Reference Pricing as an Employer Strategy to Promote Patient Choice of Freestanding Surgical and Diagnostic Centers

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Overview

- Hospital expansion (HOPD)
- Variation in prices: HOPD v. ASC
- Reference pricing for colonoscopy, cataract surgery, knee arthroscopy
- Impacts: consumer choices, prices paid, surgical complications
- Expansion to additional services
- Consumer decision support
Hospital Expansion into Ambulatory Procedures: The Good, the Bad, the Backlash
Effects of Hospital Expansion

1. **The good**: increased coordination and lower costs?
   - Can lead to regionalization of services, with higher patient volumes and better outcomes
   - Reduced costs of supplies, access to capital

2. **The bad**: decreased efficiency and higher prices?
   - Large firms can become complex, slow-moving, resistant to change and innovation
   - Integrated firms can lose efficiency and then need to raise prices to compensate

3. **The backlash**: benefit re-design and reference pricing
   - Employers and insurers limit network choice to lower priced facilities (narrow network) or shift financial accountability to consumers (reference pricing)
Reference Pricing for Ambulatory Surgery and Diagnostic Procedures

- In 2011 PERS expanded reference pricing to ambulatory procedures, with intent of convincing beneficiaries to select lower-price ambulatory surgery centers (ASC) over hospital outpatient departments (HOPD).
- Reference price was set for HOPD at average price for ASC.
Impact of Hospital Expansion: Variation in Prices Charged
Colonoscopy: Variation in Prices in HOPD and ASC Prior to Reference Pricing

Cataract Surgery: Variation in Prices in HOPD and ASC Prior to Reference Pricing
Knee Arthroscopy: Variation in Prices in HOPD and ASC Prior to Reference Pricing
Impact of Reference Pricing: Consumer Choice of Facility
Colonoscopy: Percentage Selecting ASC over HOPD Before and After Reference Pricing

- CalPERS
- Anthem

Reference Price Implementation

2009 2010 2011 2012 2013
Cataract Surgery: Percentage Selecting ASC over HOPD Before And After Reference Pricing

Reference-based benefits implemented

Percent of patients

2009 2010 2011 2012 2013

CalPERS

Anthem
Knee Arthroscopy: Percentage Selecting ASC over HOPD Before and Reference Pricing

Reference Price Implementation

Anthem

CalPERS
Impact of Reference Pricing: Price (Allowed Charge) Paid
Colonoscopy: Average Price Paid Before and After Reference Pricing

Anthem

CalPERS

Reference Price Implementation

2009 2010 2011 2012 2013
Cataract Surgery: Average Price Paid, Before and After Reference Pricing

Reference-based benefits implemented

Payment per procedure ($)

2009 2010 2011 2012 2013

CalPERS

Anthem
Knee Arthroscopy: Average Price Paid Before and After Reference Pricing

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

Reference Price Implementation
Impact of Reference Pricing: 90 Day Procedural Complications
Colonoscopy: 90 Day Complication Rate Before and After Reference Pricing
Knee Arthroscopy: 90 Day Complication Rate Before and After Reference Pricing

Reference Price Implementation

- CalPERS
- Anthem
Expansion of Reference Pricing

- 12 more ambulatory procedures: 2017
- Infused chemotherapy and drugs: 2018
- Ambulatory (retail) drugs: 2019
<table>
<thead>
<tr>
<th>Procedure</th>
<th>Ambulatory Surgery Center Highest Cost</th>
<th>Ambulatory Surgery Center Lowest Cost</th>
<th>Outpatient Hospital Facility Highest Cost</th>
<th>Outpatient Hospital Facility Lowest Cost</th>
<th>Recommended Reference Price</th>
<th>CalPERS Annual Projected Savings Per Procedure</th>
<th>TOTAL ANNUAL PROJECTED SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper GI Endoscopy with Biopsy</td>
<td>$5,846</td>
<td>$721</td>
<td>$18,589</td>
<td>$78822</td>
<td>$2,000</td>
<td>$608,102</td>
<td>$2,039,242</td>
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<tr>
<td>Laparoscopic Gall Bladder Removal</td>
<td>$15,586</td>
<td>$2,661</td>
<td>$78,822</td>
<td>$3,082</td>
<td>$5,000</td>
<td>$560,857</td>
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<td>Upper GI Endoscopy</td>
<td>$4,131</td>
<td>$530</td>
<td>$9,652</td>
<td>$703</td>
<td>$1,500</td>
<td>$109,775</td>
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<td>Esophagoscopy</td>
<td>$4,247</td>
<td>$1,079</td>
<td>$9,030</td>
<td>$1,786</td>
<td>$2,000</td>
<td>$21,137</td>
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<td>Sigmoidoscopy</td>
<td>$3,766</td>
<td>$403</td>
<td>$9,907</td>
<td>$449</td>
<td>$1,000</td>
<td>$24,683</td>
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<td>Hysteroscopy</td>
<td>$7,277</td>
<td>$1,398</td>
<td>$60,818</td>
<td>$1,601</td>
<td>$3,500</td>
<td>$112,468</td>
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<td>Uterine Tissue Sample (with Biopsy with Biopsy)</td>
<td>$7,623</td>
<td>$1,564</td>
<td>$22,695</td>
<td>$4,591</td>
<td>$3,000</td>
<td>$108,900</td>
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<td>Nasal/Sinus - Submucous Resection Inferior Turbinate</td>
<td>$7,638</td>
<td>$1,550</td>
<td>$20,990</td>
<td>$1,934</td>
<td>$3,000</td>
<td>$94,505</td>
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<tr>
<td>Tonsillectomy and/or Adenoidectomy, Under Age 12</td>
<td>$12,069</td>
<td>$2,123</td>
<td>$22,014</td>
<td>$4,950</td>
<td>$7,000</td>
<td>$125,637</td>
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<tr>
<td>Nasal/Sinus - Corrective Surgery - Septoplasty</td>
<td>$14,267</td>
<td>$3,916</td>
<td>$25,759</td>
<td>$3,734</td>
<td>$4,000</td>
<td>$96,731</td>
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<td>Lithotripsy - Fragmenting of Kidney Stones</td>
<td>$10,491</td>
<td>$2,311</td>
<td>$20,129</td>
<td>$2,152</td>
<td>$5,500</td>
<td>$99,711</td>
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<tr>
<td>Hernia Inguinal Repair (Age 5+, Non-Laparoscopic)</td>
<td>$13,557</td>
<td>$1,942</td>
<td>$43,612</td>
<td>$3,924</td>
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<tr>
<td>Repair of Laparoscopic Inguinal Hernia</td>
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**Price Variation for Ambulatory Procedures, between Hospital-based and Freestanding Facilities**

