STATE OF EMERGENCY

By Bruce Shutan

How to assess the cost, quality and value of hospital services

While more self-insured employers are using reference-based pricing to settle or even prevent balance-billing disputes involving a range of hospital services, there's a much larger challenge afoot. The fact is that many payers struggle to objectively assess the cost, quality and value of these potentially sky-high bills in the first place in the absence of enough credible information.

All hospitals and providers negotiate different prices on various services with multiple insurance carriers after in-network discounts apply. Industry observers argue that the resulting cost patchwork isn't only arbitrary, confusing and unfair to payers, but perverse and even absurd.

They also note that published evidence suggests higher cost does not necessarily equate to higher quality, which is the operative word. "There is not an abundance of ubiquitous quality measures on the outpatient side, although I do think the industry is improving," observes Bill Kampine, an economist by training and SVP of analytics for Healthcare Bluebook.

So what can the self-insured community do to avoid a string of seemingly endless uphill battles when it comes to assessing hospital care in a meaningful way?

The only way to make rational decisions is if payers and their partners are armed with useful information, resources or tools, according to Tom Doran, president of Medical Risk Managers. In keeping with that spirit, the objective is to let transparency and evidence-based guidelines drive the process over, say, word-of-mouth recommendations from friends or family.

Making data comparisons

The federal government certainly recognizes the difficulty associated with credibly assessing hospitals. Mary Barton, VP for performance measurement with the National Committee for Quality (NCQA), notes that the Centers for Medicare and Medicaid made a substantial investment in Hospital Compare. CMS describes the effort as "a consumer-oriented website that provides information on how well hospitals provide recommended care to their patients."

It's a potential treasure trove of information that can help payers avoid having slogging through hospital record rooms to obtain helpful data. NCQA decided to use the information to help employers create a weighted average calculation designed to steer their health plan members to safer hospitals by virtue of a lower co-payment, reduce infection rates and avoid more costly care. She hopes data will be available by summer to assess how the effort is working.

Leah Binder

Doran is heartened by Medicare's collection of overall hospital ratings that allow for more meaningful facility comparisons. He says the challenge for self-funded health plans and TPAs is to incorporate price, quality and outcomes into their recommendations given the dearth of information about those latter categories in most networks.

With the health care system so prone to human error, starting with an assessment of mistakes can easily jumpstart a process of elimination en route to choosing the right facility. Consider the results of a Leapfrog Group analysis of Medicare data, which found that hospital errors drive up the cost of care about $8,000 on average per admission.

The additional amount tied to surgical-site infections alone varied widely in a study published in 2013 by the *Journal of the American Medical Association*. For example, while Medicaid and Medicare paid an extra $900 and $3,000, respectively, commercially insured payers shelled out an eye-popping $57,000 per case.

Leah Binder, president and CEO of the Leapfrog Group, thinks self-insured employers would benefit greatly by helping employees pick safer hospitals to eliminate preventable errors, as well as save money and lives. Her group's hospital focus is on the quality and safety of inpatient care, as well as how their efficiency can apply to the bottom line. Preparations also are being made to rate the exploding volume of outpatient and ambulatory surgical services.

"We don't look at pricing per se, though we strongly support price transparency," Binder reports. *"It is remarkable how much is wasted in health care because of poor quality."*

Her list is long and includes inappropriate or overused care, as well as rampant safety problems tied to hospital-acquired infections, errors, accidents and misdiagnoses. Landing the best surgeon in the world is meaningless if a patient ends up with an infection that is debilitating for months or results in death, she adds.

From a population point of view, Barton believes in the importance of "excellent infection control" so that patients who need, say, a hip replacement, knee arthroscopy or bladder operation aren't "at risk for some misadventure by virtue of going into the hospital."

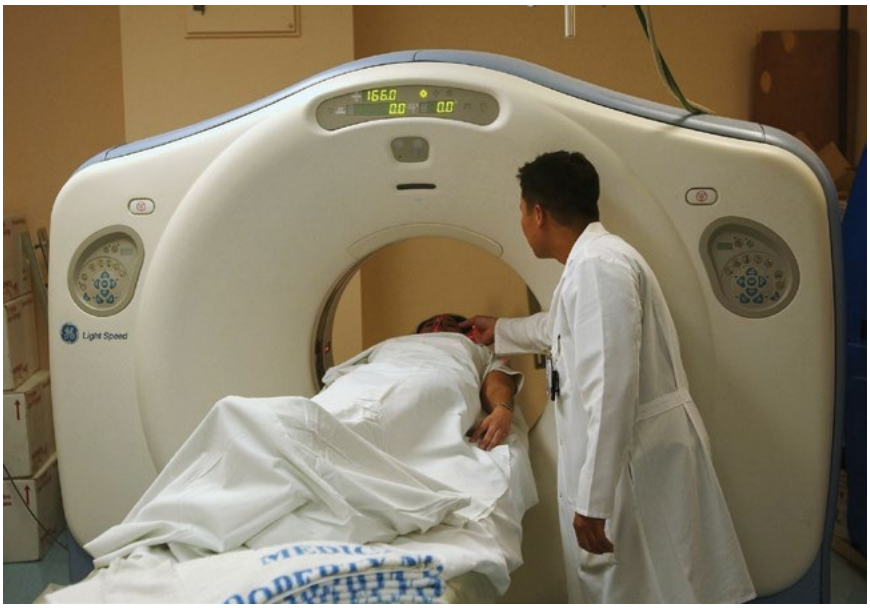
At the consumer level, Doran believes increasing adoption of high deductible health plans (HDHPs), along with online comparison-shopping tools, will force positive changes. To wit: employees will be more vigilant when seeking hospital services and the marketplace will need to meet the mounting demand for more transparent information about price and quality.

