



# Strategies to Control the Rising Cost of State Employee Health Care

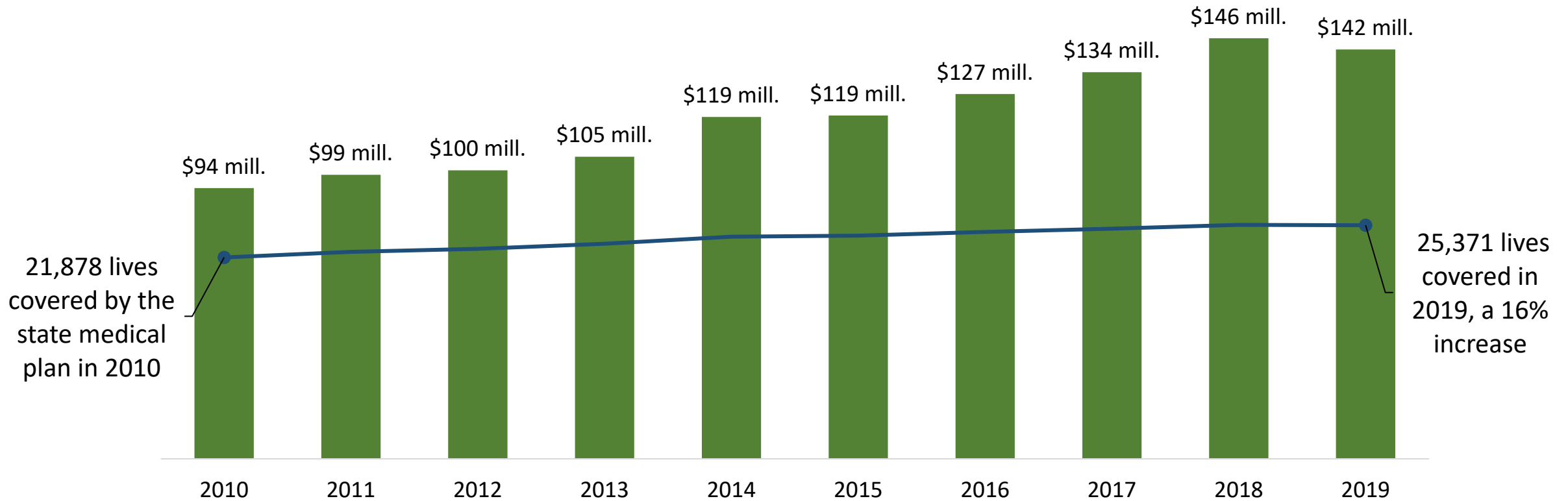
*Examining price variation in the State employee health plan*

