

Medicare Price Benchmarks: Building Blocks for Value-Based Payment



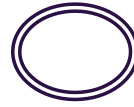
NAHDO 2019 HEALTH CARE DATA SUMMIT
NOVEMBER 6, 2019
LITTLE ROCK, AR

CHAPIN WHITE
SENIOR POLICY RESEARCHER, RAND

This briefing represents the views of the author, and not RAND or RAND's funders.



The Evolution of Provider Payments



Full billed
charges

Discounted
charges

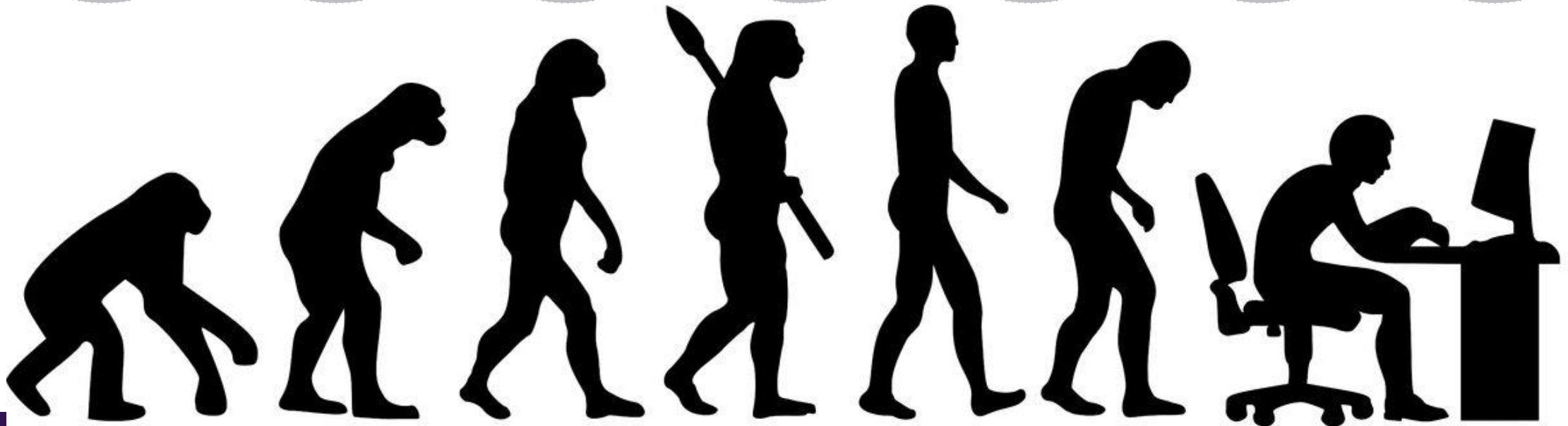
Cost reim-
bursement

Prospective
rates

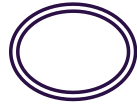
Prospective
rates for
episodes/
bundles

Prospective
rates with
P4P

Risk
sharing/
global
budgets

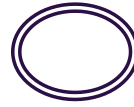


Prices Paid by Private Health Plans for Hospital Care



- What do we know already?
 - higher and growing faster than Medicare
 - price growth is driving increased spending, not utilization
 - vary widely from market to market, and within markets
 - tend to be higher at large hospitals offering specialized services
 - often based on discounted charges

What Do We Not Yet Know?



- How do prices paid by private health plans vary ...
 - hospital to hospital
 - hospital system to hospital system
 - state to state
 - service line to service line
- Are prices in line with the value hospitals are providing?

