



MASSACHUSETTS
HEALTH POLICY COMMISSION

Demand-side incentives to address provider price variation

December 13, 2016



AGENDA

- **Overview**
- Key policy strategies
 - Insurance Design
 - Consumer Engagement and Shopping
 - Fostering Choice and Competition
- Q&A

Demand-side incentives can improve health care value

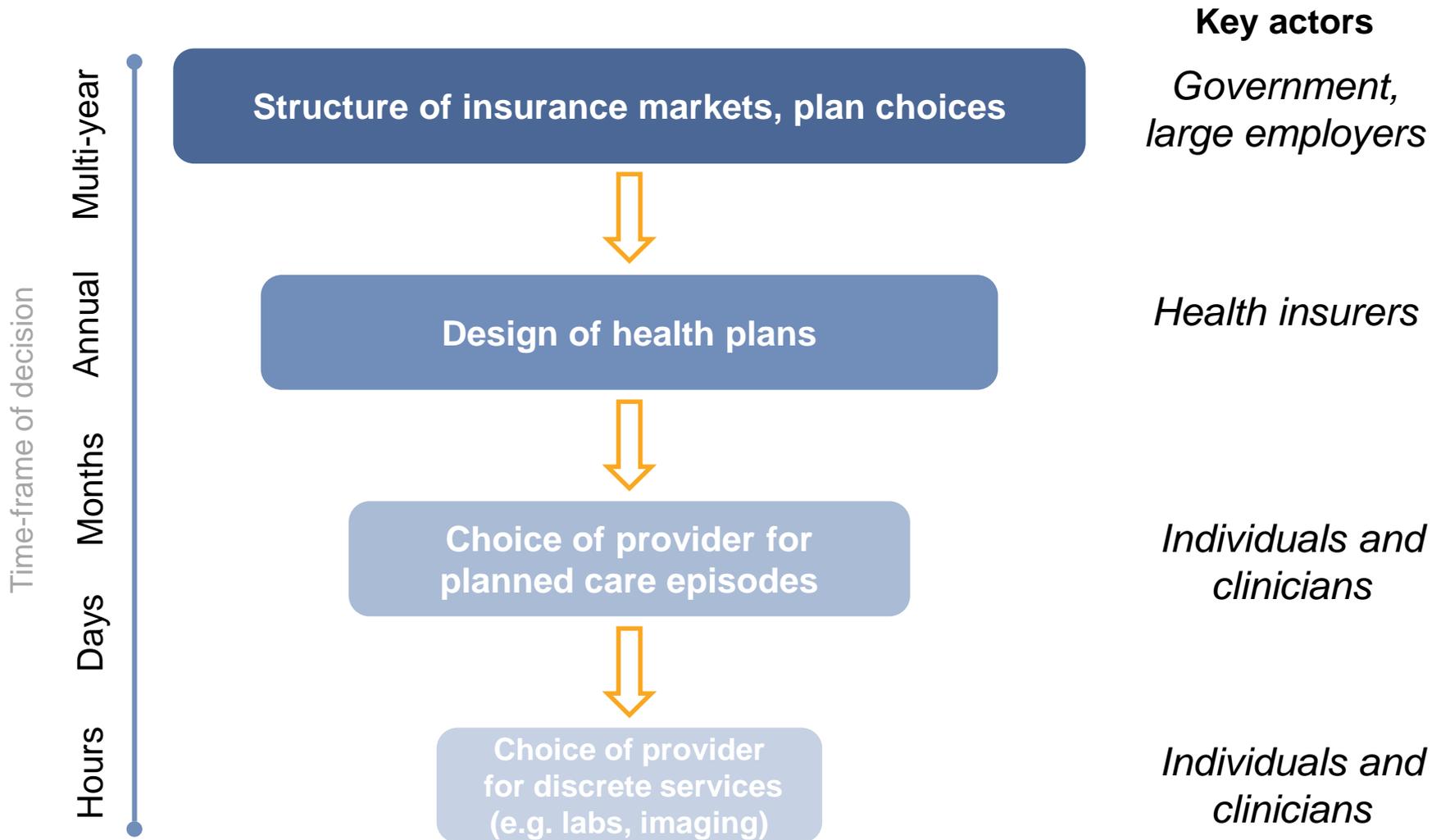
- Demand-side incentives in health care encourage purchasers of coverage and services (i.e. individuals and employers) to make higher-value choices
- Demand-side incentives can result in cost savings
 - Lower out of pocket spending and lower premiums
- Demand-side incentives can reduce price variation
 - By encouraging patients to use higher-value (e.g. lower-priced, high quality) providers, demand-side incentives can incentivize higher-priced providers to reduce prices

Limitations of demand-side incentives

- Demand-side incentives tend to play a smaller role in health care
 - Consumers often prioritize health over cost
 - Insurance and subsidies limit exposure to the cost of care
 - Consumers don't know what health care services they need - and depend on providers to make care decisions
 - Quality is hard to judge; consumers sometimes assume higher prices mean with higher quality*
- Demand-side incentives may not work for all types of care. They tend to work best for:
 - Planned episodes of care
 - Situations where quality is transparent or doesn't vary much
- Demand-side incentives may create financial burdens for some consumers

* These findings are partly informed by a series of focus groups conducted for the HPC by Amy Lischko et al, as described in "Community Hospitals at a Crossroads," Health Policy Commission, March, 2016

Where can demand-side incentives be applied in health care?





