California’s Changing Marketplace from the Perspective of Purchasers

July 16, 2019
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Suzanne Delbanco
Executive Director
Catalyst for Payment Reform
Effective Value-Oriented Payment Strategies

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Executive Director
July 16, 2019
About CPR

An independent non-profit corporation working to catalyze employers, public purchasers and others to implement strategies that produce higher-value health care and improve the functioning of the health care marketplace.

- 32BJ Health Fund
- 3M
- Aircraft Gear Corp.
- Aon Hewitt
- Arizona Health Care Cost Containment System (Medicaid)
- AT&T
- The Boeing Company
- CalPERS
- City and County of San Francisco
- Comcast
- Compassion International
- Covered California
- Dow Chemical Company
- Equity Healthcare
- FedEx Corporation
- GE
- General Motors Company
- Google, Inc.
- Group Insurance Commission, MA
- The Home Depot
- Mercer
- Miami University (Ohio)
- Ohio Medicaid
- Ohio PERS
- Penn State University
- Pennsylvania Employees Benefit Trust Fund
- Pitney Bowes
- Qualcomm Incorporated
- Self-Insured Schools of California
- South Carolina
- CalPERS Board of Administration Offsite – July 2019
- Health & Human Services (Medicaid)
- TennCare (Medicaid)
- Unite Here Health
- US Foods
- Walmart Stores, Inc.
- Wells Fargo & Company
- Willis Towers Watson
Growth of Provider Payment Reform

The vast majority of reforms are layered on fee for service

2010
1-3% of payments tied to performance

2011
11% of payment is value oriented

2013-2015
40+% of payment is value oriented

2016 - 2018
50%+?

The level of payment reform in the market has been steadily rising

Most common reforms are pay for performance & shared savings; bundled payment is the least common

Payment reform: a range of health care payment models that use payment to promote or leverage greater value for patients, purchasers, payers, and providers. New methods support new health care delivery models such as patient centered medical homes and accountable care organizations....

WHAT’S NEXT?

• Fix the fee schedule
• Evaluate which reforms work
• Make smart pairings between provider payment methods and benefit designs
Mixed Results for Reforms: Example of ACOs

<table>
<thead>
<tr>
<th>Medicare Shared Savings Program</th>
<th>Connected Care (Intel)</th>
<th>Regional Care Collaboratives (CO Medicaid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>▪ Consistently high quality scores</td>
<td>▪ High patient experience and satisfaction scores</td>
<td>▪ Adult participants had fewer hospital readmissions and ER services than control</td>
</tr>
<tr>
<td>▪ 31% of ACOs received shared savings bonuses in 2016</td>
<td>▪ Statistically significant improvements in diabetes care</td>
<td>▪ Total reduction in spending est. $20 mill to $30 mill FY 2011-2012</td>
</tr>
<tr>
<td>0</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>▪ Unchanged performance on a portion of quality measures</td>
<td>▪ Total costs at year end were 3.6% higher than expected</td>
<td>▪ Use of ER services was about the same for children enrolled and not</td>
</tr>
<tr>
<td>▪ Screening use varied</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>▪ For 2013 entrants, no early reductions in spending</td>
<td>▪ ER use was higher for enrolled participants with disabilities than those not enrolled</td>
<td></td>
</tr>
<tr>
<td>▪ Medicare saw a net loss of $39 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Can’t say that ACOs are a slam dunk when it comes to procuring higher-value care!
### Mixed Results for Reforms: Example of Bundled Payment

<table>
<thead>
<tr>
<th>Bundled Payments for Care Improvement (BPCI)</th>
<th>Health Care Payment Improvement Initiative (Arkansas)</th>
<th>Bundles for Maternity Care (PBGH)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>+</strong></td>
<td><strong>+</strong></td>
<td><strong>+</strong></td>
</tr>
<tr>
<td>▪ 21% lower total spending per joint replacement episode without complications</td>
<td>▪ AR BCBS trend decreased for average LOS for inpatient admissions for TJR, from 2.7 days in baseline year to 2.6 days in 2013 and 2.3 days in 2014</td>
<td>▪ Reduction of cesareans by 20%</td>
</tr>
<tr>
<td>▪ 1% reduction in ER visits and readmissions</td>
<td>▪ Medicaid 30-day wound infection rate improved to 1.7% for 2014, down from 2% in 2013</td>
<td>▪ Savings of $5,000 per averted cesarean delivery</td>
</tr>
<tr>
<td><strong>0</strong></td>
<td><strong>-</strong></td>
<td></td>
</tr>
<tr>
<td>▪ Mixed impact on quality measures – some improved, some stayed the same and some worsened</td>
<td>▪ Medicaid post-operation TJR complication rate worsened from 8% in 2013 to 14.1% in 2014</td>
<td></td>
</tr>
<tr>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
<td></td>
</tr>
<tr>
<td>▪ For spinal surgery episodes, average Medicare payments increased more for the hospitalization and 90-day post-discharge period for the BPCI than comparison</td>
<td></td>
<td>Bundled payments are promising, but the details matter!</td>
</tr>
</tbody>
</table>
Continued Evaluation and Transparency is Critical

