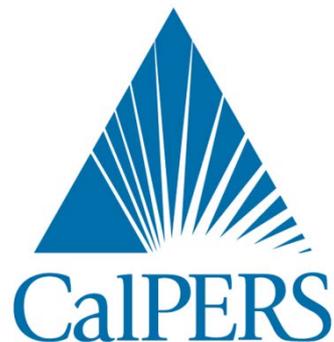


Do CalPERS Members Use Higher Priced Hospitals?



Pension and Health Benefits Committee
August 20, 2013



Background

- Hospital care accounts for a significant portion of CalPERS plan costs and contributes most to trend from year to year.
- Last Fall staff provided an overview of hospital profitability and noted that the hospitals most often utilized by CalPERS members tended to have higher positive “profit” margins compared to statewide averages. Representative from CHA presented insights into hospital finances and reimbursements.
- Today’s presentation continues the discussion by addressing the question posed by the Board: “Do CalPERS members use higher priced hospitals?”

- “Price” refers to the \$\$ amount due after application of plans’ contracted rates with hospitals and prior to member benefit plan obligations (patient out of pocket coinsurance, copays, deductibles). In CalPERS’ data warehouse this is called “allowed charges”.
- Inpatient price is the hospital allowed for services provided during an admission (excluding physician care). Hospitals and plans negotiate prices based on the type and level of inpatient care and can be set on a per diem, per admission, % of charges, or other basis. For this analysis, all prices are specific to CalPERS PPO and Blue Shield HMO experience.
- “Price” is not Billed Charges – typically commercial payers (plans) have negotiated rates that result in effective “prices” that are more that 50% below billed charges. Medicare effective “prices” are more than 75% below billed charges.
- “Price” is not Hospital Cost – price is not the cost incurred by the hospital to provide direct medical services and conduct and fund business operations. Obviously prices are set or negotiated in order to hopefully cover medical and other business operations.

