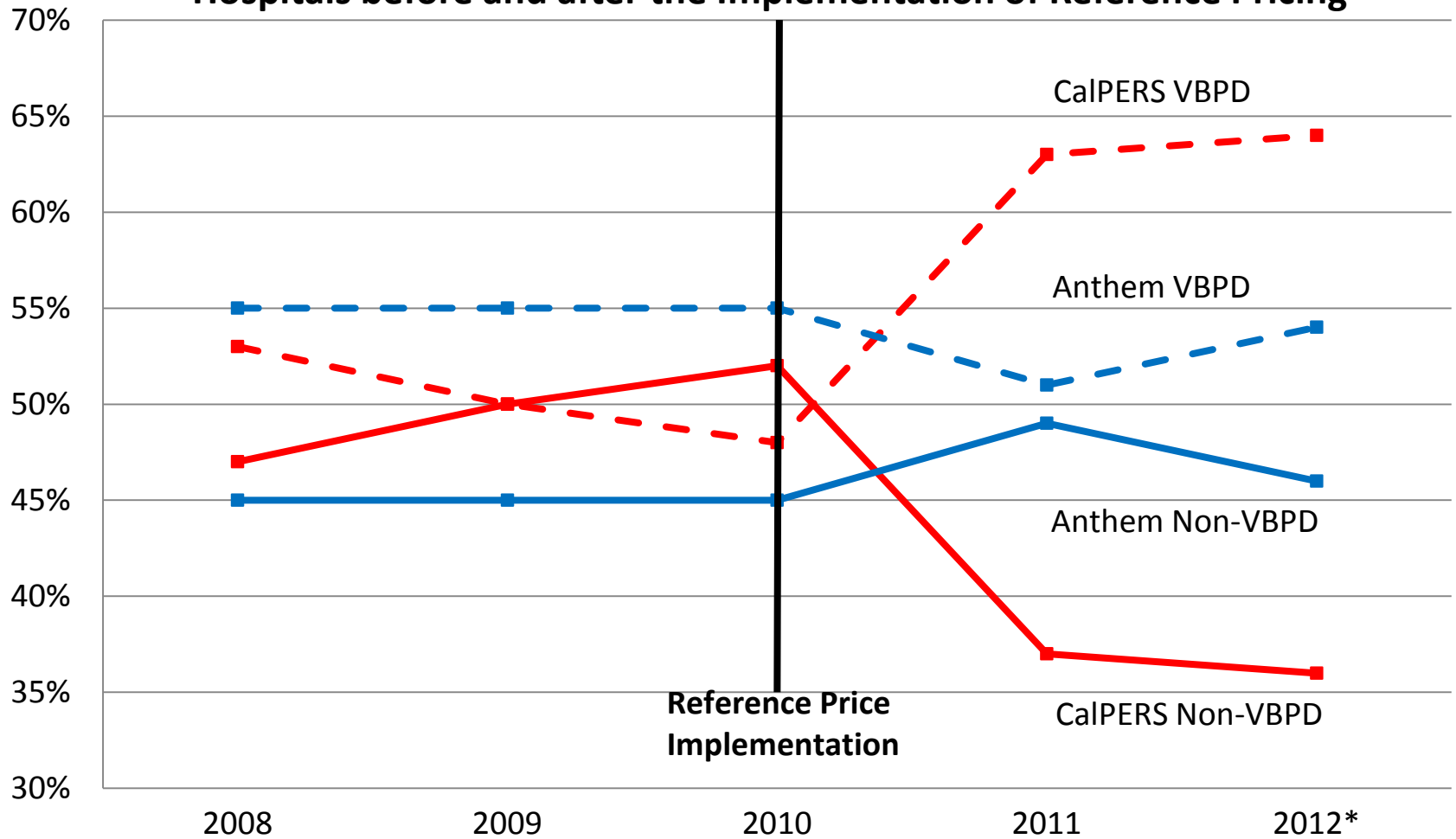


Reference Pricing for Inpatient Surgery

- 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?