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Tiered and limited network plans: Evidence of savings in Massachusetts

Limited network plans exclude higher priced/lower value providers from network

- The GIC used a premium holiday in 2012 to encourage employees to switch to limited network plans
- Those who switched had 36% lower spending with no reduction in quality of care (Gruber and McKnight, 2016)
 - Savings resulted from reduction in both prices and quantities of hospital and specialist care used; spending increased on primary care

Tiered network plans assign higher cost-sharing to higher priced/lower value providers

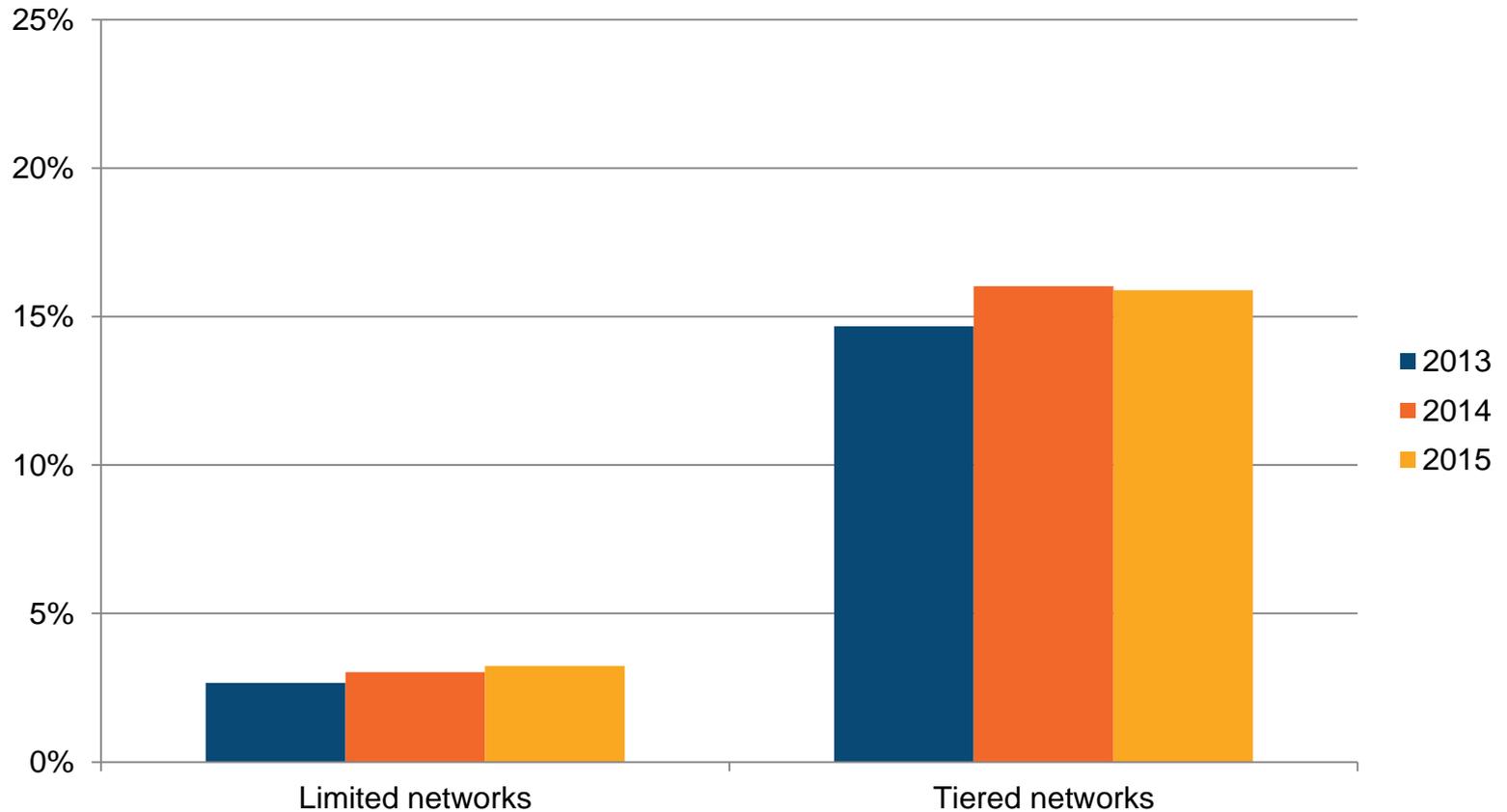
- BCBS of MA introduced tiered network plans in 2007, enhanced in 2009
 - \$150 copay for preferred hospitals vs \$1,000 (with \$2,000 deductible) for non-preferred
 - Radiology: \$75/250; Outpatient surgery: \$150/\$500
- The design shifted ~7% of hospital admissions from non-preferred to preferred hospitals (Frank, Chernew et al, 2015)
 - There were also impacts on radiology, outpatient, and total spending...study forthcoming