Questions addressed

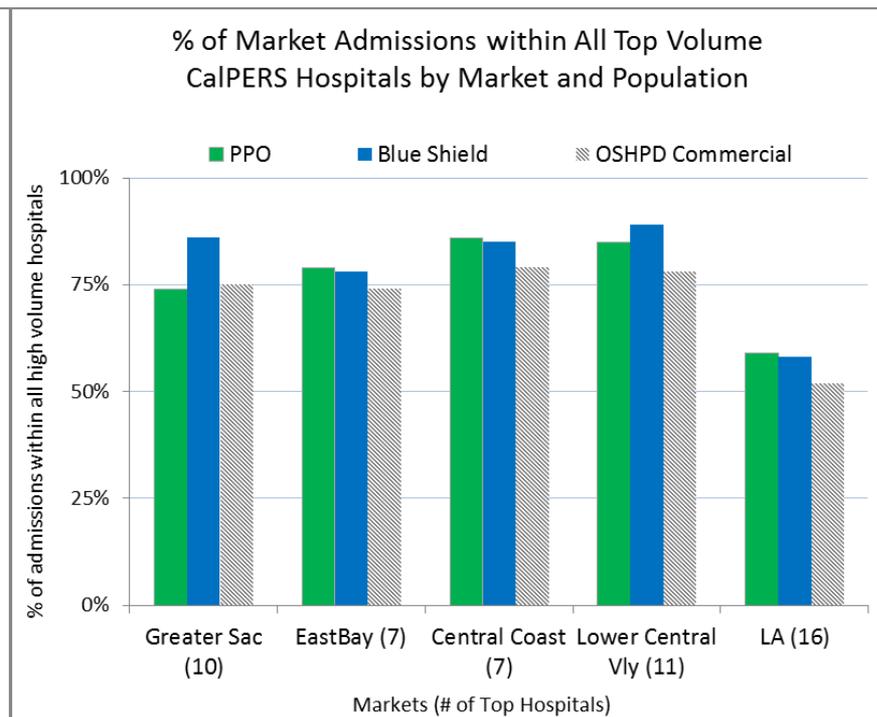
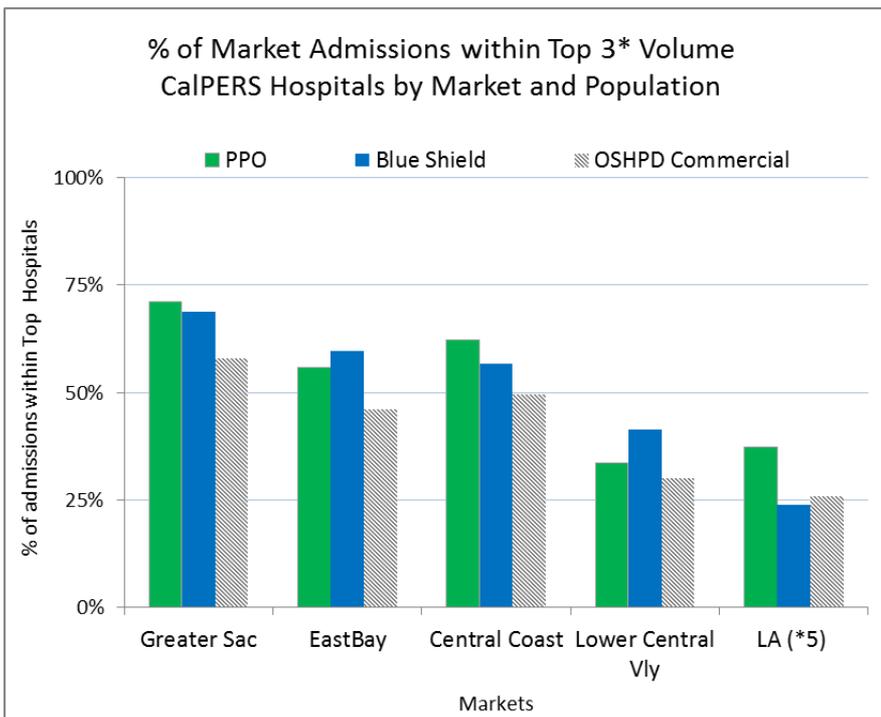
- The question of whether CalPERS members utilize higher priced hospitals was addressed by examining the following:
 1. Do CalPERS members utilize the same mix of hospitals as the general commercial population? Are the top volume hospitals for CalPERS also the top hospitals for all commercial patients?
 2. How does the CalPERS price per admission at the top utilized hospitals compare to overall CalPERS prices within a market? Are the most utilized hospitals also the higher priced hospitals?
 3. If CalPERS admissions occurred at the exact same mix of hospitals as the general commercial population, what would be the impact on CalPERS inpatient hospital costs?
- Given the findings, what are the implications?

- Analysis based on two data sources:
 - CalPERS Average Allowed per Admission: CalPERS HCDSS warehouse, two years 2011-2012 for CalPERS Basic: PPO and Blue Shield HMO.
 - Commercial payer utilization patterns: 2011 OSHPD patient discharge (admission) data for all private commercial payers (“other private payer”). CalPERS Basic experience is considered part of this “commercial” group.
- Allowed per admission averages are adjusted for mix of admission types
 - “Case-mix” adjustment controls for differences in the mix and severity of admit types (DRGs – diagnosis related groups) using Truven’s severity assignments and weights.
- Price comparisons are market specific – Five Large Markets
 - Greater Sacramento (Sac/El Dorado/Placer/Nevada/Yolo/Yuba Counties)
 - East Bay (Contra Costa/Alameda)
 - Lower Central Valley (Fresno, Kern, Madera, Kings, Tulare)
 - Central Coast (Monterey, SLO, San Benito, Santa Cruz)
 - Los Angeles (Los Angeles)
- Price comparisons are shown as the percentage difference of individual hospital average price from the CalPERS market average price (all PPO and Blue Shield admissions within the market).



Do CalPERS members utilize the same mix of hospitals as the general commercial population?