Support for Reference Pricing
## Price and Quality Transparency

<table>
<thead>
<tr>
<th>Company and Product</th>
<th>Information Offered</th>
<th>Platform</th>
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</thead>
</table>
| **Castlight Health** | • Price transparency – flagship firm  
• Plan benefit information for consumers  
• Employer analytics | • Varied: web tools, delivered insights, mobile tools for employees |
| **Aetna iTriage** | • Price comparison information from Healthcare Bluebook  
• Healthcare services information  
• Adding new services in future | • Mobile integrated data platform, including an app |
| **UnitedHealthcare MyEasyBook** | • Online health care shopping tool for consumers with high-deductible plans | • Integrated in with members’ claims, transparency tools, and in-network providers |
| **Guroo** | • Cost information for over 70 common health conditions and services based on claims data from four major insurers | • Consumer-facing website  
• Has received Medicare data as a “qualified entity” |
| **Health in Reach** | • Comparison of licensed providers, including doctors and dentists  
• Discounts and deals  
• Online appointment system | • Consumer-facing website  
• Providers can sign up to create a profile |
## Information Coupled with Active Outreach

<table>
<thead>
<tr>
<th>Company and Product</th>
<th>AIM Specialty Health Specialty Care Shopper Program</th>
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</thead>
</table>
| **History**         | • Began as American Imaging Management, a radiology benefit management company  
                      • Acquired by WellPoint in 2007  
                      • Current services expand beyond radiology |
| **Approach**        | • Through the Specialty Care Shopper Program, an AIM specialist proactively contacts a health plan member once a service (e.g. an MRI or CT) has been approved if there is a high-quality, lower-cost site-of-care option available within their local community  
                      • If the member decides to accept the recommendation, AIM assists the member in scheduling the appointment |
| **Rationale**       | • The cost of a given procedure can vary widely across providers and care delivery settings within the same geographic area  
                      • Giving patients information may help them select lower-cost options |
| **Results**         | • Since its implementation in one market in 2011, AIM has redirected more than 4,900 cases, at an average cost savings of $950 per case  
                      • A study published in Health Affairs found that for patients needing MRIs, the AIM program resulted in a $220 cost reduction (18.7%) per test and a decrease in use of hospital-based facilities from 53 percent in 2010 to 45 percent in 2012 |

## Decision Support Tools

### Optum (UnitedHealth Group)

<table>
<thead>
<tr>
<th>Company</th>
<th>Optum (UnitedHealth Group)</th>
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</thead>
<tbody>
<tr>
<td>Product</td>
<td>Emergency Room Decision Support</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>• Engage health plan members after each emergency room visit to address factors that drive inappropriate ER use</td>
</tr>
</tbody>
</table>
| **Approach** | • Identifies and engages individuals after each emergency room visit – up to five times during the course of a year  
• Leverages both "live" nurses and automated voice call technology to engage consumers  
• Refers to case and disease management programs and behavioral health services  
• Connects individuals with primary care providers (including appointment scheduling) | • Connects members with specially trained nurse “coaches” who address a consumer’s immediate symptom in addition to issues that impact their quality of life and care  
• Right treatment — guidance on when and where to seek care  
• Right provider — scheduling appointments with high-quality network providers  
• Right medication — coaching on lower cost options, drug interactions and appropriate use  
• Right lifestyle — referring to wellness and behavioral health services |
| **Results** | • Individuals who were engaged by ER Decision Support had a decrease in avoidable ER visits, while individuals who did not participate had an increase in avoidable visits (2007-2008) | • 2-to-1 average return on investment  
• 70 percent of callers with ER pre-intent avoid the visit after a Optum NurseLine call  
• 8.8 hours reduced absenteeism per employee/per event |

The Health Care System Requires More from Everyone

- Employers and insurers: benefit and network re-design, consumer support
- Freestanding surgical centers: quality measurement and improvement, process improvement, price competition
- Consumers: engagement, informed choice, financial accountability
Reference Pricing and Consumer Choices

How Does Reference Pricing Work?

Setting Payment Limits for Services

- Under reference pricing, the insurer or employer limits payment to the lowest or average price charged within the local market or therapeutic class
- Full coverage is offered when the patient selects an option charging less than or equal to the defined payment limit
- Patients who select more expensive providers or products are required to pay the balance themselves
- Patients needing to use a more expensive facility or product for a medical reason are exempted from reference pricing if their physicians provide a valid clinical justification