What Purchasers are Looking for Today... and tomorrow.

10th Annual
Health Care Forum for Business Leaders
May 14, 2014

David Lansky, PhD
President and CEO
PBGH Members

Apple
Facebook
Google
Hewlett Packard
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### Value of our $3 trillion system

#### Overall performance of the U.S. health care system

Using a typical report card scale with grades of A, B, C, D, and F, with A being excellent and F being failing, how would you grade the overall performance of the U.S. health care system?

<table>
<thead>
<tr>
<th></th>
<th>Employers</th>
<th>Physicians</th>
<th>Consumers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable “A” or “B”</td>
<td>33%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>Average “C”</td>
<td>38%</td>
<td>44%</td>
<td>31%</td>
</tr>
<tr>
<td>Poor “D” or “F”</td>
<td>29%</td>
<td>25%</td>
<td>45%</td>
</tr>
</tbody>
</table>

*Consumers*: This column represents the percentage of consumers who believe the health care system is performing poorly.

Source: Deloitte Center for Health Solutions: 2013 Survey of U.S. Employers

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Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2013

Employers considering “exit”

Figure 8. Employers’ confidence that health care benefits will be offered at their organization a decade from now remains low.

Source:
The Evolution of the Purchaser Role

- Growing interest working directly with providers and ‘accountable’ systems
- Early consideration of the role of Exchanges and possible ‘exit’ from employer-sponsored benefits

### Plan-Focused

- **1/1/1990**
  - PBGH members launch HMO Negotiating Alliance
  - 2% of premium at risk for quality performance
  - 19 participating employers at its maximum

- **1/1/1993**
  - CalPERS introduces standard HMO benefit design, creating apples to apples transparency in bid process

### Consumer-Focused

- **1/1/2001**
  - PBGH launches “Breakthrough Plan” with endorsement of Definity Health
  - Health Market & Lumenos were finalists
  - 7 employers were early adopters of consumer-directed health plans

- **1/1/2005**
  - CalPERS introduces narrow hospital network
  - Additional plan products follow
  - Sutter assumes all-system stance

- **7/1/2011**
  - AICU Pilot – Humboldt & So California

### Provider-Focused

- **1/1/2013**
  - Bundled Payment Pilots & National Ctrs of Excellence (domestic travel benefits)

- **1/1/2010**
  - Safeway & CalPERS launch reference pricing
  - Colonoscopy & orthopedic hip/knee to start
  - Advance imaging, lab, other procedures to follow

- **1/1/2011**
  - Accountable Care Networks

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Savings by “Best Performing” Employers

Figure 17. Total health care expense by performance group in 2013

<table>
<thead>
<tr>
<th>Performance Group</th>
<th>0</th>
<th>4,000</th>
<th>8,000</th>
<th>12,000</th>
<th>16,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best performers</td>
<td>2,246</td>
<td>2,632</td>
<td>8,380</td>
<td>$13,258</td>
<td></td>
</tr>
<tr>
<td>Low performers</td>
<td>2,617</td>
<td>3,126</td>
<td>9,738</td>
<td>$15,481</td>
<td></td>
</tr>
</tbody>
</table>

Point-of-care costs | Employee contributions | Employer costs

Note: Total health expenses include employer and employee portions of the premiums, and employee out-of-pocket costs at the point of care (including deductibles, copays and coinsurance). Best performers comprise 45 companies that have maintained trends at or below the TW/NBGH median trend for each of the last four years. Low performers are based on the highest quartile of two-year average trend.

Source:
## Strategies of “Best Performing” Employers

### Figure 25. New provider strategies are favored by best performers

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Best performers</th>
<th>Low performers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014*</td>
</tr>
<tr>
<td>Increase or decrease vendor payments based on specific performance targets</td>
<td>36%</td>
<td>44%</td>
</tr>
<tr>
<td>Differentiate cost sharing for use of high-performance networks</td>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td>Use value-based benefit designs (e.g., different levels of coverage based on value or cost of services)</td>
<td>11%</td>
<td>33%</td>
</tr>
<tr>
<td>Offer incentives (or penalties) to providers to improve quality, efficiency and health outcomes of plan participants (i.e., performance-based payments)</td>
<td>22%</td>
<td>47%</td>
</tr>
<tr>
<td>Engage a third party to secure improved pricing for medical services</td>
<td>18%</td>
<td>24%</td>
</tr>
<tr>
<td>Offer incentives (or penalties) to providers for coordinating care and using emerging technologies or evidence-based treatments</td>
<td>16%</td>
<td>38%</td>
</tr>
<tr>
<td>Adopt new payment methodologies that hold providers accountable for cost of episode of care, replacing fee for service</td>
<td>16%</td>
<td>38%</td>
</tr>
<tr>
<td>Use reference-based pricing in medical plan (e.g., limited level of coverage for a procedure)</td>
<td>9%</td>
<td>27%</td>
</tr>
<tr>
<td>Contract directly with physicians, hospitals and/or ACOs</td>
<td>13%</td>
<td>31%</td>
</tr>
</tbody>
</table>