- Chart on lower left shows the percent of admissions within the top 3 to 5 CalPERS hospitals based on admission volume – for example, 56% of all CalPERS PPO admissions (green) were in the top three utilized hospitals in the East Bay market. By comparison, 46% of all commercial admissions (grey) were in these top three hospitals (based on OSHPD 2011 discharge data).
- Chart on lower right expands the number of top volume hospitals – for example, in the Greater Sacramento market, the top 10 highest volume CalPERS hospitals accounted for 86% of Blue Shield admissions while these same top 10 saw 76% of the commercial admissions.
- Conclusion: CalPERS PPO and Blue Shield HMO members tend to use the same top volume hospitals as the commercial community although with slightly different concentrations.

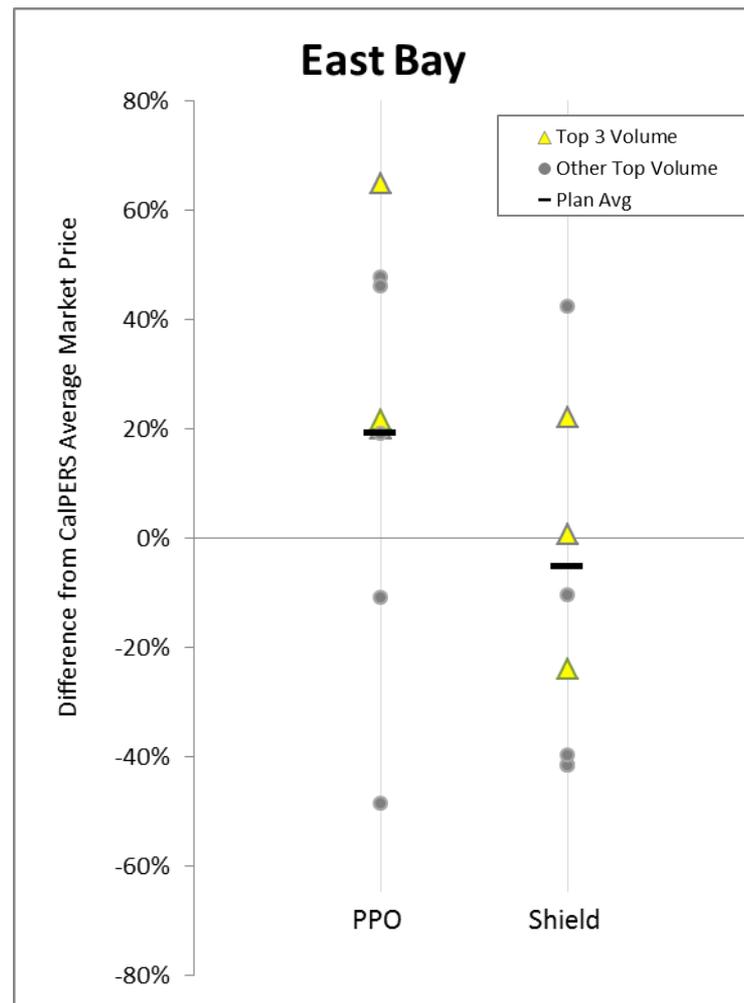




How does the CalPERS price per admission at the top utilized hospitals compare to overall CalPERS prices within a market?

- Graph to the right shows a comparison of each top volume hospital's average price difference from the CalPERS average for the East Bay market. It demonstrates the range of differences for the top hospitals by plan.
- Each marker represents the difference for each individual top volume hospital. For example, the PPO plans had one hospital at 65% above and one hospital 48% below the average market price. The results for the highest volume hospitals are shown as yellow triangles. Note: PPO plans had two high volume hospitals 19-20% above the market average (triangles are overlaid).
- The solid bar indicates the plans' overall difference in average CalPERS price per admission compared to the CalPERS market average (all plans combined). In the East Bay market, Blue Shield's CalPERS plan average was 5% below market average while PPO was 19% above market average.

