

Cost Driver Spot Analysis: Payment Variation by Payer

February 2016



CENTER FOR IMPROVING
VALUE IN HEALTH CARE

Some Coloradans Pay Significantly More than Medicare for the Same Service

Commercial insurance payments for hip and knee replacement are as much as 232% higher, or \$55,000 more than Medicare.

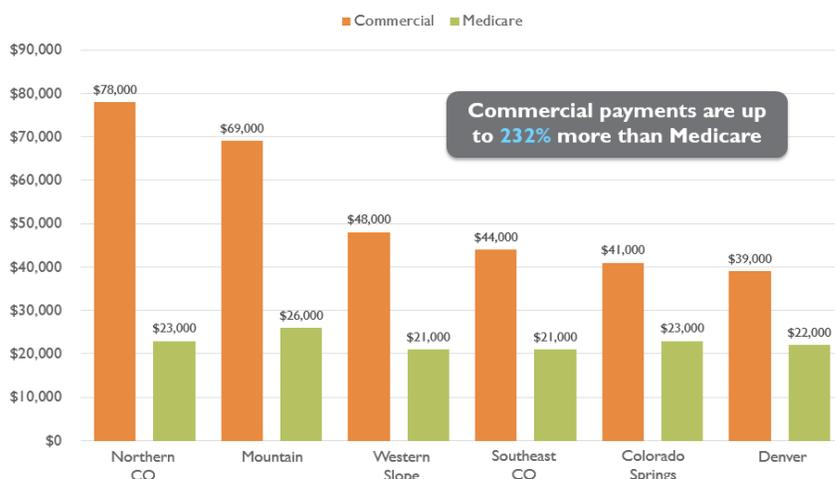
Recent national studies have revealed little to no correlation between Medicare and commercial payer health care spending in the same region.ⁱ In particular, areas like Grand Junction, Colorado, historically praised for their low cost to treat Medicare populations, have come under recent scrutiny for higher than average commercial health care costs relative to other areas in the state and nation.

Discrepancies in health care spending across payers have led to inquiries regarding the drivers of cost variation between the public and private sector.

The Colorado All Payer Claims Database (CO APCD) provides a unique opportunity to analyze payments for specific services by payer type and identify areas of cost savings potential.

Price variation for hip and knee joint replacement in particular has become a recent focus for Medicare, which is aiming to reduce spending and improve quality by paying hospitals one “bundled” price for the entire episode of care (e.g., the surgical procedure and all post-acute care up to 90 days).

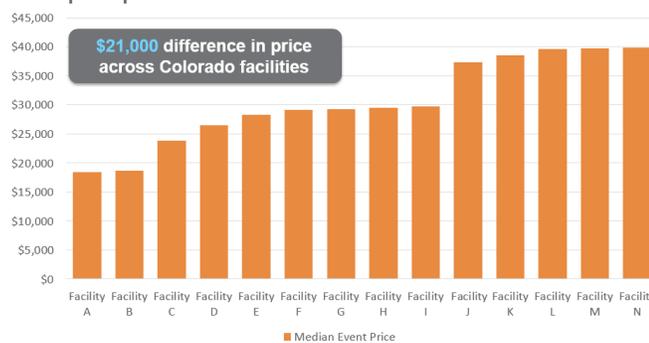
Colorado Hip/Knee Replacement Average Total Episode Payments Medicare vs. Commercial



Analysis based on fiscal year 2013 Fee-For-Service Medicare claims and commercial payer claims in the Colorado All Payer Claims Database (CO APCD, www.comedprice.org). Prices have been rounded to the nearest thousand and reflect average paid “episode” amounts (initial procedure payments AND 90 day post-acute payments), using calculations similar to the Centers for Medicare & Medicaid (CMS) Comprehensive Care for Joint Replacement (CJR) methodology (<https://innovation.cms.gov/initiatives/cjr>).

Joint replacements are not a Medicare issue alone as over 1.2 million people across the U.S. in 2014 had a knee replacement or a total or partial hip replacement resulting in \$18 billion in costs to the health care system.ⁱⁱ The cost of a knee replacement for commercially insured Coloradans varies from \$19,000 - \$48,000, while hip replacement costs can be as low as \$18,000 or as high as \$40,000 across Colorado hospitals.^{iv}

Median Event Price: Commercially Insured Hip Replacement



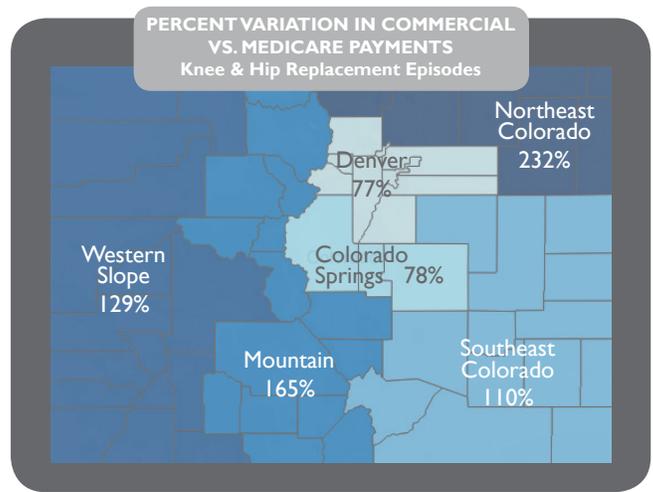
Median Event Price: Commercially Insured Knee Replacement