But providers also have a critical role to play in shaping a more reasonable marketplace. Despite all the talk about value-based contracting in Medicare and on the pharmacy side, Doran doesn't see much movement with regard to rewarding physicians who improve health outcomes.

He recalls a riveting conference presentation by Marty Makary, M.D., a Johns Hopkins surgeon and professor of public health, tying outcomes data to practice patterns for a group of surgeons. Makary is the author of "Unaccountable: What Hospitals Won't Tell You and How Transparency Can Revolutionize Healthcare."

The provider community at large needs a nudge to embrace this approach on a mass scale, Doran suggests. Another potential improvement would be if all were willing to at least pool their aggregate data to help determine the best possible outcomes across a number of hospital procedures, he adds.

Binder is bullish on transparency and the free flow of data in ways that's relevant to decision-making are critically important to assessing hospital cost, quality and value. "If I'm a clinician, and now I get a feedback on all of my patients who went to a different hospital, maybe the health plan could send me a summary of what happened," she poses.



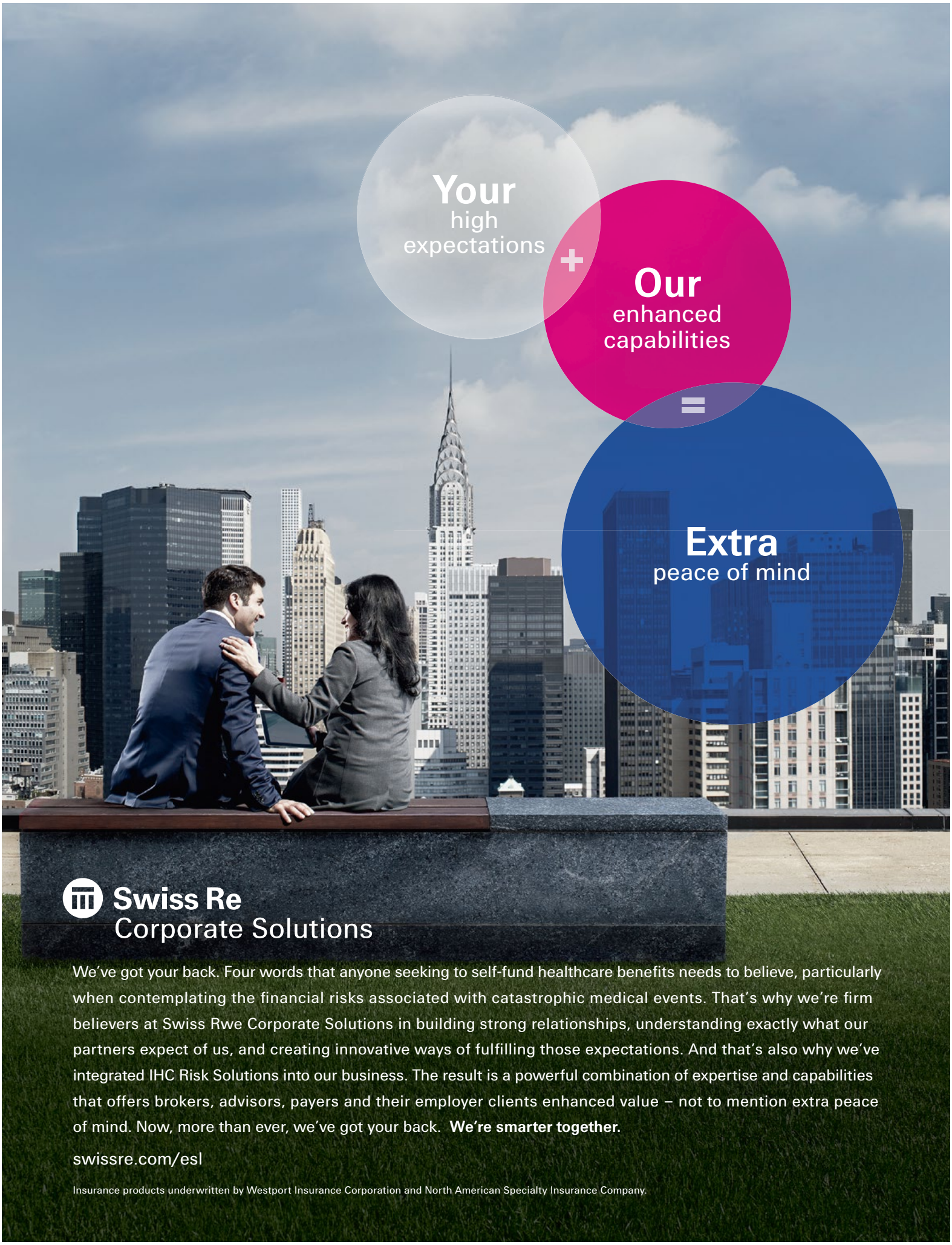
Her point is that attaching quality indicators to the discharge summary could result in better recommendations that are based on a hospital's track record. Providing automatic feedback on every hospitalization to primary care clinicians would help break down silos that have been built up over time. "As a result," she explains, "now we've got to tunnel a bit to get the free flow of information."