Frank, Matthew B., et al. "The impact of a tiered network on hospital choice." *Health services research* 50.5 (2015): 1628-1648

Gruber, Jonathan, and Robin McKnight. *Controlling health care costs through limited network insurance plans: Evidence from Massachusetts state employees*. No. w20462. National Bureau of Economic Research, 2014.

Enrollment in tiered and limited network plans in Massachusetts, 2013-2015

Percent of commercial members enrolled in each plan type



Tiered and limited network plans: Considerations and limitations

- Tiered and limited network plans change provider choice and reduce spending
- There is anecdotal evidence that some providers seek to reduce prices to be in a preferred tier
- However,
 - Consumers do not like having limited provider choices
 - *Especially if they don't feel they directly benefit from the savings*
 - These plans can be complex for employers to explain and for consumers to understand
 - These plans may work in tension with ACOs and care coordination
 - Cost-sharing differences aren't relevant if consumers are over out of pocket maximum

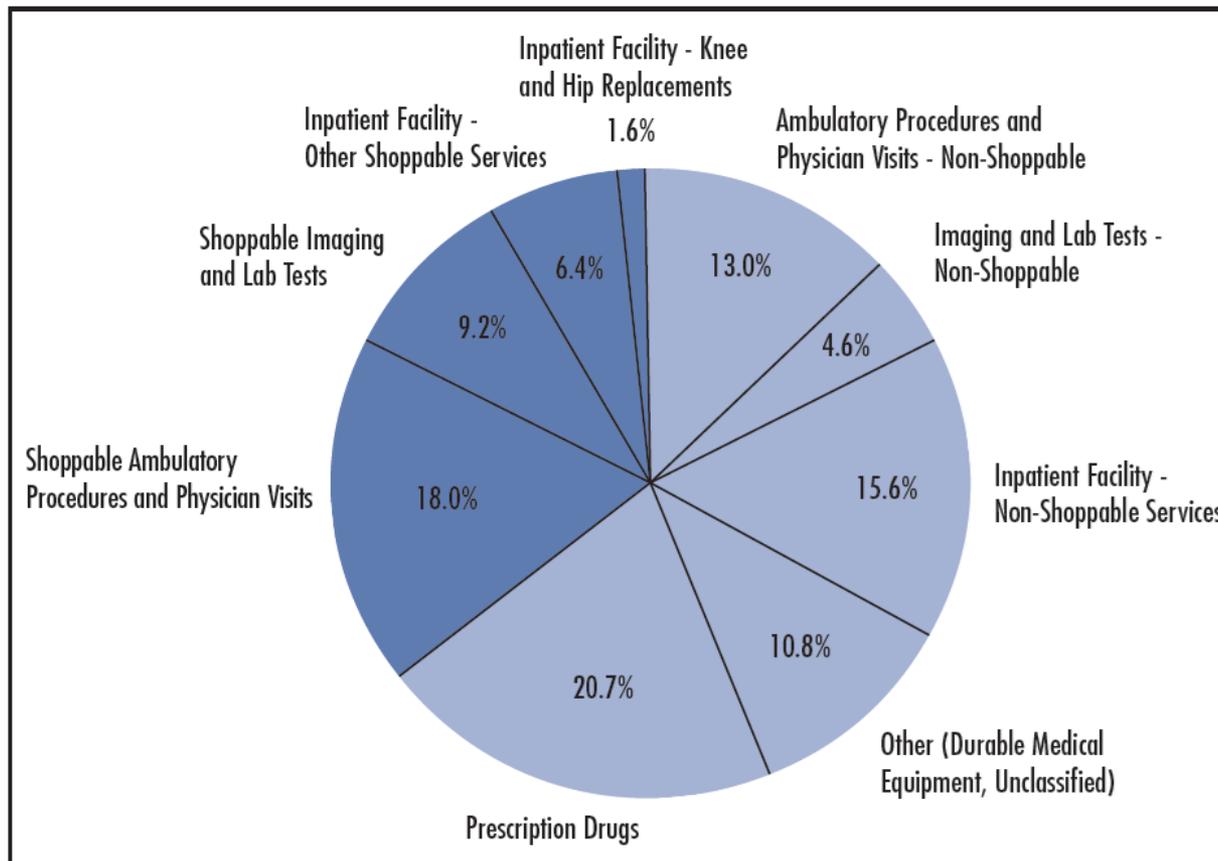


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About 30-40 percent of health spending is 'shoppable' (dark blue)

Figure 1
Shoppable Services Account for One-Third of Total Spending



Shoppable Services
 Planned in advance
 Choice of providers
 Quality and price information are potentially available

Note: Shoppable services were identified in claims data based on the diagnosis-related group for inpatient facility stays or the Healthcare Common Procedure Coding System and Current Procedural Terminology codes for outpatient facility and professional services.