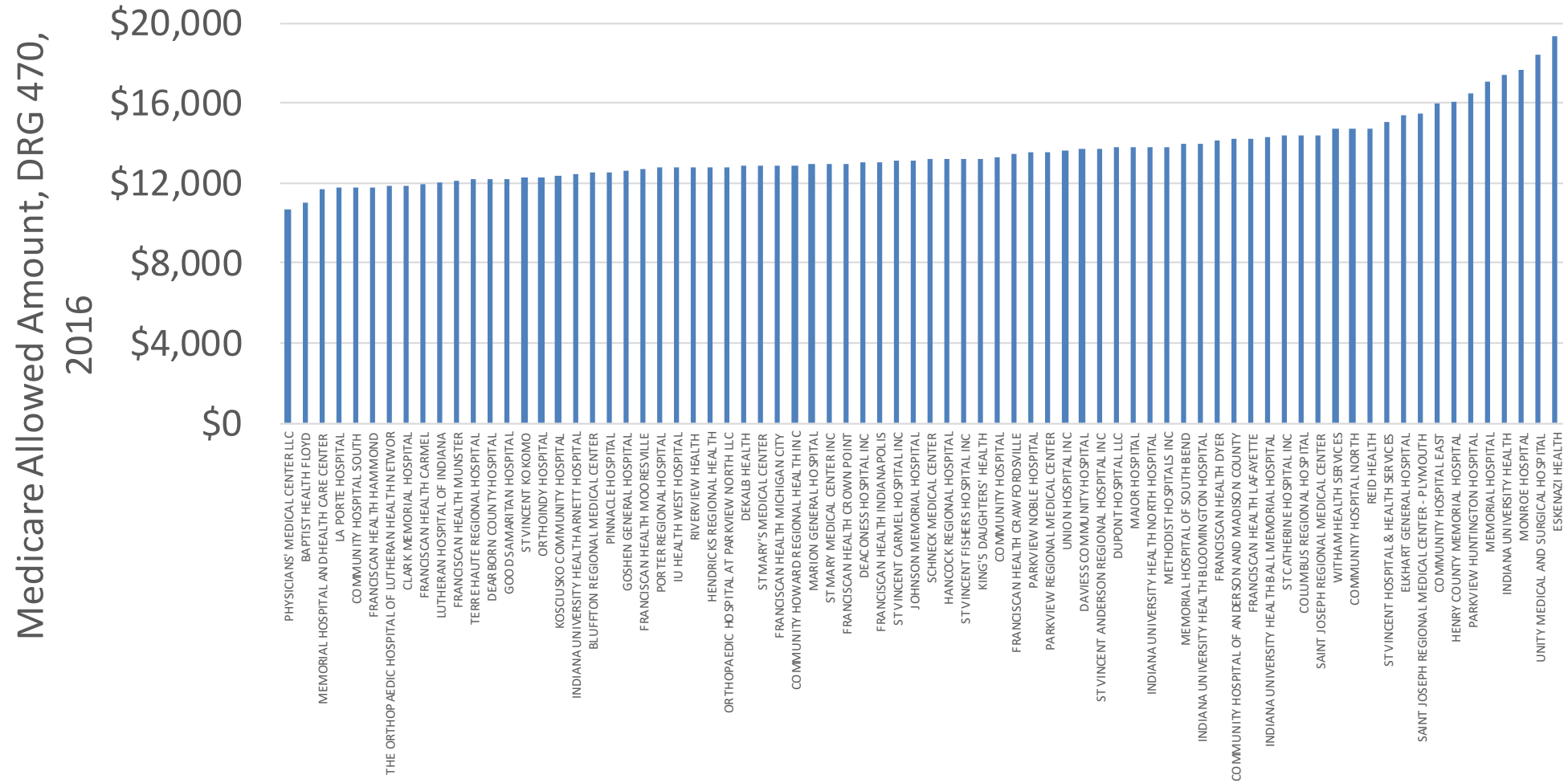
The Inspiration



“Medicare Provider Utilization and Payment Data”

Provider Id	Provider Name	Provider Street Address	Provider City	Provider State	Provider Zip Code	Total Discharges	Average Covered Charges	Average Total Payments	Average Medicare Payments
150001	JOHNSON MEMORIAL HOSPITAL	1125 W JEFFERSON ST	FRANKLIN	IN	46131	36	\$53,046.86	\$13,113.81	\$10,659.19
150002	METHODIST HOSPITALS INC	600 GRANT ST	GARY	IN	46402	109	\$89,941.98	\$13,836.61	\$11,843.11
150004	FRANCISCAN HEALTH HAMMOND	5454 HOHMAN AVE	HAMMOND	IN	46320	15	\$61,572.40	\$11,808.00	\$10,723.60
150005	HENDRICKS REGIONAL HEALTH	1000 E MAIN ST	DANVILLE	IN	46122	243	\$36,687.61	\$12,824.49	\$10,597.06
150006	LA PORTE HOSPITAL	1007 LINCOLNWAY	LA PORTE	IN	46350	86	\$73,898.58	\$11,790.85	\$10,592.76
150007	COMMUNITY HOWARD REGIONAL HEALTH INC	3500 S LAFOUNTAIN ST	KOKOMO	IN	46902	54	\$79,190.02	\$12,903.04	\$10,181.76
150008	ST CATHERINE HOSPITAL INC	4321 FIR ST	EAST CHICAGO	IN	46312	31	\$48,961.77	\$14,378.19	\$12,316.65
150009	CLARK MEMORIAL HOSPITAL	1220 MISSOURI AVE	JEFFERSONVILLE	IN	47130	210	\$32,225.13	\$11,886.59	\$10,060.93
150010	ST VINCENT KOKOMO	1907 W SYCAMORE ST	KOKOMO	IN	46904	140	\$53,209.39	\$12,247.44	\$10,442.99
150011	MARION GENERAL HOSPITAL	441 N WABASH AVE	MARION	IN	46952	108	\$61,602.81	\$12,961.06	\$11,217.88
150012	SAINT JOSEPH REGIONAL MEDICAL CENTER	5215 HOLY CROSS PKWY	MISHAWAKA	IN	46545	463	\$54,654.92	\$14,398.14	\$9,584.75
150015	FRANCISCAN HEALTH MICHIGAN CITY	301 W HOMER ST	MICHIGAN CITY	IN	46360	101	\$59,559.87	\$12,888.41	\$10,561.65
150017	LUTHERAN HOSPITAL OF INDIANA	7950 W JEFFERSON BLVD	FORT WAYNE	IN	46804	33	\$92,398.45	\$12,046.76	\$10,956.94
150018	ELKHART GENERAL HOSPITAL	600 E BLVD	ELKHART	IN	46514	297	\$69,215.93	\$15,436.71	\$10,099.30
150021	PARKVIEW REGIONAL MEDICAL CENTER	11109 PARKVIEW PLAZA DRIVE	FORT WAYNE	IN	46845	136	\$79,105.49	\$13,583.56	\$11,052.04
150022	FRANCISCAN HEALTH CRAWFORDSVILLE	1710 LAFAYETTE RD	CRAWFORDSVILLE	IN	47933	24	\$60,852.92	\$13,469.75	\$12,188.75
150023	UNION HOSPITAL INC	1606 N SEVENTH ST	TERRE HAUTE	IN	47804	292	\$71,810.22	\$13,610.82	\$11,584.17
150024	ESKENAZI HEALTH	720 ESKENAZI AVENUE	INDIANAPOLIS	IN	46202	84	\$57,809.45	\$19,373.19	\$17,784.58
150026	GOSHEN GENERAL HOSPITAL	200 HIGH PARK AVE	GOSHEN	IN	46526	89	\$50,120.20	\$12,633.08	\$10,198.64

