

# Anthem's use of Reference-Based Pricing to Manage CalPERS Costs and Quality

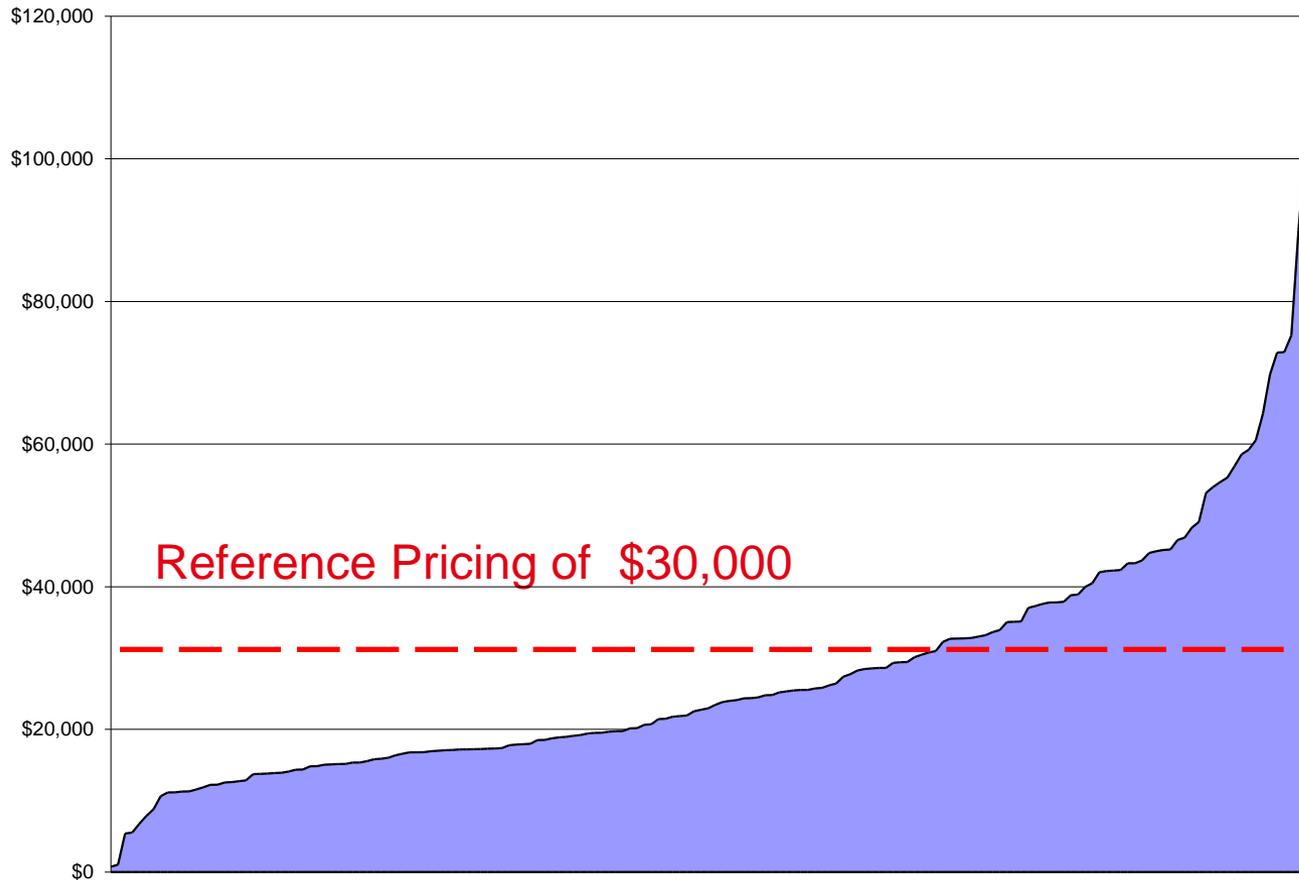


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# Average Cost for Total Knee by Facility in CA



# Knee and Hip Joint Replacement

**CalPERS partnered with and Anthem Blue Cross in California to introduce an innovative Reference-Based Pricing program on January 1, 2011.**

- The program targeted routine single hip and knee joint replacement procedures.
- A payment threshold of **\$30,000** was established to cover inpatient services for hospital stays for routine single hip joint replacement and for single knee joint replacement.
- **Over 50 hospital** in broad geographic regions were identified as being able to provide these services for a cost at or below the threshold. This information was made available to the group's members.

