Value Based Purchasing
Design and Value Based Site of Care Programs

Richard KP Sun, MD, MPH
Medical Consultant
Health Plan Administration Division
Benefit Programs Policy and Planning
California Public Employees’ Retirement System

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About CalPERS Health Program

- Covers more than 1.3 million active and retired state, local government, and school employees and their family members
- Purchases health benefits for State of California and more than 1,100 local and government agency and school employers
- Second largest employer purchaser in the nation after the federal government, spending more than $7 billion in 2012
About CalPERS Health Program

• Three Health Maintenance Organizations (HMOs):
  – Blue Shield of California NetValue
  – Blue Shield of California Access+
  – Kaiser Permanente

• Three self-funded Preferred Provider Organization (PPO) plans:
  – PERS Select
  – PERS Choice
  – PERSCare

• Three plans for Association members

• Medicare and Basic for each of the above
Background

• Health vision statement (excerpt): “CalPERS will lead in the promotion of health and wellness of our members through best-in-class, data-driven, cost-effective, quality, and sustainable health options for our members and employers”

• CalPERS tests innovative models of health care delivery to maintain affordable benefits
  – Priority Care pilot, Humboldt County
  – Integrated Health Care pilot, Sacramento area
  – Value Based Purchasing Design (VBPD) and Value Based Site of Care
Value Based Purchasing Design (VBPD) and Value Based Site of Care
What is Value Based Purchasing?

• Varies cost-sharing to provide incentives for:
  – Providers to deliver efficient, high quality services at lower, more uniform costs
  – Health plans to create access to value-based purchasing
  – Members to make wise purchasing decisions

• Example: Total costs for musculoskeletal disorders in commercial plans >$540 million in 2008
  – Elective hip and knee replacements cost $55 million
  – Costs vary from $15,000 to $110,000 per admission – no measurable quality or outcome difference
  – Mean hip replacement cost $33,400; knee replacement $31,200 per episode
  – Costs validated by two CalPERS population health studies
Why hip and knee replacement surgeries?

• Procedures almost always elective
• Pre-planned service: patient can decide where, when, and how they want the procedures to occur
• Sufficient number of high-volume, high-quality hospitals perform the procedure
• Dramatic cost variations among hospitals
Knee and hip replacement for PPOs

• For CalPERS self-funded PPO plans, Anthem established payment threshold of $30,000 for routine single knee and hip joint replacement hospital stays

• If member does not elect a designated facility and provider charges in excess of the threshold, member pays difference between threshold and hospital charges

• If member elects procedure at a designated California facility, data demonstrate that the allowable amount will be under the threshold and the member will have no additional cost sharing
Anthem: 46 designated California facilities as of 2011

- Scheduled amount for these surgeries has historically been sufficient
- Performed at least 10 of the surgeries on CalPERS members and complied with payment threshold
- High-quality institutions, e.g., U.C. San Francisco, Cedars Sinai, and Loma Linda University
PPO VBPD Preliminary Results

• Baseline: 533 knee & hip claims 1/1/2010 – 12/31/2010 (incurred and paid)
  • Below Threshold - 67% (Avg. Paid Amt: $19,653)
  • Above Threshold - 33% (Avg. Paid Amt: $60,096)
  • Total Avg. Paid Amt: $32,932

• Pilot: 592 knee & hip claims 1/1/2011 – 12/31/2011 (incurred and paid)
  • Below Threshold - 72% (Avg. Paid Amt: $19,246)
  • Above Threshold - 28% (Avg. Paid Amt: $33,203)
  • Total Avg. Paid Amt: $23,112
PPO VBPD Pre and Post Implementation: Average Paid Amounts

Claims – Pre Implementation

Claims – Post Implementation

Reference Pricing of $30,000
Projected vs. Actual Trends in Payments for Major Diagnosis of Muscle/Tissue Disorders, 2007-2011

- Actual Paid
- Paid 2010/11 Projected based on Trend
Blue Shield of California (2012)
Knee and hip replacement for HMOs

• Based on Blue Distinction Centers (BDCs)
  – In Blue Shield’s network
  – Nationally recognized for clinical care and processes

• Include high quality hospital providers that are most cost-effective in each region
  – Twenty-four hospitals met specific quality and cost criteria as of 2012
  – Members directed to obtain surgeries from BDCs

• Include travel benefit for >50 miles to a BDC (goal is for >80% of members to travel <50 miles)
Value Based Site of Care (2012)

- **Anthem PPO Plans:** Encourage use of ambulatory surgery centers (ASC) over outpatient hospital settings for by applying thresholds to PPO outpatient hospital utilization. Members pay amount above the following thresholds when using outpatient hospital instead of ASC:
  - Colonoscopy - $1,500
  - Cataract surgery - $2,000
  - Arthroscopy - $6,000

- **Blue Shield HMO:** Add $250 co-pay for use of hospital outpatient setting instead of ASC for colonoscopy, cataract surgery, and pain management.
What CalPERS Has Learned

Integrated health care delivery approach needed to manage the health of a population by

- Creating incentives for adoption of best practices, coordination of care, improved clinical outcomes
- Testing PPO attribution models, high intensity case management and shared savings models between CalPERS and providers (Priority Care)
- Improving care management across the continuum of care, and test global budget models between CalPERS, Blue Shield and providers (Hill/Dignity)
- Developing benefit models that raise awareness of cost variations not linked to improved clinical outcomes (VBPD)
CalPERS Center for Innovation (CFI)

• CFI researches, develops, and tests high-potential health and retirement innovations

• Sample CFI project: evaluation of VBPD in collaboration with UC-Berkeley
Questions?