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Anthem Blue Cross
Value Based Purchasing Design (Reference Based Pricing)

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About our organization

Anthem Blue Cross, in California, is one of the largest health plans in the USA with approximately 8 million members and is a Blue-licensed subsidiary of WellPoint. Anthem provides HMO and PPO networks and related medical networks. We contract with over 55,000 physicians and over 385 hospitals in our PPO network within California

The problem we were trying to solve/the challenge(s) we faced

We are faced with increasing cost of care driven in large part by the inherent pay for volume financing model which predominates the healthcare marketplace. When we pay as a percentage of billed charges for patients/procedures that meet stop loss thresholds there is limited marketplace constraints on the related medical costs. The costs of hip and knee replacement in our network hospitals varied considerably from \$15,000 to \$115,000. We wanted to disrupt this economic system.

Our bright spot – the successful program, result, or process we want to share

Working with a very large purchaser, California Public Employees' Retirement System (CalPERS) we introduced a reference price for routine knee and hip replacement which limits plan benefits for hospital



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care for these procedures to a price of \$30,000. CalPERS introduced a benefit limit into their PPO product which allowed a maximum hospital benefit payment of \$30,000, if the cost of a hip or knee replacement was greater than the reference price the member had to pay the costs above the reference price. Medical costs for physicians and other providers are not included in this benefit limitation.

“We modified some benefits and member co-payments to encourage more efficient use of medical services and products, for example using hospitals that cap the cost of hip and knee replacement surgeries at \$30,000 rather than charging up to \$90,000 as others may do,” said Tony Oliveira, Interim Chair/Vice Chair of the Health Benefits Committee. “We plan to keep track of how patients use these lower-cost options to make sure they make a difference, not only in lower member copays but for the overall program.”

We introduced this into the plan benefits in 2011. There are approximately 63 hospitals in California that perform more than 10 hip or knee replacements for CalPERS members in the prior year. 47 of these hospitals had total hospital charges of \$30,000 or less. 16 hospitals had medical costs above the reference price.

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Value Based Purchasing Design – Pilot Results

Preliminary Anthem analysis of the VBPD pilot revealed:

- The number of surgeries performed at facilities that charge below the benefit threshold was **6.8 percentage points higher** once the program was in place.
- The **average paid amount per surgery was 26.5% lower** during the pilot than it was the prior year. This is a combination of the members going to lower cost facilities more often as well as the cap being applied to members who chose to facilities that charged in excess of the threshold.

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The biggest hurdle

The most significant challenge Anthem faced with achieving success was both member and provider communication and engagement. With the magnitude of information delivered, it is difficult for both members and providers to consider the unique applications of a new program, in particular when the impact of the program is not readily apparent.

Although Anthem communicated to both members and providers in advance of the effective date of the benefit design, when actual services were scheduled the impact of this change was not universally considered in their decision.

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Anthem addressed this lack of understanding through a variety of reminder communications, including:

Member utilization management letters communicating the benefit impact. Member outreach phone calls based on pre-certification notification. Unique member communication letters in regional areas exhibiting issues with the application of the plan design. Focused orthopedic letters to physicians who may be impacted by the benefit change.

The next evolution of this effort is to utilize our proprietary predictive modeling software to isolate members most likely to need knee and hip replacements and provide them with advance notification of the benefit impact. This mechanism is hoped to create a better focus for members who would recognize the impact of the benefit on the care they are anticipating, but also provide enough advance notification to react positively.

Aha moment or lesson learned

This change in benefit design has been viewed positively by the market and seems to have had an effect on hospital pricing of elective procedures.

For those who want to steal shamelessly, what advice do you offer?

This is a workable strategy for elective procedures but attempting this for procedures that are frequently non-elective would not be recommended.

Procedure based reference pricing will not have a long term cost of care benefit if hospitals simply shift lost medical costs to other services. An on-going focus must be placed on working with hospitals to improve the efficiency of elective procedures.



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