Source: Authors' calculations using 2011 claims data from nonelderly privately insured autoworkers and dependents

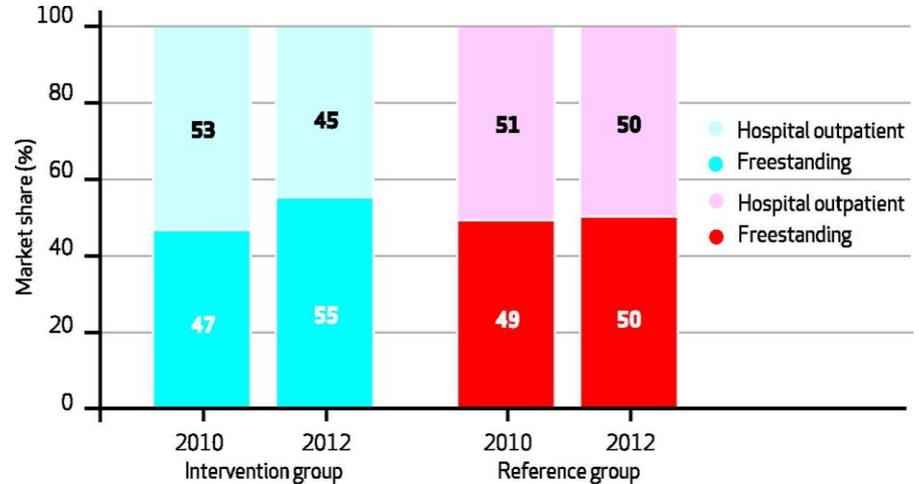
Getting consumers to shop

- Price and quality information, by themselves, do not tend to lead to comparison shopping and reduced spending (Gabel, 2016; Desai et al, 2016)
- But, they are a necessary ingredient for successful programs that combine price and quality information with:
 - easy-to-use programs/interventions
 - Immediate and significant savings
- Examples: reference pricing, redirection for imaging services, cash-back programs

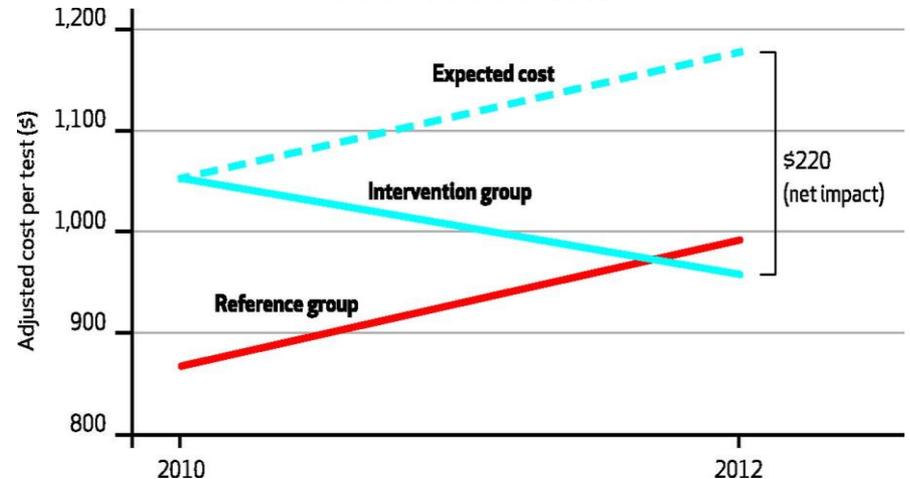
Consumer choice intervention: patient redirection for MRI services

- A specialty benefits management company implemented a voluntary, nationwide program taken up by some employers under BCBS but not others
- Employees scheduled for an MRI were called by a benefits manager if there was a nearby alternative at lower cost and comparable or better quality
- The benefits manager rescheduled the appointment if the patient agreed
- Consumers who received calls from benefits manager saved 19% on MRI spending
- The program also appeared to spur competition: Unit prices dropped \$360 for hospital MRIs, and rose \$85 for freestanding (compared to controls)

Volume shift



Cost reduction



Cash-back programs

Cash-back programs are similar to the previous example, but across a wide set of services, and with immediate cash savings to the consumer