Difference of Average Inpatient Price to Market Avg
Top Volume Individual Hospitals plotted by Plan



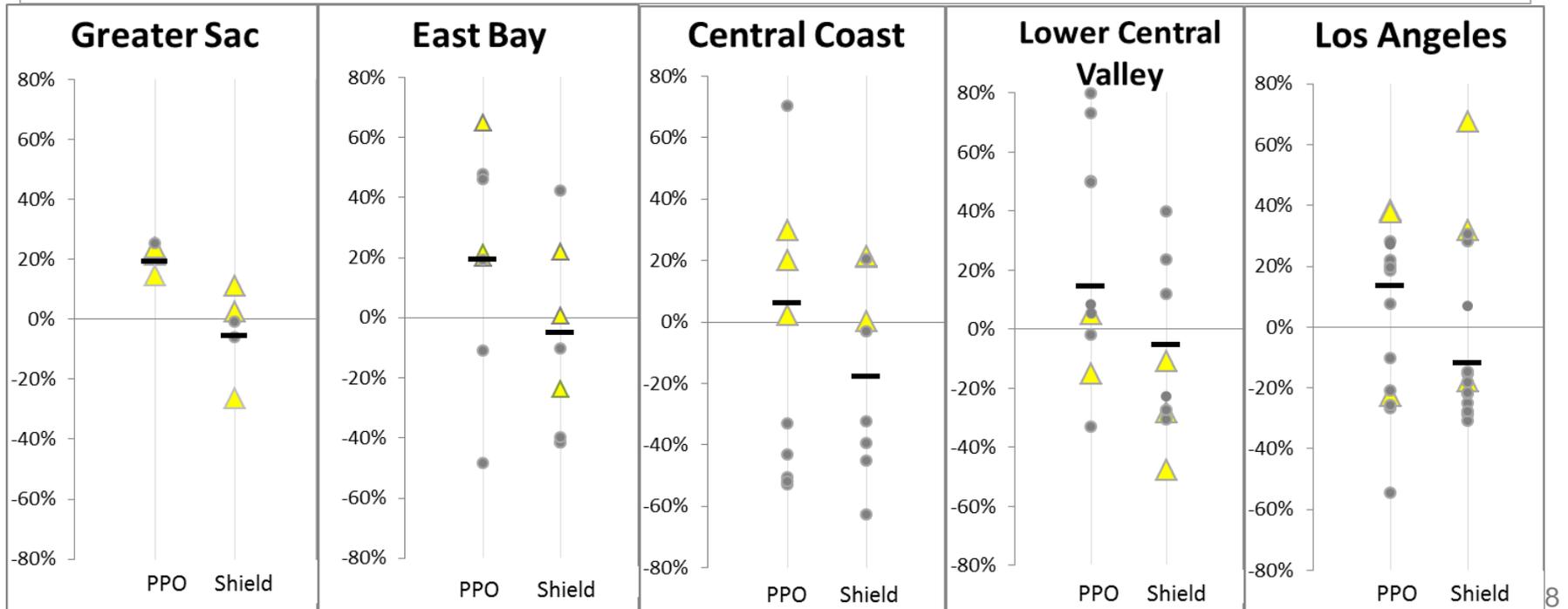


How does the CalPERS price per admission at the top utilized hospitals compare to overall CalPERS prices within a market?

- Chart below show results for all five markets examined. Conclusions:
 - CalPERS average price per admission by hospital was quite variable within markets and across plans, based on a comparison to CalPERS market averages.
 - The top three utilized hospitals by plan were as often at or below market averages as they were above.