*Includes companies indicating “planned for 2014”

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**Source:**

PBGH 2015 Vision

*A health care system transparent about the quality, cost and outcomes of care, where consumers are motivated to seek the right care at the right price and providers are incentivized to offer better quality, more affordable care.*
Four PBGH Strategies

1. **Engage Consumers**: Modify benefits and incentives to motivate consumer behavior changes

2. **Pay for Value**: Adopt provider payment methods that align incentives and reinforce accountability

3. **Redesign Care Delivery**: Promote delivery system reform

4. **Advance Policy**: Advocate for public policies to support health system transformation and drive value
1. Elements of Consumer Engagement

- **Goals:**
  - Motivate patients to select high quality, efficient providers
  - Get patients to receive services that meet evidence-based guidelines
  - Improve health behaviors and self-care
  - Participate in care and in decision-making

- **Techniques:**
  - Reference pricing
  - Narrow and tiered networks
  - Value based benefit design
  - Quality and price transparency at the provider level
  - Choice tools and decision aids
  - On-site clinics and telehealth
  - Wellness and health promotion incentives
CalPERS: applying reference pricing to hip/knee replacements

- Price varies from $15,000 to $110,000 (commercial PPO population)
- Anthem Blue Cross and CalPERS established a threshold of $30,000 – reference price – for a standard inpatient hip/knee replacement procedure.
- Increased volume of procedures at low-cost hospitals by ~21%
- Amount paid per surgery ~20% lower across all cases

Reference Pricing - Orthopedics

Reference pricing for lower cost services
Colonoscopy Cost Per Procedure – Greater SF Bay Area MSA

• 12% increase in use of labs below reference price; 6% increase in low-cost imaging centers
• Driven by steerage to specific, named providers
2. Elements of Paying for Value

• **Goal:** incent providers to utilize evidence-based practice, manage to outcomes, increase transparency, provide appropriate care, seek efficiencies, compete on value
  - **Direct contracting – Accountable Care Organizations**
  - Direct contracting – bundled payment
  - **Registries to document value of specialty care**
  - Catalyst for Payment Reform
  - Primary care medical homes
  - *Advanced medical homes – intensive outpatient care program*
  - *Reducing effects of market consolidation*
Are we all on the road to ACOs?

No....!

• Split between consumerist and integrated care visions
• Diversity of purchaser needs, beliefs, resources
• Unusual adaptations by providers and plans (e.g., Kaiser participation in centers of excellence orthopedic network)
• Some case studies …
Purchaser Principles for Accountable Care Organizations

- ACOs must be transparent.
- ACOs must be outcomes-focused.
- ACOs must be patient-centered.
- ACOs must pay providers for quality, not quantity.
- ACOs must address affordability and contain costs.
- ACOs must support a competitive marketplace.
- ACOs must demonstrate meaningful use of health information technology

Major purchaser, on contracting with ACOs:
“If they can’t give us lower cost, better outcomes, and better quality, we don’t want to waste our time; we can get the current value anywhere.”
B&T ACO: our interventions focus on the entire patient care continuum

### Awareness
- CCSF Health Fair presence
- “Orientation to PCP” member letter
- Member communication/postcards on access alternatives

### Wellness
- B&T screening programs
- Dedicated member engagement team
- Expansion of after-hours availability to create the “After Hours Network”
- Leveraging B&T’s Patient-Centered Medical Home
- Monthly distribution of unblinded ED utilization data for all physicians
- B&T (Enhanced) Dedicated Nurse Advice Line

### Access
- Population Management Programs
- Generic vs Brand Utilization Management and targeted outreach
- Stratification of highest risk members via Predictive Modeling Tools
- Management of high risk medications within senior population

### Chronic Mgmt
- ED discharge instructions encourage PCP follow up for non-emergent care
- ED Utilization through ACE
- Cross-organizational access to traditionally proprietary medical record systems (MIDAS & Ibex)