# Reference Based Benefits – example of Value Based Purchasing Design

- Establishes a payment threshold for elective procedure/services.
- This threshold limits the obligation of the payer and guarantees members the ability to choose a facility that will provide services within an appropriate cost range with no additional financial exposure to the member
- If member uses non threshold hospital liable for the difference between the hospital contracted charges and the \$30k threshold
- Acts as reverse deductible. Instead of the enrollee paying up to a defined limit and then the plan, the plan pays up to the limit and then the enrollee takes over
- Participating hospitals selected based on procedure volume, meet regulatory standards and participate in Anthem's Quality Program

# Reference Based Pricing

## Reference Pricing is a benefit design element

- Sets a payment threshold for the payment of inpatient services related to routine knee or hip replacements.
- Price transparency to enrollee

What makes a hip or knee procedure a good candidate for reference based pricing program?

- ✓ Variation in cost in same markets without a measureable difference in quality – few monopolies
- ✓ Procedures can be scheduled (elective, non-emergency)
  - Preference sensitive - patient can decide where, when, and how they want the procedures to occur
- ✓ Procedures are performed in sufficient volume at designated facilities

## Overall Impact of Reference Based Benefit

- COST: Shift of members to designated hospitals and Shift away from non-designated hospitals**
- Decrease in total costs for joint replacement and decrease also noted for non designated hospitals**
- CalPERS upward cost trend from 2008 -10 reversed in 2011 (\$28.6 to \$34.7 to \$25.6)**
- **QUALITY Reduced rate of general complications and general infections in designated hospitals**
- No difference in site specific infections and site specific complications**
- No difference in all cause and surgical related readmissions-180 days**
- CalPERS saved close to \$6 million for joint replacements because of market impact**

