Health Policy, Health Reform, and Performance Improvement

Value-Driven Health Care Purchasing: Four States that Are Ahead of the Curve

August 15, 2007 | Volume 67

Authors: Sharon Silow-Carroll, M.B.A., M.S.W., and Tanya Alteras, M.P.P.
Contact: ssilowcarroll@healthmanagement.com

Overview

Health care purchasers, suppliers, and consumers are rallying for better-quality health care. In response, several states are pursuing value-based purchasing (VBP) initiatives that emphasize collection of quality-of-care data, transparency of quality and cost information, and incentives. In this overview of public–private VBP efforts in Massachusetts, Minnesota, Washington, and Wisconsin, the authors find that tiered premiums, pay-for-performance measures, and the designation of high-performance providers as "centers of excellence" are paying off. Minnesota, for example, has used incentives to achieve about $20 million in savings in 2006. Similarly, Wisconsin's Department of Employee Trust Funds has announced premium rate increases in the single digits for the third straight year. More research is necessary to determine the true impact of VBP, but health plans and providers are paying attention to and learning from these current efforts. (Note: Accompanying the overview report are four separate state case studies; see below.)

Executive Summary

In an August 2006 executive order, President George Bush outlined his administration's Value-Driven Health Care Initiative. This initiative calls on employers to use four cornerstones when they purchase health insurance: interoperable health care information technology, reporting of quality-of-care measures, reporting of health care price information, and incentives for high-quality, cost-effective care. By committing to these goals, according to the administration, "Public and private employers and other stakeholders in the health care system can help bring about uniform approaches for measuring quality and cost and providing this information to consumers to help them make informed health care choices."

This emphasis on data collection, transparency, and incentives in health care purchasing is not new. It grows out of more than a decade of efforts to develop and implement "value-based purchasing" (VBP)--purchasing practices that are geared toward improving the value of health care services by holding providers accountable for both the quality and cost of services delivered to patients.

In this report, the authors examine the current and potential role of state and local governments, as well as public–private coalitions, in promoting value-driven health care. It summarizes an analysis of four major initiatives aimed at pursuing value in the health care system that are led by, or include, state agencies. (These

initiatives are examined in greater depth in four separate case studies, also published by The Commonwealth Fund.)

The **Massachusetts Group Insurance Commission (GIC),** a state entity that provides and administers health insurance and other benefits to the commonwealth's employees, retirees, and their dependents and survivors, is trying to improve provider performance through "tiering." GIC assigns its health plan members to a particular tier, based on quality and efficiency, and requires these plans to offer their members different levels of cost sharing, depending on which tier their chosen hospital or provider is designated.

The **Minnesota Smart Buy Alliance** is a group of public and private health care purchasers, including the state agencies overseeing Medicaid and public employee health benefits, along with coalitions of businesses and labor unions. The alliance is developing common value-driven principles, and its members are sharing VBP strategies.

Washington State's **Puget Sound Health Alliance,** a broad group of public and private health care purchasers, providers, payers (health plans), and consumers, is working to develop public performance reports on health care providers and evidence-based clinical guidelines.

The **Wisconsin Department of Employee Trust Funds (ETF),** the state agency that administers health benefits for state and local government employees, is pursuing value through a variety of purchasing strategies. EFT is also becoming involved in public-private collaboratives such as a statewide health data repository.

Three Models of Value-Based Purchasing

An exploration of the more advanced VBP efforts involving states, including the four selected for case study analysis, reveals three basic models, each with strengths and weaknesses.

Model 1—Single Large Purchaser: involves a large purchaser working actively and cooperatively with suppliers while using its market power to make demands. Such purchasers working alone are limited in influence but can move quickly and be pioneers.

Model 2—Purchaser Coalition: involves a group of public and private purchasers (or purchaser coalitions) working together to standardize demands on suppliers and share value-driven strategies. Reaching agreement among purchasers with different priorities can be challenging, but coalitions can leverage greater market share and wield more influence with suppliers.

Model 3—Mixed Coalition: involves a group of health care purchasers and suppliers working cooperatively to promote transparency and incentives. Reaching consensus is very difficult and time consuming, and leads to watered down strategies, but multi-stakeholder initiatives have the potential to make the most significant impact on the market.

Four State Initiatives to Improve Value in Health Care Purchasing

Value-Driven	Model	Scale

Initiative		
Massachusetts Group Insurance Commission (GIC)	Model 1: Single Large Purchaser	GIC is the largest employer purchaser in the state, covering more than 286,000 state employees, retirees, and their dependents.*
Minnesota Smart Buy Aliance	Model 2: Purchaser Coalition	Public and private purchaser members collectively represent almost 60 percent of state residents.
Washington State Puget Sound	Model 3: Mixed Coalition Health Alliance	This coalition includes more than 140 participating organizations, including public and private employers; health plans; physicians and other health professionals; hospitals; community groups; and individual consumers. This coalition represents more than a million covered lives, or about a third of the population in five counties: King, Kitsap, Pierce, Snohomish, and Thurston.
Wisconsin Department of Employee Trust Funds (ETF)	Model 1: Single large Purchaser	ETF is the largest employer purchaser in the state, covering more than 250,000 active state and local employees and 115,000 retirees and their dependents.**

*http://www.mass.gov/gic/.

**http://www.pophealth.wisc.edu/UWPHI/education/conference/health_colloquium_2005_02_07/etf.ppt#330,3,Value-based Purchasing Managing thru Cost AND Quality.

Strategies

Depending on the model, the sites examined for this study employed a variety of strategies that can be grouped into three main categories.

