



BERKELEY CENTER
FOR HEALTH TECHNOLOGY

Value Purchasing in Orthopedics: Price Transparency, Bundled Pricing, and Reference Pricing

James C. Robinson

Leonard D. Schaeffer Professor of Health Economics

Director, Berkeley Center for Health Technology

University of California, Berkeley



Overview



- The importance of prices
- Price transparency
- Bundled pricing
- Reference pricing
- Implications for surgeons and hospitals

The Importance of Prices

- Reimbursement: Prices cover costs. Buyers pay what providers charge
- Purchasing: Prices determine costs. Providers develop services that buyers are willing to buy
- Health care payment is shifting from reimbursement to purchasing
- For this to be successful:
 - Prices need to be bundled and coherent
 - Prices need to be transparent
 - Consumers need to care about prices



Importance of Price Transparency

- We all believe in price transparency
 - Supports informed consumer choice
 - Gives incentives to providers to compete on price
 - Creates pressure to reduce prices and costs
 - Everything else is on Facebook: why not prices?
- Mobile technologies enable transparency
 - Consumers are interested (only) in the prices THEY must pay, not average or list prices
 - New technologies can show them what they will need to pay at each provider, given their plan, where they are on their deductible, etc.
 - Hand-held PDA make the data real-time



Price Transparency is Coming

- State mandates for hospital price transparency (chargemasters ☹)
- Medicare release of individual payments to physicians
- Private insurers are putting negotiated fees (“allowed charges”) on their websites
- Legislators are looking for new ways to mandate price disclosure





Challenges to Price Transparency

- 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
- But most health services are consumed as part of an 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
- Price transparency needs bundled pricing

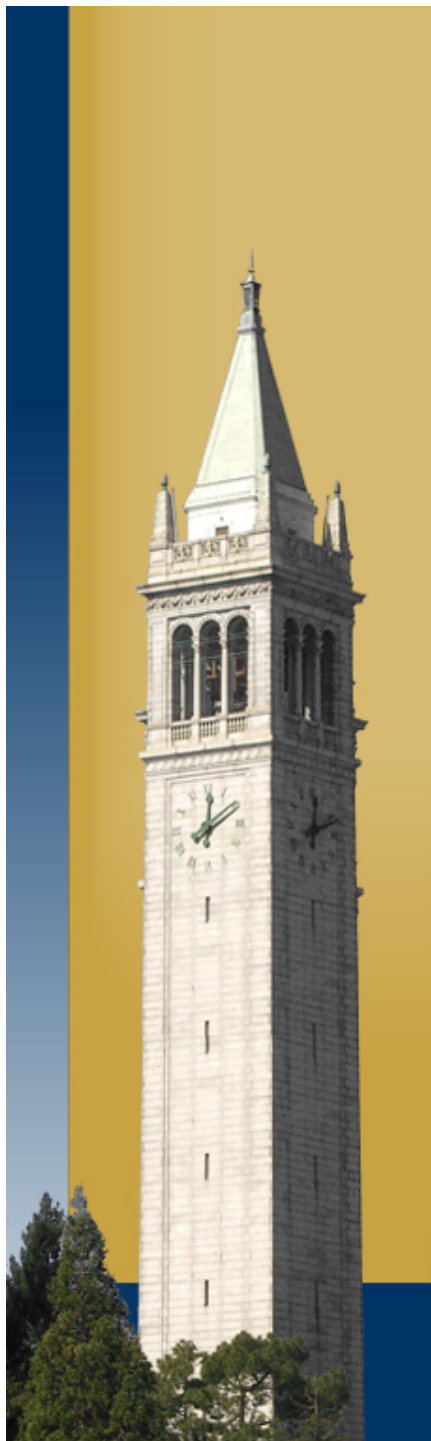
Importance of Bundled Payment

- Fragmented payment undermines incentives for physicians, hospitals, and post-acute providers to coordinate care, improve efficiency and quality
- Consumers cannot act on fragmented prices even if the prices were transparent
- Health plans cannot develop “Centers of Excellence” with hospitals that are unable to coordinate with surgeons
- Medicare, Integrated Healthcare Association, and Prometheus have pioneered bundled payment for orthopedic surgery