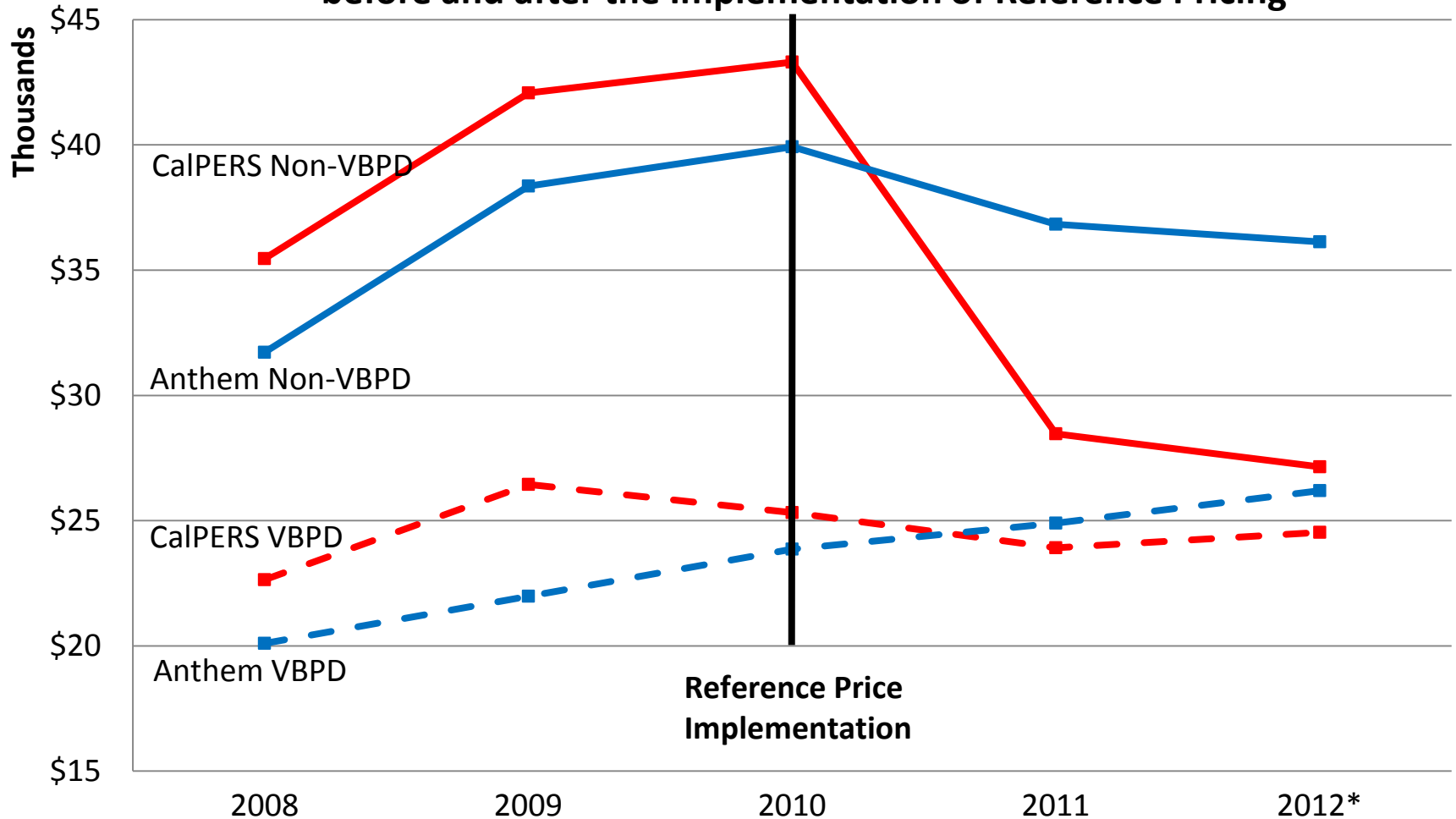
Percentage of Surgery Patients Choosing Low-Priced and High-Priced Hospitals before and after the Implementation of Reference Pricing



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.