Presentation for the Senate Committee on Health and Welfare

15 February 2022

## Medical payments for the State plan grew 51% between 2010 and 2019

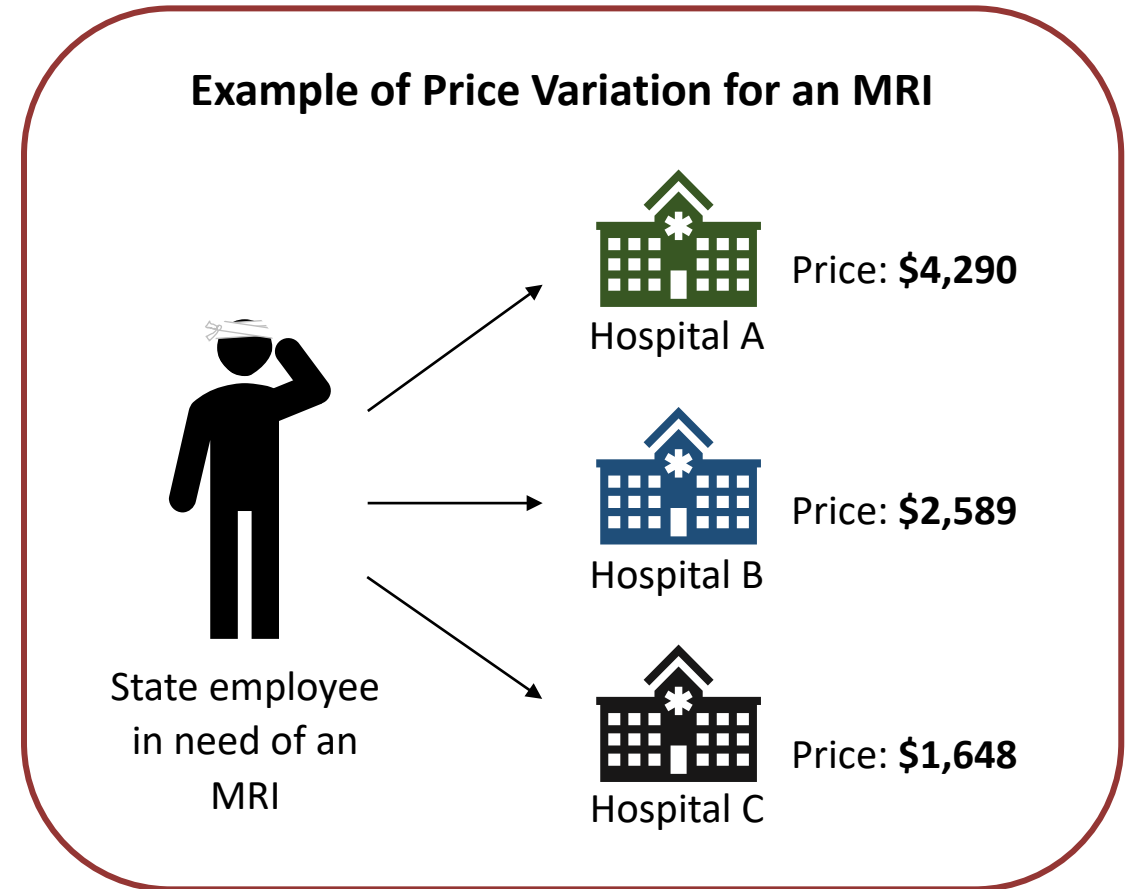
*The State's employee health plan is administered by Blue Cross Blue Shield of Vermont*



Source: Vermont Department of Human Resources

## Price variation and potential for savings

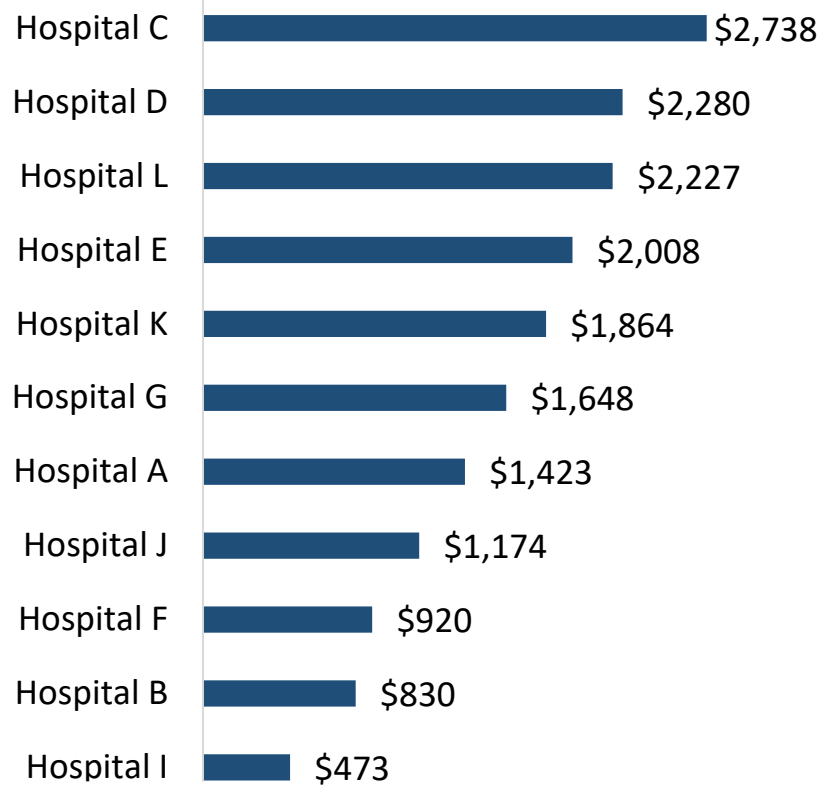
- Price variation occurs when health care providers are paid different amounts for the *exact* same service
- Higher prices  $\neq$  higher quality
- Unwarranted price variation increases costs without offering better value or societal benefits