Challenges to Bundled Payment

- Payers want savings from bundling in the first year, but providers need to invest in infrastructure, IT, cultural alignment
- They will only embrace bundled payment if they will gain more patients or avoid losing the patients they have
- But bundled payment initiatives have not had a consumer cost sharing component
- Bundled payment without benefit re-design is an idea that no one adopts
- Bundled payment needs reference pricing



Consumer Cost Sharing

- Traditional instruments do not influence consumer choice for costly services
- Annual deductible targets low-cost preventive and primary care, not high-cost specialty and hospital care
- Coinsurance exposes patient to only 20% of the cost; is limited by annual maximum
- Copayments charge same price to consumer regardless of price charged by provider, and typically is small relative to price of specialty services
- 'Reference pricing' may be a major new design



Reference Pricing

- Sponsor (employer, insurer) establishes a maximum contribution (reference price) it will pay for a particular service/product
 - This limit is set at the minimum or median of the prices charged by comparable providers
- The patient must pay the full difference between the sponsor's contribution limit and the negotiated price
 - Patient payment is not limited by OOP max
 - Patient has good coverage for low priced options but full responsibility for choice



Challenges to Reference Pricing

- Placing financial responsibility for price-conscious choice on the consumer is inappropriate if prices are confidential, unavailable, or inscrutable
- Consumers also need data on clinical processes, outcomes, and patient experience in order to compare price with quality
- The US has made greater strides in collecting in disseminating quality and satisfaction data than price data
- Reference pricing needs price transparency



Let's Summarize the Presentation up to this Point

- Price transparency needs bundled pricing
- Bundled pricing needs reference pricing
- Reference pricing needs price transparency



More on Reference Pricing

- Reference pricing is best applied to products and services where there is wide price variation and patients can 'shop'
 - Pharmaceuticals in Europe
 - Lab tests, diagnostic imaging
 - Scheduled, non-emergency surgery
- Purchasers are increasingly concerned with hospital consolidation and indifference of consumers to prices
- They have lost the ability to obtain price discounts, due to inability to exclude hospitals from networks



