Price Transparency Needs
Reference Pricing Needs
Bundled Pricing Needs
Price Transparency

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Overview

- Love for and limits of price transparency
- Reference pricing explained
- The PERS reference pricing initiative
- Lessons and limits of the PERS initiative
- Implications for bundled pricing and transparency
Motherhood and Apple Pie

- We all believe in price transparency
  - Supports informed consumer choice
  - Gives incentives to providers to compete on price
  - Price pressure creates pressure to reduce costs
  - Consumer and market pressures for efficiency reduce need for top-down governmental regulation of prices
  - Everything else is on Facebook: why not prices?
Transparency of Irrational Prices Does not Make Rational Choices

- 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.
- Flu shots, lasik, generic drugs.
- But most health care is consumed as a course or episode of care, and it’s the episode price that counts for the consumer.
- We want the price of the car, not of the sparkplugs, transmission, drive chain.
- Putting hospital chargemasters online?
Medicare, Integrated Healthcare Association, Prometheus, and other good people have pioneered bundled payment.

- It’s been a hard slog, with little to show.
- One major hurdle: Providers see no benefit to negotiating bundled payments, much less in making them transparent, since they would earn no new patients and the payers want to demand savings from bundling.
- Bundled payment without benefit re-design is a great idea no one adopts.
The Importance of Insurance Benefit Re-Design

- Insurance has numerous important benefits
  - Improve access: improve health
  - Promote innovation: most diseases are too rare to justify R&D if only patients pay for care
- But comprehensive coverage has many faults
  - Moral hazard: over-use of unnecessary services
  - Discourage price-shopping by consumers, encourages aggressive pricing by suppliers
  - Creates culture whereby medicine is a “free” entitlement rather than a valuable scarce good
    - Backlash against governmental cost controls
    - Backlash against private cost controls
Cost sharing can target inappropriate services (quantities) or over-priced services (prices).

Targeting inappropriate care is very volatile.

Patients trust physicians, not insurers/employers.

Backlash against capitation, prior authorization, cost effectiveness analysis, coverage policy, managed care, Obamacare.

Targeting high prices for health care is easier.

Most people are used to shopping for low prices.

There is a wide range of prices for similar medical services and products.

If consumers learn to shop for price, maybe they can learn to shop for appropriate care as well.
Limits of Current Designs

- Annual deductible
- Target low-cost primary/preventive services rather than high-cost specialty services
- Arbitrary link to calendar year
- Coinsurance (%)
  - Exposes patient to only a % of cost or price
  - Limited by annual out-of-pocket maximum
- Copayments ($)
  - Same price is charged to consumer regardless of price charged to insurer
  - Copayment is small relative to price of specialty services
Reference Pricing

- Sponsor (employer, insurer) establishes a maximum contribution (reference price) it will make towards paying for a particular service/product
  - This RP limit is set at minimum or median of the prices charged by comparable providers
- Patient must pay full difference between the RP limit and the actual price charged by the provider
  - Patient payment is not limited by OOP max
  - Patient has good coverage for low priced options but full responsibility for choice
- Note: Provider price is the negotiated “allowed charge” not the arbitrary list price
More on Reference Pricing

- Reference pricing is best applied to products/services where there is wide variation in price but only narrow variation in quality
  - Pharmaceuticals in Europe
  - Safeway: Lab tests, diagnostic imaging
  - PERS: high volume IP and OP surgeries
- It can be conceptualized as “reverse deductible”
- It can be conceptualized as a coverage exclusion rather than benefit limit or cost sharing
- Advocates seek to avoid confrontation with federal “essential benefits” requirement as well as state insurance regulation (bans on excessive cost sharing)
Reference Pricing for Orthopedic Surgery at PERS

- PERS covers 1.3M public employees, of which 450K are in self-insured PPO
- It was paying $20K to $120K for joint replacement
- In January 2011 established RP limit of $30K
- It identified 41 hospitals as “value-based purchasing design” facilities (charge less than $30K, geographic dispersion, score well on BCBSA quality metrics) and initiated employee communication strategy
- For HMO enrollees, it relied on narrow network rather than reference pricing
Variation in Hospital Prices

Range in Average Price per Procedure Across 178 California Hospitals for CalPERS Patients Undergoing Knee and Hip Replacement 2009
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.
PERS Savings: Payments 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
- Additional cumulative consumer (enrollee) savings: $0.5 million
Discussion of PERS Results

- Reference pricing for high-cost surgery induces enrollees to use lower-priced facilities
- But the bigger effect is on hospital prices
- This was probably an over-reaction by hospitals. In other applications, RP will have its greatest effect on consumer choices and market shares

- The PERS results were achieved with only elementary ‘transparency’ (list of 41 hospitals). Real reference pricing would have required hospitals to negotiated bundled rates that were transparent to the patient.
- PERS is not seeking to expand reference pricing to full set of hospital services, but merely to ambulatory procedures it wishes to move from hospital-based to freestanding surgicenters
Limits of 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 can stimulate price competition among providers
  - It is consistent with our larger culture of sunshine, truth, honesty, and Facebook
- But to transform health care it requires reference pricing and bundled payment
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
  - It may help change culture of medicine: from a free entitlement to be used without thought to a valuable social resource to be cherished and used with care

- But to transform health care it requires price transparency and bundled pricing
Limits of Bundled Payment

- Bundled pricing is not a panacea but:
  - It gives incentives to doctors and hospitals to work together for efficiency and cost reduction
  - It relieves insurers of burden of managing care
  - It allows payers to compare price with performance in establishing networks

- But to transform health care, it requires price transparency and reference pricing
## Conclusion

- Price transparency will only support consumer choice if (1) consumers care about prices and (2) consumers can understand prices.
- Reference pricing will only motivate consumer choice if (1) prices are transparent and (2) consumers can understand prices.
- Bundled payment will only make prices understandable if it is adopted, and it will only be adopted if (1) consumers care about prices and (2) prices are transparent.
- Ideally we enact all three simultaneously, but, realistically, we need to decide:
  - Where to break into the circle?