- Insurers typically use an add-on vendor such as Vitals Smartshopper™
- Member uses website to search for services and prices
- If member chooses low-cost provider via website and fulfills service, gets a refund check, e.g. colonoscopy (max savings: \$250), MRI (\$150), gastric bypass surgery (\$500), blood draw (\$25), physical therapy (\$150), hysterectomy (\$500)

Some self-insured employers set up similar programs along these lines

Anecdotal evidence of competition-induced changes in provider market

Fallon, HPHC and now Unicare offer these programs in the GIC

New Hampshire state employees program claims \$1.7m savings in 9 months (though not a rigorous evaluation)

From New Hampshire's program for state employees using SmartShopper via Anthem Blue Cross

<https://das.nh.gov/hr/documents/VitalsSmartShopperIncentiveList.pdf>; Employers Reward Workers who shop around for health care, Boston Globe, November 28, 2016: <https://www.bostonglobe.com/business/2016/11/27/employers-rewarding-workers-who-shop-around-for-health-care/JKkmu5BI7q6fNFgbZzyZmN/story.html>



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Competitive insurance market structure

- Market structure can foster take up of efficient plans (e.g. a narrow network plan that excludes high-cost providers).
- Optimally, these conditions would be met:
 - Plans must be available to employees (i.e. choice of plans)
 - Plans must be understandable and ideally, comparable or standardized
 - Employees must realize significant savings from choosing these plans
 - Defined contribution
 - Premium holidays (GIC) or other incentives to choose low-cost plans
- The Massachusetts Connector and the GIC are good examples, though private exchanges and large firms can also create these conditions

Confidential—Draft in Development

Pro-competitive features of the Mass Connector

Standardized plans support apples-to-apples comparisons

Fixed-dollar subsidies require enrollees to pay the full difference in premiums between plans, increasing competition based on price

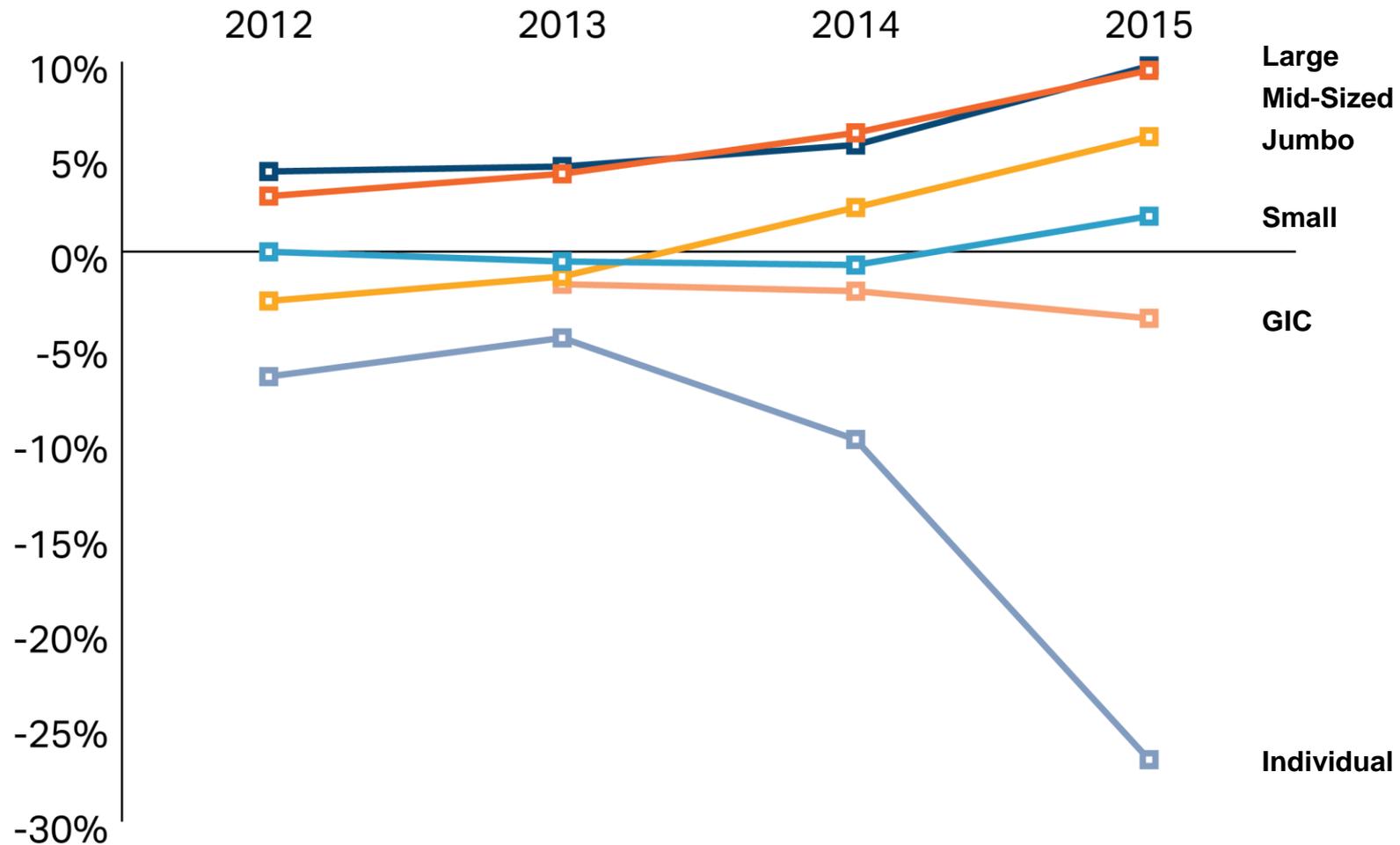
The Connector is an active purchaser, allowing no more than 5 plans per region – which combined with the large market volume (200,000 enrollees), gives it leverage to only accept the most competitive plans into the market

