THE ROLE OF VALUE-BASED PURCHASING IN U.S. HEALTH CARE REFORM

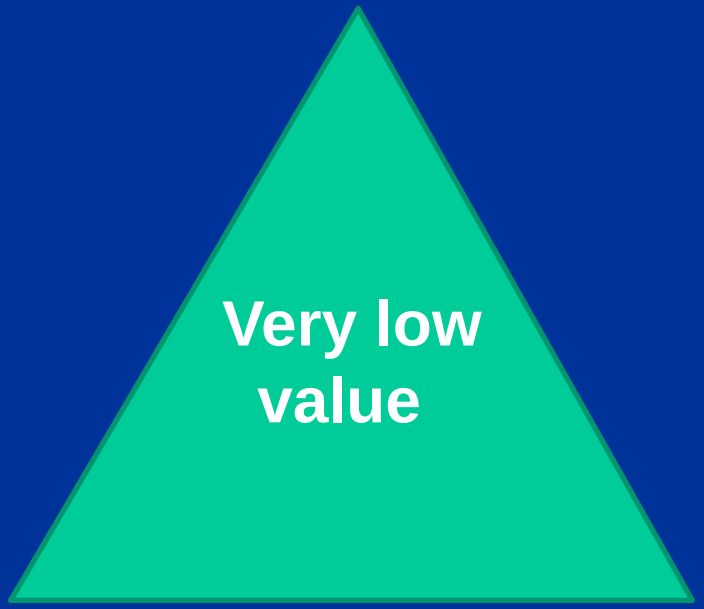
Stephen M. Shortell, Ph.D., M.P.H., M.B.A.
Blue Cross of California Distinguished Professor of Health Policy and Management
Dean, School of Public Health
University of California-Berkeley