Uniform Quality Measures and Reporting Requirements. This strategy involves multiple purchasers joining together to establish standard quality measures, which are translated into standard data requirements for health plans or providers. The intent is to reduce the burden on suppliers of varied reporting requirements from purchasers (thereby enhancing cooperation); reduce confusion to employers and consumers when purchasing health care; and allow providers to focus on improving quality measures that reflect evidence-based medicine.

Transparency and Public Reporting. Transparency of quality and cost information is deemed a critical component of VBP across all of the programs examined. The initiatives involved collecting data from providers and health plans, and applying quality, efficiency, and "value" measures (a combination of quality and cost) to present comparative information. Individual purchasers (Model 1) are concerned with reporting this information to their individual employee members, which is common among large corporations. Coalitions (Models 2 and 3) are working to build more universal repositories of data that would be available to and used by the wider public and all employer/purchasers.

Direct Incentive-Based Strategies. The third and ultimate strategy that defines VBP is the use of direct incentives—financial or non-financial rewards and penalties—to change the behavior of consumers, employers, and providers in ways that promote better quality of care, greater value for dollars spent, and improved health outcomes. Mechanisms include:

- *Tiered Premiums or Copayments.* Researchers are beginning to see variable premiums or copayments tied to the quality and performance of physician group practices, individual physicians, and hospitals.
- *Pay-for-Performance.* Programs to give extra payments ("carrots") to reward health plans or physician practices for quality improvement and patient-focused high-value care are growing, and one major purchaser is considering penalties related to poor performance ("stick") approaches.
- *Centers of Excellence.* This tactic takes public reporting one step further by selecting the best performers and giving them special designations. The expectation is that patients are more likely to select the publicly recognized hospitals and physician practices, which should result in improved health outcomes. This strategy also gives incentives to providers to improve their performance in seeking the designation. A member group of the Labor Management Coalition, a Smart Buy Alliance member, has estimated a 2.5 to 1 return on investment from its "Best in Class" program.

Combination strategies incorporate various elements of the above strategies. For example, Wisconsin's ETF centralized its pharmacy benefit into a newly developed Pharmacy Benefit Manager (PBM), using value-driven principles of transparency and incentives. ETF helped create a PBM that would have no "secret" deals with pharmaceutical manufacturers and all rebates would flow to the state. Further, the PBM would receive a bonus if the state saved money; thus, the two organizations' incentives are aligned. The PBM also developed a three-tier, evidence-based formulary and other quality/efficiency-based initiatives. The result of these pharmacy initiatives was savings estimated at $160 million across three years.

Minnesota's Department of Employee Relations (DOER), a member of the Smart Buy Alliance, purchases health care for about 120,000 public employees and their families, and it has implemented many of the value-driven strategies described in this report. Its coverage program had a 0 percent premium increase for 2006, and about $20 million in savings is being returned to the state employees through a "premium holiday." Members who pay a health care premium will save about 4.4 percent of their total annual premium, or about $53 per employee with dependent coverage. DOER attributes the savings to lower-than-expected claims related to value-driven incentives and health promotion strategies.

Challenges

While value-driven health care purchasing poses a number of exciting opportunities for reshaping the health care system into one that is more efficient and provides higher quality care, these efforts are not without significant challenges.

Many of these challenges involve achieving the critical mass to change the system. Representing a large enough portion of purchasers to maximize influence and minimize cost shifting is necessary but raises challenges of reaching agreement among disparate purchasers with different priorities. Each of the programs examined in these reports noted the difficulty of getting employers to look beyond cost and incorporate quality in their health purchasing decisions. Further, getting Medicaid on board and past federal purchasing constraints has been a difficult struggle. And all of the sites noted the ongoing challenge of getting consumers engaged, though they are trying through public awareness, education, incentives, and user-friendly tools.

Another set of challenges involves facing difficult tradeoffs and striking delicate balances. For example, the programs had to find the most effective balance

between cooperating with suppliers of health care and taking a more aggressive stance. The program planners also needed to obtain support from top political leadership, but, at the same time, stay above politics to remain non-partisan. They wanted to balance the need to address multiple technological and political challenges with the need to display to their supporters results and present a business case for value-driven health care. In addition, they wanted to avoid "reinventing the wheel" by using existing national quality and efficiency standards, but they needed to add a local spin to promote buy-in. And they needed to balance academic rigor in their methodology with the need to avoid "making perfect the enemy of the good" and getting nowhere.

Finally, the value movement leaders faced challenges trying to get multiple, local initiatives to build on and support rather than duplicate each other. Other communities without histories of collaboration among stakeholders that were evident in Minnesota, Puget Sound, and Wisconsin may face additional challenges in replicating value-driven models.

Changing purchaser and supplier behavior through value-oriented strategies is a slow process, and therefore value-driven health care should be viewed as one element in a broader, comprehensive effort to improve the performance of the health care system. A few of the initiatives highlighted in this report are beginning to show results—primarily but not exclusively at an anecdotal level—in terms of reducing costs and grabbing the attention of health care providers. If these and other value-oriented initiatives around the United States can successfully overcome the obstacles so that they influence providers to enhance quality and efficiency of care, then the potential to "raise all boats" is truly there—that is, for all users of the health care system, not just the current participants of the VBP initiatives. Conducting objective, empirical evaluations of the kinds of efforts highlighted in this report is critical to fully understanding the impact of such efforts on quality of care, health outcomes, and costs. Such results will help determine whether the value-driven initiatives will spread beyond the few states that are now pursuing these efforts.

Citation

S. Silow-Carroll and T. Alteras, Value-Driven Health Care Purchasing: Four States that Are Ahead of the Curve, The Commonwealth Fund, August 2007