



# Health Care Spending & Pricing Overview

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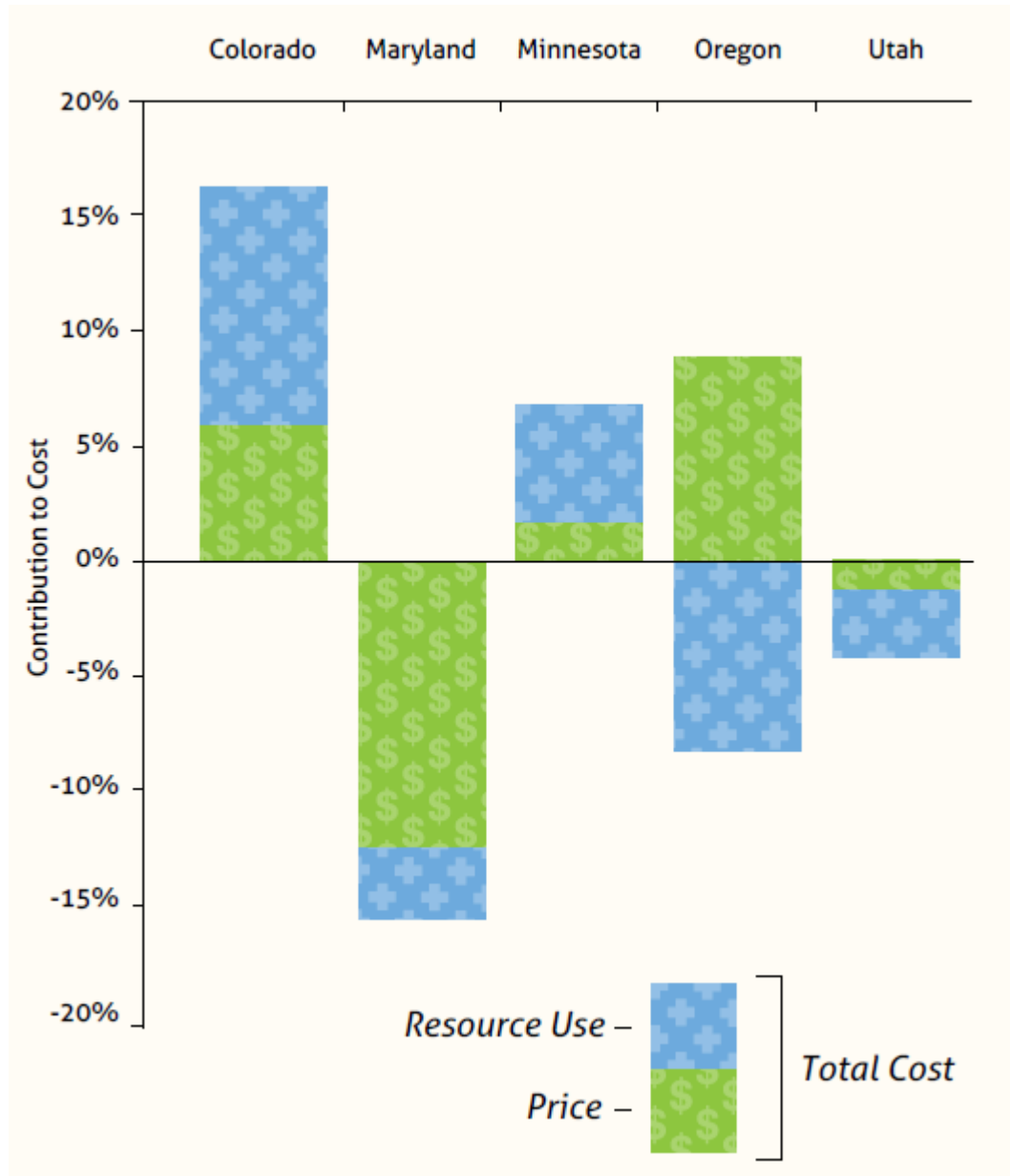
MARCH 9, 2018

K. JOHN MCCONNELL, CENTER FOR HEALTH SYSTEMS EFFECTIVENESS

# What I'll cover

- Oregon's health care spending relative to other states
- Health care cost drivers
- Trends in provider consolidation in Oregon and beyond
- Price variation among Oregon hospitals
- A comment on cost shifting
- All-payer models in Vermont & Pennsylvania
- Emerging evidence on payment reform

# Cost Drivers: OR vs Other States



2015 Commercial population

Size of bars represents the impact of price and resource use on total cost.

# Cost Drivers: OR vs Other States

Total Cost of Care by Service Category (Commercial Population 2015)

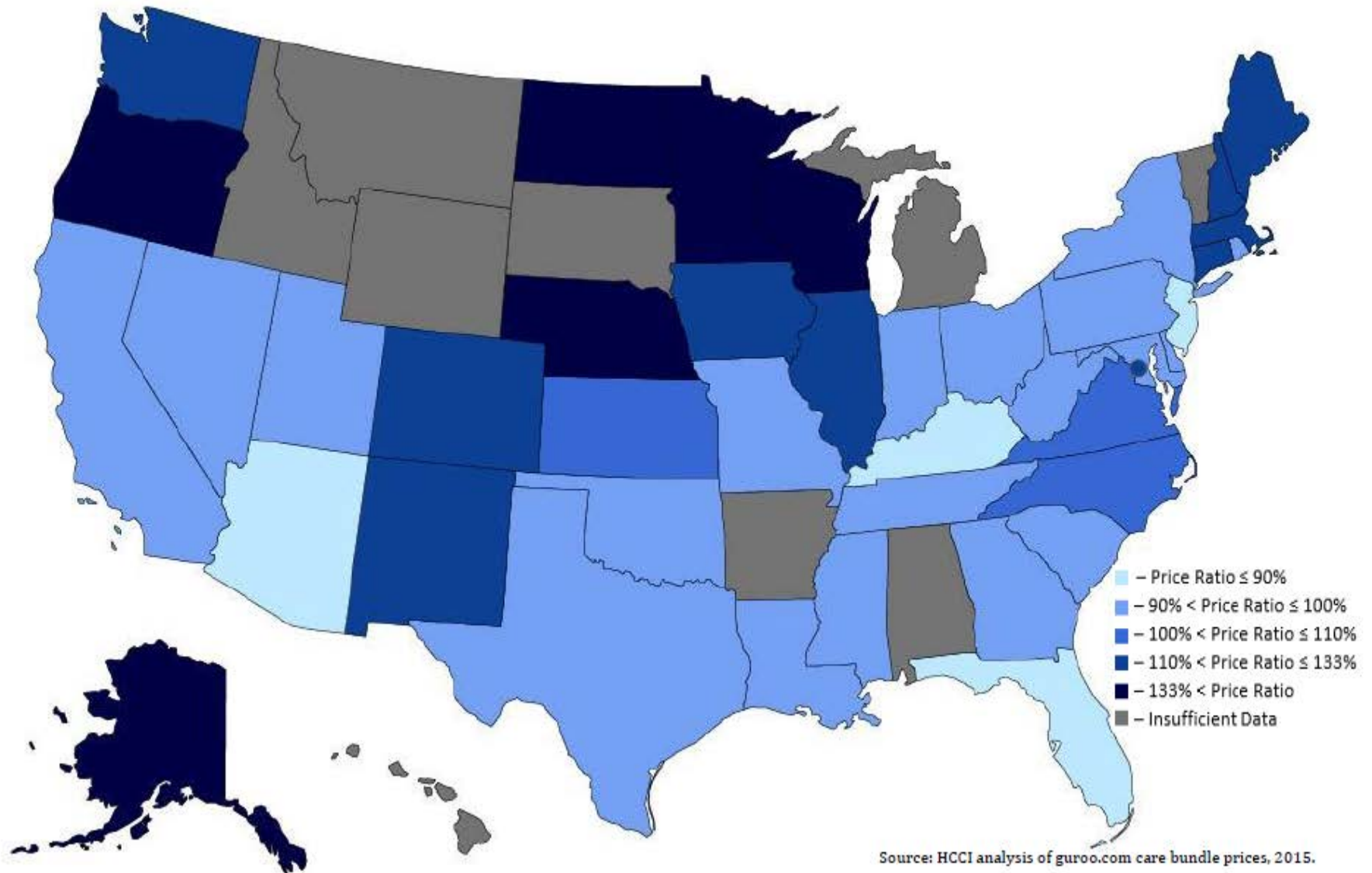
Measure	Colorado	Maryland	Minnesota	Oregon	Utah
<b>Total Cost</b>					
Overall	17%	-16%	7%	0%	-4%
Inpatient	16%	-18%	7%	0%	-1%
Outpatient	30%	-30%	0%	-7%	17%
Professional	5%	-18%	21%	12%	-17%
Pharmacy	24%	7%	-11%	-12%	-8%
<b>Resource Use</b>					
Overall	11%	-3%	5%	-8%	-3%
Inpatient	0%	-7%	8%	-14%	16%
Outpatient	25%	-19%	5%	-16%	13%
Professional	3%	2%	10%	-3%	-13%
Pharmacy	23%	6%	-9%	-10%	-9%
<b>Price</b>					
Overall	6%	-13%	1%	9%	-1%
Inpatient	16%	-12%	-1%	16%	-14%
Outpatient	4%	-13%	-5%	11%	4%
Professional	2%	-20%	10%	15%	-5%
Pharmacy	0%	1%	-2%	-2%	2%