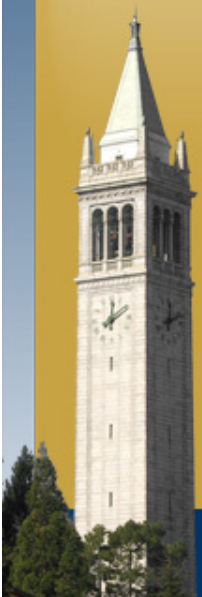
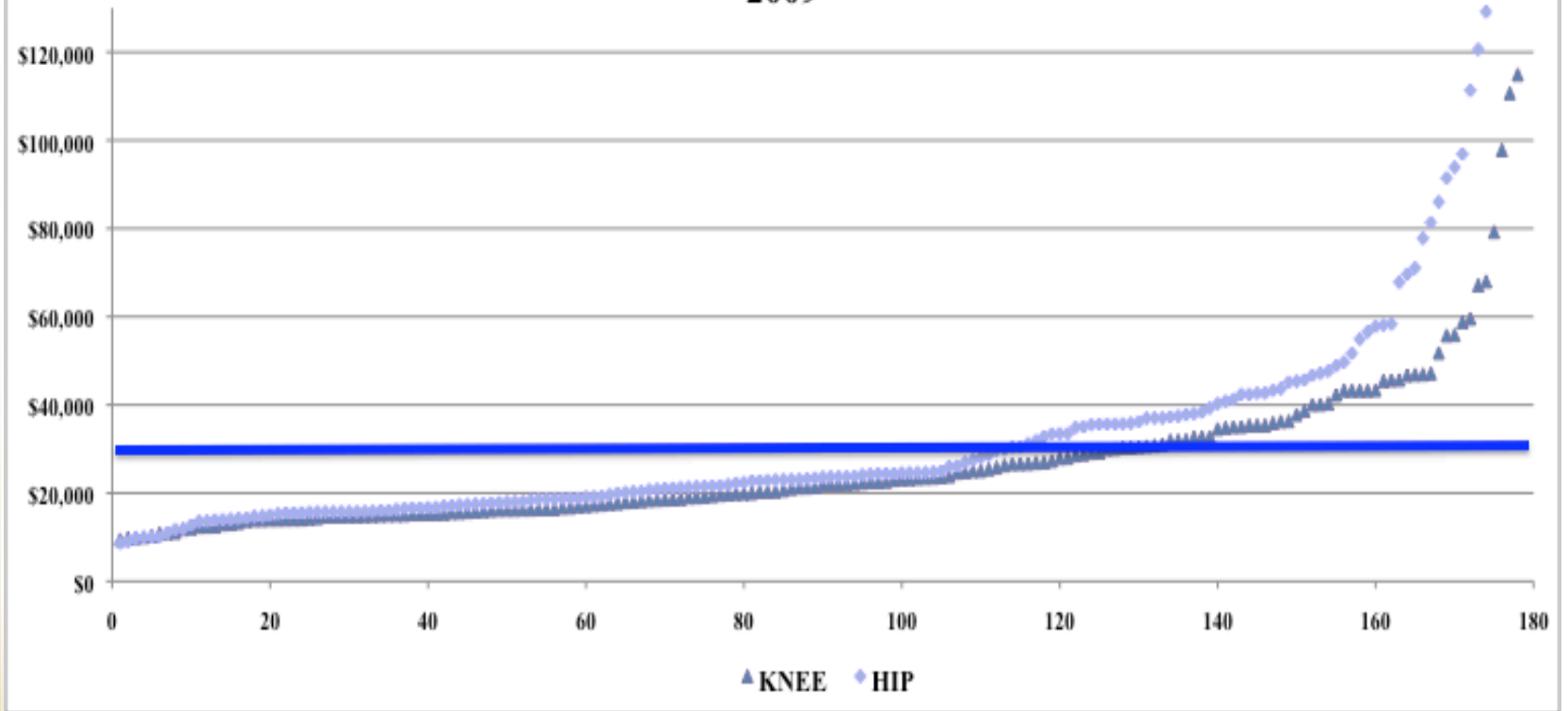
Reference Pricing for Orthopedic Surgery in California

- PERS covers 1.3M public employees, of which 450K are in self-insured PPO
- In 2009 it was paying \$20K to \$120K for joint replacement
- In January 2011 established RP of \$30K
- It identified 46 hospitals as “value-based purchasing design” facilities (charge less than \$30K, geographic dispersion, score well on BCBSA quality metrics)
- It initiated employee communication strategy to encourage use of these low-priced facilities