E.g. CPR’s Standard Plan ACO Report

- Nutrition label-format provides purchasers with a **standard, easy way to identify the value of** their health plans’ ACO arrangements.
- Meaningful and comprehensive cost, quality and utilization metrics help purchasers **assess whether care is improving, staying the same, or getting worse.**

![Standard Plan ACO Report](image1)

![Based on the Nutrition Label](image2)
But Don’t Forget the Prices - They Matter Too

- Provider consolidation has been driving up prices
- Consolidation will continue
- Prices have no correlation to quality of care
- High prices can negate positive impacts of reform
Evidence that Innovative Benefit Designs Work

High-value benefit designs encourage consumers to seek care from providers at the intersection of high-quality and low-cost.

Walmart’s COE for spine surgery reduced inappropriate surgeries - 50% of associates referred for surgery were not good candidates.*

CalPERS reference pricing for total joint replacement reduced average price by 26% and reduced selection of high-priced providers by 34%.**

*https://www.catalyze.org/product/centers-of-excellence-walmart-employer/
Evidence that Innovative Provider Network Designs Work

Group Insurance Commission in MA:

• Enrollees in narrow networks spent 36% less.*
• Tiered networks reduced market share of poorly performing providers by 12%.**

BCBS of MA:

• Tiered network reduced total adjusted medical spending per member per quarter by 5%.***


Effective Strategies for the Future?

Push for price and quality transparency because it creates competition among providers and supports innovative benefit and provider network designs.

Introduce new benefit designs that encourage employees to use high-value providers.
  • Reference pricing
  • Centers of excellence

Customize provider network designs based on value.
  • Narrow network
  • Tiered network
  • Direct contracting for ACO or episodes/procedures
  • Onsite/near-site clinics
Effective Strategies for the Future?

Pay providers differently through alternative payment methods that hold them responsible for quality and spending.

Encourage new entrants into the market to compete.

• Telehealth
• Onsite/near-site clinics
• Retail clinics, urgent care centers, etc.

Take a new approach to pricing through contracting, such as using Medicare rates as a reference price.
THANK YOU

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California’s Changing Marketplace from the Perspective of Purchasers

David Lansky, PhD
Senior Advisor and Former CEO
Pacific Business Group on Health
PBGH has the opportunity to drive change

We have the insight and experience:

30 years of knowledge
Proven track record
Have earned the respect of the market

We have the leverage and resources:

39 members
Together we wield over $100 Billion

We have the responsibility:

Those in this room represent over 15 Million covered lives.
No one else will do it for us.
How we will move forward

Advanced Primary Care  Purchasing Value  Functional Markets
### Advanced Primary Care
- Primary Care Transformation
- California Quality Collaborative
- Quality Improvement Training
- Mental Health

### Purchasing Value
- Accountable Care Organizations
- Member Value
- Patient Assessment Survey
- Accountable Pharmacy
- Patient-Reported Outcomes Measures
- New Payment Models

### Functional Markets
- Accountable Care Marketplace
- Purchaser Value Network (PVN)
- Transform Maternity Care
- Employers Centers of Excellence Network
- Federal Policy
- State Policy
- Multi-payer Alignment
These strategies build on our past work

Advanced Primary Care

- Reform Payment for advanced primary care
- Multi-payer alignment
- Practice transformation support
- Behavioral Health Integration

Purchasing Value

- Scale innovations
  - Centers of Excellence
- Pressure incumbents health plans
- Foster entrants: TPAs, non-profit PBM
- Align: common standards & payment models

Functional Markets

- Design the market preempting industry resistance
- Policy leadership: CMMI, Medicare and state
- Market intervention: Restrict egregious anti-competitive practices
California’s Changing Marketplace from the Perspective of Purchasers

Bill Scott, Principal
Mercer
Healthcare Transformation and Premium Trends

CALPERS
July 2019
HEALTHCARE TRANSFORMATION
HEALTHCARE TRANSFORMATION
DESIGNING FOR THE CONSUMER OF TOMORROW

Today’s Design Elements

- PLAN DESIGN
  - Actuarial Value
  - Total Cost of Care

  “I don’t understand why our benefits get worse each year”

- NETWORKS
  - Broad access
  - Soft Steerage

  “Where do I go for care?”

