The Colorado Purchasing Alliance

"Purchasers Leading Market-Based Health Reform"

Determining the Value of Hospital Services:

The Colorado Experience –

Kentuckiana Health Collaborative

December 1st, 2020

"If you want something new, you have to stop doing something old."

– Peter Drucker

The Colorado Purchasing Alliance
a CBGH Affiliate

Healthcare Bluebook.

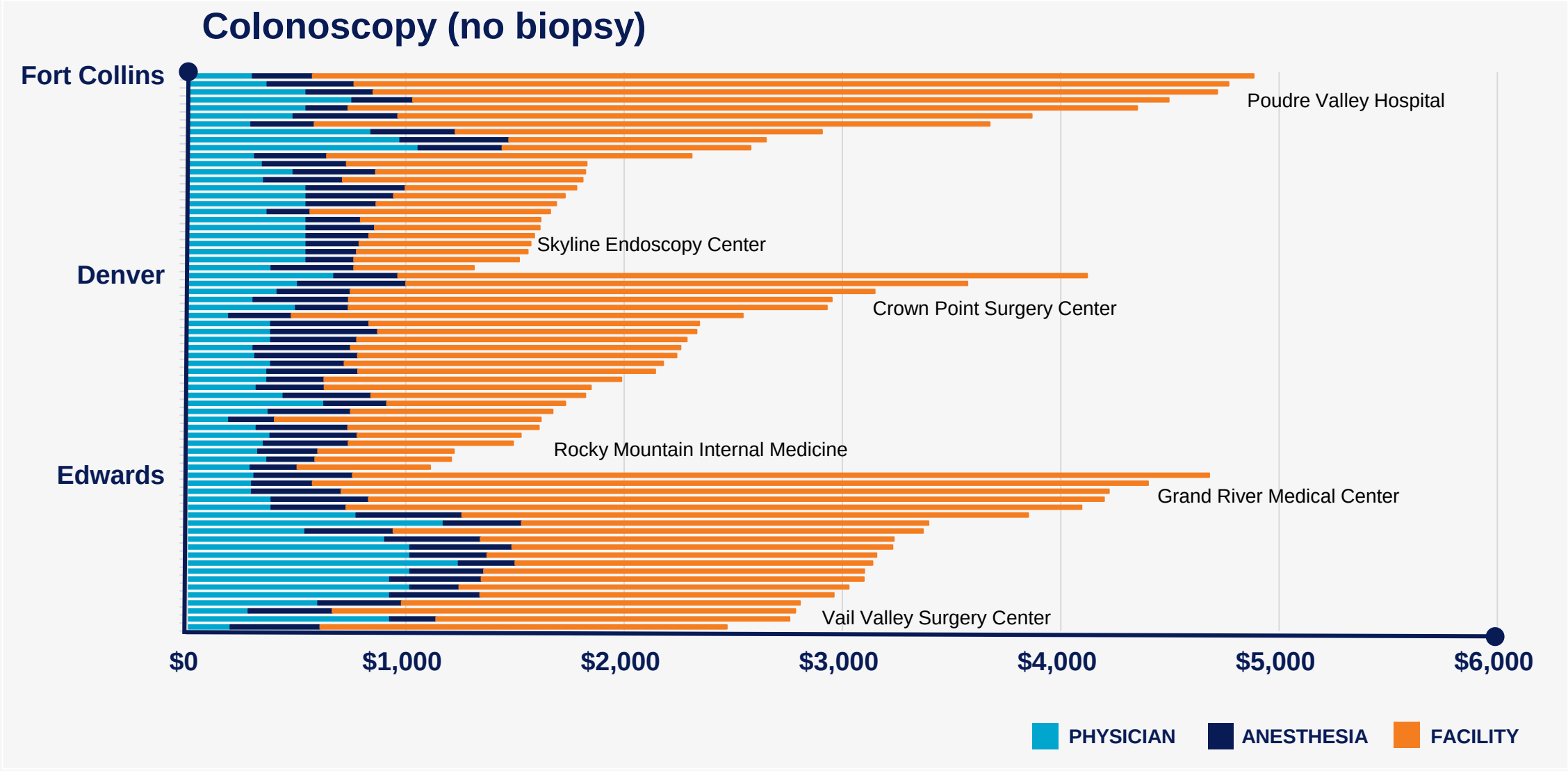
Prices Vary Drastically, Even In-Network

Market | Fort Collins

	MARKET BASKET OF COMMON PROCEDURES	LOW PRICE	HIGH PRICE	VARIANCE
1	Abdomen and Pelvis CT (no contrast)	$336	$1,652	492%
2	Knee Arthroscopy	$4,174	$23,517	563%
3	Colonoscopy (no biopsy)	$1,312	$5,209	397%
4	Sleep Study	$806	$6,050	751%
5	Total Knee Replacement	$20,481	$77,683	379%
6	Tonsillectomy	$2,401	$13,250	552%
7	Heart Perfusion Imaging	$599	$9,273	1549%
8	Abdominal Ultrasound	$186	$596	321%
9	Transthoracic Echocardiogram (TTE)	$352	$4,156	1180%
10	Knee MRI (no contrast)	$485	$1,998	411%
			Average Market Variance	***660%***
	EQUAL VARIANCE IN A GALLON OF GAS	$2.29	$14.72	660%

Healthcare Bluebook

Where you get care has a major impact on cost.