OR's inpatient utilization is **14% below** the risk-adjusted average across all regions.

OR's inpatient prices are **16% above** the risk-adjusted average across all regions.

## Primary Doctor Visit – Moderate Complexity (New Patient) (42 States)

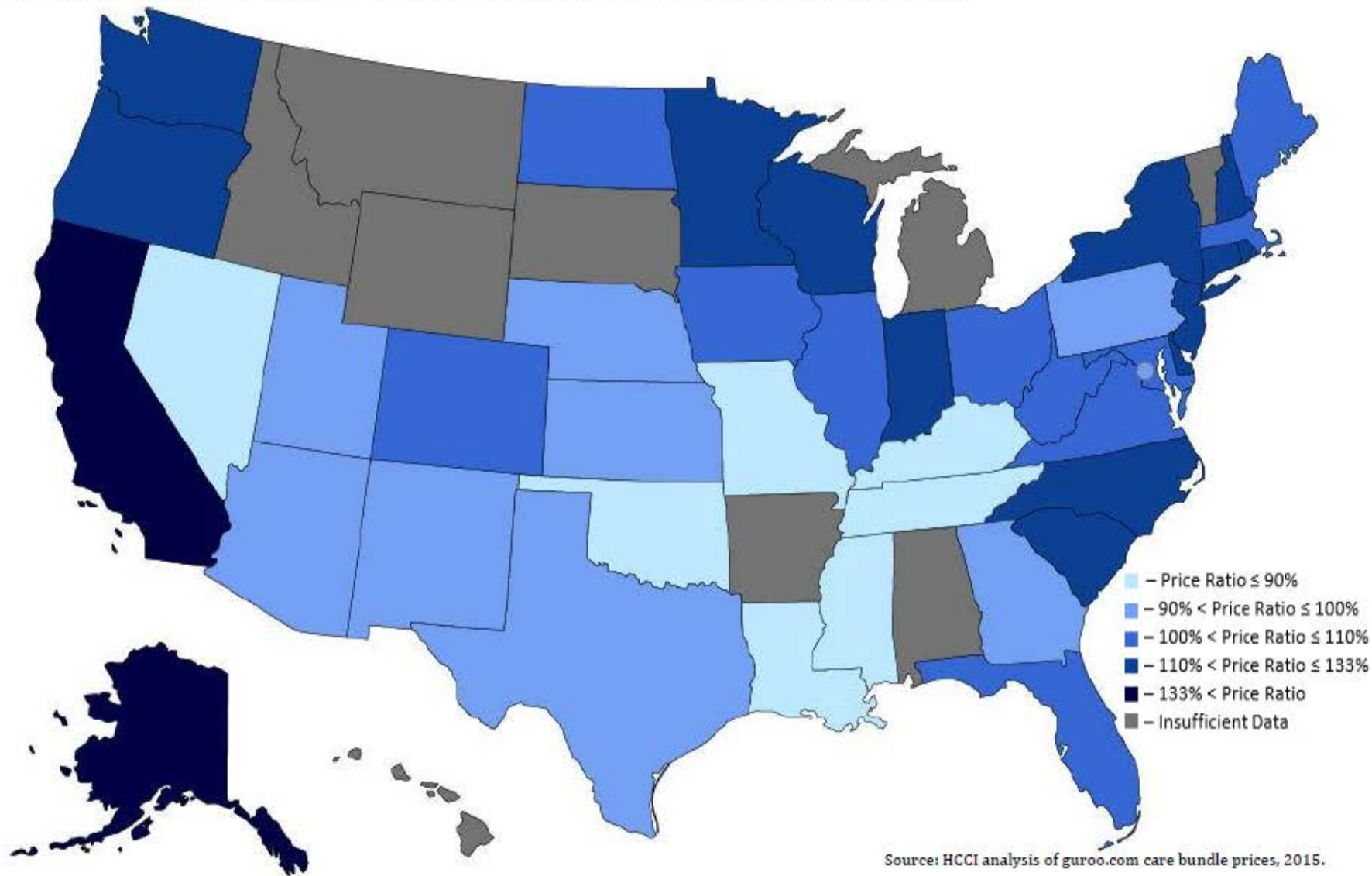
Ratio of Average State Price to Average National Price, by State



Source: HCCI analysis of guroo.com care bundle prices, 2015.