Hong Kong Hospital Authority Convention Symposium
May 16, 2013

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

United States Health Care System Up to the Present Time

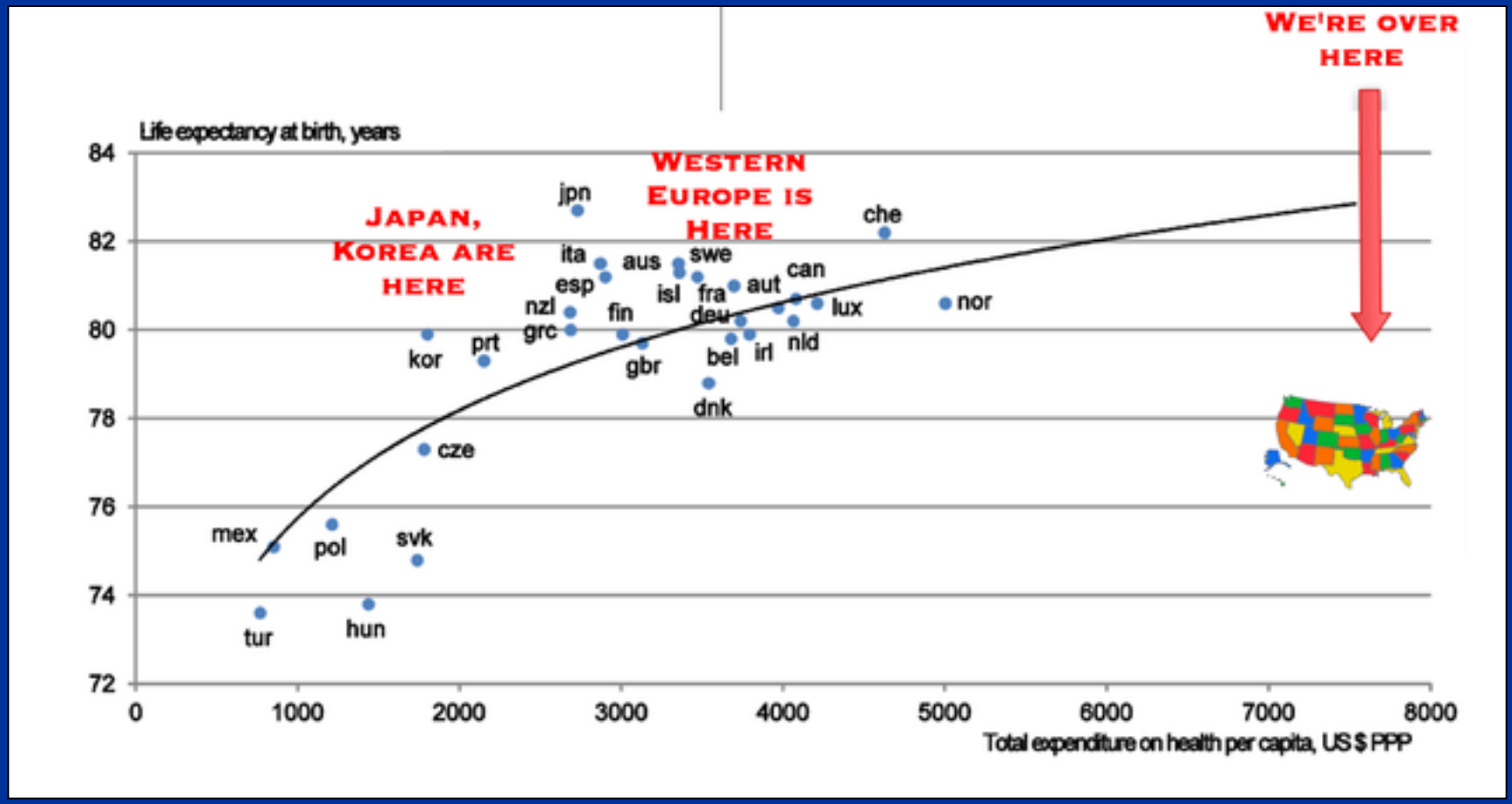
Quality
Highly Variable



Access
50 million plus uninsured

Cost
18 percent GDP
Most expensive

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY



Source: OECD Health, June, 2011

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

United States Health Care Aspirations – 2014 and Beyond

Quality
???

Access
Expanded insurance coverage for 32 million more Americans

Cost
???

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Value-Based Purchasing

Providing incentives for consumers and those who pay for health services to choose more cost-effective providers of care

One Approach is Through Value-Based Insurance Design

- Alter co-payment structures (co-insurance and deductibles) to promote high-value medical services and treatments, while discouraging the use of low-value services.

- Examples:
  - Prescription drugs: tiered drug formularies
  - “Choosing Wisely” Initiative

Source: C. Buttorf, S. Tunis, and J. Weiner. “Improving Value and Investing in Prevention…” White Paper prepared for Maryland Health Benefit Exchange, November 14, 2011

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Also Used to Encourage Disease Prevention and Health Promotion Practices:

- Cancer screening
- Flu shots
- Behavioral incentives to reduce blood pressure, cholesterol, blood sugar, etc.

Some examples:

- Pitney Bowes
  - Reduces co-pays for drugs commonly used for diabetes, asthma, and hypertension
- Aetna
  - Lowers co-pays for use of ACE inhibitors, beta-blockers, and statins