Source: Healthcare Bluebook Internal Data, Random Sample

QUANTROS

RAND CORPORATION HOSPITAL PRICING AS A PERCENT OF MEDICARE				QUANTROS CLINICAL QUALITY SCORES (CQS)					
HOSPITAL NAME	CITY	RELATIVE PRICE FOR OUTPATIENT SERVICES	RELATIVE PRICE FOR INPATIENT SERVICES	OVERALL HOSPITAL CARE NATIONAL COMPOSITE QUALITY SCORE	OVERALL HOSPITAL CARE MORTALITY	OVERALL HOSPITAL CARE COMPLICATIONS	OVERALL HOSPITAL CARE READMISSIONS	HIGHEST PERFORMING CLINICAL CATEGORY	LOWEST PERFORMING CLINICAL CATEGORY
Valley View Hospital Association	Glenwood Springs	478%	301%	89.2 ✓+	88.8	80.6	69.2	Cardiac Care 95.2	Orthopedic Care 9.9
Community Hospital	Grand Junction	409%	302%	31.1 ✓	32.6	12.1	93.2	Stroke Care 82.3	Gastrointestinal Care 3.8
OrthoColorado Hospital at St. Anthony Medical Campus	Lakewood	119%	313%	89.9 ✓+	77.2	26.1	89.2	Joint Replacement 95.7	Spinal Fusion 43.0
Colorado Plains Medical Center	Fort Morgan	782%	329%	46.7 ✓	78.7	65.0	23.1	General Surgery 73.7	Orthopedic Care 24.9
Poudre Valley Hospital	Fort Collins	575%	331%	99.7 ✓++	98.2	98.5	95.0	Joint Replacement 99.8	Chronic Obstructive Pulmonary Disease 25.8
St. Anthony Summit Medical Center	Frisco	697%	336%	78.4 ✓+	68.3	74.8	60.3	Pulmonary Care 81.6	Orthopedic Care 50.0
Animas Surgical Hospital, LLC	Durango	346%	350%	76.3 ✓+	69.1	71.0	76.2	Overall Surgical Care 82.2	Spinal Surgery 36.5
Medical Center of the Rockies	Loveland	483%	389%	99.0 ✓++	95.0	98.7	96.2	Cardiac Care 97.8	Interventional Carotid Care 4.8
Centura Health St. Anthony Hospital	Lakewood	500%	394%	86.4 ✓+	96.8	65.0	98.2	Trauma Care 99.0	Heart Failure Treatment 2.5

LEGEND: ✓- - ≤ 10th percentile ✓- 11th – 25th percentile ✓ 26th – 74th percentile
✓+ 75th – 89th percentile ✓++ ≥ 90th percentile - - No Data / Not Eligible
(If a Clinical Category case count is less than eleven, no composite quality score will be calculated.)

DATA TIME PERIOD: *Q4 2014 – Q3 2017*

Key Conclusions

You *may* get excellent hospital care in CO:

- Five out of six: at least 1 top quartile service line
- Over half: at least 1 top decile service line

But the exact opposite is also true:

- Five out of six: at least 1 bottom quartile service
- Half: at least 1 bottom decile service

Quality varies nearly as much within hospitals as it does across hospitals.

- Of the 50 Colorado hospitals offering a service in the top 25% of hospitals in the country…
- 32 of these same hospitals also offer a service in the bottom 25% of all hospitals in the country.

No reliable quality/price relationship.

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Hospital Prices: A Perfect(ly Designed) Storm

Multiple mutually reinforcing economic dynamics contribute to creating a dysfunctional market.

Non-Discretionary Services

For majority of in-patient services, consumers have no choice but to "buy." In economics, this means…

- Price increases have little or no effect on demand.
- Opportunity to increase price eliminates need or incentive to control costs.

Oligopolistic Markets

Horizontal and vertical integration means markets are highly concentrated across Colorado/US.

- Suppliers tend to behave inter-dependently, unwilling to be disruptive.
- Advertising creates illusion of competition.

MARKET DYSFUNCTION

Where ***pricing is being driven by neither costs nor quality*** (e.g, "value") but seemingly by the suppliers' impulse and ability to price "to what the market will bear."

Market Incentives

- Fixed admin load ties insurer profits to increases in medical expense ratio.
- Tax-exemptions for hospital create incentives to increase costs (well documented by MedPAC).
- Contracting as discount from charges creates incentives to be big, not good.
- Pricing is opaque – and both health plans and systems seem to ***prefer that it stay that way***.

As a matter of fiduciary responsibility…

Two questions employers need to answer:

1. What ARE you paying???

Premise: If you don't know what you're paying for hospital services, ***as a percent of Medicare***, you don't know what you're paying.

Arbitrary discounts x arbitrary charges = Wonderland Pricing

2. What SHOULD you be paying?

Problem: How should "the market put a dollar value on what are oftentimes truly invaluable (in-patient) services?

Alternative Market Solutions:

- **Hospitals**, typically in highly or super concentrated markets, "price to what market will bear"….

or

- **Purchasers** (collectively) can either…
  - Use market comparisons e.g., Rand 3.0, plotting price against quality.
  - Calculate medical costs of care plus a margin (related to quality).

Note: In either case, pricing should be referenced to Medicare.