Total Cost of Care
Measuring and Using Total Cost of Care Data in California

Understanding the drivers of health care costs is a critical first step in trying to reduce or control health care spending. In response to concerns about significant increases in health care costs, the Integrated Healthcare Association (IHA) has taken several steps toward measuring and rewarding value, which incorporates both cost and quality performance. The development of total cost of care measurement (TCC) was key to transitioning the California Pay for Performance Program (P4P) from its primary focus on measuring and improving quality to a value based program (Value Based P4P) focused on measuring both cost and quality.

REWARDING HIGH VALUE CARE IN CALIFORNIA
Measuring TCC, alongside quality and resource use measures, creates an opportunity to align Value Based P4P program incentives—payment, public reporting, and public recognition awards—to reward physician organizations (POs) delivering high value care in California.

- **Payment:** In 2014, the first health plan made value-based P4P payments to POs under the new recommended Value Based P4P design, a shared savings model which holds POs accountable for cost trend and rewards POs for performance on resources used in delivering care, as well as for the quality of that care. By merging quality, cost, and utilization measures into a single incentive program, Value Based P4P has the potential to bend the health care cost curve while maintaining or increasing the quality of care delivered.

- **Public Recognition Awards:** IHA publicly recognizes the top performing and the most improved POs each year. In November 2014 IHA unveiled a new Excellence in Healthcare Award that recognizes POs that are in the top half of performance for clinical quality, patient experience, and cost. The development of the award methodology has already advanced a discussion on how value can and should be defined. IHA anticipates that discussions will continue to evolve as further insight is acquired about the characteristics and best practices of POs that succeed in delivering high quality and affordable care.

- **Public Reporting:** IHA partners with the Office of the Patient Advocate (OPA) to publicly report the P4P program results each year. The use of a standard specifications for measuring TCC is crucial to facilitate comparison across payers and providers. Starting in Fall 2015, public reporting of TCC performance alongside quality performance for POs will allow health care purchasers and consumers to make informed decisions about providers based on value.

**TOTAL COST OF CARE (TCC) MEASUREMENT**
TCC measures actual payments associated with care provided to commercial HMO/POS enrollees in a physician organization (PO). Participating health plans report a single lump sum payment for each member of all contracted POs to a data aggregator; the lump sum includes both capitation and fee-for-service payments, as well as member co-payments, paid to the PO or any providers caring for its members (e.g., hospitals, pharmacies, ancillary providers). Per member costs above $100,000 per year are truncated, and payments for mental health and chemical dependency services, acupuncture or chiropractic services, dental and vision services, and P4P quality incentive payments are excluded from the calculation.

**THE PROCESS OF RISK ADJUSTMENT**
In order to facilitate fair comparisons of PO performance, the TCC measure is risk-adjusted to account for the differences in the health status of the patient population, and geography-adjusted to account for differences in the price of inputs.
Risk Adjustment: Member-level relative risk scores (RRS) are calculated using the Verisk DxCG Relative Risk methodology. The RRS accounts for a member’s age, gender, and health status, which are identified through diagnosis codes appearing in claims and encounter data submitted by a PO to a health plan. The model used is concurrent in that the diagnosis codes used to identify a member’s health status are from the same period as the measurement year.

Geography Adjustment: CMS’s Hospital Wage Index Geographic Adjustment Factor is used to account for regional differences in cost.

IMPLEMENTATION TESTING & CHALLENGES
Before the TCC measure was added to the P4P measure set, it was tested for reliability and validity to demonstrate it would produce both consistent and meaningful results. Testing took place in 2010 and 2011 using 3 years of data from 5 plans. IHA identified three key challenges with TCC implementation:

- Capitation creates comparability challenges: In California’s commercial market, HMOs operate primarily through a delegated model and pay POs on a capitated basis. Capitation can benefit the overall accountability and coordination of care; however, it creates unique challenges when measuring TCC. Under capitation arrangements, dollars paid to providers represent the actuarial value of a package of services delegated to the provider. In order to ensure TCC results are comparable across POs, capitated payments for all providers must represent the same services.

- Lack of accurate encounter data creates risk adjustment challenges: In a capitated payment arrangement, encounter data is not tied to payment; there is no financial incentive to ensure an encounter is coded completely, transmitted, received and processed. This creates challenges for risk adjustment needed for accurate comparisons of PO performance. For example, if a provider does not fully code a visit or if a PO’s claims and encounters are not processed by the plan, diagnosis codes for that member will be missing. As a result, the risk adjustment will estimate a lower RRS for that member than if the diagnosis codes were present. This disconnect between actual health status and approximated health status creates measurement error.

- Cost data is sensitive: Despite the push for greater transparency, the sharing of pricing information—even if aggregated and adjusted—is sensitive. In order to gain legal buy-in from plans and providers, IHA agreed to collect TCC data as a lump-sum at the member level. While this limits the ability to drill-down and understand underlying cost drivers, it was necessary for implementation.

With testing complete, the TCC measure was added to the P4P measure set in 2012, establishing a baseline TCC amount for all P4P participating POs.

RESULTS
For measurement year 2013, California TCC results showed dramatic variation within and across geographic areas. Other key findings are available in the Total Cost of Care Results summary on the IHA website.

Additional information at www.iha.org
- Issue Brief: Value Based Pay for Performance in California
- Methodology: IHA Excellence in Healthcare Awards
- Measurement Year 2013 Total Cost of Care Results
- JAMA article: Total Expenditures per Patient in Hospital-Owned and Physician-Owned Physician Organizations in California
- Health Affairs Blog: Value-Based Pay for Performance: Rewarding Affordability Alongside Quality

ABOUT IHA
IHA is a statewide, multi-stakeholder, leadership group that promotes quality improvement, accountability, and affordability of health care in California.

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