The ConnectorCare program prioritizes carriers that have experience serving Medicaid populations to facilitate transitions between the two programs. But this prioritization also empowers Medicaid MCO carriers to offer commercial plans that leverage the greater scale of Medicaid membership in the negotiation of provider contracts

Individuals purchasing their own insurance are more likely to choose plans with a more selective and competitively-priced provider network, while employers that can only offer one or two choices tend to purchase broader-network plans to meet the needs of all members of the group

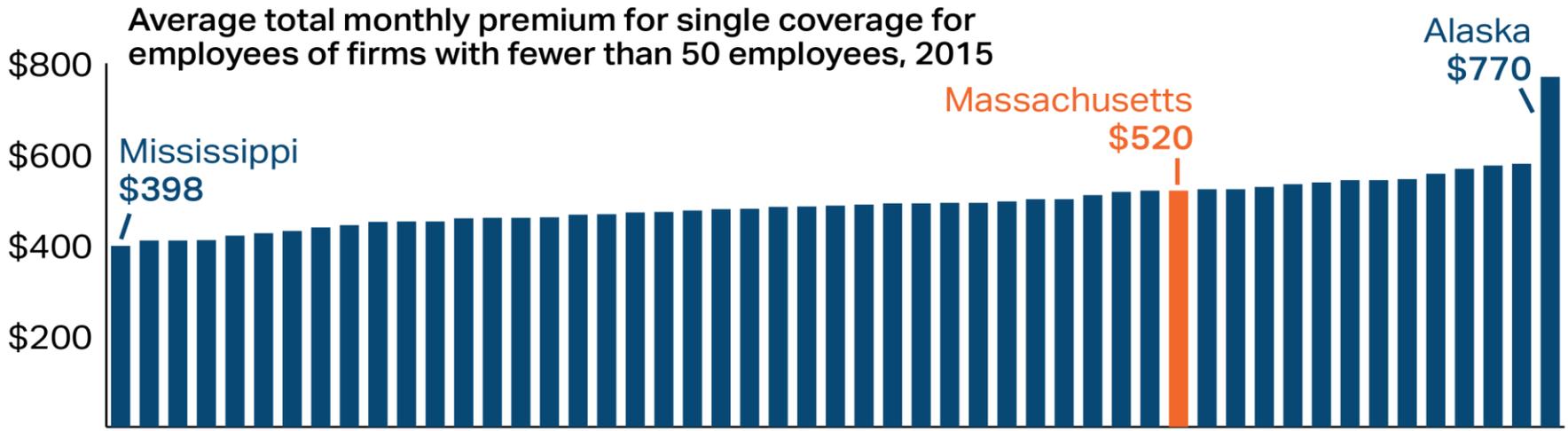
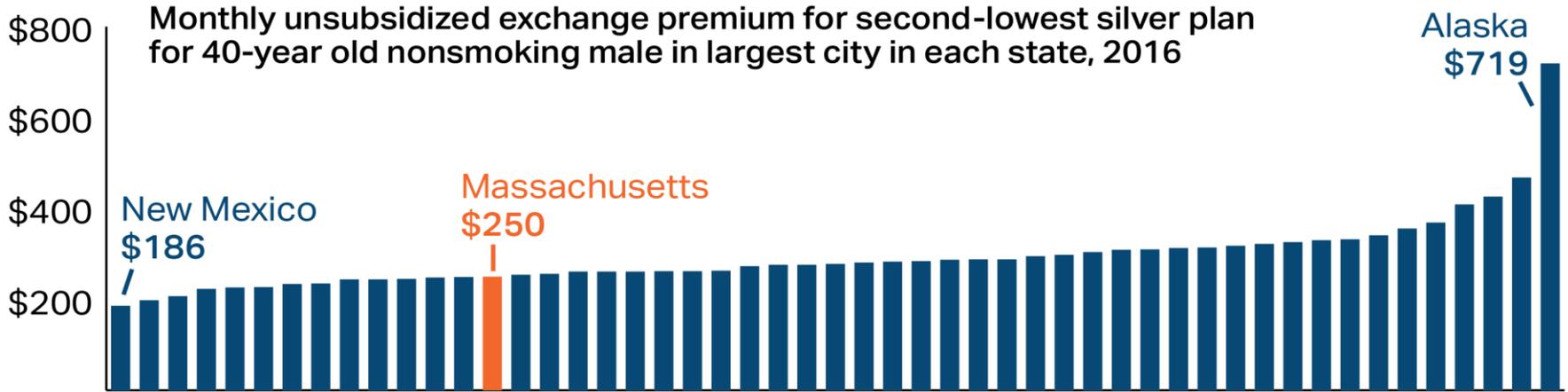
GIC and the individual market have competitive structures and the lowest premiums