Metrics and algorithms

Mindful that payers cannot manage what they cannot measure, the need for helpful information will continue to guide hospital assessments. Doran cites the importance of several key metrics that always help steer patients to the best facilities. They include mortality and morbidity rates, overnight stays and fee averages, as well as how many operations are performed each year to treat the most costly or serious conditions (the idea being that practice makes perfect).

"It gets granular pretty quickly," he says, "and I think that's powerful because if you're going in for a normal service like an MRI or a colonoscopy, where you're not really expecting anything dramatic, why should you pay three times the average?" This is particularly significant considering the era of HDHPs with coinsurance and co-pays that can quickly drain household finances and cause personal bankruptcy filings.

Healthcare Bluebook uses an algorithm to help large self-insured employers identify fair market prices for various hospital services for millions of covered lives in every state and major metropolitan area. Jeff Rice, M.D., co-founded the company in 2007 with Kampine following a startling realization



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involving his then 12-year-old son, whose foot surgery cost ranged wildly from $1,500 to more than $15,000.

Together, they're on a mission to significantly improve the state of health care transparency – working with TPAs and also powering some regional health plans. Transparent pricing, of course, is critically important to HDHP enrollees who need to shop carefully for health care services in the face of rising out-of-pocket costs.

Other industry players with similar online platforms or cost-transparency tools include health insurance carriers and technology companies such as UnitedHealthcare, Castlight Health and a Cambia Health subsidiary called HealthSparq. There's also Leapfrog, which helps employers and other purchasers improve health care quality and safety. The nonprofit reports data on more than 1,800 hospitals and boasts regional partnerships in 38 states.

Kampine points to significant and fairly common price differences ranging anywhere from 200% to 1,000% "virtually everywhere in the United States for every service that employers pay for and that patients consume." For example, a hand X-ray that runs $27 in Nashville's Blue Cross network might be as high as $427 at a hospital or hospital-owned outpatient imaging center.

One of the bigger trends afoot is local provider organizations encouraging employers to embrace a narrow network, according to Kampine.

Bill Kampine

"There's a huge difference in price between independent facilities and hospital-based services," he explains, noting the need for *"an unimaginably large discount"* on the latter's brain MRI to compete with an imaging center price.

Similarly, there's understandable concern that in making a tradeoff to narrow the network, payers may inadvertently exclude some high-performing hospitals.

The key to success is matching each procedure to the best quality scores. "A hospital may perform brilliantly in terms of heart surgery, but may be an unbelievably poor performer in joint replacement," Kampine cautions. Healthcare Bluebook uses Medicare claims to objectively evaluate hospitals and avoids self-reported or survey data.

Key metrics include risk-adjusted mortality, complications and safety events, as well as best practices or compliance with care standards. Evaluations are then made across 36 clinical categories that can be applied to hundreds of unique procedures and adjusted for volume.

Kampine urges self-funded employers to provide easy-to-use, practical transparency tools to their health plan members, who should be rewarded for making good choices when shopping for quality services.

Looking ahead

What the future holds for assessing hospital care is anyone's guess, but there are some encouraging signs. For example, Binder has noticed that "hospitals are willing to give out that data because they want to be responsive to purchasers."

Doran is sanguine about the prospects for a more transparent marketplace. He describes Montana's embrace of reference-based pricing for hospital contracts in the self-insured health plan for state employees and their families as an encouraging signal. This proactive approach stands in stark contrast to often hostile stances taken in reaction to often huge balance-billing collections, including legal threats.

"They must have been so frustrated with the networks and information that the carriers were providing to do something like that," he opines. "That is not just evolution; that's revolution, and I think it starts with determining how much you're paying, but outcomes are critical as well." ■

Bruce Shutan is a Los Angeles freelance writer who has closely covered the employee benefits industry for nearly 30 years.