



BERKELEY CENTER  
FOR HEALTH TECHNOLOGY

# **Employer Perspectives: Reference Pricing as Substitute and Complement to Episode Payment**

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# Overview



- The problem, as viewed by payers
- Episode of care payment and its limits
- Reference pricing as a partial solution
- Impact of reference pricing in orthopedics

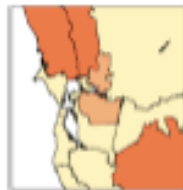
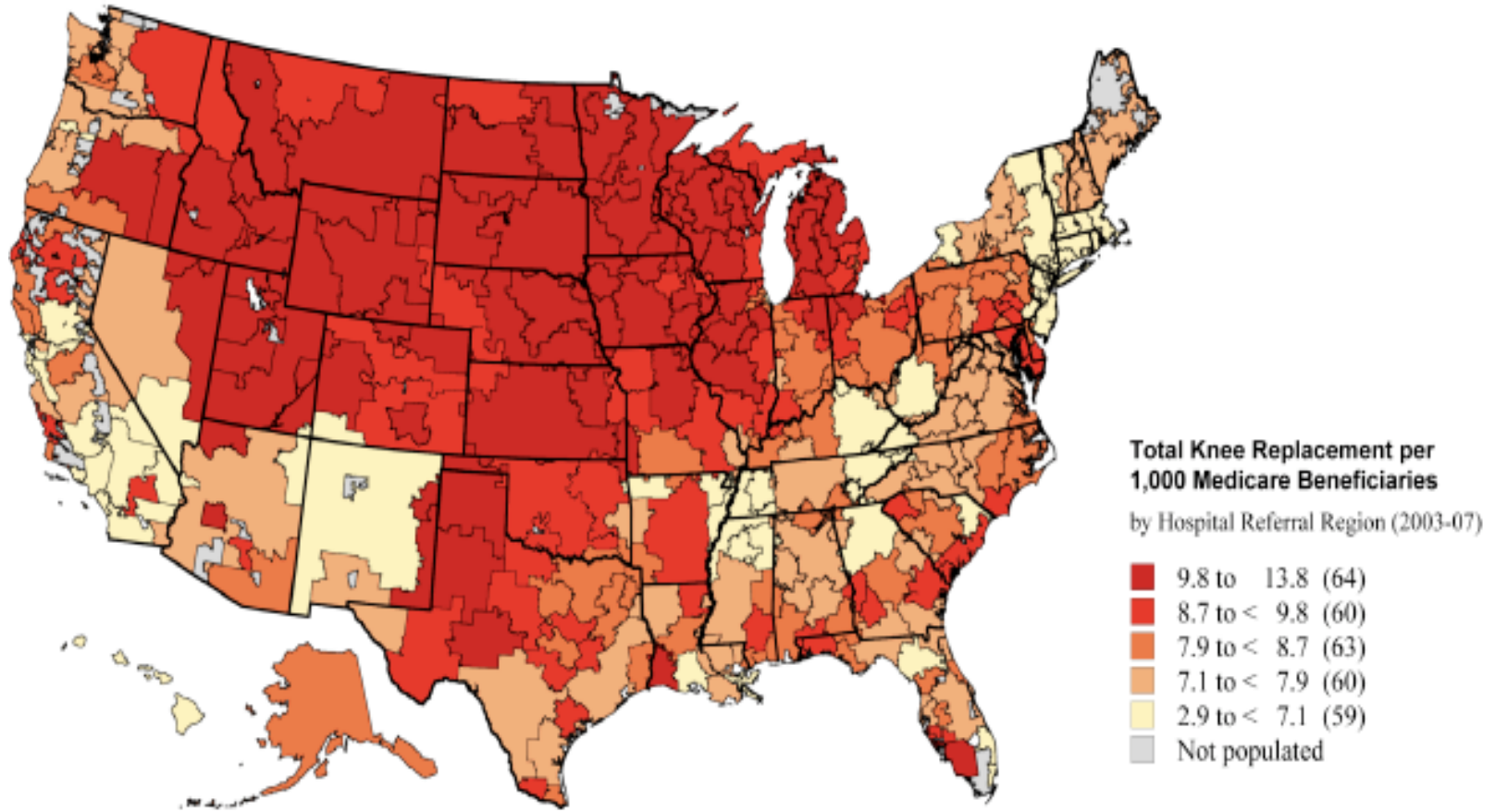