Premiums by group size relative to 2012 small group premiums, 2012-15



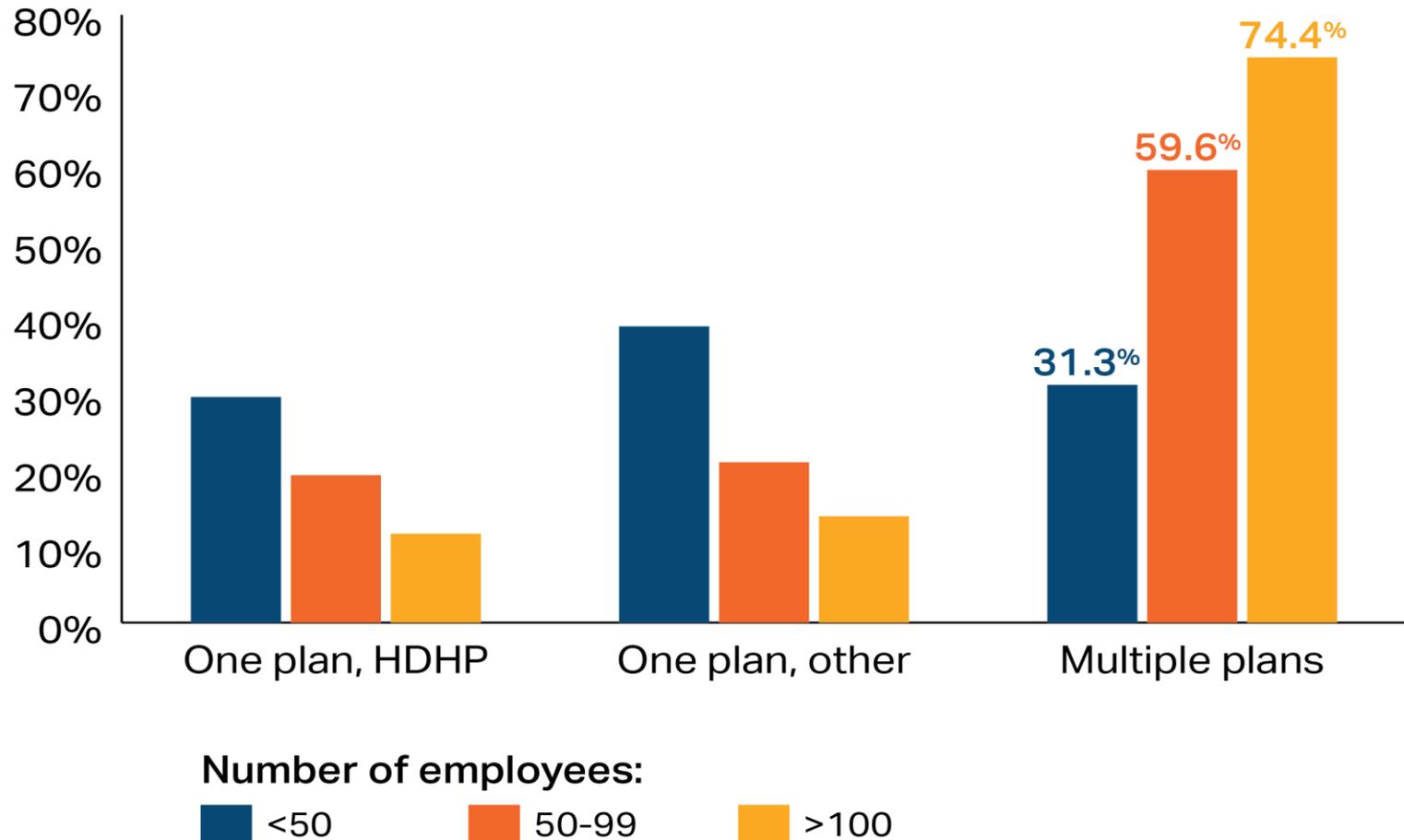
Source: Data from the Center for Health Information and Analysis and Oliver Wyman Consulting. Premiums are adjusted for enrollees' age, gender and actuarial value of the plan.