- POPULATION HEALTH
  - High-cost focus

  “Those programs aren’t for me”

- AFFORDABILITY
  - Imperfect wage-based contributions

  “I have other things to worry about”

Design Philosophy for Tomorrow

- Convenience
- Perceived value

  “Wow that is so easy”

- Personalized steerage

  “I know exactly what to do and where to go”

- Stratified focus on health needs

  “I have the resources I need to get healthy or stay healthy”

- Address social determinants of health

  “I don’t have to stress about the basics – now I can focus on my health”
ANNUAL HEALTH CARE PREMIUM RATES
2013-2019 INCREASES

CalPERS PPO
CalPERS HMO
Mercer's National Survey (Before Plan Changes)
Covered California
FEHB
Medi-Cal
State of Washington

# Annual Health Care Premium Rates 2013-2019 Increases

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>CalPERS PPO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.6%</td>
</tr>
<tr>
<td>CalPERS HMO</td>
<td>2.5%</td>
<td>0.6%</td>
<td>10.8%</td>
<td>3.8%</td>
<td>-2.5%</td>
<td>1.1%</td>
<td></td>
<td>2.6%</td>
</tr>
<tr>
<td>Mercer’s National Survey (Before Plan Changes)</td>
<td>7.4%</td>
<td>8.0%</td>
<td>7.1%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>6.5%</td>
<td>6.1%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Covered California</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8.4%</td>
</tr>
<tr>
<td>FEHB</td>
<td>3.4%</td>
<td>3.7%</td>
<td>3.2%</td>
<td>6.4%</td>
<td>6.2%</td>
<td>4.0%</td>
<td>1.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Medi-Cal</td>
<td>-1.3%</td>
<td>1.8%</td>
<td>6.1%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>1.8%</td>
<td>4.2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>State of Washington</td>
<td>2.0%</td>
<td>0.2%</td>
<td>4.5%</td>
<td>0.7%</td>
<td>9.6%</td>
<td>5.1%</td>
<td>2.0%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

* Not yet final, subject to CMS approval
# 2020 Gross Increases in Premium - Jumbo Clients

<table>
<thead>
<tr>
<th>Industry</th>
<th># of Employees</th>
<th>Types of Plans</th>
<th>2020 Gross Increase to Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client 1</td>
<td>Financial Services</td>
<td>20,000</td>
<td>CDHP</td>
</tr>
<tr>
<td>Client 2</td>
<td>Assisted Living Facilities</td>
<td>10,000</td>
<td>CDHP / Regional HMO</td>
</tr>
<tr>
<td>Client 3</td>
<td>Pharmaceutical</td>
<td>14,000</td>
<td>PPO / CDHP</td>
</tr>
<tr>
<td>Client 4</td>
<td>Pharmaceutical</td>
<td>8,500</td>
<td>PPO / CDHP</td>
</tr>
<tr>
<td>Client 5</td>
<td>Engineering</td>
<td>63,000</td>
<td>PPO / CDHP</td>
</tr>
<tr>
<td>Client 6</td>
<td>Retail</td>
<td>100,000</td>
<td>PPO / CDHP</td>
</tr>
</tbody>
</table>

* Before program changes; status quo gross increase to premium before changes is 7.1%

- Mercer inquired with the client teams that responded last year; several are still in the process of setting premiums for 2020 and therefore rate increases are not yet available.
DATA – NOTES ON PREMIUM TREND ANALYSIS

Increase in Premium 2013-2019

• Covered California percentage increases were based upon data since the program’s inception in 2014.
• The data for Medi-Cal managed care program were calculated on a State Fiscal Year (July-June) up until 2019, which is for an 18 month period of July 1, 2019 – December 31, 2020.
• Medi-Cal 2013 – 2018 percentage changes are for the TANF (Temporary Assistance for Needy Families), CHIP (Children’s Health Insurance Program), and Disabled Medi-Cal populations. Prior to ACA Optional Expansion (OE), these groups made up ~91% of the Medi-Cal managed care population. The ACA OE population has been excluded in the development of these percentages.
• Medi-Cal 2019 percentage change is for all Medi-Cal managed care populations (Medicaid + CHIP).
• Percentage change in Health Benefit Cost per Employee – Before Changes is from Mercer’s 2018 National Survey of Employer Sponsored Health Plans.

2020 Gross Increases in Premium – Jumbo Clients

• 2020 gross premium increases were provided by internal Mercer teams.
• Jumbo clients range from 5,000 to 100,000 employees.
• Increases reflect after plan design changes.
Discussion

Where should CalPERS be in 3 to 5 years on healthcare?

What strategies should CalPERS be implementing?