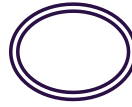
The Inspiration



National Study (“RAND 2.0”) Methods and Data

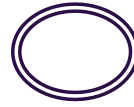


Our Approach



- Obtain claims data from
 - self-funded employers, APCDs, health plans
- Measure prices in two ways
 - relative to a Medicare benchmark
 - price per casemix weight
- Create a public hospital price report
 - posted online, freely downloadable
 - facilities and systems identified by name
 - inpatient prices and outpatient prices
- Create private hospital price reports for self-funded employers

Two Ways to Measure Hospital Prices



1. “Relative prices” =
$$\frac{\text{Allowed Amount}}{\text{Simulated Medicare Allowed Amount}}$$

adjusted for

- casemix
- local wages
- teaching
- uncompensated care

comparable across service lines

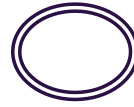
2. “Price per casemix weight” =
$$\frac{\text{Allowed Amount}}{\text{Casemix weights}}$$

adjusted for

- casemix

not comparable across service lines

Why Use Medicare as the Benchmark?



- Largest purchaser of health care in the world
- Sets industry standards
- Prices and methods are empirically based and transparent
- Medicare prices intended to be fair
- Prospective rates for bundles with modest P4P

Scope of the Study



Services	Hospital inpatient, hospital outpatient
States	CO, FL, GA, IL, IN, KS, KY, LA, MA, ME, MI, MO, MT, NC, NH, NM, NY, OH, PA, TN, TX, VT, WA, WI, WY
Years	2015-7*
Hospitals	1598 short-stay general medical/surgical (~1/3 of national total)
Allowed amount (2015-7)	\$13.0B, \$6.3B inpatient and \$6.6B outpatient
Claims (2015-7)	330k inpatient stays, 14.2M outpatient lines
Data sources	2 all payer claims databases, many health plans, ~50 self-funded employers
Funders	RWJF, NIHCR, self-funded employers (not health plans, or hospitals)