### ED Mgmt
- Coordinated discharge planning/transition of care
- Dedicated Hospitalist Program
- Advanced Illness and End-of-Life Programs
- Manage elective inductions
- MD to MD daily team rounding on inpatients
- Weekly interdisciplinary rounding on inpatients
- 7 day/week ED care management team
- New SNF model of care at Davies Campus
- Call Center for post discharge appts. for high risk patients

### Inpatient
- Personalized Care Plan, including discharge instructions, shared with PCP
- Welcome Home Calls
- POLST
- Scope of Practice for PCPs to standardize best practices across all B&T practices
- B&T Home Visits
- Follow-up appointments and calls for CHF patients
- Prevention focused interventions

### Outpatient
- Initial Solutions – Getting the Basics Right
- New Interventions (implemented after June 30, 2012)
B&T ACO: high level collaboration accomplishments

- Implemented a dedicated hospitalist program
- Implemented daily care coordination meetings between inpatient hospitalists and outpatient care managers
- Reduced non-medically indicated inductions before 39 weeks from 25% to 0%

- Opened a Patient-Centered Medical Home
- Expanded access to care with an after hours clinic within as existing physician practice
- Contracted with a local nurse advice line with the capability to integrate with Brown & Toland’s EMR system

- Launched a focused physician outreach campaign to promote conversion from brand to generic alternatives
- Implemented a physician bonus program to incentivize generic prescribing
B&T ACO: almost two year results

- **Membership**: 19,546
- **Average Risk Score**: Year 1: 1.456 (Bay Area HMO: 1.47); Current: 1.512 (as of February 2013)

<table>
<thead>
<tr>
<th>ID</th>
<th>Key Indicator</th>
<th>Baseline</th>
<th>Year One</th>
<th>% Change</th>
<th>Direction</th>
<th>Year Two</th>
<th>% Change</th>
<th>Direction</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Admits/1000</td>
<td>52.8</td>
<td>45.4</td>
<td>(-14%)</td>
<td><strong>↓</strong></td>
<td>50.0</td>
<td>(-5%)</td>
<td><strong>↓</strong></td>
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<tr>
<td>2.</td>
<td>Days/1000</td>
<td>225.2</td>
<td>191.5</td>
<td>(-15%)</td>
<td><strong>↓</strong></td>
<td>194.5</td>
<td>(-14%)</td>
<td><strong>↓</strong></td>
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<tr>
<td>3.</td>
<td>ALOS</td>
<td>4.27</td>
<td>4.22</td>
<td>(-1%)</td>
<td><strong>↓</strong></td>
<td>3.89</td>
<td>(-9%)</td>
<td><strong>↓</strong></td>
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<tr>
<td>4.</td>
<td>ER Visits/1000</td>
<td>169.5</td>
<td>169.3</td>
<td>(0%)</td>
<td><strong>↔</strong></td>
<td>165.9</td>
<td>(-2%)</td>
<td><strong>↓</strong></td>
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<tr>
<td>5.</td>
<td>Catastrophic Days/1000</td>
<td>NA</td>
<td>59.9</td>
<td>-</td>
<td><strong>↓</strong></td>
<td>45.2</td>
<td>(-24%)</td>
<td><strong>↓</strong></td>
</tr>
</tbody>
</table>

1. Membership as of May 2013 (membership count is stable and flat since baseline)
2. Risk Score is concurrent expenditure risk calculated using DxCG Version 3.03 as of May 2012
3. "Baseline" reflects July 1, 2009 through June 30, 2010
4. "Year One" reflects July 1, 2011 through June 30, 2012; "Year Two" reflects most recent data - rolling 12 months through March 2013
5. "Catastrophic" is defined as admits with a LOS greater than 10 days
Purchaser’s ACO RFP

• **ACO Vision:** improve accountability and performance

• **New IT:** “ability to track populations, track high risk patients including care gaps and to share this information in a timely manner with providers.”

• **Care integration:** your “plans for accelerating the pace of change”

• **Innovations:** registries, intensive outpatient care program, new models for cancer care, “approaches to ESRD and other conditions that are more patient centered and less costly”

• **Episodes:** Reengineering common surgeries, Shared decision making, Convenience, Appropriate settings

• **Standardize use of more cost-effective choices,** including stents, low back pain, maternal care, implant selection, lower cost venues

• **New roles,** redeployment of personnel

• **Quality measures:** health status, outcomes, experience, productivity

• **Provider payment** – based on value

• **Accountability for trend:** guaranteeing flat PMPM or guaranteeing lower PMPM than previous year
Free Cardiac And Spine Surgery For Walmart Employees At Six Hospitals

Starting next year 1.1 million US Walmart employees and their dependents will be eligible for free heart, spine, and transplant surgery at 6 highly regarded health care organizations. Walmart employees will have no out-of-pocket costs, including travel, lodging and food for treatment.