## Childbirth – Vaginal Delivery & Newborn Care (42 States)

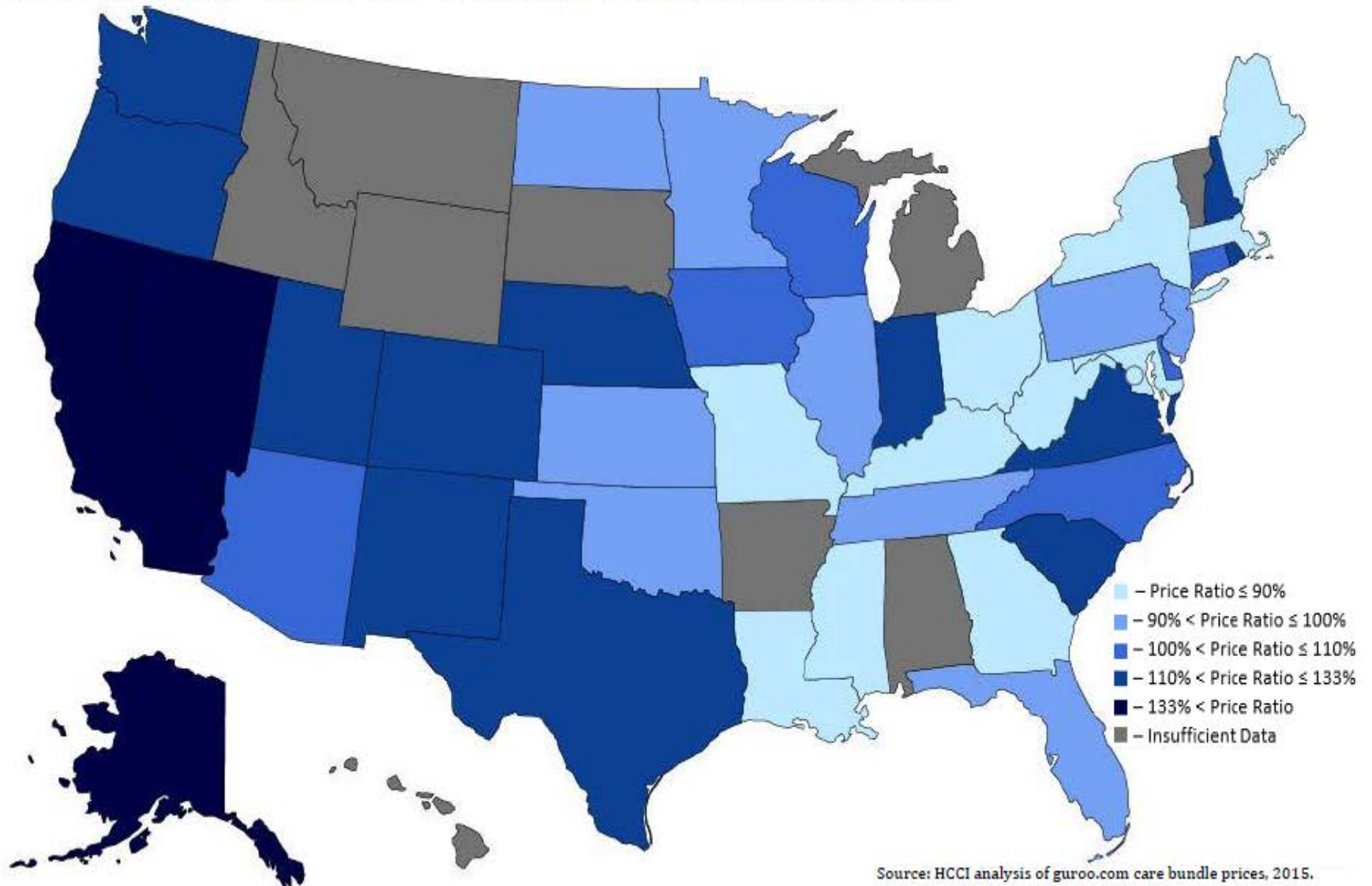
Ratio of Average State Price to Average National Price, by State



Source: HCCI analysis of guroo.com care bundle prices, 2015.

## Emergency Room Visit (42 States)

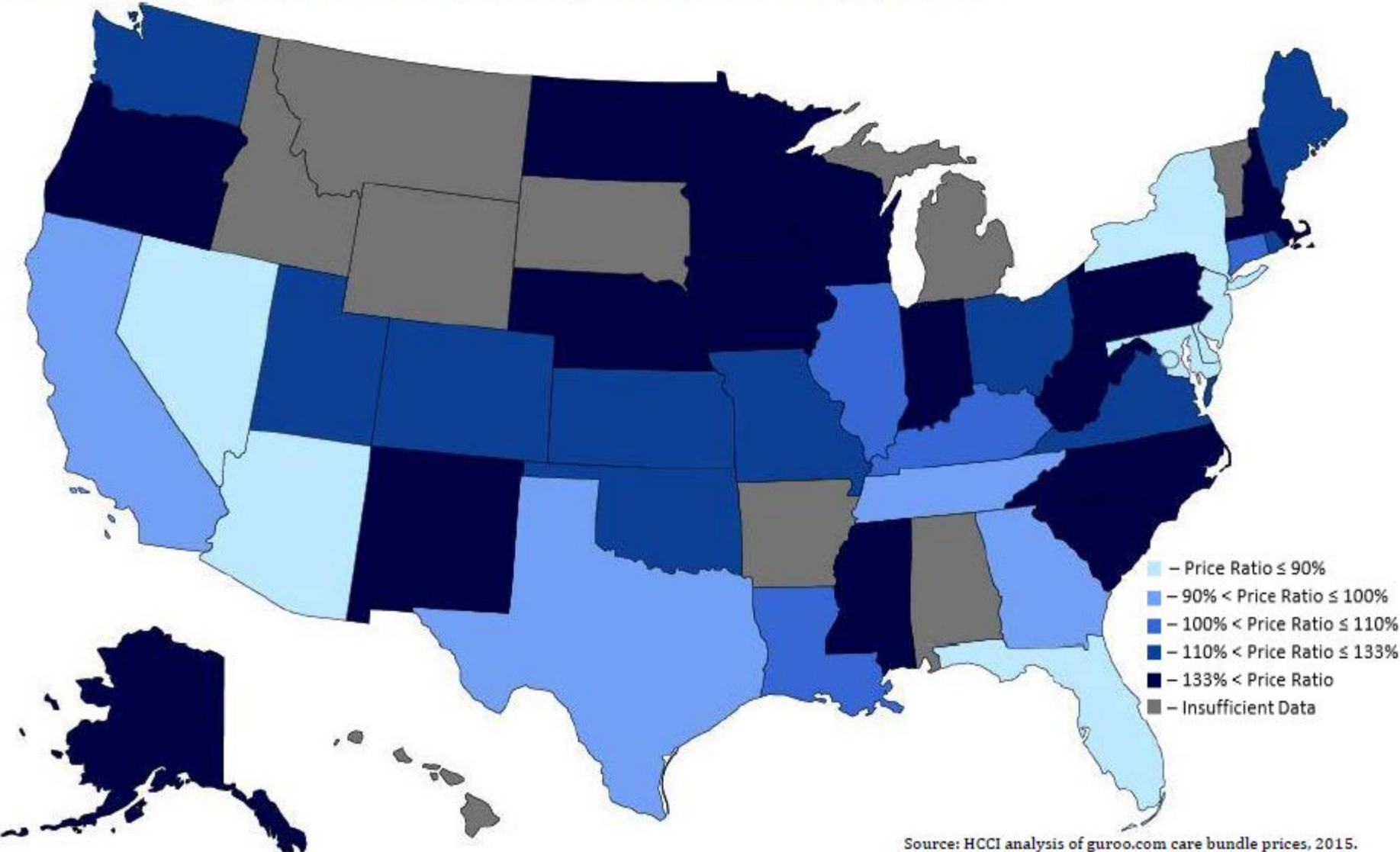
Ratio of Average State Price to Average National Price, by State



Source: HCCI analysis of guroo.com care bundle prices, 2015.