# The Problem, as Viewed by Employers

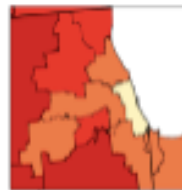
- Unjustified variation in rates of procedures
- Unjustified variation in procedure prices
- Unjustified variation in device prices
- Unjustified variation in patient outcomes



# Inadequate Attention to Appropriateness: Rate of Total Knee Replacement in Medicare Beneficiaries



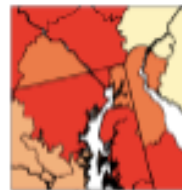
San Francisco



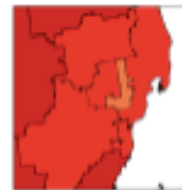
Chicago



New York



Washington, Baltimore



Detroit



# Inadequate Attention to Costs: Knee Replacement Surgery in California Hospitals

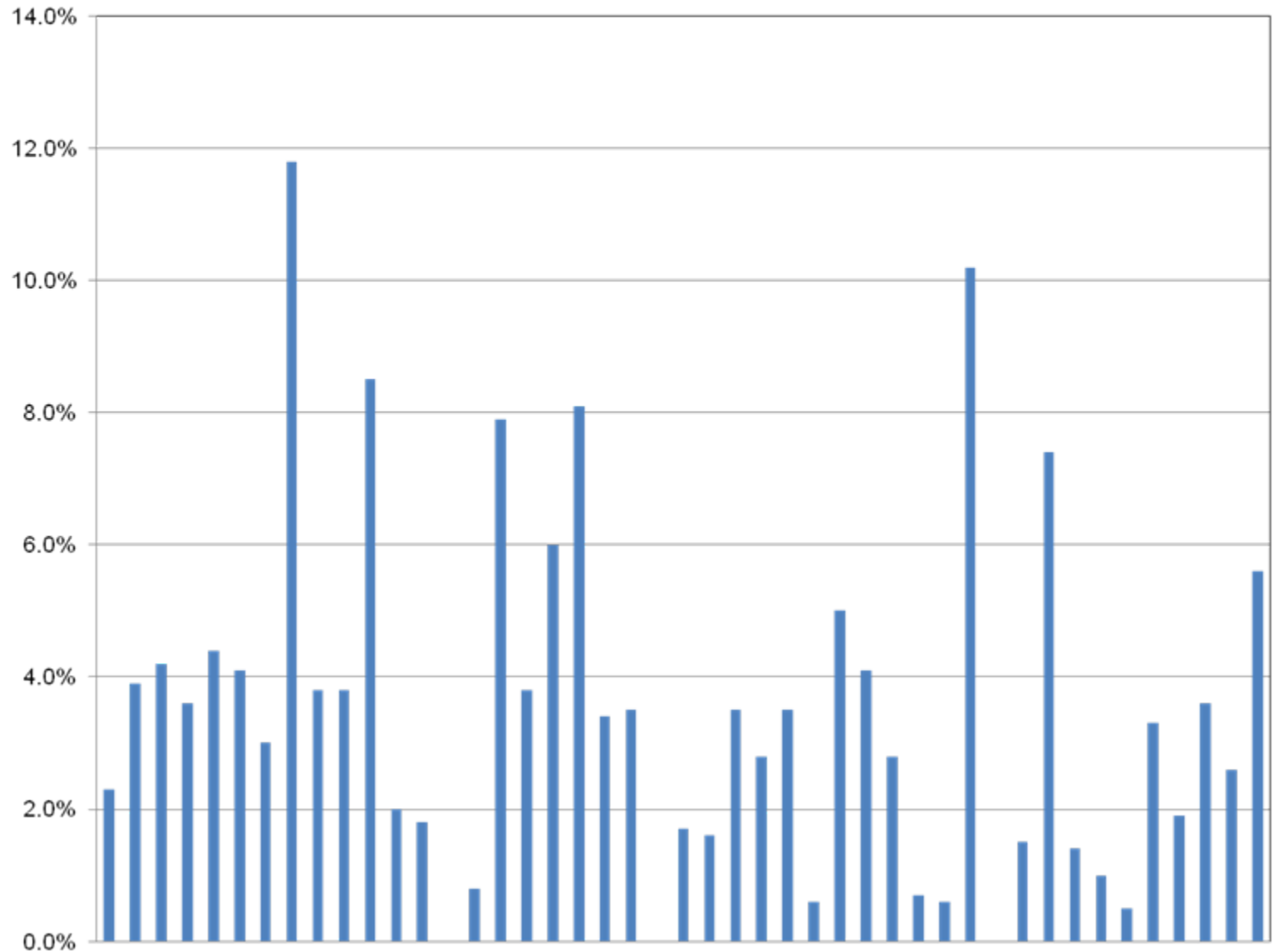
	Device Cost	Total Surgical Cost	Device Cost as % of Medicare FFS Reimbursement	Device Cost as % of Commercial HMO/PPO Reimbursement
1st percentile	\$1,797	\$7,668	13%	4%
25th percentile	\$4,166	\$10,590	29%	18%
median	\$5,071	\$12,619	36%	29%
75th percentile	\$6,977	\$14,969	51%	40%
99th percentile	\$12,093	\$24,476	126%	119%