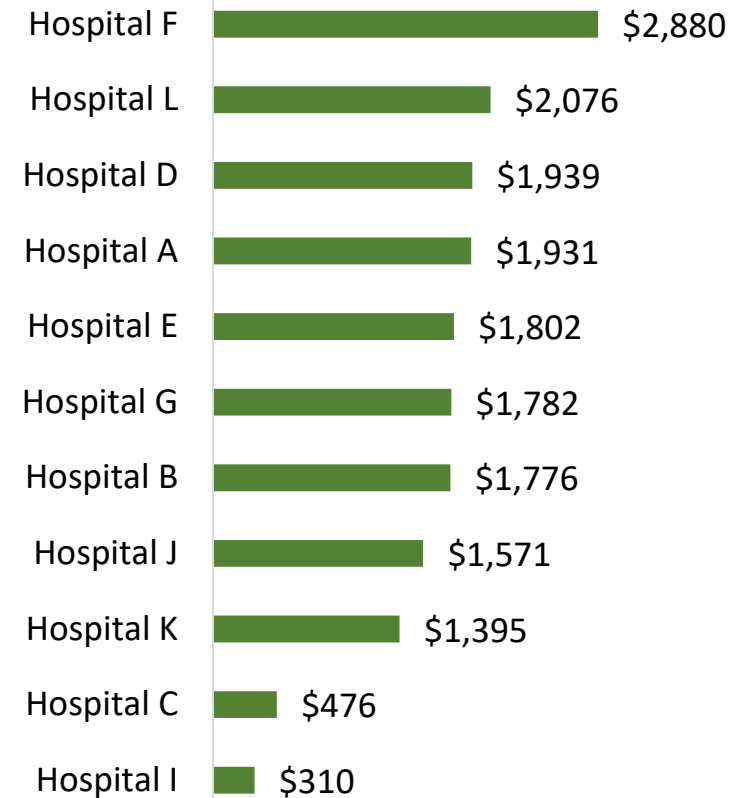
## We found significant variation in prices paid to providers under the State employee plan

In our sample, the highest priced provider for a given service was paid an average of 3.5 times more than the lowest priced provider for the exact same service

Median Price,  
CT scan of the chest



Median Price,  
Echocardiograph



Source: BCBSVT, State of Vermont Employer Group: 2019 median price data

## Reference-based pricing: Montana state employee health plan

- Reference-based pricing occurs when a health care purchaser **assigns an appropriate price they are willing to pay** for a service