# MRI Scan - Abdomen (with and without Dye) (42 States)

Ratio of Average State Price to Average National Price, by State

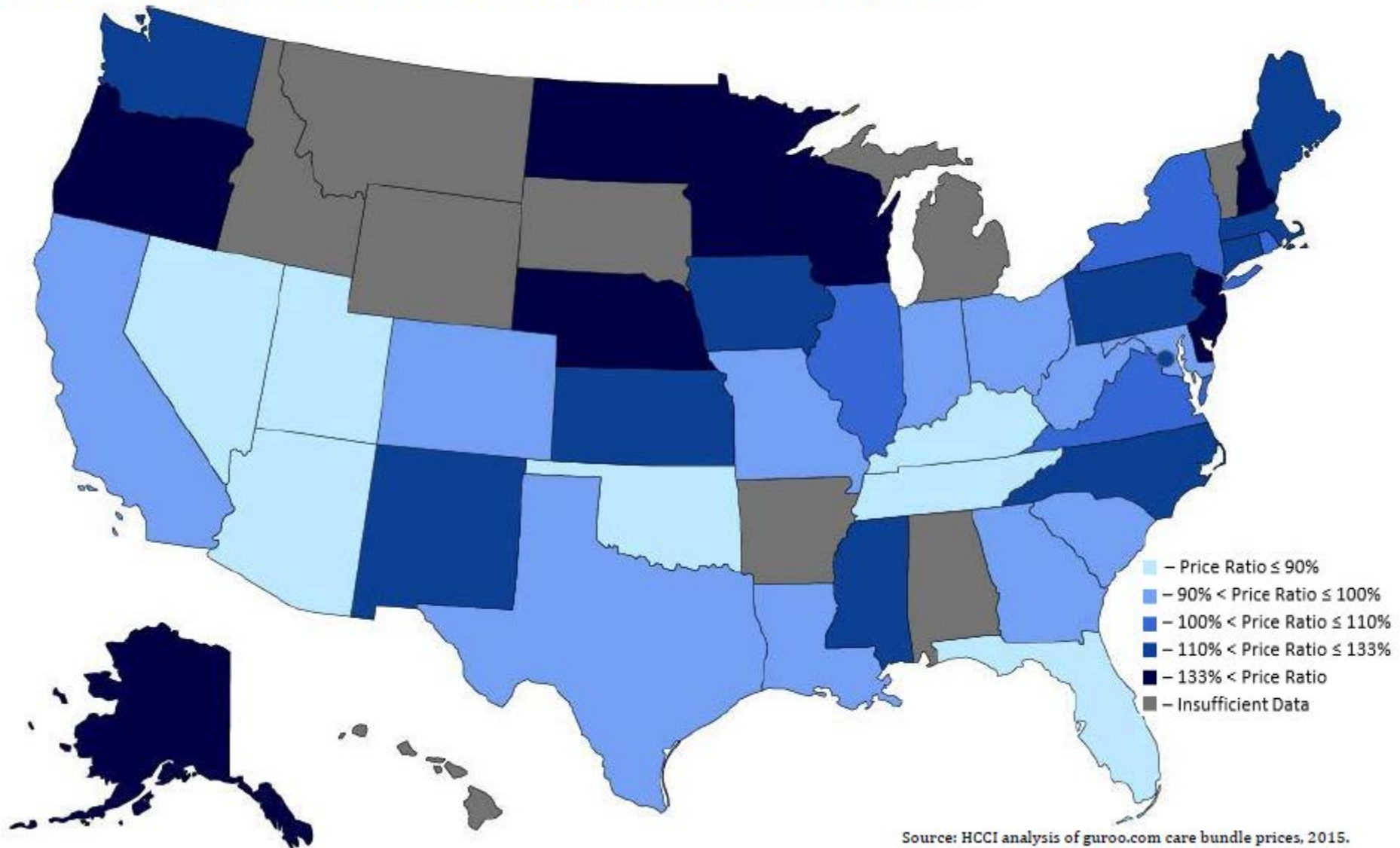


Source: HCCI analysis of guroo.com care bundle prices, 2015.



## Hypertension – High Blood Pressure (42 States)

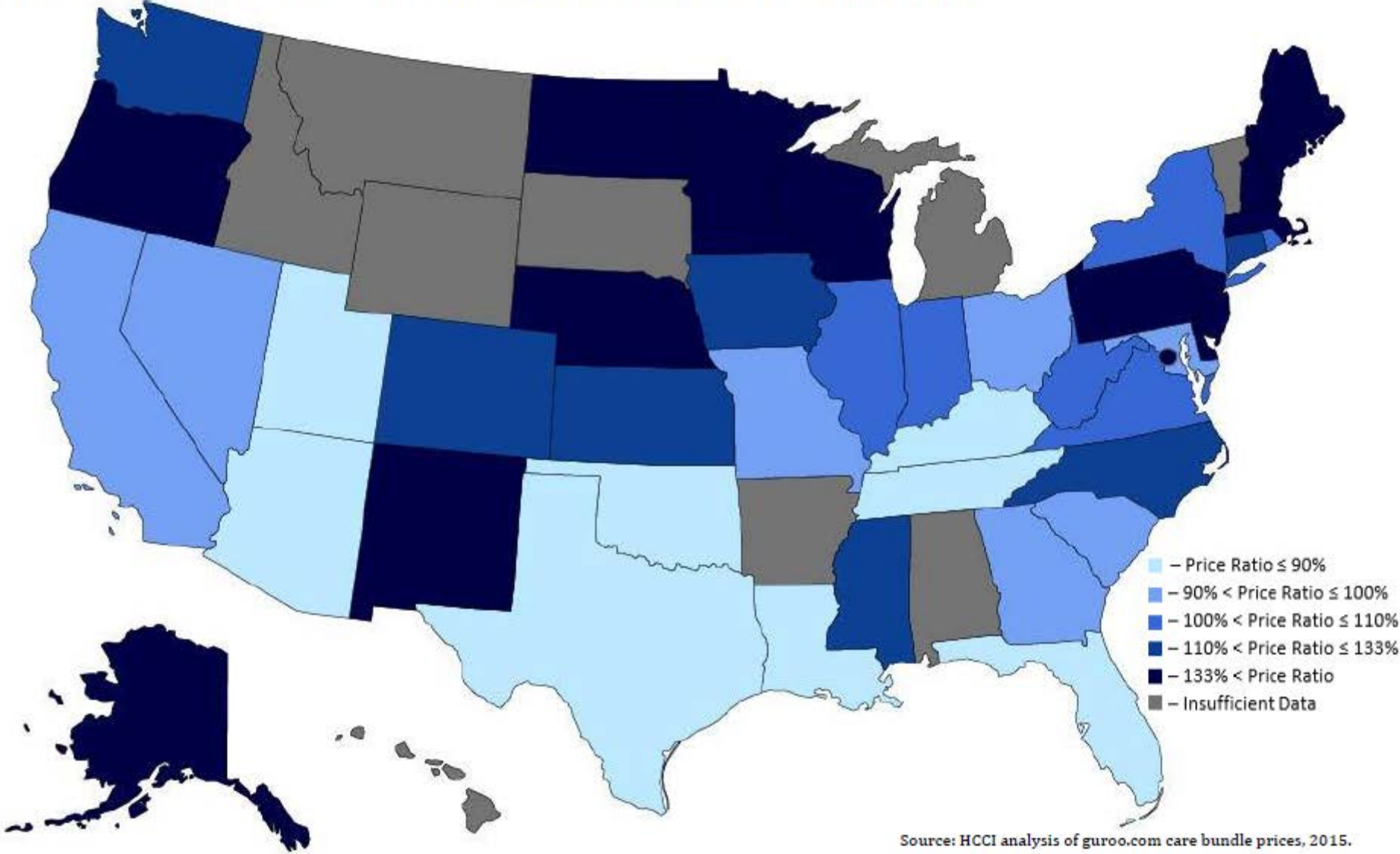
Ratio of Average State Price to Average National Price, by State