Mass Connector premiums are also low by national standards



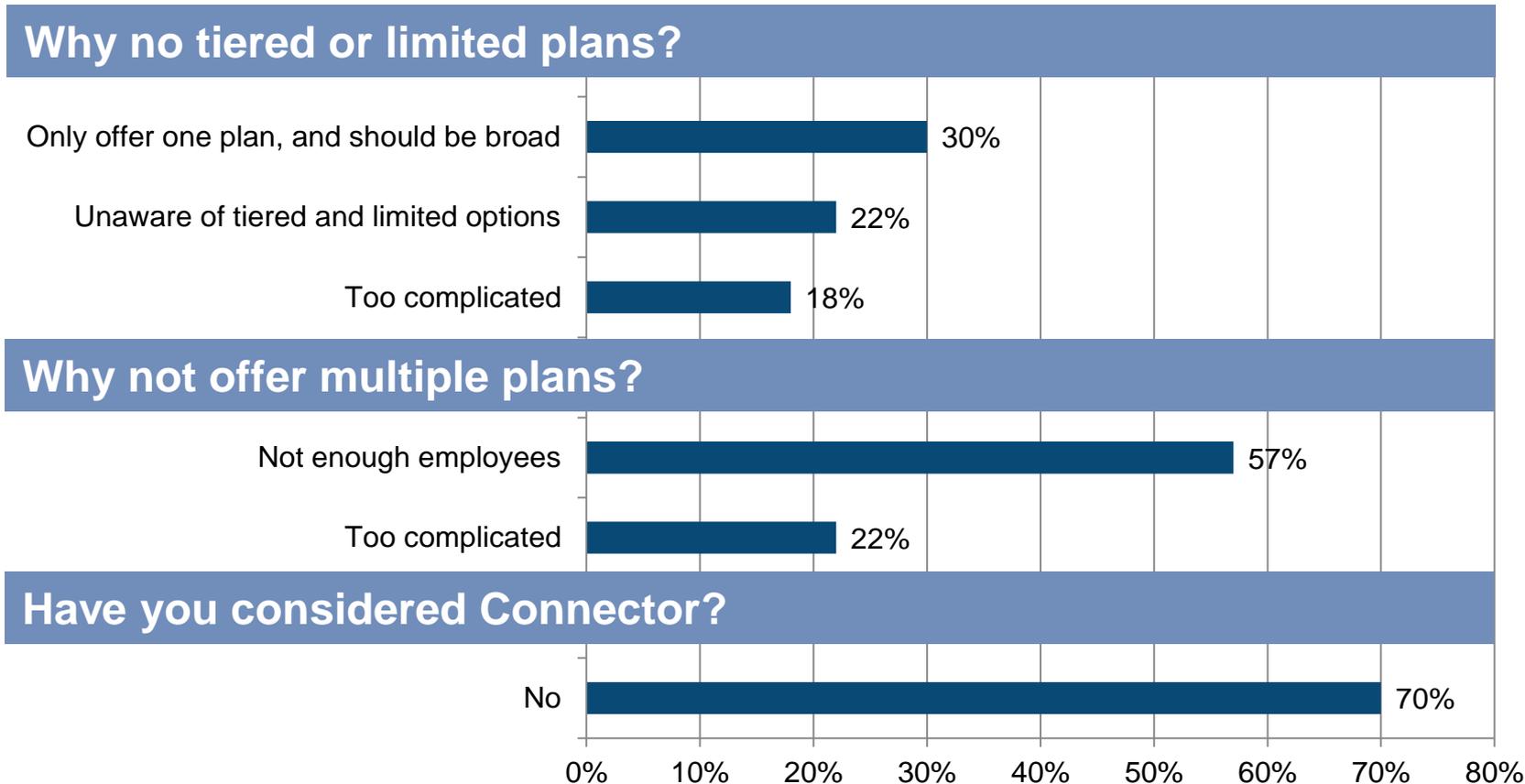
On the other hand, most smaller businesses in Massachusetts struggle to even offer employees a choice of plans

Among employees offered coverage by their firms, percent with plan choice by company size, Massachusetts, 2014



Small and mid-sized businesses noted challenges in creating a competitive insurance marketplace

Percent of firm representatives answering yes. Multiple affirmative responses allowed



Demand-side incentives summary

- 1** Use of demand-side incentives can increase the use of efficient plan designs, shift volume to higher-value providers and reduce spending and prices through competition
- 2** Encouraging examples and innovations exist, but thus far, use has not been widespread enough to drive market-wide changes by themselves
- 3** Fostering a competitive environment through market structure and price and quality information can spur innovation and efficiency

Contact Information

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