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Calpers' innovative program for knee and hip surgeries

Calpers – the California Public Employees' Retirement System – covers 1.3 million retirees, managing both their retirement and health benefits. It recently introduced a program for knee and hip surgeries that effectively tells beneficiaries that it will pay up to a specified amount for hospital reimbursement. If the beneficiary elects a hospital for which its reimbursement is higher, the beneficiary is 100% liable for additional charges.

Calpers has brought two essential ingredients into play – both transparency in price and “skin in the game.”

It's ahead of the curve in its ability to take meaningful steps to reform healthcare. Much of the healthcare cost has been shifted to the household members. People understand that lower price, especially when the price differs in the thousands, makes great sense in lowering healthcare costs. Studies also have shown that lower health care cost does not mean lower quality as with Stanford in Loma Linda hospitals.

A colleague has studied the program and come up with the following history of this program:

Back in 2009, Calpers analyzed seven years of medical claims data, finding that musculoskeletal conditions were a major cost driver. It came to the conclusion that knee and hip replacements have become routine, and were a good candidates for a “value based” pricing initiative. It found that facility reimbursement ranged from \$15,000 to \$110,000 with **no discernable positive relationship between cost and outcomes**. An analytical unit in Anthem performed the study.

Based on this study, Calpers introduced a policy that it would pay up to \$30,000 for facility charges for knee and hip replacements.

The Anthem PPO plan for Calpers **summarizes** the program as follows:

“CalPERS and Anthem Blue Cross are working together to design a Hip and Knee Joint Replacement program. Members who will be scheduling a hip or knee replacement on or after January 1, 2011 should be aware of this program.”

CalPERS and Anthem Blue Cross have designated 45 facilities throughout California where Single Hip Joint Replacement or Single Knee Joint Replacement surgeries can be rendered and CalPERS members will be held harmless for any hospital

charges above the plan's deductible and coinsurance. Payment will be limited to a \$30,000 threshold for services rendered at hospitals that are not part of this program.”

Since the introduction of the program, surgeries at a rate of about 500 a year have been performed. Few patients have gone to the higher cost hospitals, and there have been **remarkably very few complaints**. Why?

Well, for several reasons. One is that **Calpers coaches its beneficiaries**, when they call for pre-authorization for knee and hip surgery, that quality of care is not associated with higher cost care. Beneficiaries also find

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that well respected hospitals such as Loma Linda and Stanford are on the list of hospitals that come in under the \$30,000 cap.

Ann Boynton, Calpers' Deputy Executive Officer for Benefit Programs Policy and Planning and a former top healthcare advisor in the Schwarzenegger administration, told my colleague that Calpers learned three things from the program:

First, the program works.

Second, a program like this has to be carefully designed.

Third, implementation, in particular education, is key – a “huge” issue.

Calpers sat down, for example, with surgeons who treat covered patients and do not have operating privileges in a hospital that comes under the \$30,000 cap. That took time and effort.

Boynton, however, is concerned about what she calls “commodification” of healthcare with cost-conscious selection of providers. She fears that it erodes the integration of care. Calpers is holding off extending the concept to other conditions until it understands better how cost-conscious selection can work with integration of care.

For me, there is one important lesson from the Calpers program. It is that households are far more prepared and ready for cost-conscious comparison of medical providers than are health plan designers and human resource directors. Households are living in 2012. Plan designers and HR directors are living in, say, 2005.

Go [here](#) for a lucid analysis of trends in healthcare costs and Anthem's various programs for cost awareness, presented by Angela F. Braly, President and Chief Executive Officer of WellPoint, in early 2011, in which she mentions the just-launched Calpers program, as well as Compass' program with Anthem Blue Cross of New Hampshire. I founded Compass Healthcare Advisers in 2009.

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