



# Bundled Payment and Reference Pricing in California

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# IHA Organization



IHA is a *trusted, neutral convener* and place where leaders of all sectors of California healthcare come together to find and pursue common efforts for healthcare improvement.

# IHA's Bundled Payment Demonstration

## Objectives:

- Test feasibility/scalability of bundled payment episodes in multi-payer environment
- Develop 10 bundled episode definitions
- Recruit 20 physician/facilities teams for health plan contracting in multiple payer settings
- Research evaluation – study of the implementation of hip and knee episodes (RAND)
- Disseminate key lessons and best practices

# IHA's Bundled Payment Demonstration: Results

## Contracts and Cases:

### 10 Episodes Defined

- Orthopedics, cardiac, women's health

### **“Building blocks” completed for contract execution**

- Development of contract templates
- Data analysis to inform pricing of bundles
- Legal and regulatory analysis and guidance

### **Contracting partners for bundled payment initiative**

- Recruited 6 health plans and 8 hospitals/hospital systems
- Contracts completed for 3 health plans and 2 hospitals; (and 1 ambulatory surgery center) for knee and/or hip replacement episodes
- 30 cases completed at hospitals; 1 case at surgery center
- Partners continuing to conduct cases under contracts

# CalPERS Organization



CalPERS is the second largest purchaser of health care in the nation after the federal government, providing benefits to more than 1.3 million beneficiaries.

CalPERS works to engage their members to make better, more informed health decisions and is a leader for health care reform both in California and nationally.

# CalPERS Reference Pricing Initiative

- Cost for hip and knee replacement ranged from \$15,000 - \$115,000 in California hospitals
  - PERS worked with Anthem Blue Cross to develop benefit limit in PPO product, implemented in 2011
- To address this price variation:
  - Identified 63 hospitals in California that performed more than 10 hip or knee replacements for PERS members in the last year
  - 47 had total hospital charges of \$30,00 or less, set as **reference price**
  - 16 hospitals had medical costs above the reference price—patients exposed to the cost difference if they choose those hospitals

Source: Jeff Kamil, presentation at Aligning Forces For Quality National Meeting, November 9–11, 2011

# CalPERS Reference Pricing: Results

## ■ Evaluation conducted by UC Berkeley

- Number choosing low-price hospitals increased by 21% in the year after implementation
- Number choosing high-price hospitals declined by 34.3%
- Reference pricing caused a 28.5% increase in volume for low-price hospitals
- After implementation, average price charged by high-price hospitals fell 34% (\$43,308 to \$28,465 per case)
- Reference pricing resulted in 20% decrease (\$7,028 per case) in hospital prices in 2011
  - Estimated savings of \$3.1 million (447 patients) in the first year

Source: J.C. Robinson and T.T. Brown, "Increases in Consumer Cost Sharing Redirect Patient Volumes and Reduce Hospital Prices for Orthopedic Surgery," Health Affairs, August 2013

# Takeaways

- **Bundled payment is feasible, but challenging**
  - Barriers include administrative complexity, claims processing, multi-state plans, resistance from providers, regulatory issues
  - Doesn't address appropriateness: incentive to manage unit cost but not the number of units
- **Reference pricing can work, but not magic bullet**
  - Concern about enrollee OOP cost – communication is key
  - Savings depend on shifting volume from high-cost to low-cost providers; not much savings if already using low-cost
- **Both BP and RP have a role to play**
  - High-cost/volume services with cost variation not tied to quality





Thank you!

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