# Knee and Hip Joint Replacement

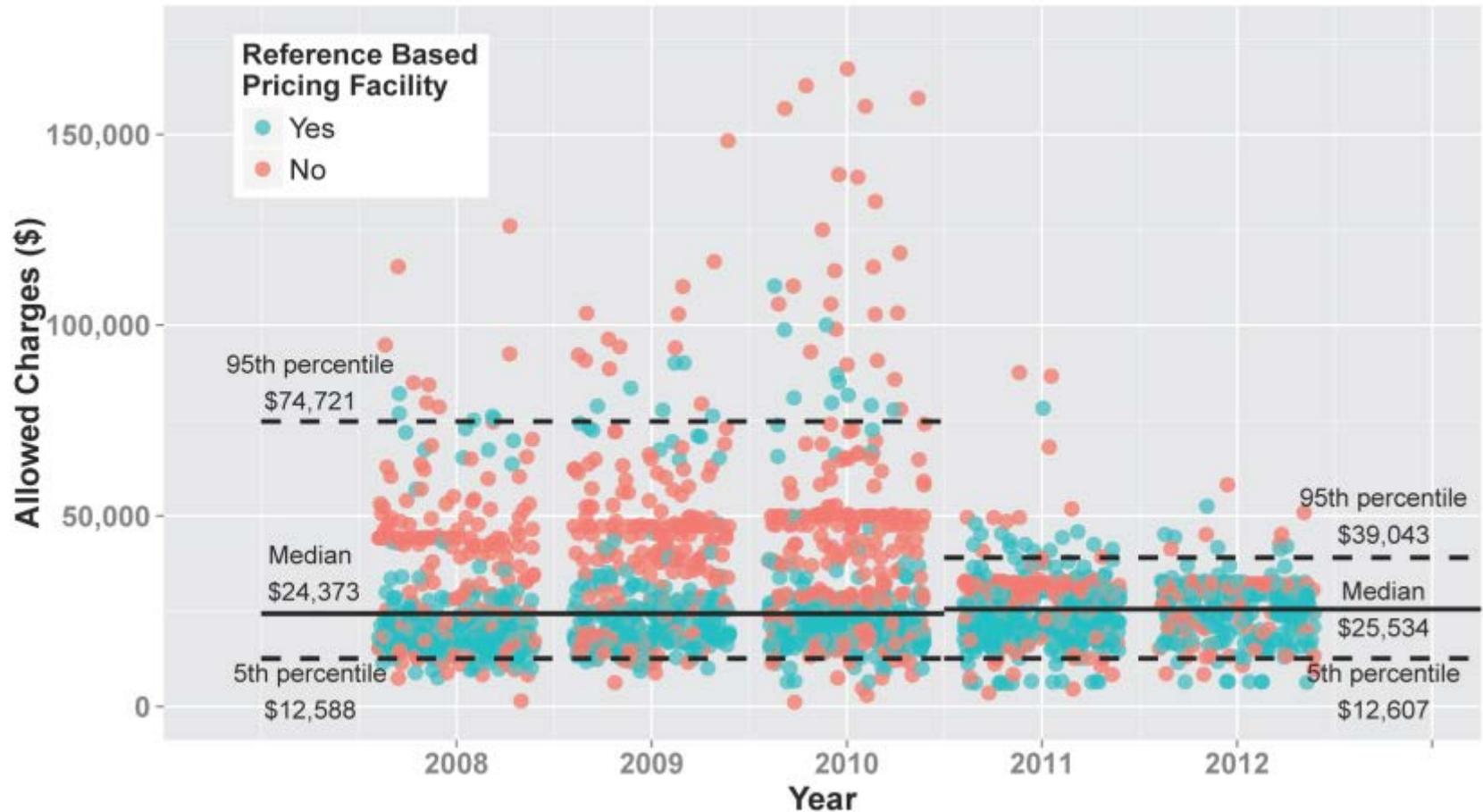
## **Anthem analysis revealed:**

- The number of surgeries performed at facilities that charge below the benefit threshold was **8%** higher once the program was in place.
- The average paid amount per surgery was **30%** lower than it was the prior year.