*: NH,CO: 2012-7, IN: 2013-2017, MI,LA: 2015-2018

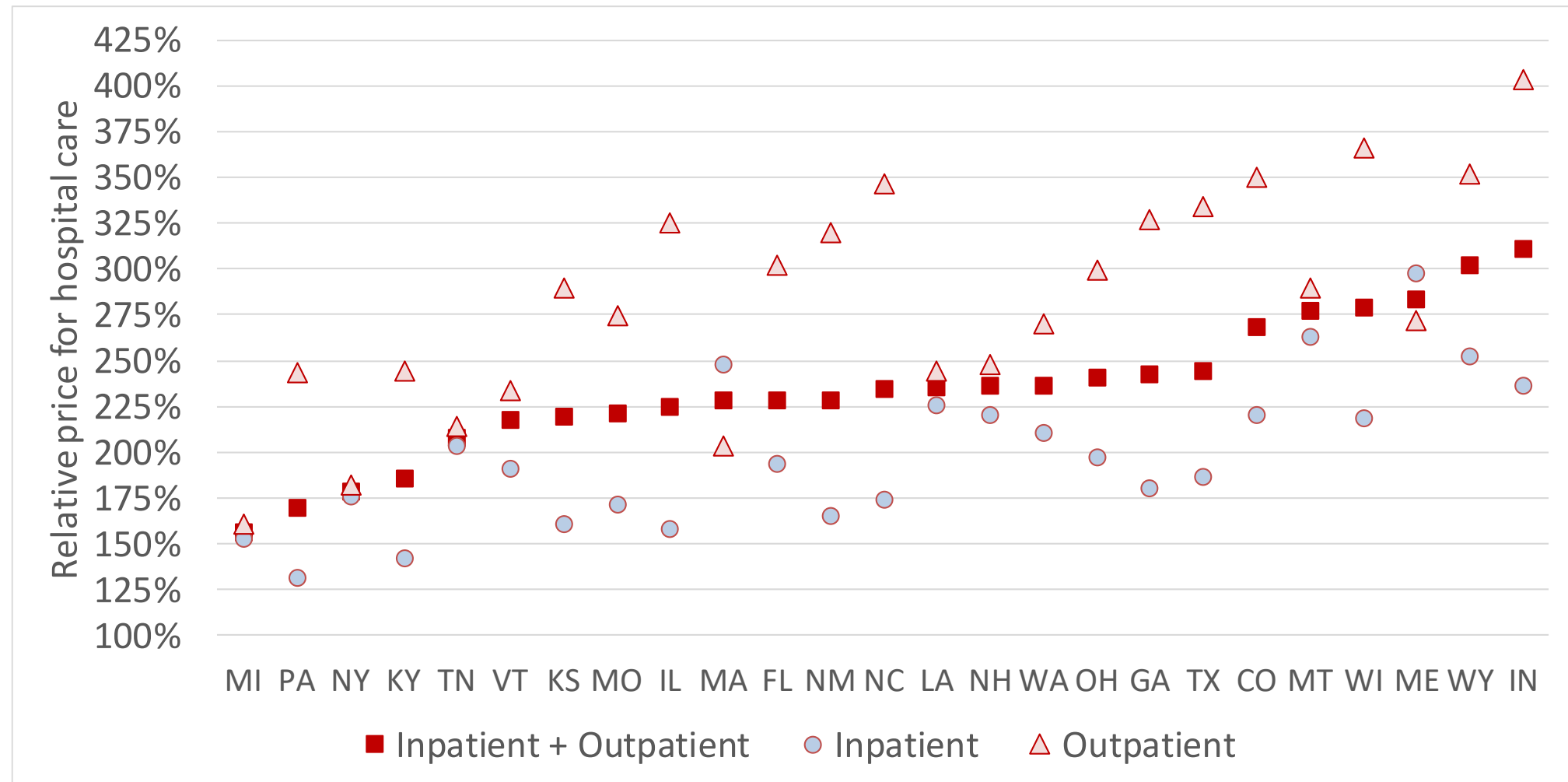
National Study (“RAND 2.0”) Findings



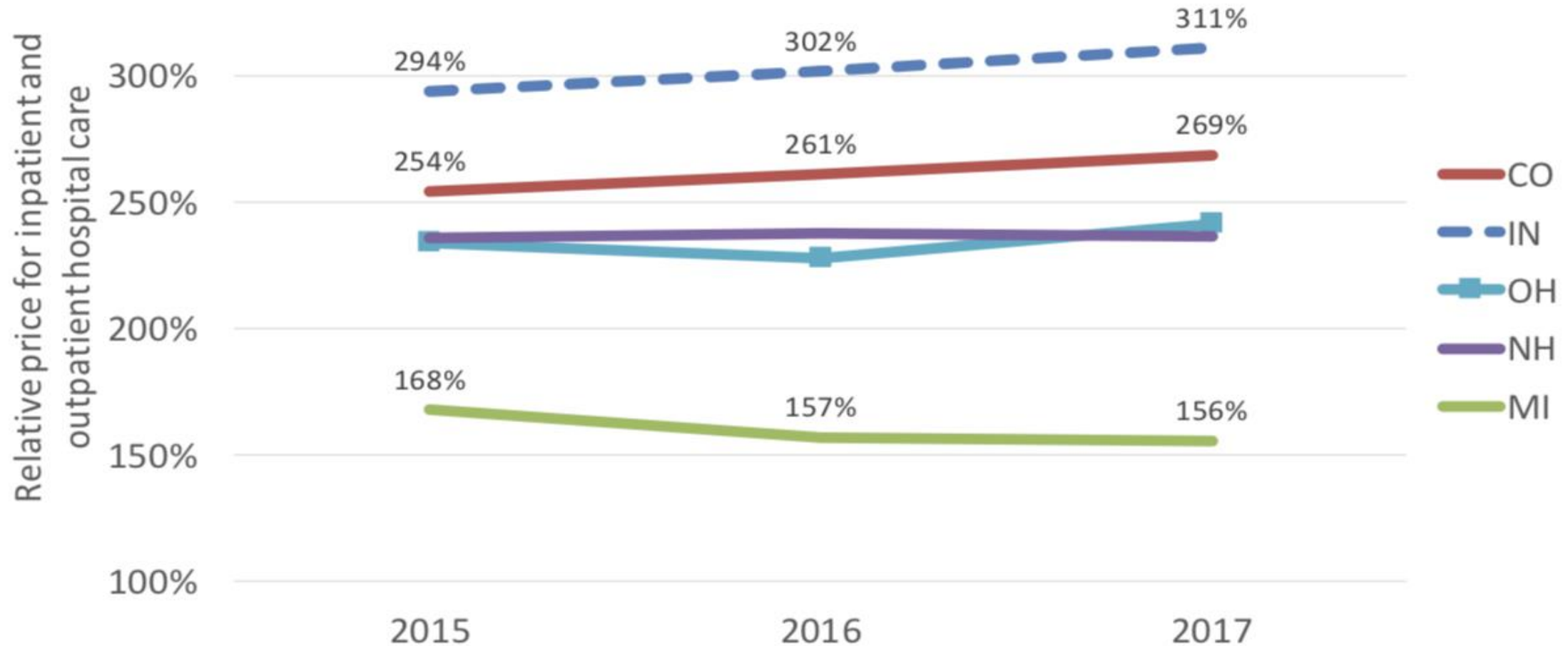
FOR FULL REPORT AND DETAILED DATA GO TO
[HTTPS://WWW.RAND.ORG/PUBS/RESEARCH_REPORTS/RR3033.HTML](https://www.rand.org/pubs/research_reports/RR3033.html)

FOR A SCROLLABLE INTERACTIVE MAP GO TO
[HTTPS://EMPLOYERPTP.ORG/#VISUALIZE](https://employerptp.org/#visualize)