Source: HCCI analysis of guroo.com care bundle prices, 2015.

# Heartburn Evaluation (42 States)

Ratio of Average State Price to Average National Price, by State



Source: HCCI analysis of guroo.com care bundle prices, 2015.

# Why are commercial prices high?

- Provider consolidation
- Other sources of market power, e.g. “must-have” status
- New and costly treatments
- High cost structures of providers
- Consumers lack responsiveness to price

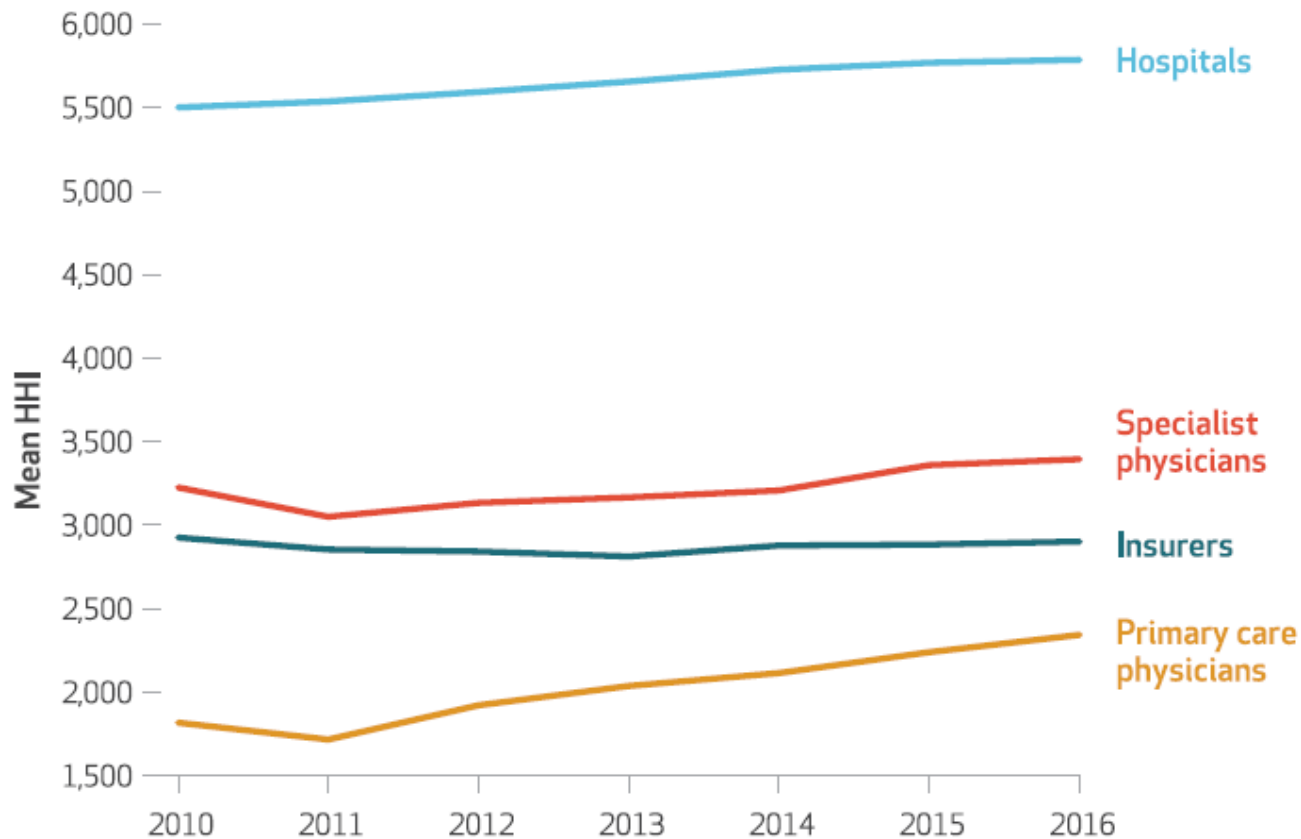
# Interplay between provider and insurance market power

- Single insurer + competitive provider market -> drive prices down
- Lots of insurers + consolidated provider market -> drive prices up
  
- Like the rest of the country, OR has seen proliferation of
  - Vertical integration (hospitals buying/partnering w/physician & ambulatory services)
  - Horizontal integration (hospitals joining systems)
  
- BUT, Oregon's insurance market is very competitive (Kaiser Family Foundation)
  - Top decile in large group insurance market (9<sup>th</sup>)
  - 1<sup>st</sup> in small group insurance market
  - 15<sup>th</sup> in individual insurance market
  - Insurers in OR may have trouble negotiating for lower prices

# Provider consolidation: Horizontal

Fulton (2017) Health Affairs

**Mean Metropolitan Statistical Area Herfindahl-Hirschman Index (HHI) for hospitals, physician organizations, and health insurers, 2010-16**