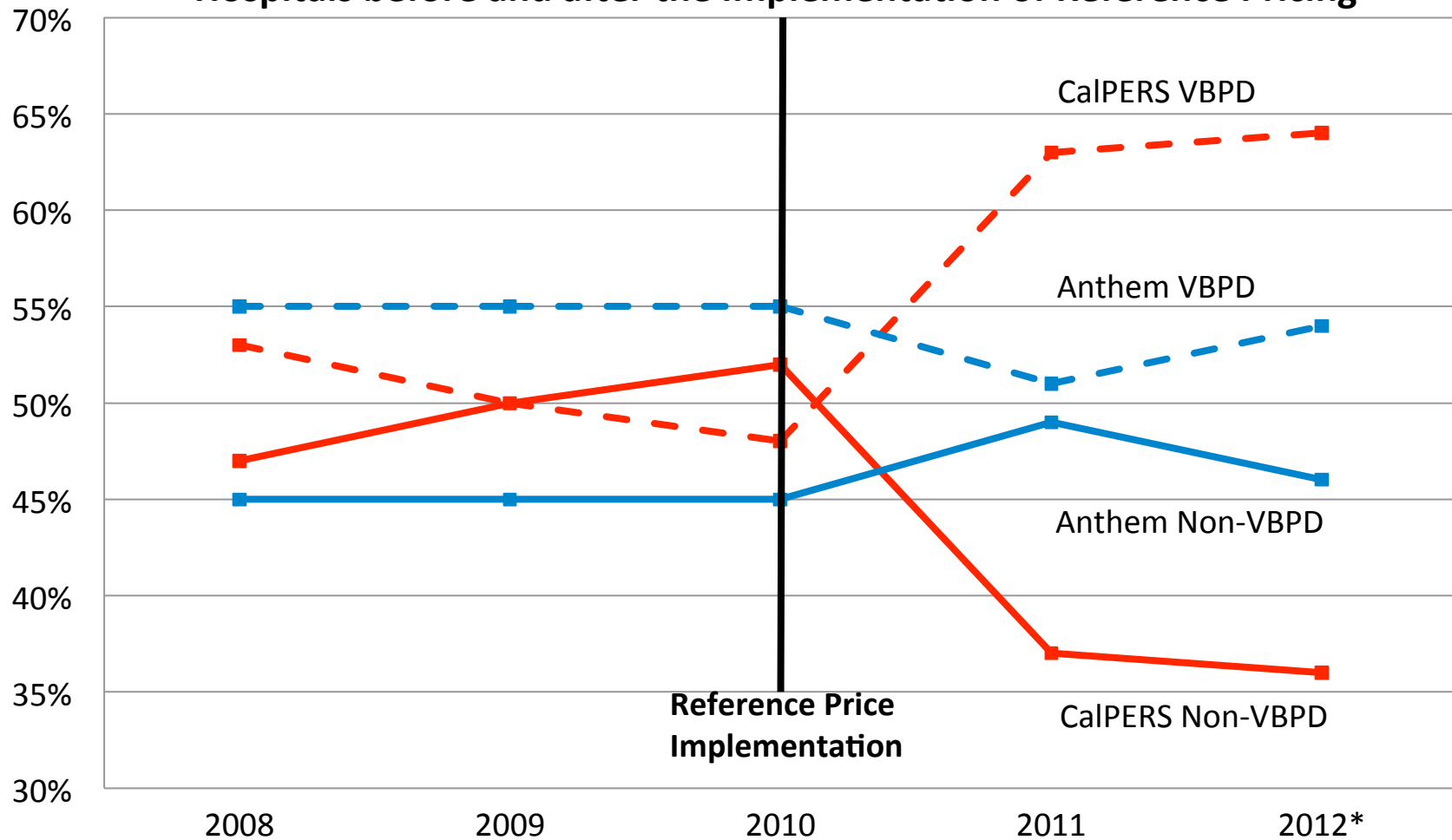


Variation in Hospital Prices for Joint Replacement in California

Range in Average Price per Procedure Across 178 California Hospitals for CalPERS Patients Undergoing Knee and Hip Replacement
2009



