



TOOLS &
SUPPORT

Prospective Bundled Payment The County of Santa Barbara

Santa Barbara is known for its sunshine, beaches, wine, and...exorbitant health care prices? Learn from the County of Santa Barbara and its key partners about how it implemented a prospective bundled payment program to combat rising health care costs.



Case Study

Prospective Bundled Payment



The County of Santa Barbara is located on the Central Coast of California about 2 hours north of Los Angeles. The County provides health benefits to approximately 6,558 people, including 3,427 active employees and 167 early retirees. The single local hospital, and the local health care providers aligned with it, charge high prices due to the lack of competition in the market, driving up the County's health care expenditures. As a result, the County contracted with Carrum Health to arrange for its covered population to be able to receive certain procedures and services at lower prices from high-quality providers beyond the local market; around 5,800 people are eligible for the Carrum program. Carrum Health's program is based on 3 main tenets: cost savings; steerage of employees to top quality providers; and a positive patient experience. Payments to those providers are made in the form of prospective bundled payments.

Catalyst for Payment Reform interviewed representatives from the County and its partners in this program to learn how the County designed and implemented it. Interviewees included Maya Barraza, Employee Benefits Manager at the County of Santa Barbara; Liz Carten, Senior Director of Customer Success at Carrum Health; Brent Nicholson, Vice President of Business Development & Operations at Carrum Health; and Michael Menerey, Senior Vice President at Alliant Insurance Services, the benefit consulting firm to which the County turns to for assistance with its health benefits strategy.

The Problem & Background

A challenging market environment

The County of Santa Barbara is operating under extremely challenging health care market dynamics. There are only two hospitals in the area: one in the city of Santa Barbara, and the other in the City of Santa Maria, roughly 77 miles away. Although the County is satisfied with the quality of care, there is virtually no competition in the market, leading to excessively high prices for inpatient health care services. Compounding this issue is the fact that it has been very difficult to attract new providers to the area due to the high cost of living, making the prospect of new market entrants and greater competition unlikely. Faced with a situation in which claims kept coming in higher than premiums, the County began looking into

Difficult market dynamics

Although quality of care was good, there was virtually no competition in the market, leading to excessively high health care prices.

how to mitigate its health care costs. The County started by incorporating onsite clinics to enhance employee access to basic and affordable health care services. While this tactic helped to reduce costs, the County needed a more robust plan to achieve significant and lasting savings.

The right players, at the right time, in the right place

Around this time, a West Coast-based startup called Carrum Health was working to create a market for bundled payments by negotiating with progressive providers for a single price to cover all of the services they typically deliver to patients for specific episodes of care. Carrum was also working to create a comprehensive cloud-based bundled payment platform and shopping their services to employers and brokers. Ready to acquire customers, Carrum approached Alliant Insurance Services, a national insurance broker and consulting firm, in mid-2015 with its ideas for implementing a prospective bundled payment program for select health care services. Alliant takes pride in bringing creative solutions to clients to help them control costs and, since the Carrum solution was promising for the County, made the connection.

The County of Santa Barbara needed a solution

Carrum Health was bringing its solution to market

Alliant Insurance Services brought them together

On behalf of the County, Alliant provided Carrum with two-years of the County's historical claims data, which it obtained from the County's third-party administrator (the County is self-insured through a Risk Pool arrangement called the California State Association of Counties – Excess Insurance Authority, or CSAC EIA). Carrum analyzed the claims data to identify where its bundled payment arrangements with providers could be most helpful, including assessing how many eligible surgical procedures occurred in the covered population, and how much the County was paying for them under its traditional health plan as compared to the bundled payment price that Carrum could offer. The analysis identified between 10-20 procedures that would qualify for the program, including joint replacements, spine surgery, and coronary bypass surgery.

Given that the County is in a high-cost area, the potential cost savings were significant. While projected savings varied by procedure type, for four specific bundles, the average savings were estimated to be as high as 50-60 percent. This analysis illustrated that the County could reduce costs while maintaining access to high-quality providers for County employees.