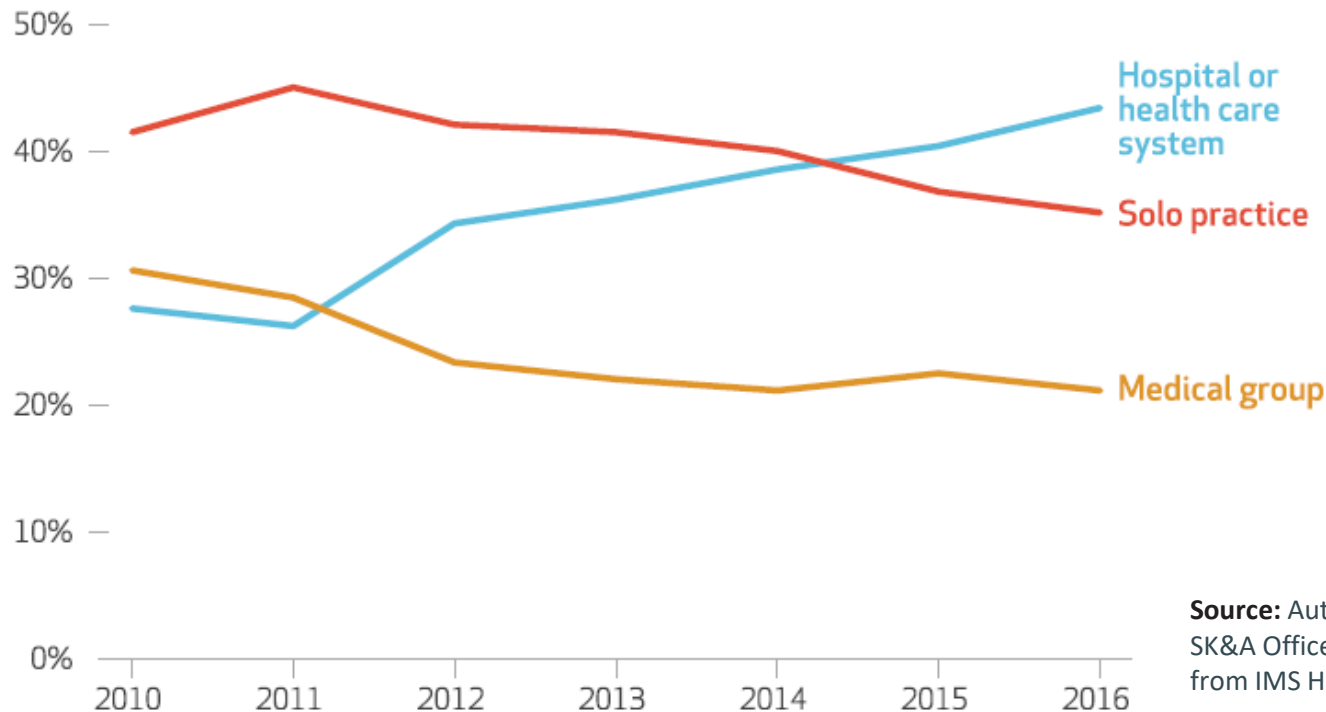


**Source:** Author's analysis of data from data from the American Hospital Association Annual Survey, the SK&A Office Based Physicians Database from IMS Health, and the Managed Market Surveyor File from HealthLeaders InterStudy.

# Provider consolidation: Vertical

Fulton (2017) Health Affairs

**Percentages of primary care physicians working in organizations, by ownership type, 2010-16**



**Source:** Author's analysis of data from the SK&A Office Based Physicians Database from IMS Health.

“The percentage of physicians working in an organization owned by a hospital or a health care system increased 57.0 percent”

# Impact of consolidation

- Considerable evidence that hospital, physician, and hospital-physician consolidation is associated with higher prices.
  - Cooper et al (2015): Hospital prices in monopoly markets are 15.3 percent higher than those in markets with four or more hospitals.
  - Baker et al (2014): Hospital ownership of physician practices leads to higher prices and higher levels of hospital spending.
  - Neprash, Chernew, et al (2015): Financial integration between physicians and hospitals associated with higher commercial prices and spending for outpatient care.

# Recent mergers and affiliations involving Oregon providers

- **Mergers & Acquisitions**

- Ascension – Providence St. Joseph Health (2017)
- Providence Health & Services – St. Joseph Health (2017)
- Quorum Health Corp. – McKenzie-Willamette Medical Center (2015)
- Legacy Health – Silverton Hospital (2015)
- Asante Health Systems – Ashland Community Hospital (2012)
- St. Alphonsus Health – Trinity Health (2012)

- **Affiliations**

- OHSU – Adventist Health (2017)
- Providence Health & Services – PeaceHealth (2016)
- OHSU – Salem Health (2015) – dissolved in 2017
- OHSU – Tuality Healthcare (2015)

- **Provider-Insurer Partnerships**

- PeaceHealth – Kaiser Permanente NW (2017)
- Legacy Health – PacificSource Health Plans (2015)
- OHSU – Moda (2015)



# Price variation in hospitals across the state

# OR Hospital procedure price variations

Procedure	Median Amount Paid, 2015			
	Median	Max	Min	Max/Min
CABG	\$84,701	\$110,019	\$70,130	1.57
Spinal Fusion	\$47,186	\$64,420	\$24,847	2.59
Knee Replacement (Inpatient)	\$32,231	\$42,203	\$22,000	1.92
Cesarean Section	\$13,791	\$18,280	\$6,690	2.73
Normal Delivery	\$7,848	\$11,546	\$4,108	2.81
Colonoscopy	\$2,764	\$4,123	\$1,311	3.14
CT Abdomen GI	\$1,086	\$2,512	\$255	9.85
Ultrasound	\$436	\$626	\$230	2.72
Mammography	\$293	\$480	\$117	4.09

**Source:** Oregon Health Authority, Oregon Hospital "Payment Report: Inpatient Procedures 2015," July 1, 2017.

# OR Hospital procedure price variations

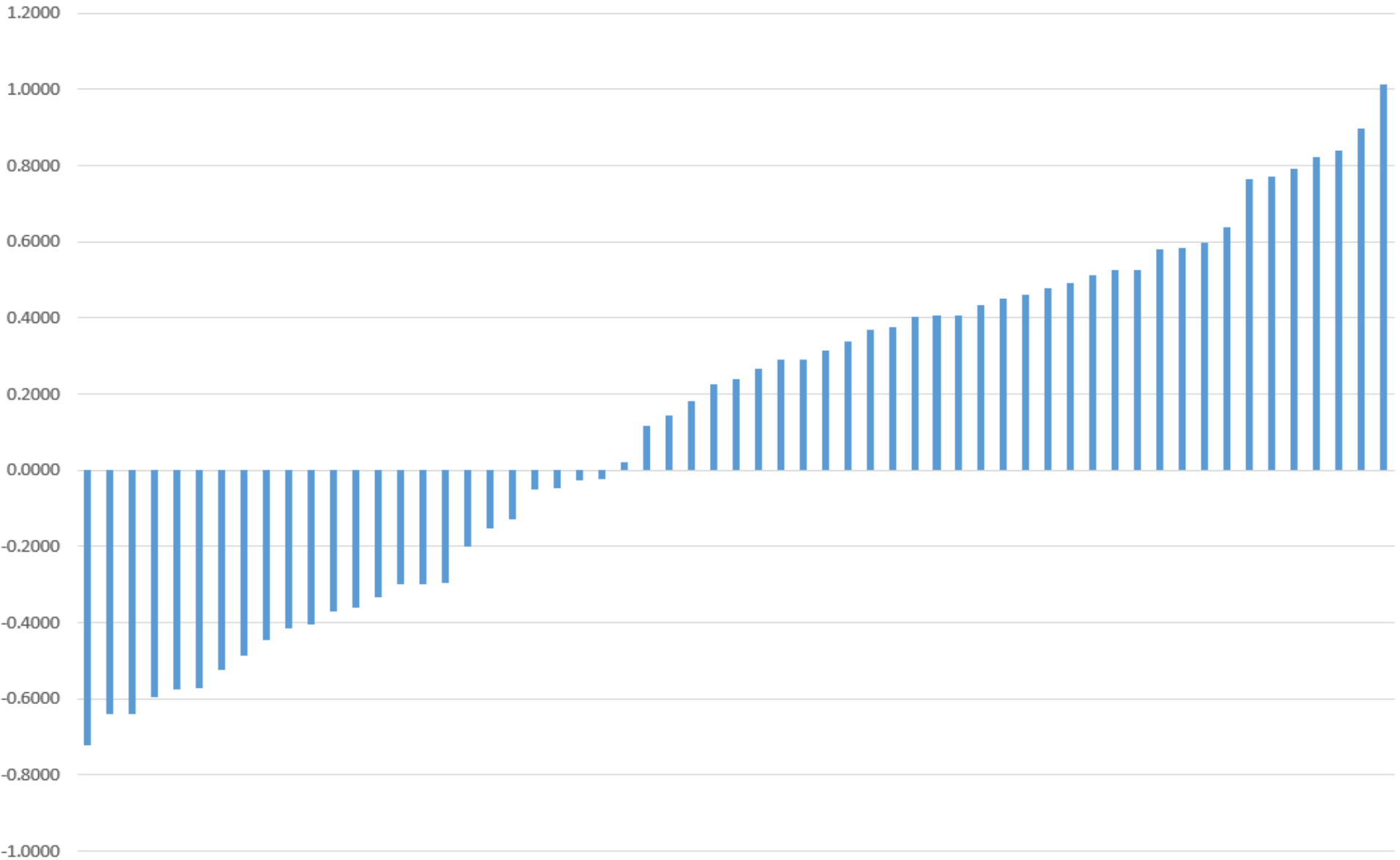
Hospital with Highest/Lowest Median Payment, 2015