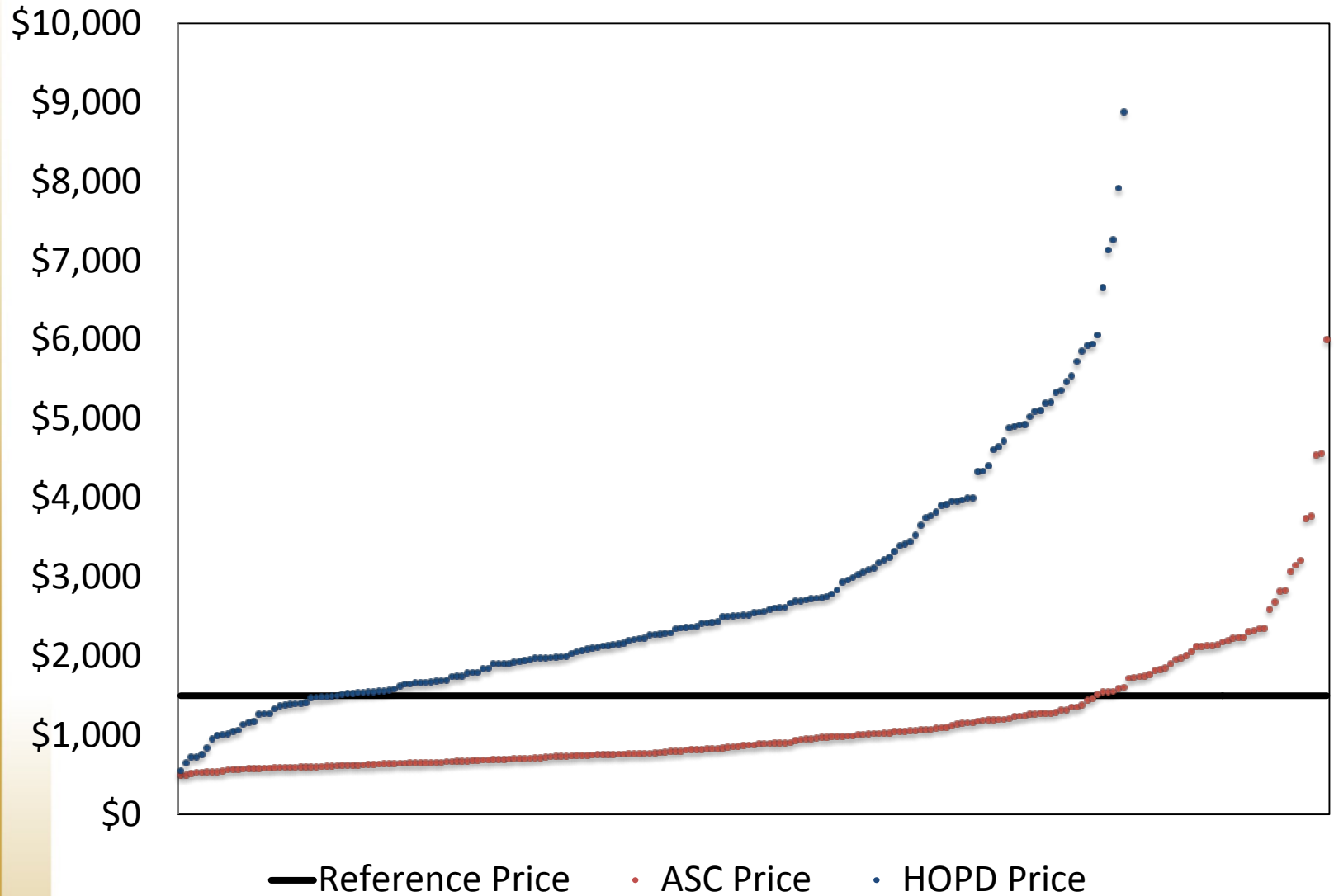
All prices in 2011 dollars. VBPD : Value Based Purchasing Design. *Through September of 2012 only.

