

# A NEW VISION FOR CALIFORNIA'S HEALTHCARE SYSTEM: INTEGRATED CARE WITH ALIGNED FINANCIAL INCENTIVES

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**Berkeley Forum**  
*for Improving California's Healthcare Delivery System*



# Outline

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- Berkeley Forum overview
- Healthcare spending and California's relative performance
- Berkeley Forum Vision to bend the cost curve and improve health
- The impact of seven modeled initiatives on the cost curve
- Key challenges & steps to achieve to the Forum Vision

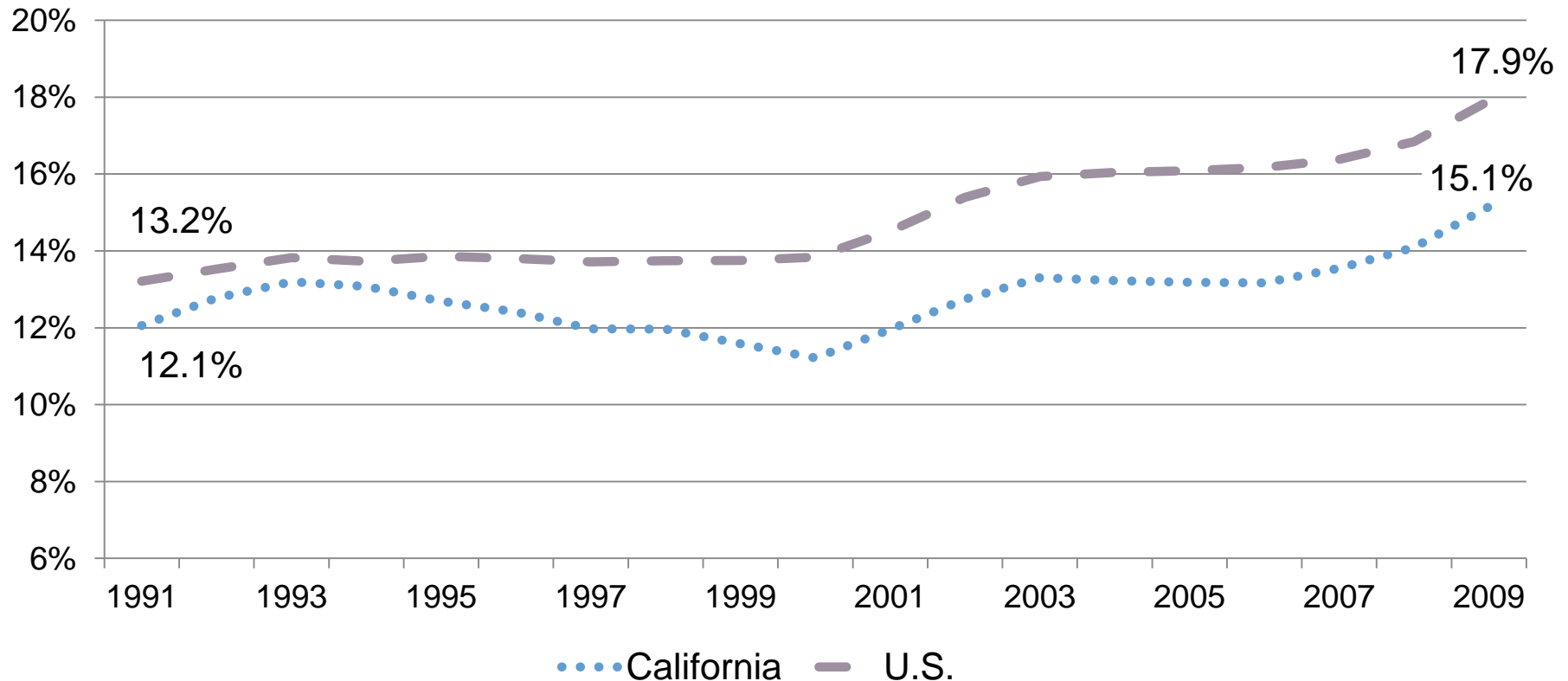


# Berkeley Forum overview

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- Initiated by SPH Dean Stephen Shortell & Distinguished Professor Richard Scheffler in January 2012
- Led by the private sector with public sector participation