<b>Procedure</b>	<b>Highest Median Payment</b>	<b>Lowest Median Payment</b>
CABG	Good Samaritan Regional Medical Center	Salem Hospital
Spinal Fusion	Kaiser Sunnyside Medical Center	Legacy Good Samaritan Hospital
Knee Replacement	St. Charles Medical Center - Bend	Legacy Meridian Part Hospital / Legacy Mount Hood Medical Center
Cesarean Section	Columbia Memorial Hospital	Salem Hospital
Normal Delivery	St. Charles Medical Center - Bend	St. Alphonsus Medical Center - Baker City
Colonoscopy	Lower Umpqua Hospital District	Kaiser Westside Medical Center
CT Abdomen GI	Curry General Hospital	Providence St. Vincent Medical Center
Ultrasound	Pioneer Memorial Hospital - Heppner	Silverton Hospital
Mammography	Peace Harbor Medical Center	Southern Coos Hospital and Health Center

**Source:** Oregon Health Authority, Oregon Hospital "Payment Report: Inpatient Procedures 2015," July 1, 2017.

# 2014 Price Variations by Hospital

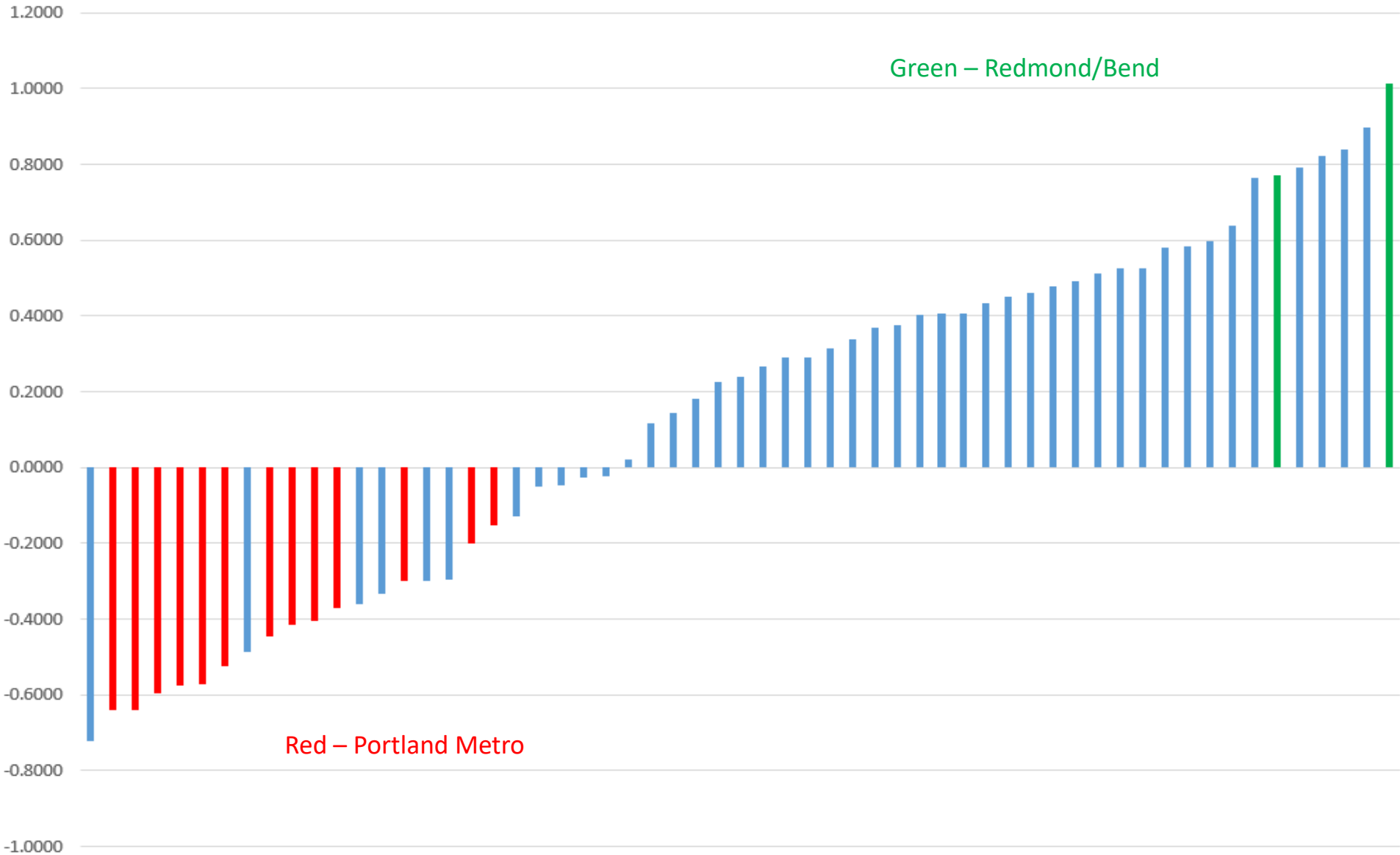
## 1.0 ~ 1 Standard Deviation from Statewide Average