## **Anthem conducted additional research to confirm that reference based facilities delivered equivalent clinical results.**

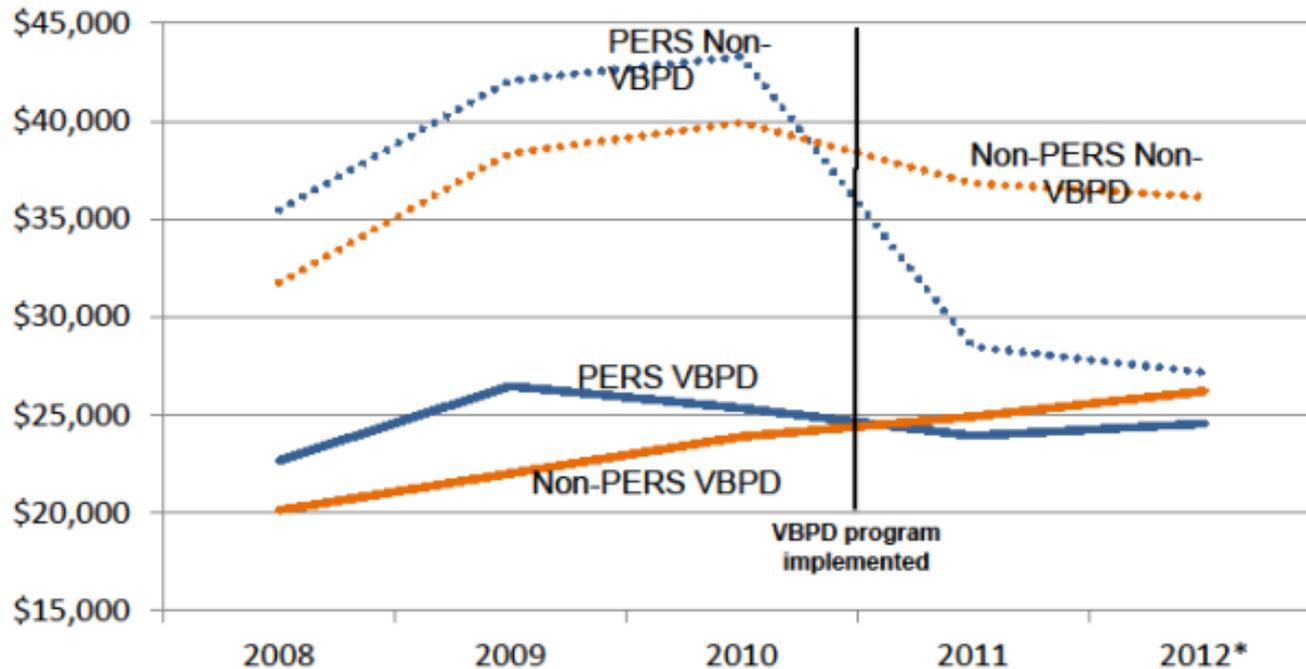
- Anthem looked at claims based quality metrics and noted that it was equal or better between members who used RBP facilities versus members who used non RBP facilities.