  - Payers: Anthem Blue Cross; Blue Shield of California; Health Net
  - Health systems: Kaiser Permanente; Cedars-Sinai; Dignity Health; MemorialCare Health System; Sharp HealthCare; Sutter
  - Medical groups: HealthCare Partners; Monarch HealthCare
  - Regulators: Secretary of California Health and Human Services; Insurance Commissioner; CMS Regional Director
- Partnered to examine California's healthcare system and address shared challenges
- Regular consultation with trade associations, subject matter experts and NGOs
- Released Report in February 2013: *A New Vision for California's Healthcare System: Integrated Care with Aligned Financial Incentives*

Healthcare spending as a percent of Gross Domestic Product has increased in both California and the U.S. over the last 20 years, but remains much higher in the U.S.



California Cost Curve projected to increase to 17.1% in 2022 as per capita spending increases from \$8,251 in 2012 to \$13,755 in 2022

## There is evidence that system characteristics , such as managed care and provider integration, contribute to California's lower utilization

- Higher unit costs
- Lower utilization

### Healthcare Utilization in California vs. the Rest of the U.S., 2005 - 2009

Healthcare Service	Incidence Rate Ratio: California vs. Rest of the U.S.	Standard Error
Number of inpatient discharges	0.76***	0.04
Number of inpatient days	0.83*	0.07
Number of emergency room visits	0.78***	0.03
Number office-based physician visits	0.91***	0.02

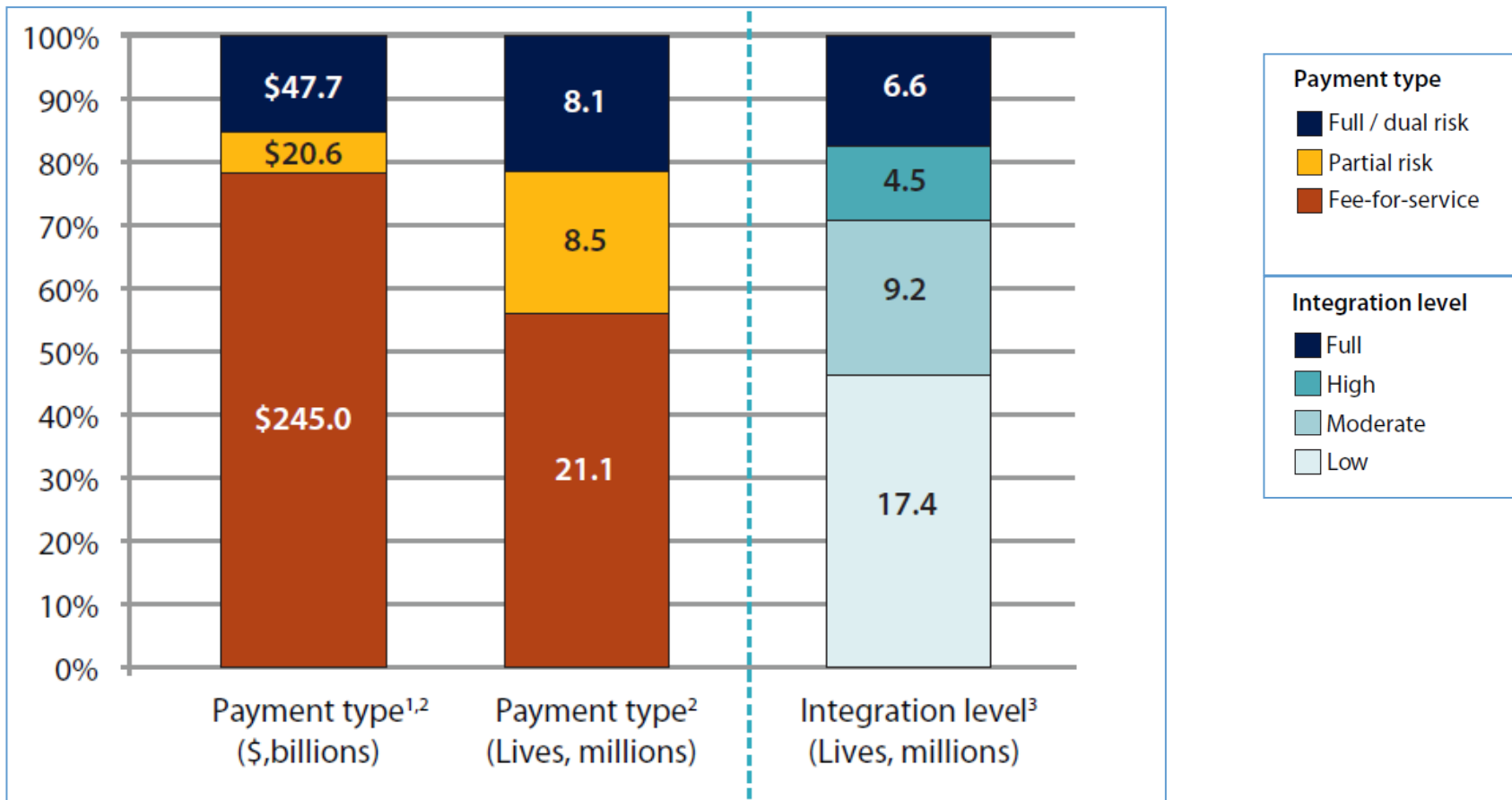
Notes: Controls for gender, age, race/ethnicity, income, insurance status, number of key medical conditions and body mass index. Asterisks indicate the significance level of the incidence rate ratio as compared to one:

\* $p < 0.05$  and \*\*\* $p < 0.001$ .



# Four-fifths of CA spending is paid via FFS, and over two-thirds of patients receive care from low- or moderately-integrated systems

## Breakdown of Payment Mechanisms and Delivery System Integration in California by Lives and Dollars, 2012



# Berkeley Forum Vision

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## Payment Reform

- Rapid shift towards risk-adjusted global budgets
- Reduce the share of healthcare expenditures being paid via fee for service from 78% in 2012 to 50% in 2022

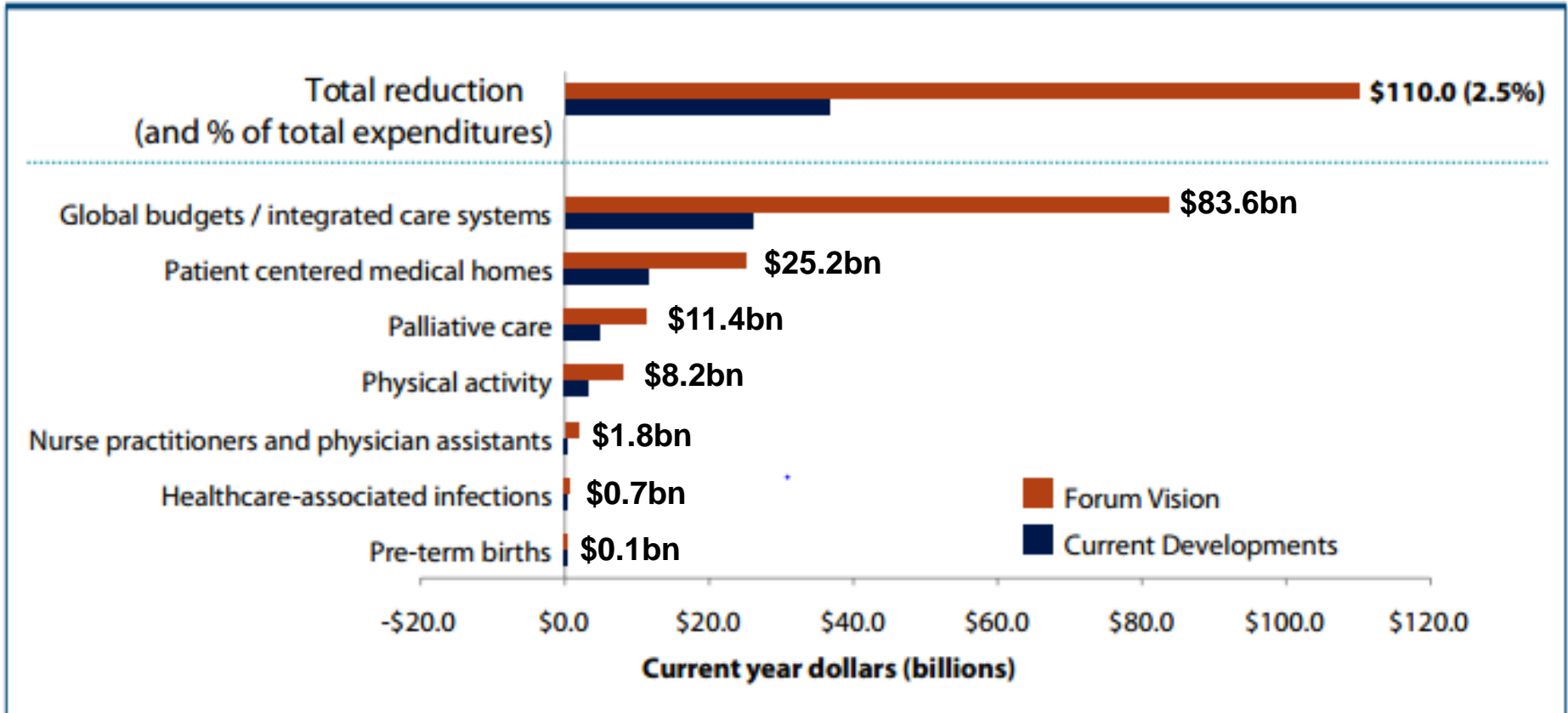
## Integrated Care

- Double the share of the state's population receiving care via fully or highly integrated care systems from 29% in 2012 to 60% by 2022

## Population Health

- Emphasis on population health, including lifestyle and environmental factors that promote good health

# Healthcare spending reductions from initiatives -- equivalent to \$110 billion total under the Forum Vision, or \$800 per household per year (2013-2022)