**Source:** Oregon Health Authority, Oregon Hospital "Payment Report: Inpatient Procedures 2014," July 1, 2017.

# 2014 Price Variations by Hospital

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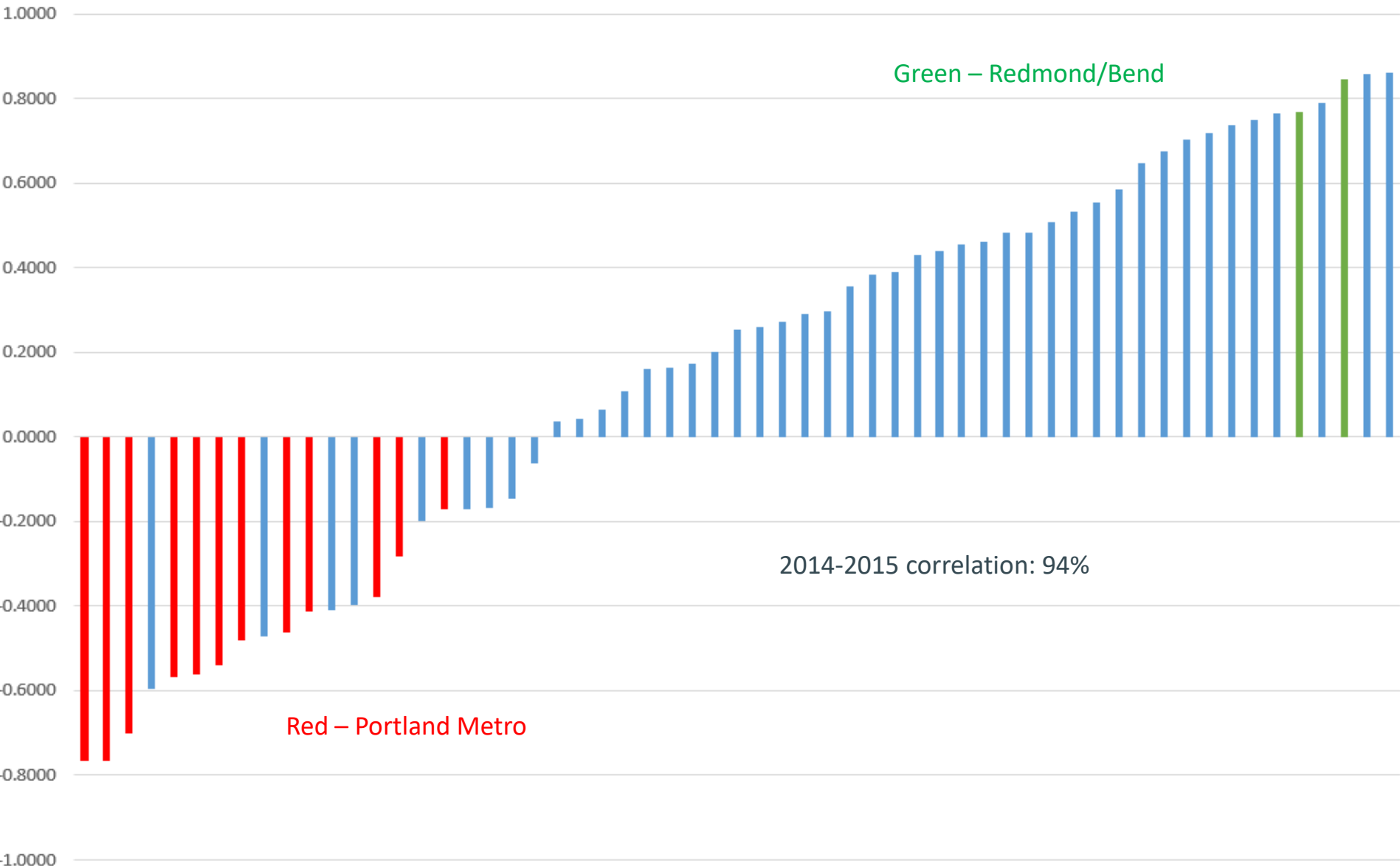
Green – Redmond/Bend

Red – Portland Metro

Source: Oregon Health Authority, Oregon Hospital "Payment Report: Inpatient Procedures 2014," July 1, 2017.

# 2015 Price Variations by Hospital

## 1.0 ~ 1 Standard Deviation from Statewide Average

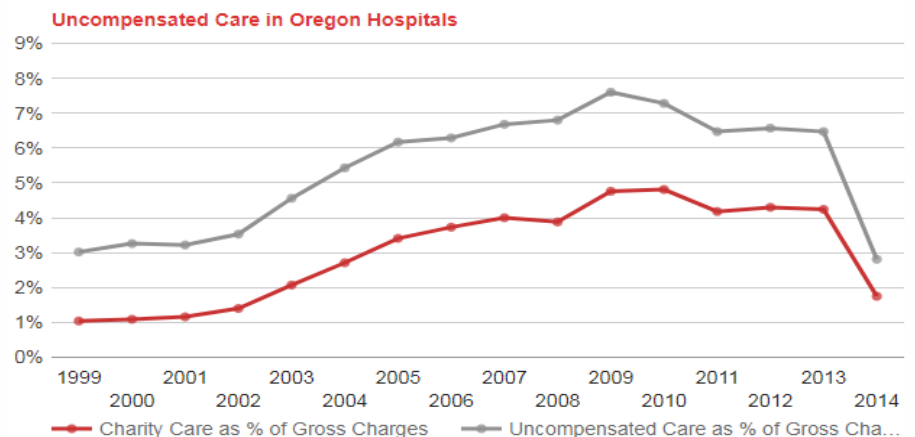


Source: Oregon Health Authority, Oregon Hospital "Payment Report: Inpatient Procedures 2015," July 1, 2017.

# A comment on cost shifting

# Cost shifting

- We need to differentiate between price discrimination and cost shifting
- The narratives for and against cost shifting
- Most recent evidence is not supportive of cost shifting
  - Dranove, Garthwaite, and Ody (2013)
  - White (2013)
  - He and Mellor (2012)
  - Wu and White (2013)
- No anecdotal reports of “reverse” cost shifting in Oregon in 2014
- Median prices for OR IP procedures increased by ~8% between 2014 and 2015



Source: Apprise Health Insights



# Other State Models

# Vermont All-Payer ACO Model

- Medicare Fee-for-Service ACO initiative tailored to the state
- Voluntary participation of providers and payers
- ACO Scale Targets: By 2022, 70% of all Vermont insured residents are attributed to an ACO
- Annualized per capita health care spending growth for all major payers limited to 3.5%
- Outcomes and quality of care targets 4 prioritized areas: substance use, suicide, chronic conditions, and access to care.
- \$9.5M Start-up funding from CMS
- 2017-2022

# Pennsylvania Rural Health Model

- Eligibility limited to **rural hospitals** (including acute care and critical access hospitals)
- Hospitals paid based on **all-payer global budgets** (IP & OP hospital-based services). Predictability of global budgets may enable investments in quality preventive care
- **Rural Hospital Transformation Plans** as a condition of participation
- \$25M in CMS funding
- Scale target: 30 rural hospitals by performance year 3
- Global budget represents 90% of rural hospital's revenue by year 2
- Annualized per-capita spending growth capped to 3.8% (IP & OP hospital-based services for rural residents) across all participating payers
- Targets for population health outcomes and access to care
- 2017-2023

# Emerging Evidence on Payment Reform

# ACO Evidence

- Medicare ACOs
  - Modest savings (1-2%)
  - Savings concentrated in inpatient and post-acute care
  - Savings must come from utilization
- Commercial ACOs
  - Evidence on performance strong, but limited to AQC
  - Potential for savings from reduced prices and utilization
- Medicaid ACOs
  - OR comparison with WA found savings of approximately 7% in the two years after the CCO intervention

Wrapping up

# Concluding remarks

- Prices in Oregon are high
- There is significant variation in hospital pricing
- Growing consolidation and competitive insurance market suggests potential for even higher prices
- Transparency efforts likely to have limited impact



Thank You