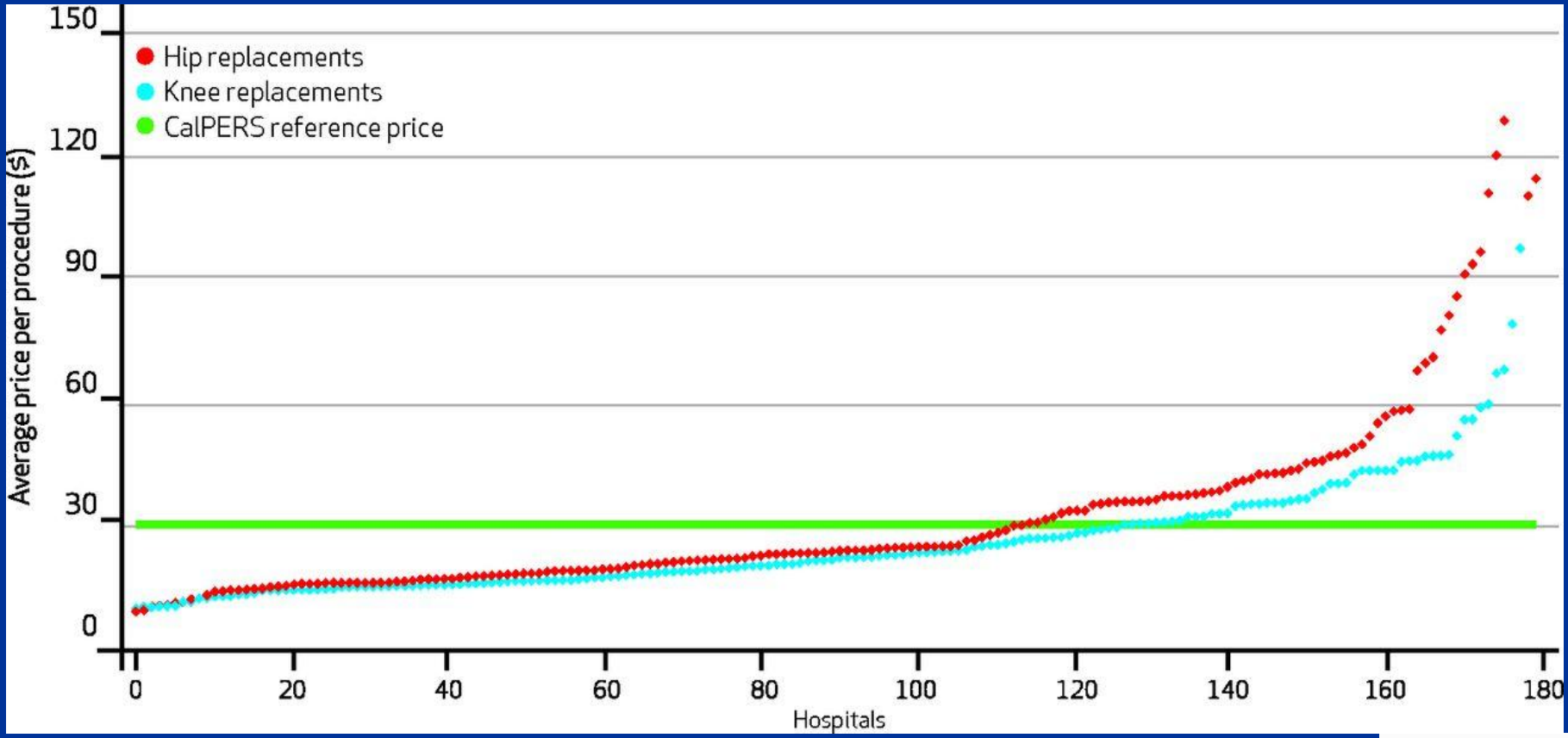
Reference Pricing Examples

- The insurer pays a defined amount of the price with the consumer paying the remainder
  - Orthopedic surgery
  - Advanced imaging and lab tests
  - Colonoscopy
  - Works best when there is variation in price but not quality
  - Works best with standardized procedures

Source: J.C. Robinson and K. MacPherson, Health Affairs, Sept. 2012: 2028-203

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Range In Average Price Per Procedure Across California Hospitals For California Public Employees' Retirement System (CalPERS) Patients Undergoing Knee Or Hip Replacement, 2009.



Robinson J C , and MacPherson K Health Aff 2012;31:2028-2036

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Centers of Excellence Examples

Channel patients to hospitals that provide high quality health care and who are willing to discount their prices in exchange for a higher volume of patients.

- Cardiac Care and the Cleveland Clinic

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

U.S. Health Insurance Exchanges Four levels of "Actuarial Value"

- Platinum – pay 90% of costs
- Gold -- pay 80% of costs
- Silver -- pay 70% of costs
- Bronze --pay 60% of costs

States allowed to use value-based designs

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Oregon Health Plan's Coverage Prioritization Process

1. Ordering of clinical areas	1. Maternity/newborn 2. Primary/secondary prevention 3. Chronic disease management 4. Reproductive services 5. Comfort care 6. Fatal conditions – disease modification/cure 7. Non-fatal conditions – disease modification/cure 8. Self-limited conditions 9. Inconsequential care
2. **Application of impact measures--how the service or treatment impacts the following domains**	1. Impact on health life years 2. Impact on suffering 3. Population effects 4. Vulnerability of population affected 5. Effectiveness 6. Need for service 7. Net cost

Oregon Health Plan's Coverage Prioritization Process (cont'd)

3. Scoring	Each of the clinical areas and impact measures have point values. Treatments for all diseases are scored and ordered in "lines" between highest and lowest.
4**. Coverage**	Oregon's legislature covers as many services as possible within a given year of funding.
5. Application of VBID Principles	Some enrollees face cost sharing in OHP. The state used the prioritization process to determine the services of high value. Little or no cost-sharing on: value-based, basic diagnostics, comfort care.
6. **Co-pays based on VBID tiers**	The prioritized list is sorted into four tiers according to the lines, with cost-sharing progressing up the tiers.