RBB for Ambulatory Procedures

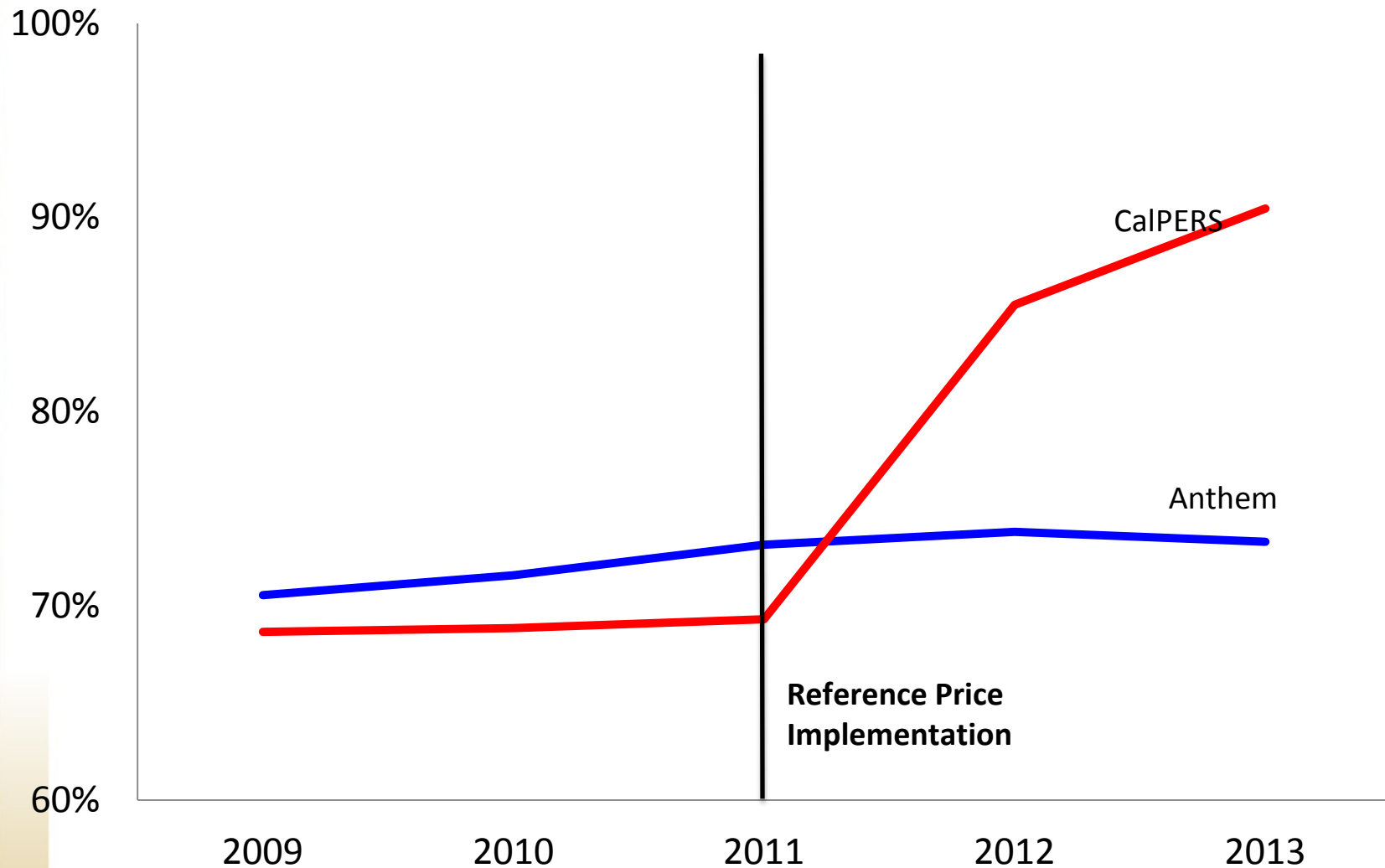
- CalPERS expanded RBB to ambulatory procedures, with intent of convincing beneficiaries to select lower-price ambulatory surgery centers (ASC) over hospital outpatient departments (HOPD)
- Exemptions for patients with special clinical or geographic needs