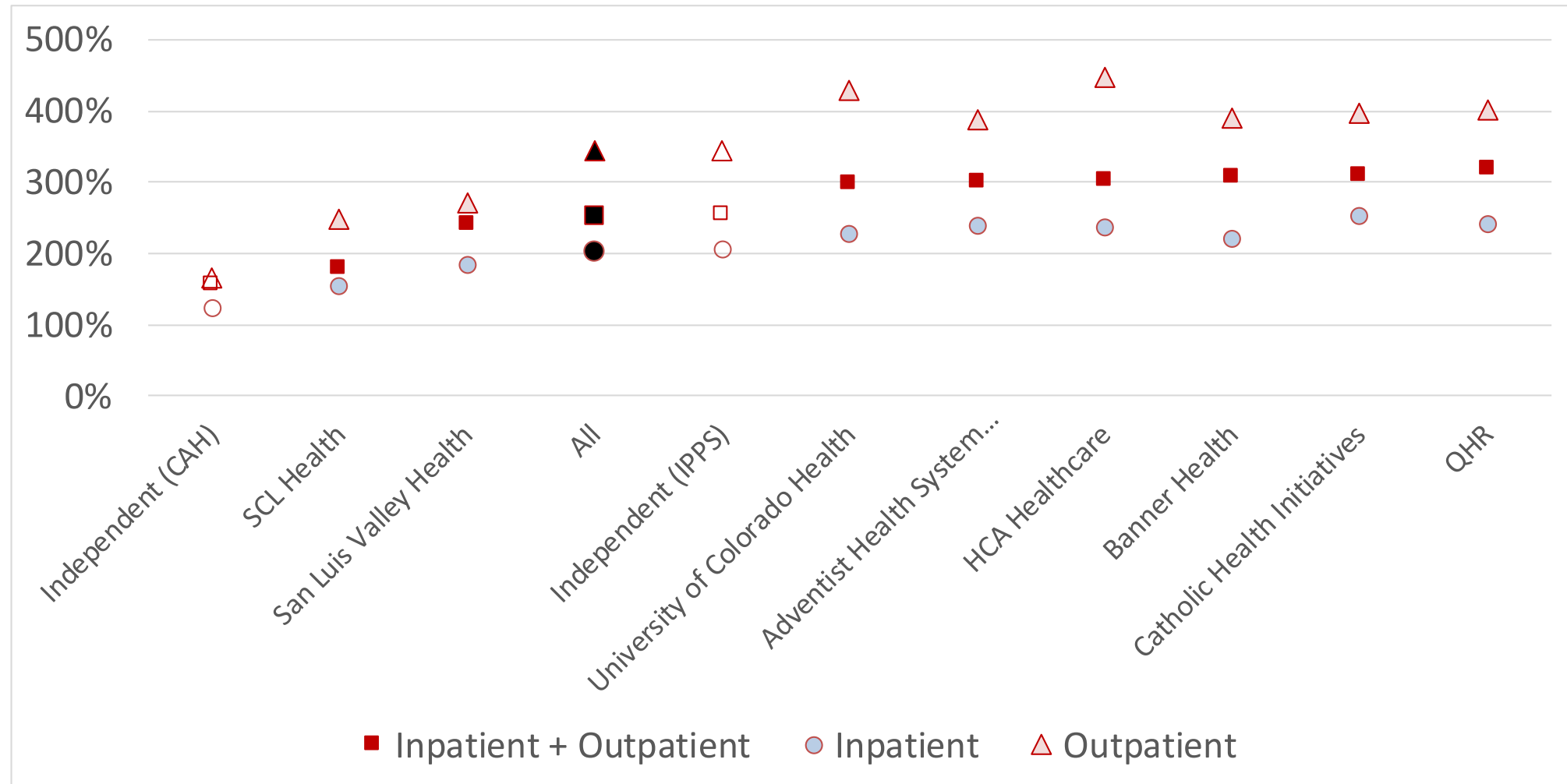
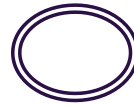
State Average Relative Prices, 2017



Commercial Relative Price TREND Varies at the State Level: Comparison of 5 States



Colorado Hospital System Relative Prices, 2017

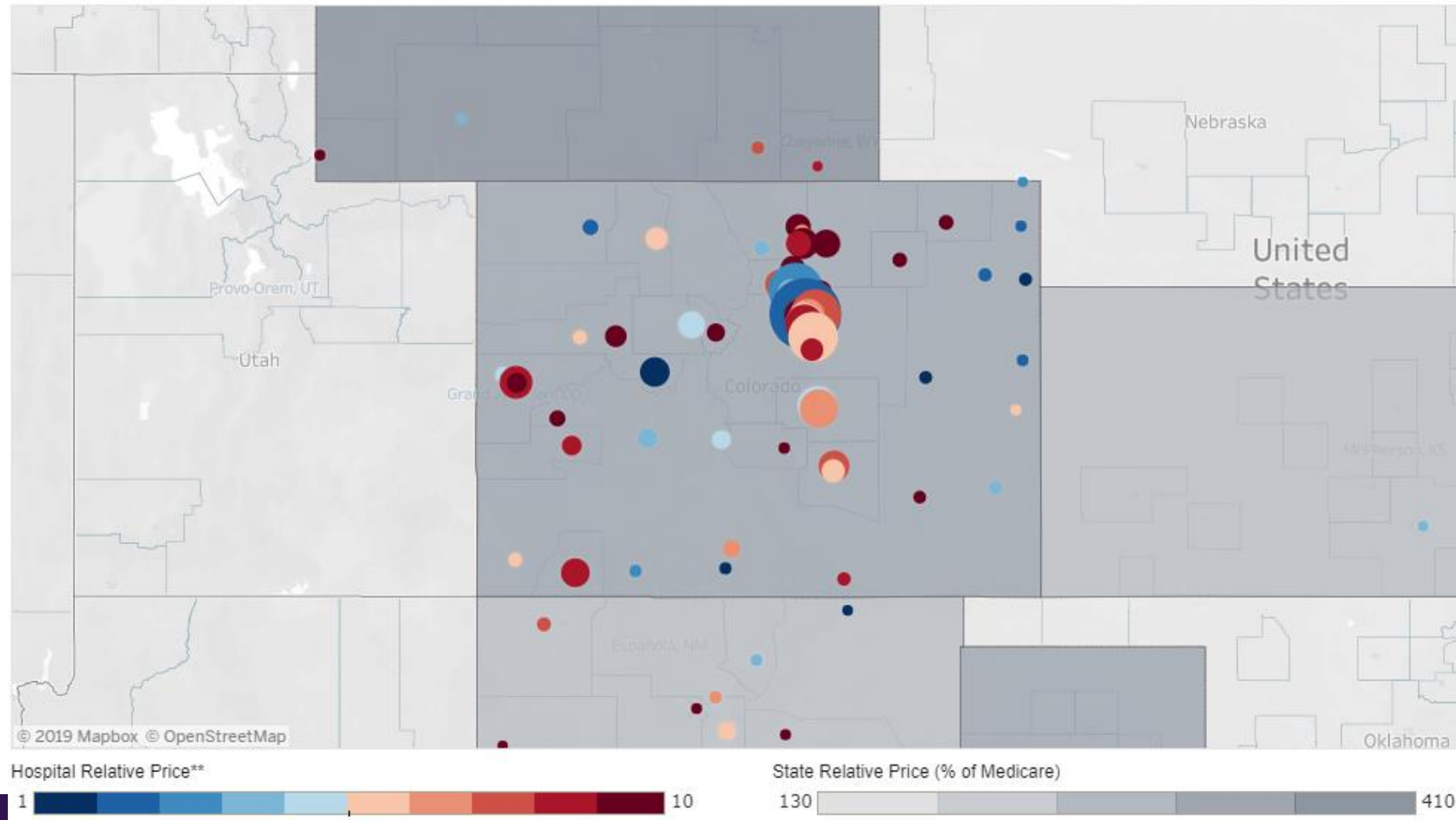


The Hospital Price Heat Map (from employerptp.org/#visualize)

Overall Relative Price (% of Medicare, 2015-2017)*

*Reported prices only reflect claims data included in the analysis, and are not necessarily representative of prices paid by all private, employer-sponsored health plans. The data available do not allow us to test for statistically significant differences.