Adapted from Oregon Health Authority Presentation on VBID, 2011

Some Challenges

- Determining what are low value versus high value services
- Little evidence that it saves money in the short run
- Targeting to a small sub-group of a larger population
- Potential negative: Impact on low income people
- Need for more informed and engaged patients

Employers' Role in Purchasing

- Beginning to demand information on cost and quality from health plans
- The "pioneers" do the following:
  - Collect data on both cost and quality
  - Use it to select plans and providers
  - Have incentives for employees to enroll in plans with good performance record
  - Sometimes work directly with providers to identify and implement best practices

Source: AHQR: "Theory and Reality of Value- Based Purchasing: Lessons from the Pioneers"

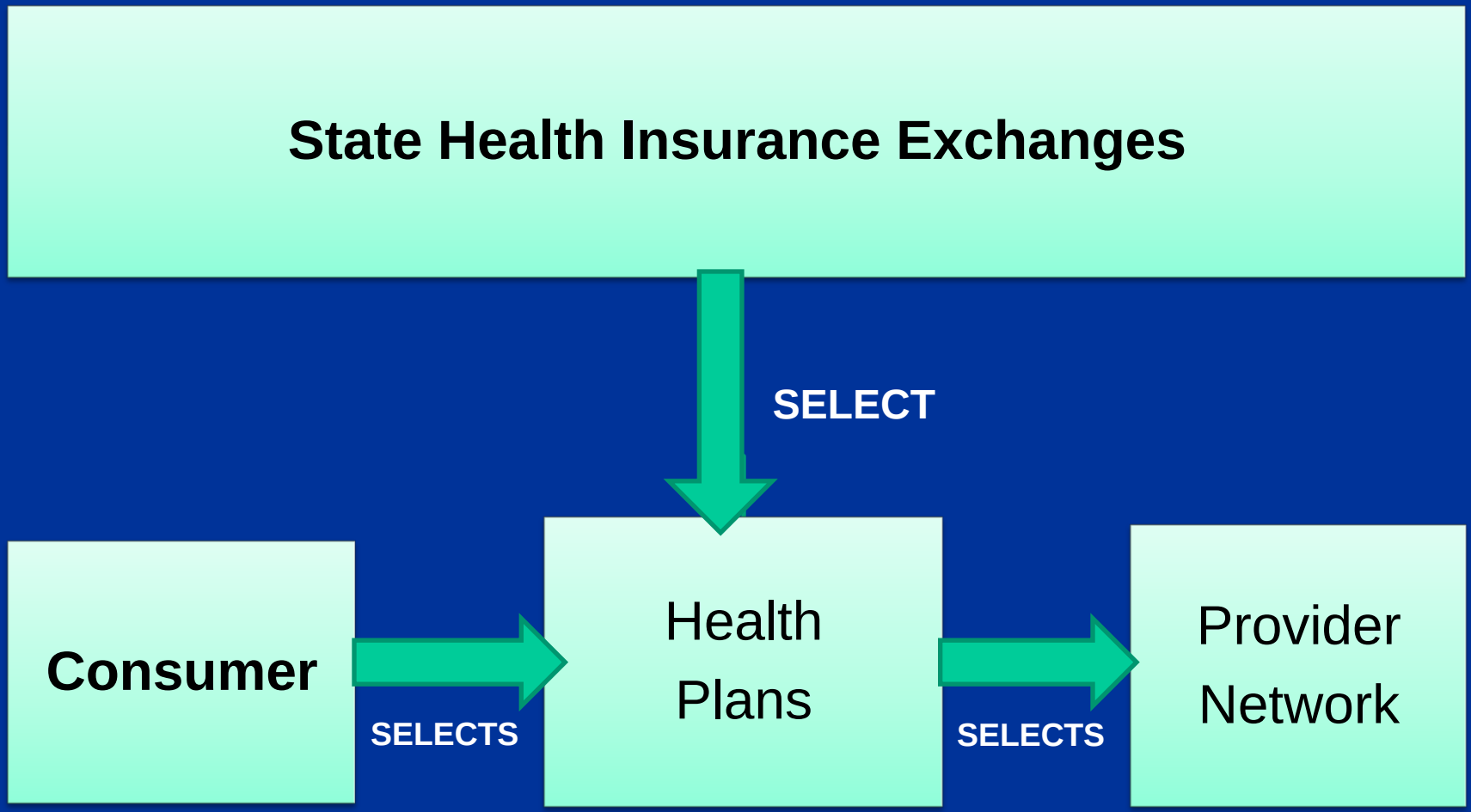
The Evidence

- Still emerging
- Recent computer simulation estimated that 60 percent of health expenditures in the U.S. are spent on low-value services, and 20 percent on high-value services
- Widespread application of value-based insurance design (VBID) could raise life expectancy by .44 life years without increasing health care expenditures
- Need more comparative effectiveness studies

Source: R.S. Braithwaite, C. Omokuro, A.C. Justice, et al. “Broader Diffusion of Value-Based Insurance Benefits: A Computer Simulation Model.” PLOS Medicine, February 16, 2010.

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY

Where Transparent Cost and Quality Data Are Needed



Thank You
“Healthier Lives In A Safer World”

School of Public Health
UNIVERSITY OF CALIFORNIA, BERKELEY