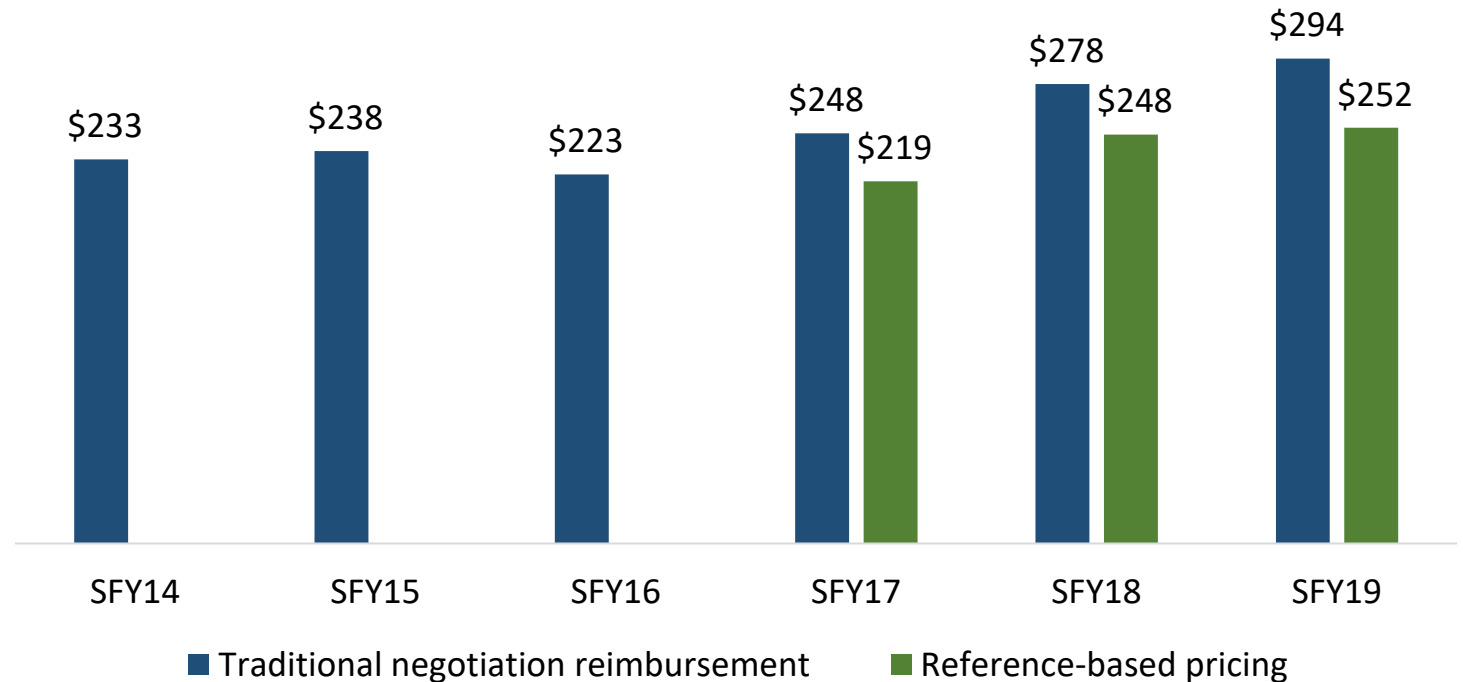


- Montana set reference price between 220% and 250% of the Medicare rate for inpatient and outpatient services
- Covered all acute care hospitals in the state

## Reference-based pricing: Montana state employee health plan

- **\$47.8 million savings in first three years (17%)**
- No impact on employee choice
- No hospital closures
- Been in place since SFY 2017

Average outpatient cost per member per month in Montana, traditional negotiations vs. reference-based pricing



Source: Schramm and Aters, (2021). Estimating the Impact of Reference-Based Hospital Pricing in the Montana State Employee Plan.

## Using reference-based pricing in the Vermont state employee health plan

- 2019 BCBSVT price data from the State employee health plan
- Sample of 39 services across top 12 providers
- Used midpoint price as the reference price