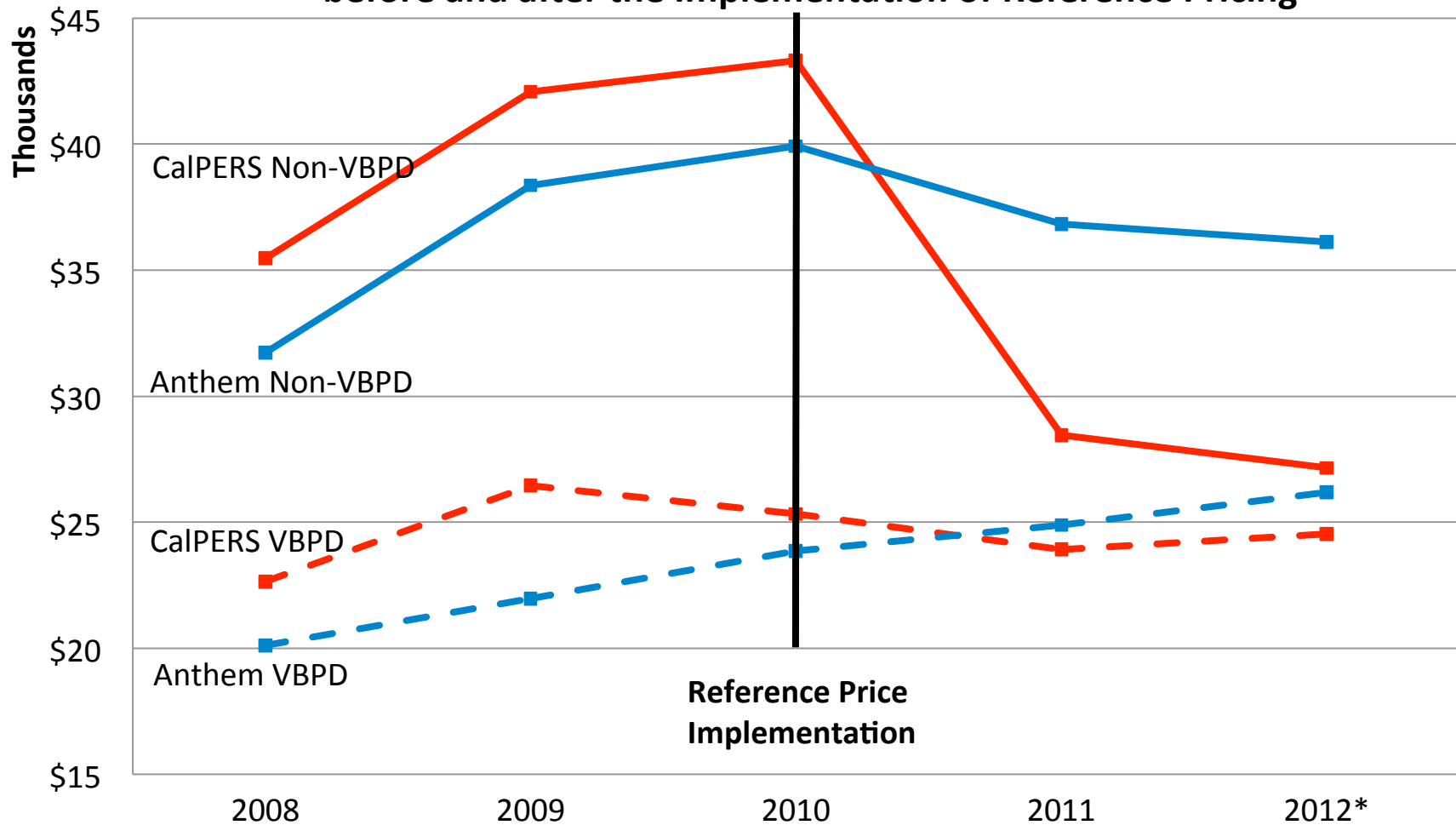
Percentage of Surgery Patients Choosing Low-Priced and High-Priced Hospitals before and after the Implementation of Reference Pricing



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.

Discussion of PERS Impact

- Reference pricing for high-cost surgery induces enrollees to use lower-priced facilities
 - But the bigger effect is on hospital prices
 - PERS saved \$6 million in two years
 - It now is extending RP to ambulatory surgery
 - For other services (e.g., lab, imaging) reference pricing affects consumer choice but not provider prices
- The PERS results were achieved with only elementary 'transparency'. Real reference pricing would have required bundled rates transparent to the patient.
- JC Robinson, TT Brown. Increases in Consumer Cost Sharing Re-Direct Consumer Choices and Reduce Provider Prices in Orthopedic Surgery. Health Affairs 2013; 32(8):1392-97.



Limits of Price 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 is consistent with our larger culture of sunshine, truth, honesty, and Facebook
- **But to transform health care it requires bundled payment and reference pricing**



Limits of Bundled Pricing

- **Bundled pricing is not a panacea but:**
 - It gives incentives to doctors and hospitals to work together for efficiency and cost reduction
 - It allows payers to compare price with performance
- **But to transform health care, it requires reference pricing and price transparency**



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
- **But to transform health care it requires price transparency and bundled pricing**





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Berkeley Center for Health Technology

300 Lakeside Drive, Suite 1980, Oakland, CA 94612

510.281.5617 • bcht.berkeley.edu • bcht@berkeley.edu