▲ Top 3 Volume
● Other Top Volume
— Plan Avg

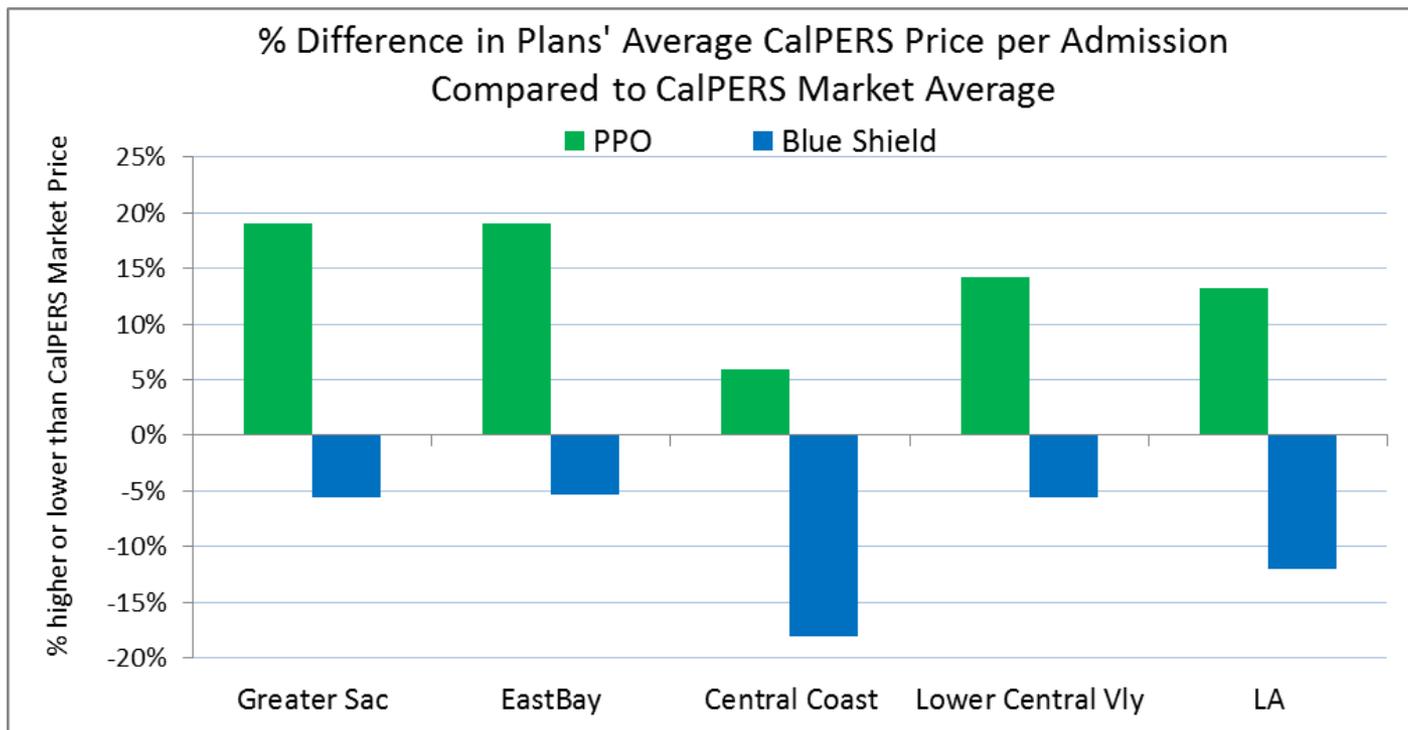
Top Hospitals plotted by Plan within Market - Difference of Average Inpatient Price to Cal PERS Market Average





How does the CalPERS price per admission by Plan compare to overall CalPERS prices within a market?