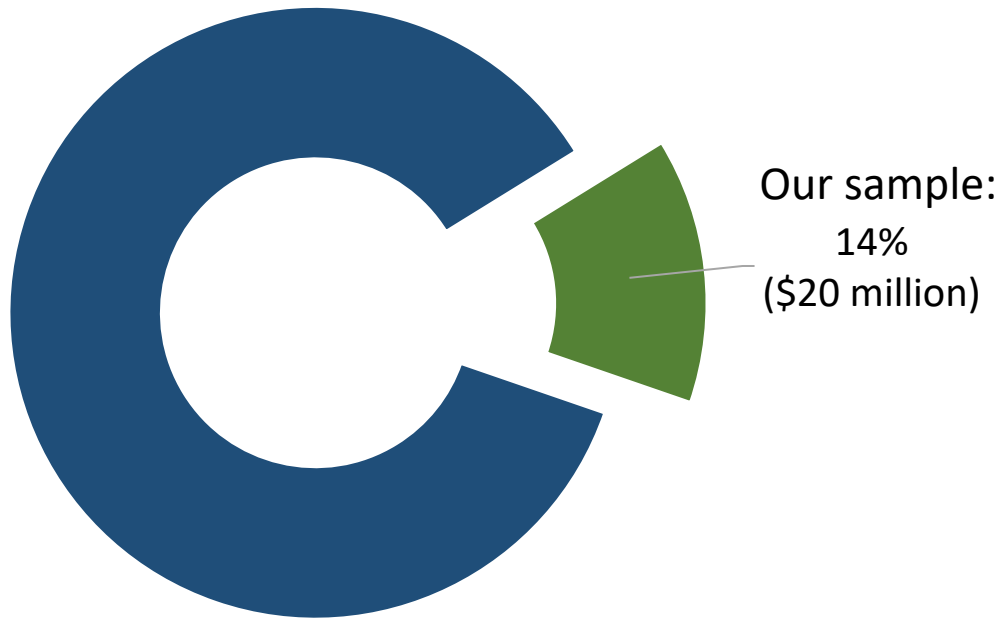
Midpoint →

Service description	CT of abdomen or pelvis	
Total visits	366	
Hospital	Median Price	Visits
Hospital A	\$2,615 <del>-\$3,505</del>	94
Hospital B	\$2,615 <del>-\$3,449</del>	94
Hospital F	\$2,615 <del>-\$3,418</del>	15
Hospital L	\$2,615 <del>-\$3,270</del>	12
Hospital E	\$2,615 <del>-\$2,969</del>	25
Hospital D	\$2,615	23
Hospital K	\$2,362	6
Hospital J	\$2,305	24
Hospital C	\$1,867	43
Hospital G	\$1,632	8
Hospital I	\$1,075	22

Estimated savings using the midpoint price: \$190,853

## Using reference-based pricing in the Vermont state employee health plan

Total medical claims in 2019: \$142 million

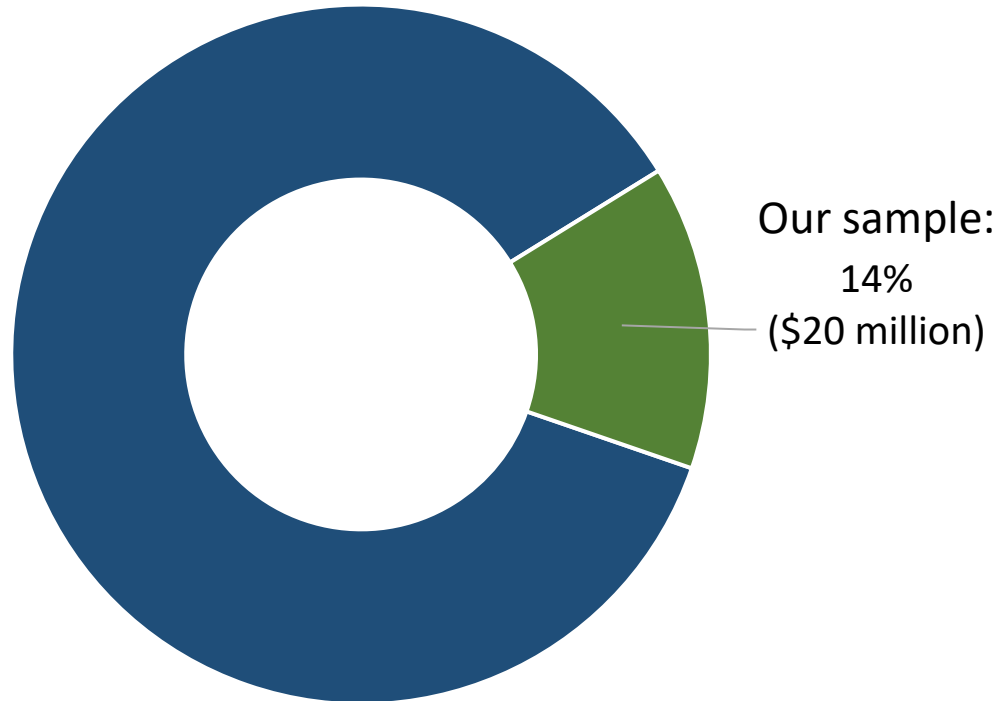


For just the 39 services we sampled, the State could **save \$2.3 million annually, with an average of 13% savings per service**



## Using reference-based pricing in the Vermont state employee health plan

Total medical claims in 2019: \$142 million



If this level of savings was achieved across all medical services, **total savings could reach \$16.3 million annually**

## Using reference-based pricing in the Vermont state employee health plan

No impact on employee behavior or choice

Modestly scaled project to address price variation

Can inform movement to value based payment

Recommend AOA conduct a more comprehensive analysis