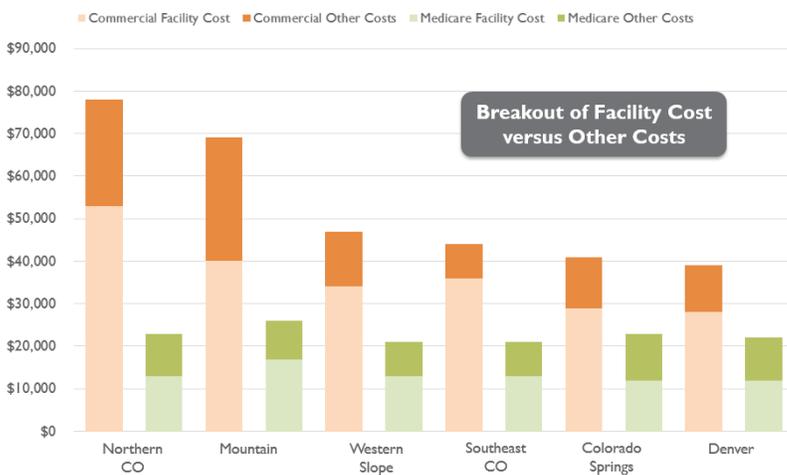
For the two graphs above, prices represent median paid event amounts for services based on 2014 commercial claims data from the CO All Payer Claims Database, www.comedprice.org. Estimates include insurance payments and patient responsibility (copay, deductible, etc.).

Deeper CO APCD-based analysis of episode costs show variation across Colorado regions of over \$39,000 in the commercial market. Some variation in costs across regions is expected; however, while there is relatively little variation in Medicare prices across Colorado (\$22,000-\$26,000), costs for commercially insured patients in the northeast are double those of their neighbors in Denver, \$78,000 and \$39,000 respectively.

Variation among provider types is also notable across regions. Costs related to the hospital portion of hip and knee replacements differs by \$25,000 in the commercial market between Denver and the northeast, and post-acute care varies by \$17,000 from the southeast to the northeast.



Colorado Hip/Knee Replacement Average Episode Payments Facility vs. Other Costs



Analysis based on fiscal year 2013 Fee-For-Service Medicare claims and commercial payer claims in the Colorado All Payer Claims Database (CO APCD, www.comedprice.org). Prices have been rounded to the nearest thousand and reflect average paid "episode" amounts (initial procedure payments AND 90 day post-acute payments), using calculations similar to the Centers for Medicare & Medicaid (CMS) Comprehensive Care for Joint Replacement (CJR) methodology (<https://innovation.cms.gov/initiatives/cjr>).

These figures raise questions such as:

- Why are joint replacement costs for commercially insured Coloradans in the Northeast \$55,000, or 232% more than for Medicare recipients in the same region, and so much more than their geographically comparable neighbors in the southeast?
- How are providers in Denver and Colorado Springs able to keep costs for their commercially insured population much lower at approximately 78% more than Medicare?

Such dramatic fluctuations suggest that higher-cost regions have opportunities to explore what drives increased spending locally, and to investigate what practices lower-cost regions use to keep costs down.

Alternative payment models such as Medicare's Comprehensive Care for Joint Replacement program are designed "to encourage hospitals, physicians, and post-acute care providers to work together to improve the quality and coordination of care from the initial hospitalization through recovery."^v Additionally, some self-insured employers have partnered with hospitals to develop bundled payment programs for knee and hip replacements in an effort to reduce price variation and provide excellent care.

In 2014, over 24,300 Coloradans received a new hip or knee; not surprising given Colorado is the most physically active state in the nation.^{vii viii} The number of joint replacements is likely to continue to rise as the population over the age of 65 is anticipated to increase by 150% by 2030.^{ix} Reducing Medicare and commercial price variation could result in significant savings now and in the future and could provide a prime opportunity for Colorado to improve care and lower costs.

Sources:

- i The New York Times, 2015, "The Experts Were Wrong About the Best Places for Better and Cheaper Health Care" http://www.nytimes.com/interactive/2015/12/15/upshot/the-best-places-for-better-cheaper-health-care-arent-what-experts-thought.html?_r=0
- ii Agency for Healthcare Research and Quality, Healthcare Cost and Utilization Project, 2015, HCUP Faststats; The Most Common Operations During Inpatient Stays <https://www.hcup-us.ahrq.gov/faststats/NationalProceduresServlet>
- iii Centers for Disease Control, Health, United States, 2014, Table 105, accessed via <http://www.cdc.gov/nchs/fastats/inpatient-surgery.htm>
- iv Colorado All Payer Claims Database, www.comedprice.org
- v Centers for Medicare & Medicaid, 2015, Comprehensive Care for Joint Replacement Model <https://innovation.cms.gov/initiatives/cjr>
- vi CIVHC, 2015, Spotlight on Innovation: Colorado's Knees and Hips, <http://civhc.org/News-Events/News/Spotlight-on-Innovation--Colorados-Knee-and-Hips-Paspx/>
- vii Colorado Department of Public Health and the Environment, 2015, Colorado Facility Specific Health Care-Acquired Infection Data – Surgical Site Infection Overview, https://www.colorado.gov/pacific/sites/default/files/DC_ComDis-HAI-2015-Hip-replacement-Procedures.pdf
- viii The State of Obesity, States with the Highest Rates of Physical Inactivity 2014, <http://stateofobesity.org/lists/least-physically-active-states/>
- ix Colorado Commission on Aging, 2015, Colorado Aging Framework: A Guide for Policymakers, Providers, and Others for Aging Well in Colorado <https://drive.google.com/file/d/0B3CfrbDUN0fyRDJHYXNmTHdZR1pTOGY4VGhOSGpUdGxLWDBj/view?pref=2&pli=1>