PBGH
PACIFIC BUSINESS GROUP ON HEALTH

WALMART, LOWE’S AND PACIFIC BUSINESS GROUP ON HEALTH COLLABORATE ON NEW KIND OF NATIONAL EXCELLENCE NETWORK

Innovative program to provide quality care for hip and knee replacement surgeries at no cost to employees

SAN FRANCISCO, Calif., Oct. 8, 2013 – Focusing on improving the medical care their employees receive while reducing costs to employees, Walmart, Lowe’s and other large employers joined the Pacific Business Group on Health Negotiating Alliance (PBGH-NA) to launch a national Employers Centers of Excellence Network (ECEN) that will offer no-cost knee and hip replacement surgeries for employees at four hospital systems in the United States.
Better information to support consumer and purchaser decisions

March 29, 2013

RE: Participation in the California Joint Replacement Registry

Dear Hospital Contact:

Thank you for your interest in the Blue Distinction Centers for Knee and Hip Replacement® program.

Our partnership with you focuses on enhancing clinical quality for your patients and for our members. Blue Shield values the use of clinical outcomes registries as an important tool in identifying best practices, decreasing complications, and improving patient outcomes. The California Joint Replacement Registry (CJRR) www.caljrr.org is well positioned to help California hospitals and orthopaedists do exactly that. The CJRR, a collaborative effort with the California HealthCare Foundation, the California Orthopaedics Association, and the Pacific Business Group on Health, now has participation from many of the state’s leading orthopaedic surgeons and their hospitals. Blue Shield would like to encourage you to join the CJRR this year.

Thank you for the opportunity to serve you.

Sincerely,

[Signature]

[Name]

Senior Vice President

Blue Shield of California

EXAMPLE FROM CALPERS REFERENCE

<table>
<thead>
<tr>
<th>PRICING MATERIALS FROM 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated Facilities</td>
</tr>
<tr>
<td>Adventist Medical Center</td>
</tr>
<tr>
<td>Alvarado Hospital LLC</td>
</tr>
<tr>
<td>Arroyo Grande Community Hospital</td>
</tr>
<tr>
<td>Bakersfield Memorial Hospital</td>
</tr>
<tr>
<td>Barton Memorial Hospital</td>
</tr>
<tr>
<td>Cedars Sinai Medical Center</td>
</tr>
<tr>
<td>Community Hospital of the Monterey Peninsula</td>
</tr>
<tr>
<td>Cameron Hospital</td>
</tr>
<tr>
<td>Desert Regional Medical Center</td>
</tr>
<tr>
<td>Eisenhower Medical Center</td>
</tr>
<tr>
<td>El Camino Hospital</td>
</tr>
<tr>
<td>Enloe Medical Center Inc</td>
</tr>
<tr>
<td>French Hospital Medical Center</td>
</tr>
<tr>
<td>Fresno Surgical Hospital</td>
</tr>
<tr>
<td>Good Samaritan Hospital – San Jose</td>
</tr>
<tr>
<td>Good Samaritan Hospital – Los Angeles</td>
</tr>
<tr>
<td>Hoag Orthopedic Institute</td>
</tr>
<tr>
<td>Huntington Memorial Hospital</td>
</tr>
<tr>
<td>John F Kennedy Memorial Hospital</td>
</tr>
<tr>
<td>Kaweah Delta Medical Center</td>
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<tr>
<td>Loma Linda University Medical Center</td>
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<tr>
<td>Long Beach Memorial Medical Center</td>
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<tr>
<td>Mercy Medical Center – Redding</td>
</tr>
<tr>
<td>Methodist Hospital Of Sacramento</td>
</tr>
<tr>
<td>O’Connor Hospital</td>
</tr>
<tr>
<td>UC San Diego Medical Center</td>
</tr>
</tbody>
</table>

Hospitals highlighted in green are in the process of joining the CJRR.
3. Elements of Redesigning Care

• Goal: assist providers in system redesign to optimize outcomes
  • California Quality Collaborative
  • Intensive outpatient care program (IOCP)
  • Avoid Readmissions thru Collaboration (ARC)
  • Support for clinical decision support systems (MU2)
  • Support for Appropriate Use Criteria
  • Addressing scope of practice, regulatory barriers
  • Disruptive models: onsite clinics, retail points of service, medical tourism
Intensive Outpatient Care Program: Personalized care for the chronically ill

In a second project in Northern California:
- Cost per person per month down by 16%
  - 44% reduction in hospital admissions
  - More preventive visits
  - Less outpatient surgery