Size of circle is proportional to the amount a hospital would have been paid, using Medicare reimbursement rates, for the services included in the private claims database.

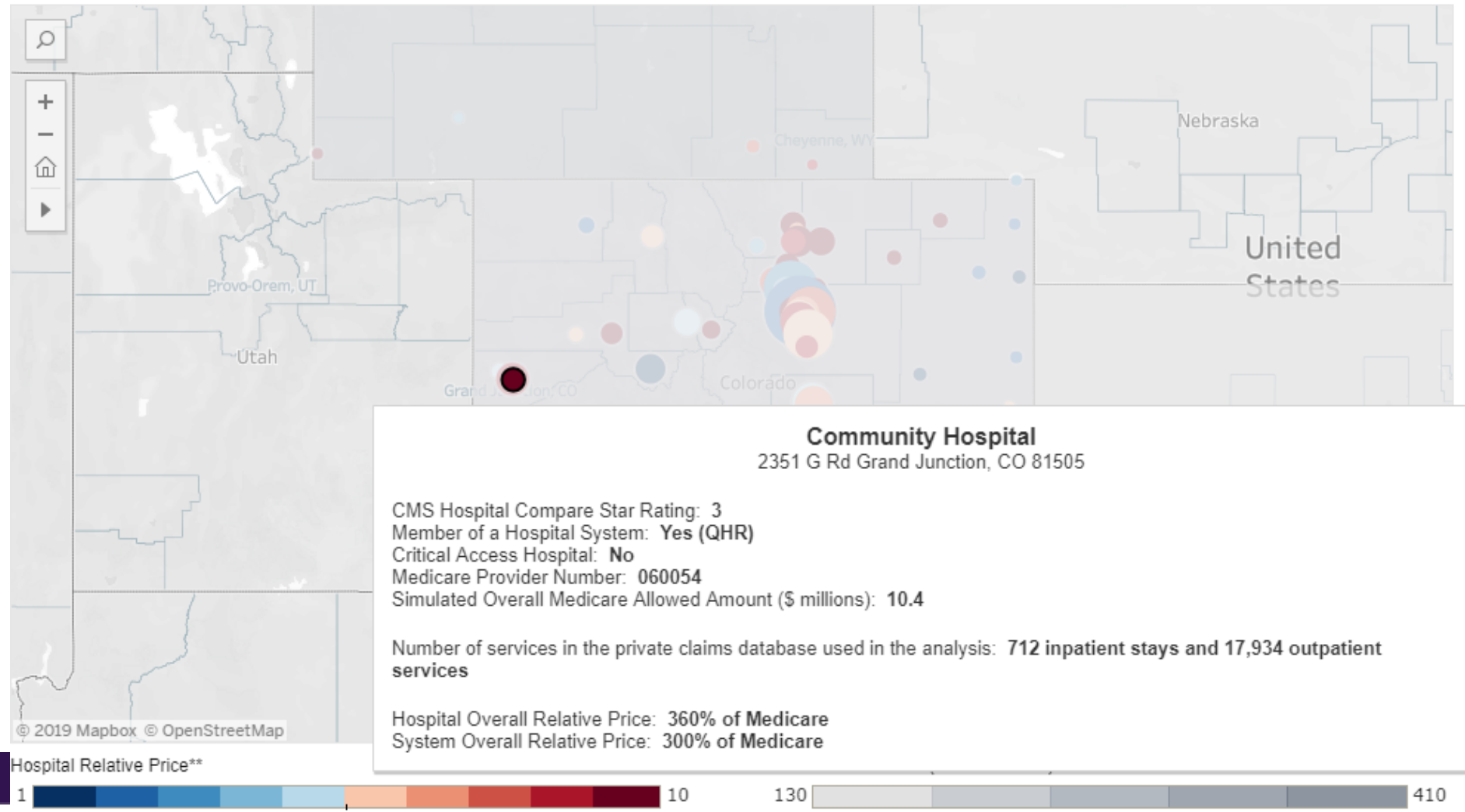


The Hospital Price Heat Map (from employerptp.org/#visualize)

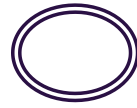
Overall Relative Price (% of Medicare, 2015-2017)*

*Reported prices only reflect claims data included in the analysis, and are not necessarily representative of prices paid by all private, employer-sponsored health plans. The data available do not allow us to test for statistically significant differences.

Size of circle is proportional to the amount a hospital would have been paid, using Medicare reimbursement rates, for the services included in the private claims database.