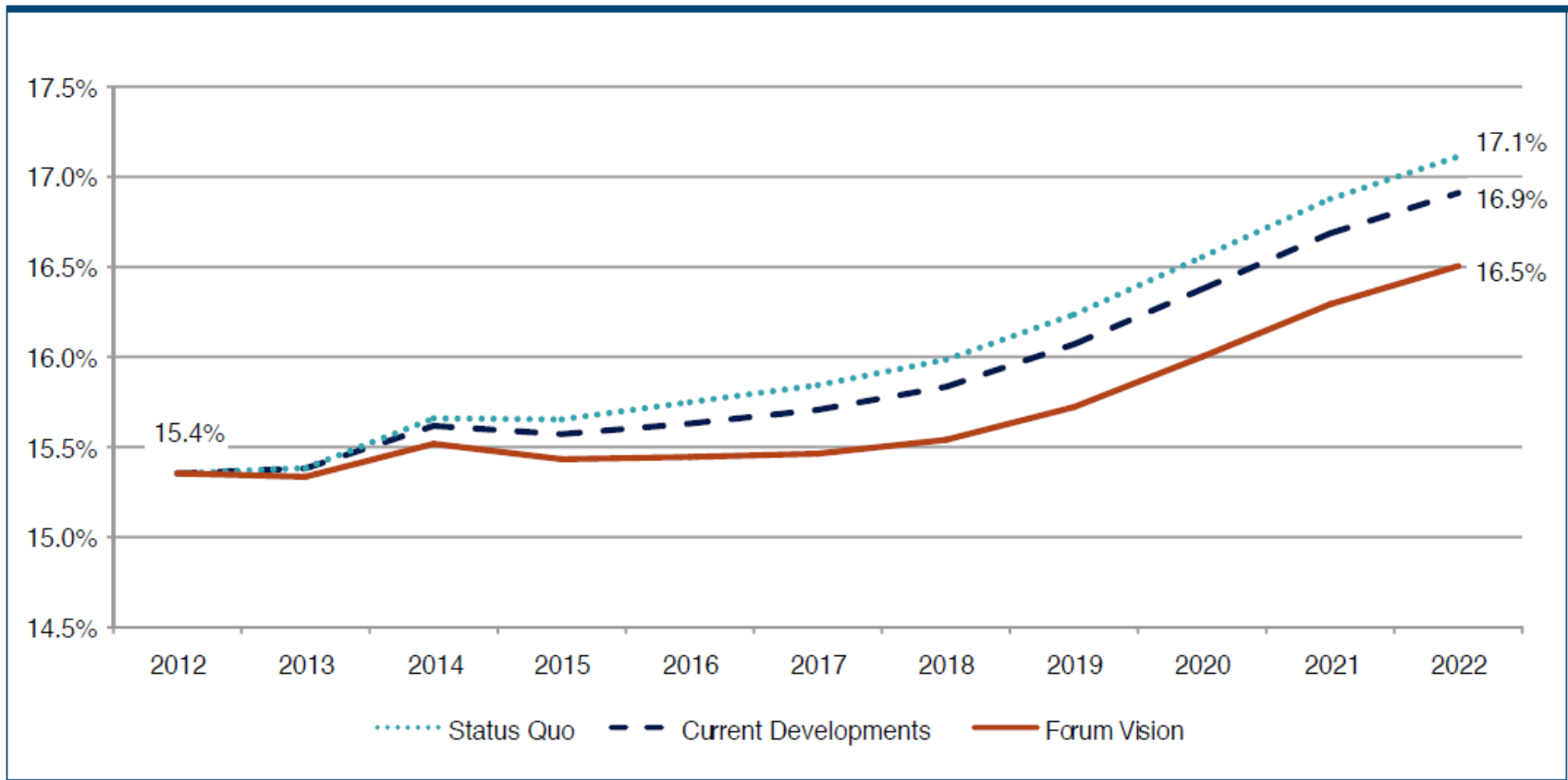


Notes: "Total reduction" accounts for potential overlap among the initiatives, and therefore is smaller than the sum of the individual initiatives combined.



# Forum Vision reduces healthcare expenditures from 17.1% of GSP to 16.5% of GSP in 2022

Projected Healthcare Expenditures as a Share of Gross State Product, 2012-2022



## Key challenges to the Forum Vision

- Provider consolidation & potential for non-competitive markets
- Declining enrollment in commercial HMO plans
  - Increasing capitation rates to physicians, faster premium growth
  - Growth in employer self-funding
  - HMOs not structured for higher cost-sharing
    - Move towards Consumer Directed Health Plans
    - Health Benefit Exchange – Silver Plan expected to have higher cost-sharing



## Steps to achieve the Forum Vision

Risk-based  
payments  
&  
integrated  
care

- PPO/FFS: Intermediates to global budgets (e.g. shared-savings, ACOs, bundled-payments)
- HMO: Broader & deeper risk-based contracts
- Medicare: Medicare Advantage & ACOs
- Medi-Cal & dual-eligibles: Move to managed care
- Commercial insurers / employers: Integrated, affordable self-insured health plan offerings

Improved  
population  
health

- Multi-sector collaboration: Among healthcare, education, infrastructure, social services, etc. to promote healthier environments
- Employers: Healthier worksites; high-value health plans