# Immediate Positive Results



# UC Berkeley Comparative Study

## Prices Charged for Knee and Hip Replacement Surgery : 2008-2012



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

# Site of Care

## Colonoscopy, Cataract, and Arthroscopy

**CalPERS implements Value Based Site of Care January 1, 2012, encouraging use of Ambulatory Surgical Centers when appropriate by limiting payment to Outpatient Hospital for:**

- **Colonoscopy**

- Colonoscopy services are limited to a maximum payment of one thousand five hundred dollars (\$1,500) per procedure.

- **Cataract surgery**

- Cataract surgery services are limited to a maximum payment of two thousand dollars (\$2,000) per procedure.

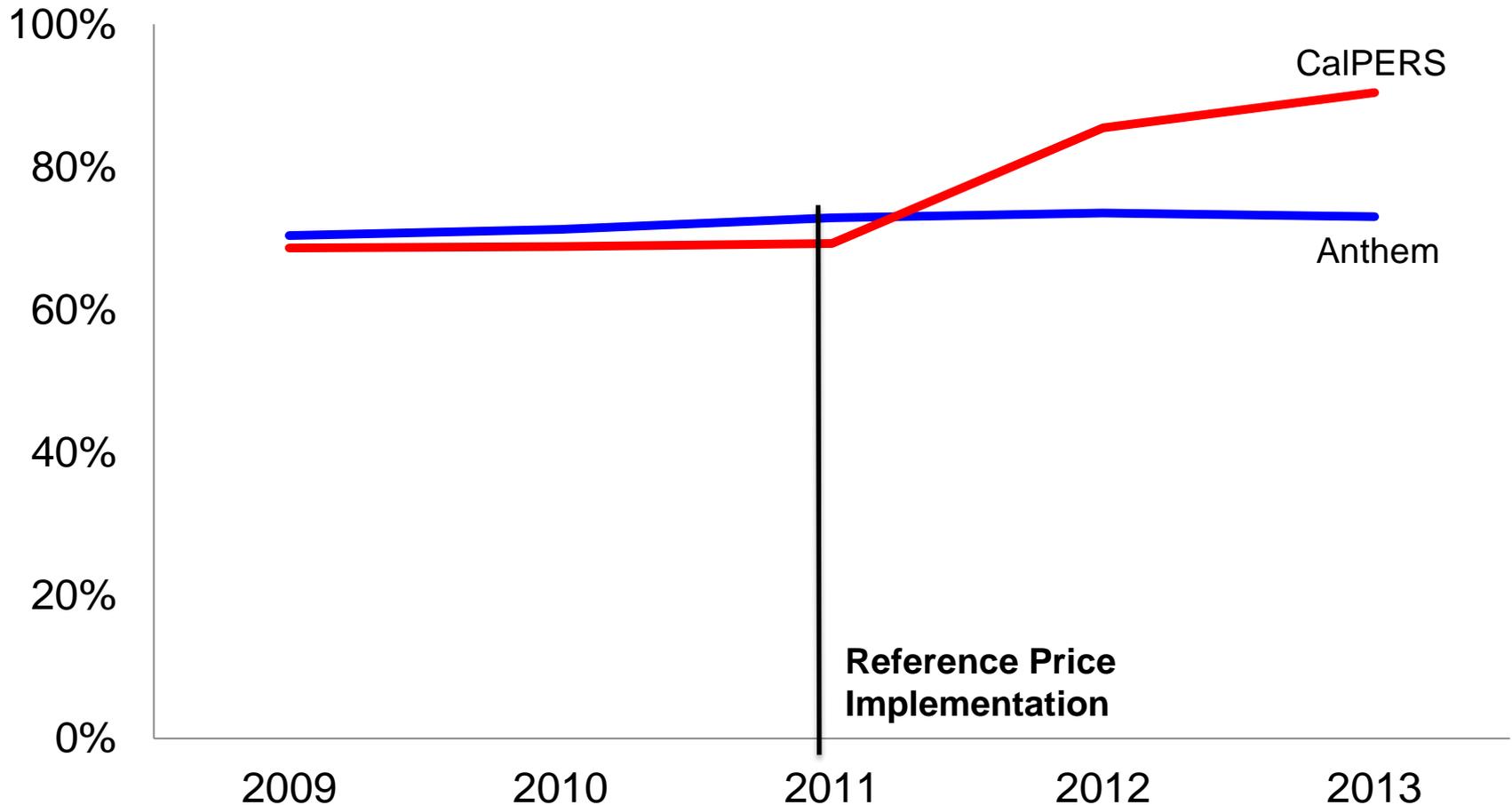
- **Arthroscopy**

- Arthroscopy services are limited to a maximum payment of six thousand dollars (\$6,000) per procedure.

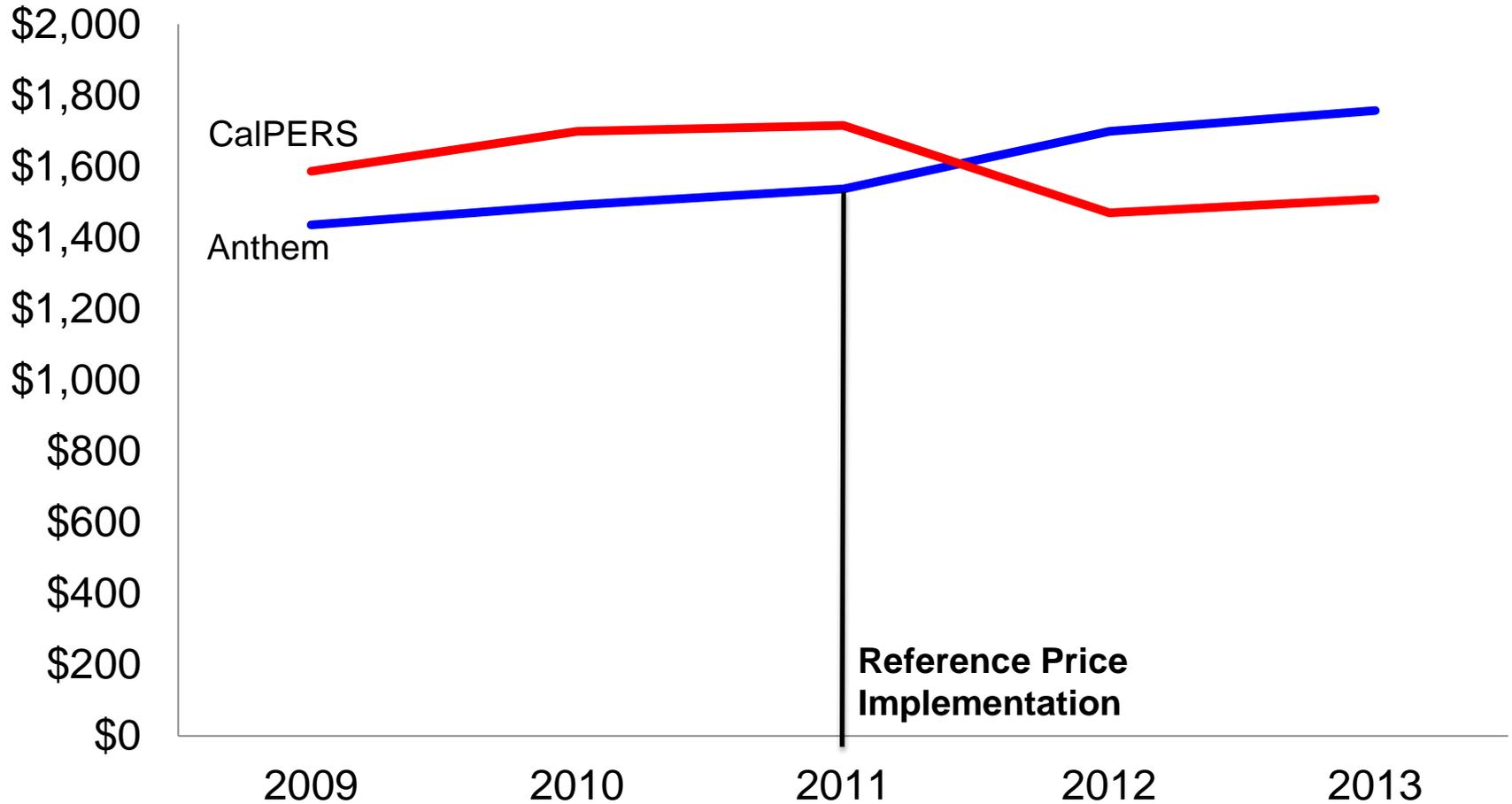
**To provide each PPO member with a choice of safe, quality services at a lower total cost for all PPO members.**