To Make Progress Toward VBP, Focus on Bringing up the Rear



Benchmarking private plans to Medicare reveals

- unit prices paid by private health plans are very high
 - incompatible with VBP
- discounted charge-based contracting still prevalent
 - antithesis of VBP
- prices linked to market leverage, idiosyncratic histories
 - incompatible with VBP
- moving straight to global budgets would bake in current prices

Links

19

- Public report
 - https://www.rand.org/content/dam/rand/pubs/research_reports/RR3000/RR3033/RAND_RR3033.pdf
- Detailed data
 - https://www.rand.org/content/dam/rand/pubs/research_reports/RR3000/RR3033/RAND_RR3033.data.zip
- Interactive map
 - <https://employerptp.org/#visualize>
- FAQ on enrolling in next round
 - <https://employerptp.org/wp-content/uploads/2019/05/RAND-EFI-hospital-price-transparency-study-Round-3.0-FAQ.pdf>



Medicare Reference-Based Pricing in Colorado

November 6, 2019



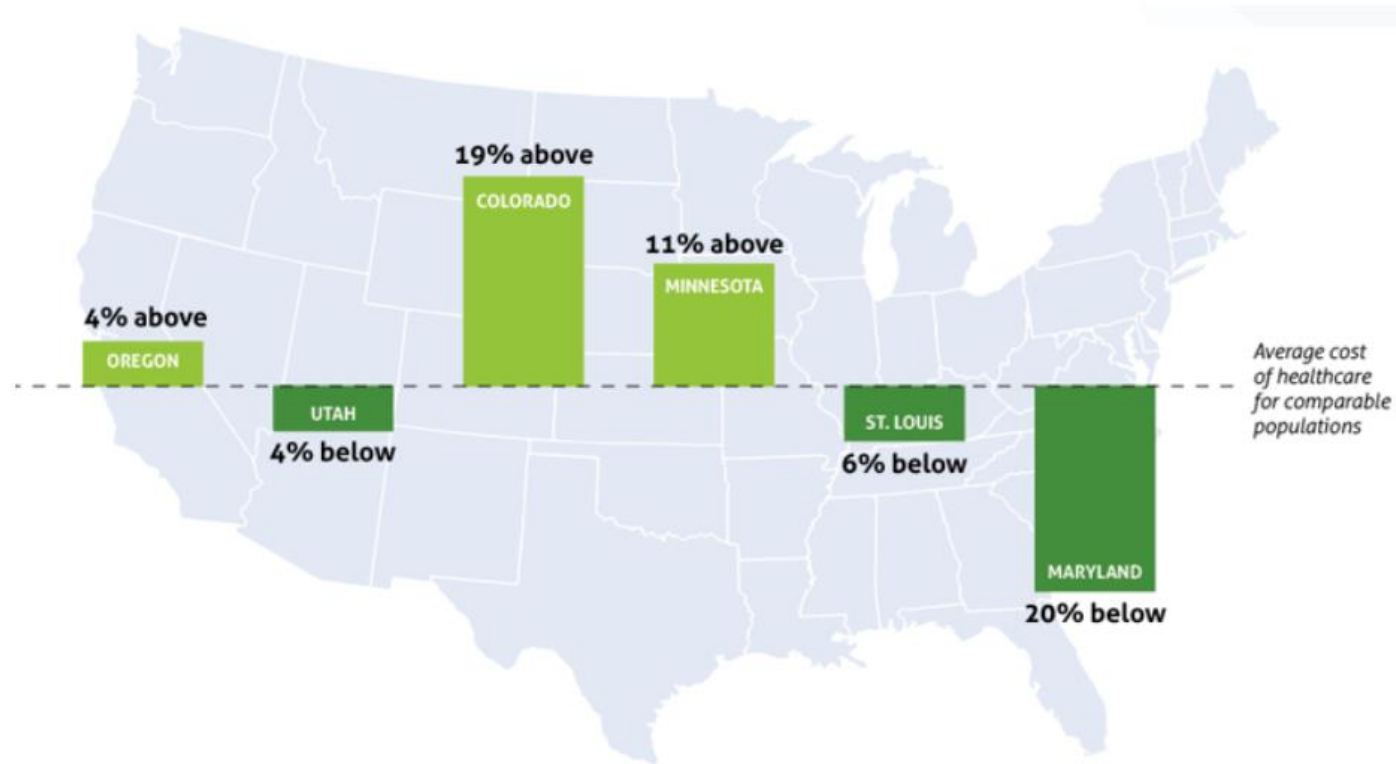
CENTER FOR IMPROVING
VALUE IN HEALTH CARE

Agenda

- Health care costs in Colorado
- Medicare reference-based prices in Colorado
- Value of Medicare reference-based prices
- Hospital price negotiation challenges
- Centrality of Colorado APCD
- Summary