**Number of Hospitals**            45

**Number of Patients**            6,848



# Inadequate Attention to Quality: In-Hospital Complication Rate for Knee Replacement Surgery, California



# Episode Payment: Goals of Payers

1. **Appropriateness:** EOC should be combined with MD and hospital commitment to appropriate choice of therapy: Center of Excellence
2. **Choice of hospital:** Hospital EOC payment should not only be bundled, it should be affordable relative to competing facilities
3. **Choice of implant:** EOC payment gives physician incentives for gain-sharing,
4. **Service line efficiency:** EOC gives incentive for physicians and hospital to cooperate on OR turnaround, post-op care, discharge planning



# Limits to Episode Payment, as Viewed by Payers

- Why should providers charge a low, rather than a high, EOC price?
- Won't EOC payment encourage consolidation and price increases?
  - There needs to be price transparency so that consumers understand prices
  - There needs to be cost sharing so that consumer pays the difference between the high and low-priced provider
  - This will motivate providers to reduce cost & raise quality





# Reference Pricing as Support for Episode Payment

- Employer/insurer sets a maximum payment limit (reference price) for procedures
  - Limit is set high enough to ensure that there are sufficient providers that charge a price below the limit
- Extensive communication to employees/enrollees on which providers charge above/below the limit
- If enrollee chooses provider above limit, he/she pays 100% of difference (no OOP maximum)



# Case Study of Reference Pricing

- **CalPERS PPO enrollees undergoing knee/hip replacement, 2008-12**
  - Reference price implemented January 2011
  - **Control group: non-PERS Anthem enrollees**
- **Outcome measures:**
  - Change in consumer choice of hospital
  - Change in hospital pricing
  - Change in consumer cost sharing
  - Change in expenditures for PERS



## Volume of Knee and Hip Replacement Surgery in High-Priced and Low-Priced Hospitals: 2008-2012

	2008	2009	2010	2011	2012*
<b>PERS Members</b>					
Total number of patients	402	428	485	447	278
Patients in VBPD facilities	214	214	231	280	178
Patients in non-VBPD facilities	188	214	254	167	100
<b>Anthem PPO Members (non-PERS)</b>					
Total number of patients	1824	1685	1786	1801	1108
Patients in VBPD facilities	1009	934	984	919	596
Patients in non-VBPD facilities	815	751	802	882	512

\*Through September 2012 only.

VBPD: Value Based Purchasing Design facility



## Prices Charged for Knee and Hip Replacement Surgery in Hospitals According to Designation by PERS as High-Value or Low-Value: 2008-2012

	2008	2009	2010	2011	2012*
<b>PERS Members</b>					
All facilities	28,636	34,260	34,742	25,611	25,471
VBPD facilities	22,640	26,449	25,324	23,910	24,528
Non-VBPD facilities	35,461	42,072	43,308	28,465	27,149
<b>Anthem PPO (non-PERS)</b>					
All facilities	25,295	29,280	31,072	30,739	30,783
VBPD facilities	20,102	21,984	23,858	24,897	26,192
Non-VBPD facilities	31,724	38,354	39,923	36,826	36,127

\*Through September 2012 only. VBPD: Value Based Purchasing Design facility



## **PERS savings, compared to what would have been paid without Reference Pricing**

- **2011 : -19,6% (\$2.8 million)**
- **2012 : -18.6% (\$2.7 million)**
- **Cumulative savings: \$5.5 million**



# Decomposition of Savings

- **2011 : \$2.8 million**

- 15.4% due to market share growth at VBPD hospitals
- 84.6% due to reduction in prices (both VBPD and non-VBPD hospitals)

- **2012 : \$2.7 million**

- 12.9% due to market share growth at VBPD hospitals
- 87.1% due to reduction in prices (both VBPD and non-VBPD hospitals)



# Conclusion

- Payers see unjustified variation in use, prices, and outcomes for orthopedic surgery
- Bundled payment: incentives for providers
- Reference pricing: incentives for patients
- Provider and consumer incentives need to be designed together to drive efficiency