# Example for Colonoscopy

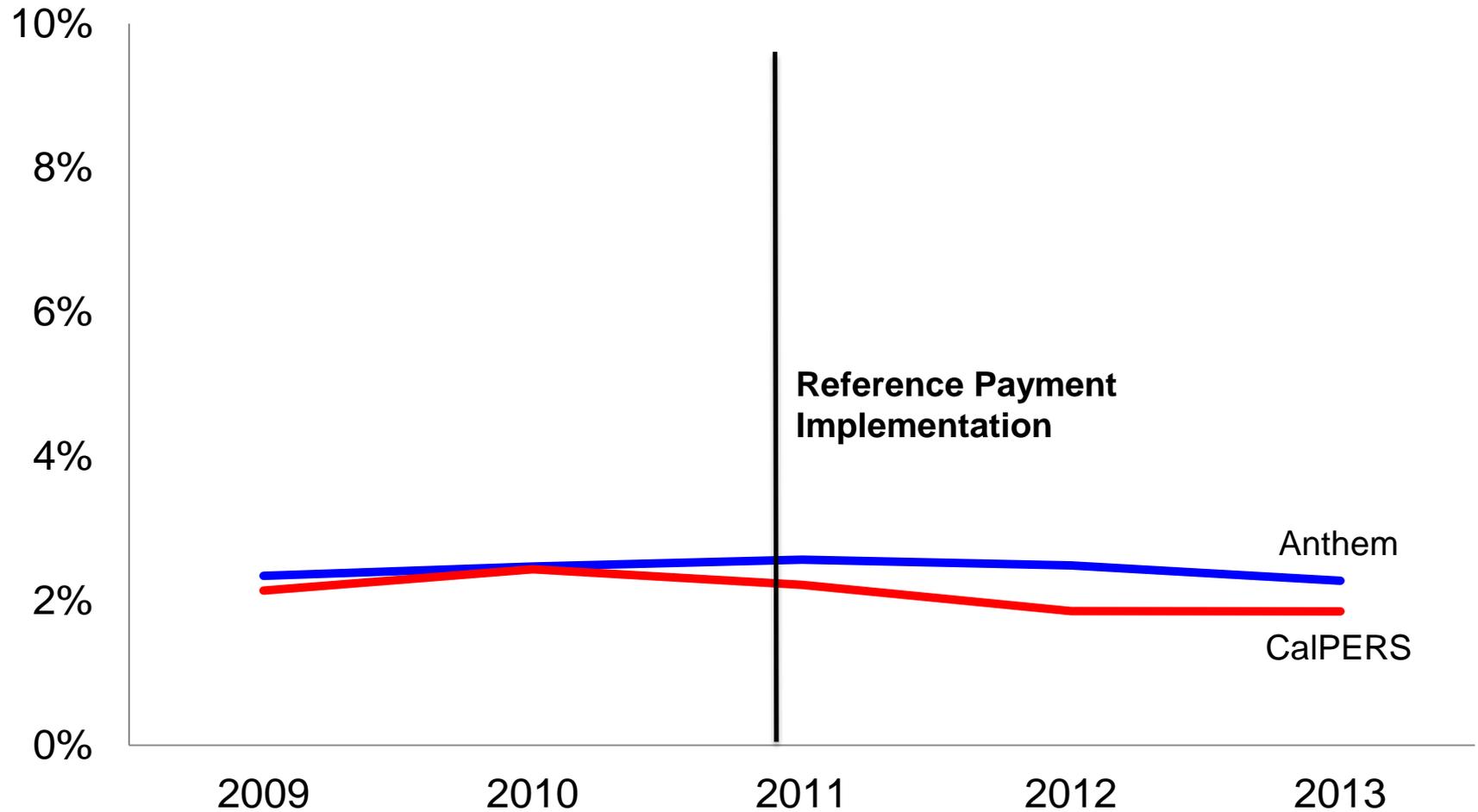
## Patients Choosing ASC over HOPD



# Payment per Procedure for Colonoscopy Before and After Implementation



# Procedural Complications within 90 days of Colonoscopy



# Positive Results

## Steerage is positive:

- Increase in ASC utilization in excess of industry increases.
- Reduction in Outpatient Hospital utilization in excess of industry reductions.
- For safety concerns, it was critical, to ensure appropriate setting. Signed physician request for outpatient hospital use remain acceptable and legitimate.

# Executive Summary

**Anthem developed two distinct programs, using reference pricing to encourage appropriate use of facility or place of service**

**Knee and Hip Joint Replacement used reference pricing to encourage members to select more cost effective hospitals**

- Identified cost effective hospitals and provide on-line shopping tools for members to select facilities that charged less than \$30000 for routine joint replacement
- Conducted extensive research to confirm access to quality was maintained

**Colonoscopy, Cataract and Arthroscopy used reference pricing to encourage members to select Ambulatory Surgical Centers instead of Outpatient Hospitals when appropriate**

- Applied reference price to Outpatient Hospitals and did NOT apply reference price to ASC. If there were no safety issues, ASC was more cost effective and maintained access to appropriate quality
- Delegated complete authority to surgeon to determine necessity of an Outpatient Hospital based on patient condition and assurance of complete safety

# Compelling Results

Based on a study by UC Berkeley: Reduction in CalPERS spending in first two years after implementation of reference pricing, compared to what spending would have been if choices and prices for CalPERS had followed the trends experienced by Anthem, whose members were not subject to reference pricing.

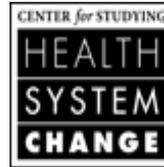
Procedure	CalPERS Savings
Knee/hip replacement	\$6 million
Cataract removal	\$1.3 million
Knee/shoulder arthroscopy	\$2.3 million
Colonoscopy	\$ 7 million

# Future

- Reference based pricing is getting attention as an effective tool to manage cost and quality
- Provider cost disparity with equivalent quality becoming greater focus
- Overall transparency initiatives to continue

**The New York Times**

Employers Test Plans That Cap Health Costs  
By [REED ABELSON](#)  
Published: June 23, 2013



The Potential of Reference Pricing to Generate Health Care Savings: Lessons from a California Pioneer  
**HSC Research Brief No. 30**  
December 2013

[Amanda E. Lechner](#), [Rebecca Gourevitch](#), [Paul B. Ginsburg](#)



**Increases In Consumer Cost Sharing Redirect Patient Volumes And Reduce Hospital Prices For Orthopedic Surgery**

By [James C. Robinson<sup>1,\\*</sup>](#) and [Timothy T. Brown<sup>2</sup>](#)



Does Knowing Medical Prices Save Money?  
CalPERS Experiment Says Yes  
By [Ankita Rao](#)  
DECEMBER 6TH, 2013, 3:24 PM

**Los Angeles Times**

Hospitals cut some surgery prices after CalPERS caps reimbursements  
[June 23, 2013](#) | By Chad Terhune