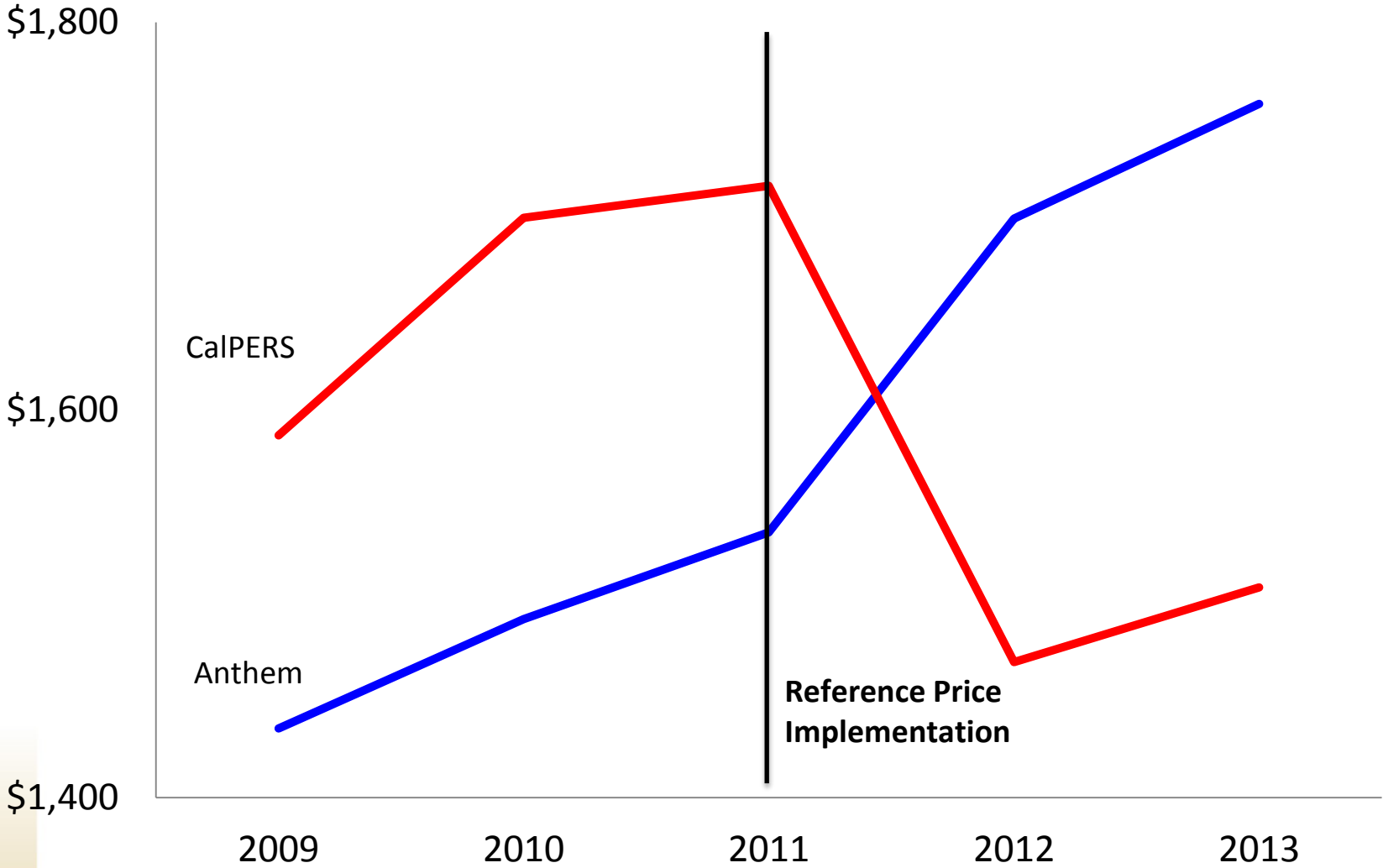
Prices for Colonoscopy in Hospital Outpatient Departments (HOPD) and Freestanding Ambulatory Surgery Centers (ASC) Prior to Implementation of Reference-Based Benefits