Alliant presented this analysis to the County. At the time, Carrum Health had designed its program, but not yet implemented it. Conveying both the level of uncertainty and the benefits associated with the program, Alliant brought the Carrum solution through the decision making process with the County and their Labor Management Committee, which gave unanimous approval. The County approved the contract with Carrum Health on January 1, 2016, and the County of Santa Barbara became Carrum Health's first client.

Designing the Strategy

The County's arrangement with Carrum Health is for twelve-months and renews automatically.

A clear vision for prospective bundled payment

Carrum's approach is built on the belief that a prospective bundled payment can be very attractive for all parties. For self-insured employers, like the County, this type of arrangement removes the ambiguity and variability in health care costs. Prospective bundled payment gives the cost to the employer up front, while the provider is responsible for health outcomes and at financial risk until the warranty period ends. Carrum also holds that retrospective bundled payment is overly complicated. With retrospective bundled payment the base payments to providers continue to be fee-for-service (FFS). Only after the episode of care is over does the payer adjust the payment to match the bundled price by making additional payments (if the provider's FFS payments come in under the bundled price) or taking money back from the provider if they overspent compared to the bundled price. In comparison, the administrative simplicity of the prospective bundled payment model is attractive.

One of the benefits of prospective bundles to the provider is that they allow Carrum to turn around the payment to the provider quickly. This means the cost to the provider to collect payment is next to nothing and the provider receives 100 percent of their payment, minimizing concerns about their revenue cycle. In other words, instead of the three to four months lag time in receiving payment that occurs through traditional insurance carriers, providers in this model receive their payment within a few days of the patient being discharged.

Quality at the center of the program

Carrum has not had difficulty finding providers willing to accept prospective bundled payments, but they choose to work with progressively-minded providers, who often have the best experience and results and are ahead of the curve with regard to accepting new payment models. Carrum markets their providers as Centers of Excellence (COEs), meaning providers must meet certain quality metrics to be included in Carrum's bundled payment network. Carrum differentiates the quality of their providers by benchmarking against the broader geographic average. For instance, the joint replacement readmission rate for Carrum Health providers is 1.7% compared to the average hospital performance across Southern California of 6.6%. For Santa Barbara's program, Carrum Health contracted with Scripps Health and Stanford Health Care – ValleyCare.

Prospective bundled payment removes the ambiguity and variability in health care costs

This payment arrangement gives the cost to the employer up front, while the provider is responsible for health outcomes and at financial risk until the warranty period ends.

A closer look at benefit design

The County offers the members of its covered population living in the County a choice of two exclusive provider organization (EPO) plans, a preferred provider organization (PPO) plan, and a high-deductible PPO health plan (HDHP-PPO), while for residents of Ventura County, which neighbors the County of Santa Barbara, it offers two Kaiser health maintenance organization (HMO) plans. The County's EPO plans are similar to PPO plans but do not have out-of-network coverage. The premiums are higher under these two models compared to other types of coverage and include co-pays. The County also offers a PPO plan and a HDHP-PPO, both of which have out-of-network coverage. The Carrum program is available to all covered members except those in the Kaiser plans. Those enrolled in a HDHP who meet the criteria to participate in the Carrum program must meet their deductible (\$1,500 for an individual and \$3,000 for families) before the Carrum program benefits kick in. However, there are still financial incentives for these members to participate in the program, as after they meet their deductible, their coinsurance is waived, creating the possibility for savings for HDHP members compared to what they would pay under their standard in-network coverage.

The County's program with Carrum covers the following procedures: joint replacement surgery; spinal fusion surgery; back, neck and spinal surgeries; and cardiac bypass procedures. There is no financial liability for participating employees (i.e. employees do not pay any deductible, co-insurance, or co-pays when they elect to have a surgical procedure done through Carrum). Additionally, the program covers 100 percent of travel to and from the COE for the employee and one companion, along with their lodging and food. The fact that there is no cost to employees for surgical procedures is a direct incentive designed to steer employees away from higher-cost providers in their local provider network. Moreover, given the deductibles and co-insurance in the EPO, PPO, and HDHP, employees can save thousands of dollars on out-of-pocket expenses that they would otherwise incur if they were to have the procedure done locally.

For follow-up care, patients receive a letter of intent from their primary care physician (PCP), ensuring that their PCP will care for the patient after surgery. Carrum transitions the patients back to the local market after surgery, and patients are covered under their regular health care benefit.