Health Care Cost Variation

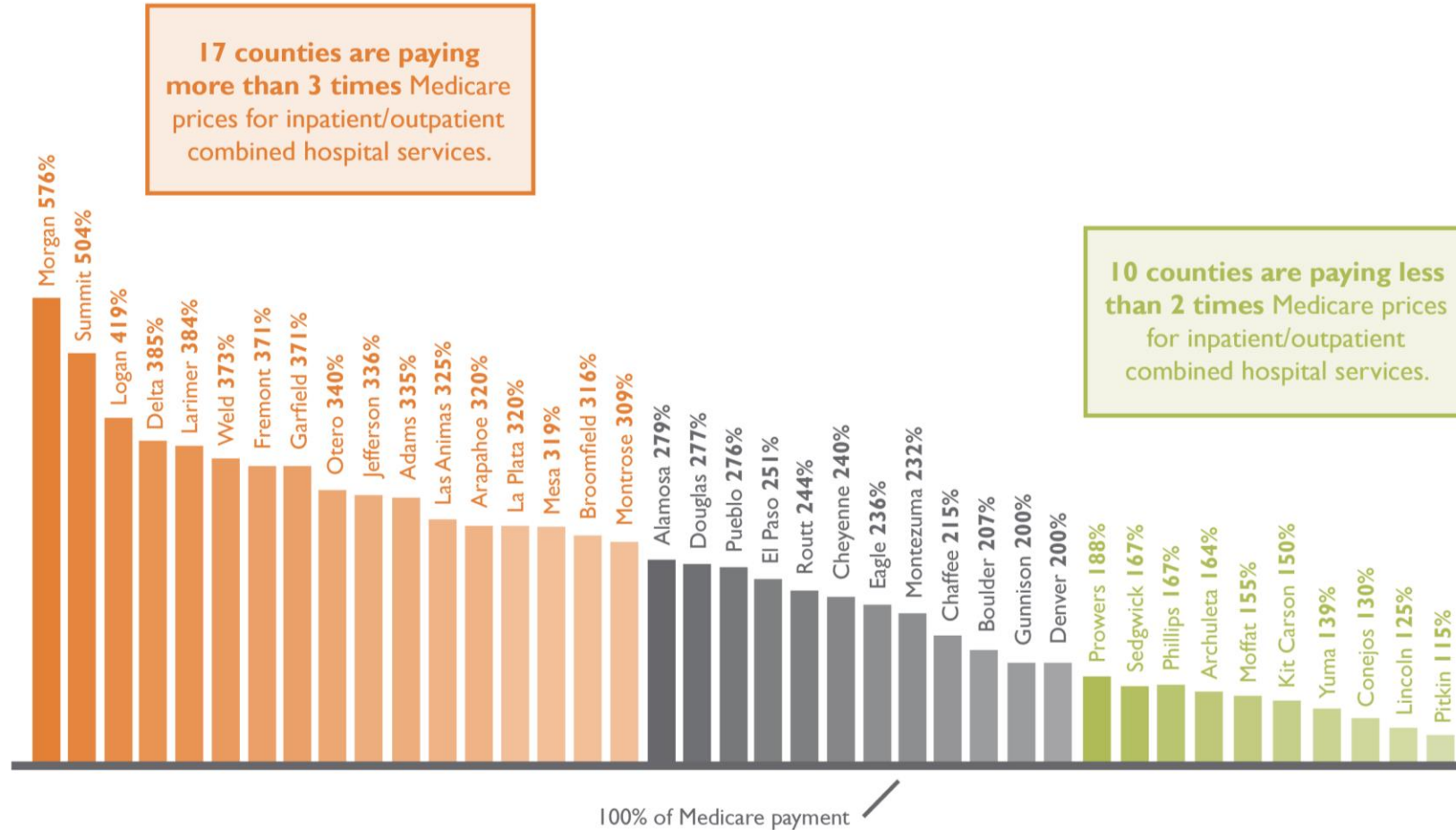


Multi-state benchmark analysis for 2016 from Network for Regional Healthcare Improvement (NRHI), the third report comparing the total cost of care for those with private insurance in various U.S. regions

Health Care Costs in Colorado

- Variation in total cost of health care across regions driven by variation in local patterns of both health care utilization and prices
- Colorado's risk-adjusted total cost per person is 19% higher, driven by 5% higher utilization of services and **13%** higher prices.
- Higher prices observed across all service categories; main drivers of higher total cost
 - **Inpatient – 31%**
 - **Outpatient – 15%**
 - **Professional – 7%**
 - **Pharmacy – 5%**

Medicare Reference Price Variation



This information is based on data from the RAND Corporation analysis (https://www.rand.org/pubs/research_reports/RR3033.html) of commercial health insurance payments in the Colorado All Payer Claims Database (CO APCD) from 2015-2017. Percentage of Medicare represents the total commercial payment divided by the Medicare payment for those services where Medicare is the baseline at 100%. Visit www.civhc.org for the interactive and downloadable dataset. Not all counties are available due to low volume.

Regional Variation

- Highest county paid almost six times Medicare rates (Morgan – 576%) for hospital inpatient and outpatient services combined; lowest paid county paid just above Medicare rates (Pitkin – 115%)
- Rural areas are on both the low as well as the high end of the spectrum of counties; no apparent correlation to resort or non-resort areas
- Evaluation of the Colorado Division of Insurance rate-setting regions exhibits similar variation

Value of Medicare Reference Prices

- Context: Colorado hospital market is highly unregulated
- Important point of reference
 - Discount-from-charges may appear favorable, but may be unfavorable when evaluated using Medicare benchmark
- Useful for employer/purchasing alliances
 - Medicare reference-based prices used in direct negotiations with hospital providers in several regions

Hospital Price Negotiation Challenges

- Health system consolidation
- Prices not subject to usual market forces
- Only one component in establishing better-functioning market, based on value. Essential elements:*
- Move from contracts based on discount-from-charges to contracts benchmarked against Medicare, if feasible
- Assess the performance of a given hospital's service line(s) against the reasonableness of the price and negotiate pricing accordingly
- Phase-in value-based benefit designs that encourage employees to use high quality, affordable services on a hospital-by-hospital basis

* From the Colorado Hospital Value Report, Colorado Business Group on Health and Colorado Consumer Health Initiative

Centrality of CO APCD

- Includes commercial claims with actual payment amounts that can be compared to Medicare benchmark
- Useful for analyzing of Medicare reference-based pricing by region, hospital and service line and by employer
- Is a source of Medicare reference-based prices and, potentially, provider performance measurement results; useful for employers, including ERISA self-funded employers
- Includes commercial claims for wide range of services so Medicare reference-based pricing can be expanded from hospitals to other key providers

Summary

- Health care costs in Colorado are high and driven largely by prices of hospital inpatient and outpatient services (followed by drug costs)
- Medicare reference-based pricing is an essential tool to evaluate and negotiate better hospital prices
- Medicare reference-based pricing for employers using APCD can encourage submissions from ERISA self-funded employers
- Medicare reference-based pricing using APCD can be expanded from hospitals to other key providers/services