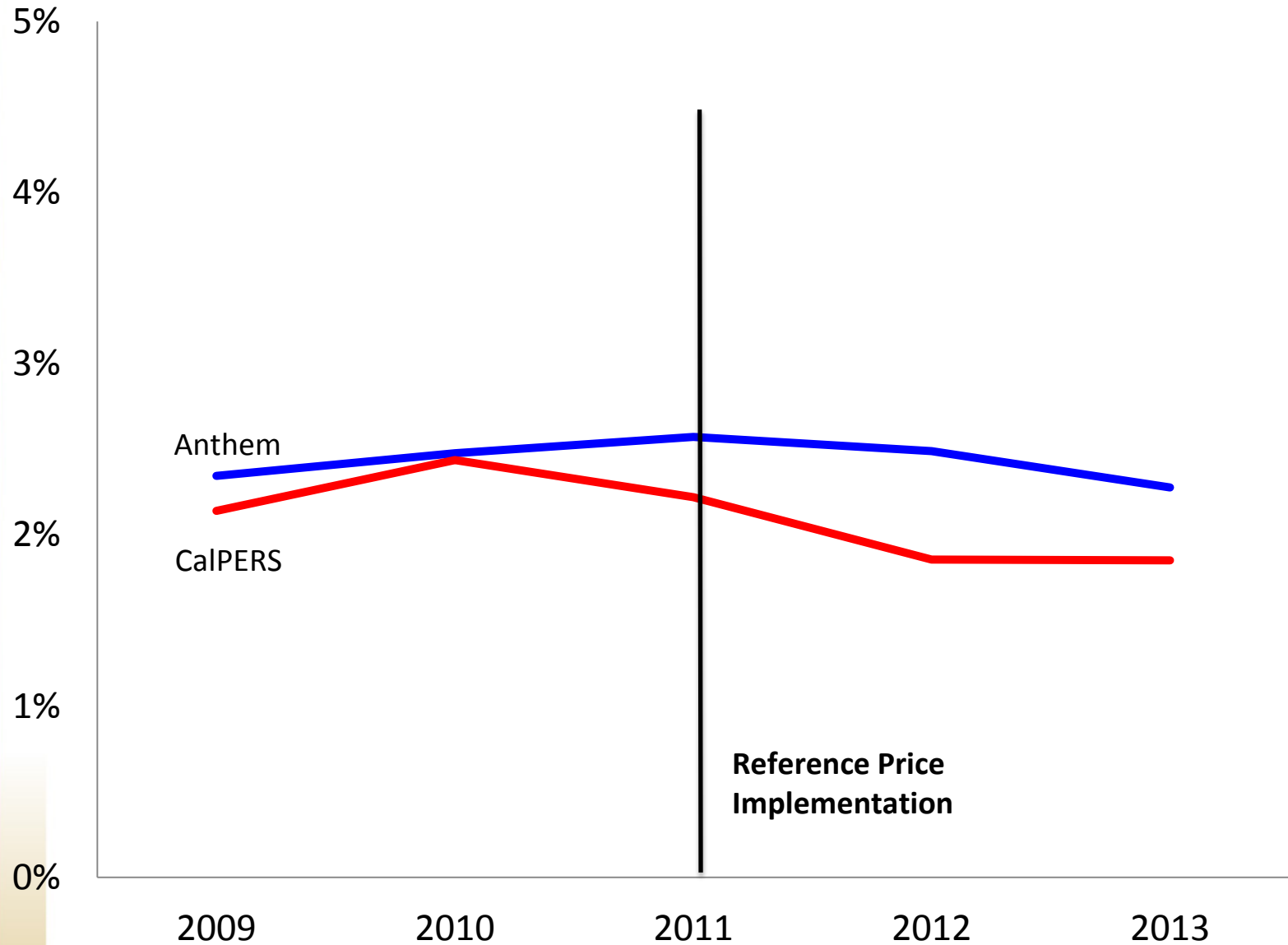
Percentage of Patients Selecting Ambulatory Surgery Centers (ASC) over Hospital Outpatient Departments (HOPD) for Colonoscopy Before and After Implementation of Reference-Based Benefits



Average Price (Allowed Charge) for Colonoscopy Before and After Implementation of Reference-Based Benefits



Rate of Surgical Complications for Colonoscopy Before And After Implementation of Reference-Based Benefits



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