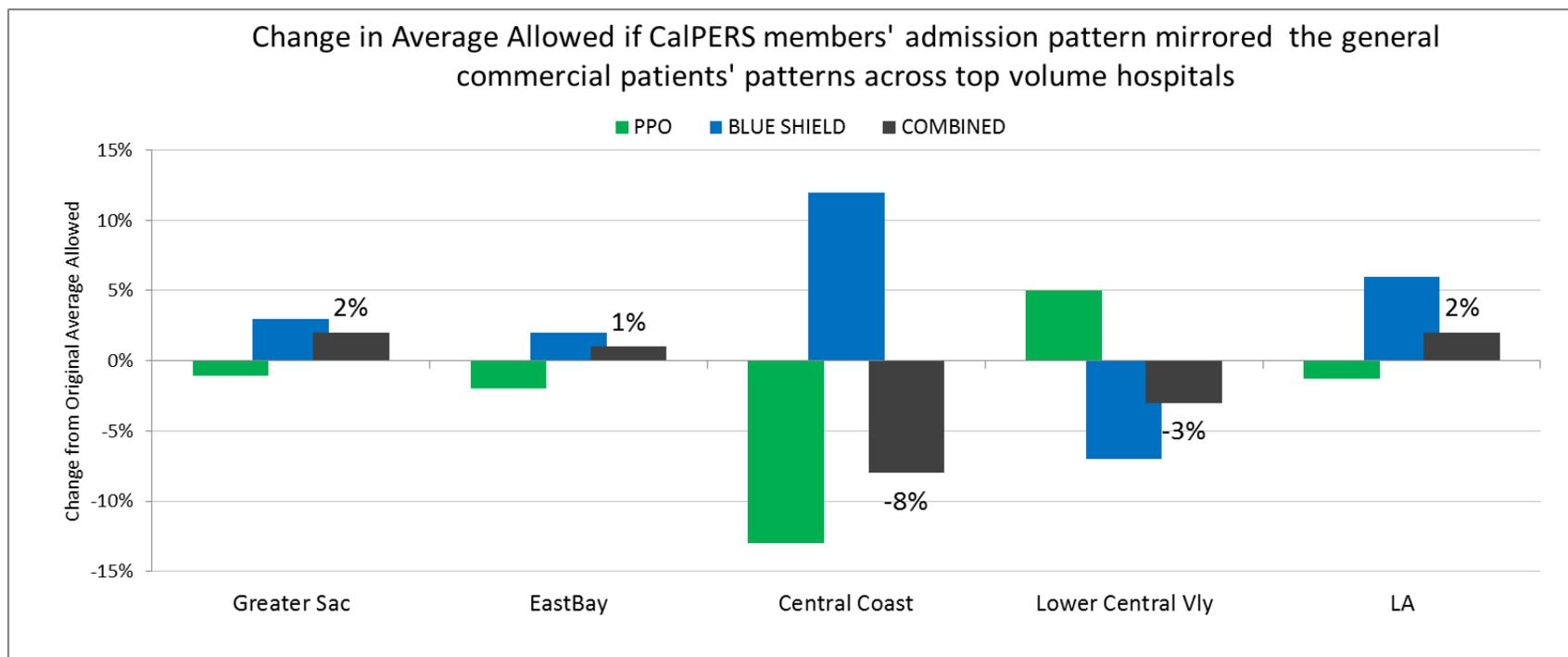
- Focusing on plan averages within markets - PPO plans had a higher average adjusted “price” per admission in each of the five markets examined. Blue Shield HMO typically had a lower average price.





What if CalPERS admissions occurred at the exact same mix of top hospitals as the general commercial population?

- Would CalPERS lower hospital costs if CalPERS utilization patterns mirrored the commercial population? – assuming the existing CalPERS pricing at each hospital?
- Chart shows the difference in average market price if CalPERS admissions were redistributed to match the commercial patients' experience. In Greater Sacramento, the redistributed admissions would have resulted in a lower average price for PPO (green) while Blue Shield (blue) would have been higher. The weighted average of the two plans (black) would have been higher.
- In three of the five markets, CalPERS would have paid more after redistribution which suggests that CalPERS actual admission pattern is not biased towards higher priced hospitals. Note that this analysis is hypothetical since not all hospitals are interchangeable given network arrangements, services availability and travel distances.



Conclusions / Implications

- Do CalPERS members use higher prices hospitals? Based on the PPO and Blue Shield experience, members utilize hospitals with a wide range of average allowed. Inpatient prices at top utilized hospitals were just as likely to be below CalPERS market averages as above. Blue Shield had lower prices on a consistent basis. A “What if” analysis showed mixed results for lower hospital cost through matching the commercial patients’ utilization patterns.
- CalPERS ongoing strategies addressing hospital costs:
 - Narrow Networks
 - Expansion of Integrated Health Care Models
 - Development of risk sharing agreements among health plans, hospitals, and physicians groups
 - Continuation of Reference Pricing, where appropriate, including outpatient setting
 - On-going collaboration with the California Hospital Association
 - Development of future strategies to address high costs
- Hospital Outpatient Care pricing – outpatient hospital care represents another 20-25% of CalPERS health care costs. Any actions to address hospital costs would need to consider outpatient services in addition to inpatient.