<table>
<thead>
<tr>
<th>Measure compared to baseline</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care costs of pilot participants versus control group</td>
<td>-20.0%</td>
</tr>
<tr>
<td>Hospital admissions</td>
<td>-28%</td>
</tr>
<tr>
<td>Improvement in mental functioning of pilot participants</td>
<td>+16.1%</td>
</tr>
<tr>
<td>Participants feeling that care was “received as soon as needed”</td>
<td>+17.6%</td>
</tr>
<tr>
<td>Average number of participants feeling that care was “received as soon as needed”</td>
<td>-15%</td>
</tr>
</tbody>
</table>
Spreading Best Practices to Reduce Hospital Readmissions

Reduction in readmissions by 20 Bay Area Hospitals saves $3.6 million per month

Reduction in readmissions by 20 Bay Area Hospitals saves $3.6 million per month

Did hospital staff talk with you about whether you would have the help you needed when you left the hospital?

HCAHPS 19

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Did hospital staff talk with you about whether you would have the help you needed when you left the hospital?

HCAHPS 19

Reduction in readmissions by 20 Bay Area Hospitals saves $3.6 million per month

Reduction in readmissions by 20 Bay Area Hospitals saves $3.6 million per month

Did hospital staff talk with you about whether you would have the help you needed when you left the hospital?

HCAHPS 19
4. Sample Employer Policy Recommendations

• 75% of Medicare payment non-FFS by 2020
• New treatments’ pricing subject to comparative effectiveness research after year 3 on market
• Medicare allows tiered cost-sharing for providers, drugs, services
• Medicare Advantage plans allowed to use value-based insurance designs
• Plans offered in Exchanges must offer value-based benefit design by 2017
• States have incentives to achieve total spending levels within a target
• Prohibit provider gag clauses, all-or-nothing contract terms
• Require all Medicare providers to meet Meaningful Use standards by 2018
• Uniform quality measures for “top 20” conditions
• Remove federal barriers to state flexibility on scope-of-practice.
Provider System Consolidation Increases Prices

10-Year History of Hospital Pricing in California

- Percent Price Increase 1999-2009

<table>
<thead>
<tr>
<th></th>
<th>Percent Increase</th>
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<tbody>
<tr>
<td>Sutter Commercial</td>
<td>280%</td>
</tr>
<tr>
<td>Sutter (All-Payer)</td>
<td>134%</td>
</tr>
<tr>
<td>State-Wide Average</td>
<td>92%</td>
</tr>
</tbody>
</table>

Source: Glenn Melnick, presentation to SF Board of Supervisors, 4/28/11
A less regulatory approach to promoting provider competition

- **Employer action** to educate and incentivize employees to choose high-value providers
- **Require all-payer, all-provider claims database** including Medi-Cal, commercial health plans, and self-funded employers to submit data (with paid amounts)
- **Monitoring** of the degree and impact of market concentration and anti-competitive actions – following Massachusetts legislation
- **Anti-trust enforcement** to prevent pricing based on undue market power
Employer Initiatives to Control Health Care Costs

1. Consumer ‘steerage’ through:
   • Reference pricing
   • Narrow and tiered networks
   • Quality transparency at provider level
   • Choice tools and decision aids

2. Provider incentives through:
   • Direct contracting – Accountable Care Organizations
   • Direct contracting – bundled payment
   • Registries to document value of specialty care
   • Catalyst for Payment Reform

3. Redesign of care models
   • Intensive outpatient care program (complex chronic illness)
   • Avoid Readmissions thru Collaboration

4. Policy advocacy
   • Market consolidation
   • Quality measurement infrastructure
   • Value payment
Countervailing Forces

- Consumer steerage:
  - Recruitment/retention/competition
  - “Disruption”/timidity
  - Carrier business requirements
  - General culture (more is better; keep my doctor)
  - Measurement enterprise

- Provider incentives:
  - Medicare FFS
  - Provider, carrier, vendor business requirements
  - “Tipping point” shortfall

- Redesign of care models:
  - Missing “manager”
  - Legacy FFS culture, training, infrastructure
  - Pluralistic incentives

- Policy advocacy:
  - Industry-specific advocacy priorities
  - “Politics”, not policy
For more information please visit:

• Learn more about the Pacific Business Group on Health and our effort to improve the quality of health care while moderating costs at www.pbgh.org

• Learn more about our work to bring employers, consumers and labor organizations together to improve access to publicly reported health care performance information at www.healthcaredisclosure.org

• Learn more about our efforts to reform payment at www.catalyzepaymentreform.org