A closer look at the payment model

Under this prospective bundled payment model the bundled prices are set up front with provider partners. The bundle includes every service and procedure from pre-operative to post-operative care, and it is up to treating providers to make sure they deliver care efficiently. The arrangement includes a 30-day readmission warranty that effectively transfers some financial risk to the provider. Carrum invoices the County before the surgery and the County pays Carrum a lump sum payment. Carrum then pays the provider the bundled price once the surgery is complete. In rare cases, such as complex joint reconstruction, there is uncertainty with regard to what the procedure will cost. In these cases, Carrum waits to pay the providers until after they deliver the care and does not use a prospective bundled payment. Carrum generates most of its revenue from a transaction fee based on patient utilization of the program. Each time a patient uses the program, Carrum receives a lump sum payment from the employer and then passes most of it on to the provider in the form of a prospective bundled payment, keeping a small portion as revenue.

The program requires potential patients whom local surgeons recommend for surgery to seek a second opinion from the providers contracted directly with Carrum - the same providers that would ultimately deliver the care to the patient under the program if they deem the patient is an appropriate candidate. Carrum pays its contracted surgeons a separate flat fee for the consult and a separate flat fee for the bundled payment, with a small fee charged to the employer or other plan sponsor for the consult. If the provider and patient agree to proceed with surgery, Carrum waives the patient's share of the consult fee. If the patient is turned away from surgery by Carrum's contracted providers, Carrum still pays the surgeon a fee for the consult, and the County pays Carrum for arranging it. This is an important design element of the payment model, as it is meant to reduce the contracted providers' temptation to deliver unnecessary bundles of care; the County does not want its population receiving unnecessary surgeries from either a quality or cost perspective.

Rolling out the model

When it came to implementing its prospective bundled payment program, the County found the process to be relatively smooth. From the introduction of the concept to activating the program, the County's bundled payment program took around 8 months; the implementation phase took six weeks.

Changes to the existing benefits structure

The County did not need to make any significant changes to the existing benefits structure to implement the program. The only notable changes involved the strategy for communicating about the new benefit program to employees.

Minimal impact on staffing and resources

Most of the heavy lifting to implement this program took place at the beginning of the process and had minimal impact on County staff. A lot of the work was done directly between Alliant and Carrum. Initial efforts among the three parties involved defining the program's scope and procedures, determining the benefits structure, getting buy-in for the program from the County and other stakeholders, such as the Labor Management Committee, and presenting it to the County's Board of Supervisors. After securing buy-in and setting up the program, the primary focus for the County was figuring out how to promote the program to employees.

The County wanted to convey a clear and meaningful message to employees

If you're looking at surgery, this is an innovative, high-value way of getting that surgery. Not only is there no cost to you, but you'll also have access to top rated surgeons at a top rated facility.

Communication is a key part of implementation

The County's human resources department was responsible for communicating the new program to its population. Carrum provided the County with a full marketing plan and a list of tactics and recommendations for how and when to engage employees, including specific messaging and materials, such as email and web content, that the County could adapt as needed. Carrum also conducted focus groups, attended open enrollment fairs with vendors, and held lunch-and-learns to promote the program for the County. A central part of the communications campaign is directing eligible employees to Carrum's 1-800 concierge service. The County views the concierge service as a major benefit for employees looking to participate in the program as it offers hand-holding for employees from the beginning to the end of the process, advocates for patients, and handles logistics, such as booking travel and scheduling appointments.

Both Carrum and Alliant are actively involved with the County to make sure it effectively educates employees during open enrollment and afterwards, as utilization is key to deriving value from the program. An important factor in driving engagement has been through word of mouth, particularly through video testimonials from satisfied patients who have gone through the program.

And communication is the biggest challenge

The County remarked that the biggest challenge it has faced with the program thus far has been communications and marketing – how to educate employees and drive increased awareness of the program so that more people will use it. Despite the efforts of the County and its partners, the County is not reaching as many employees as it would like. For instance, many who have been at the County for years are still unaware of the program, despite it being in place since early 2016.

Part of the issue could be that government employees in particular are on information overload, leading to unread emails and low traffic to the employer's website – both key means of communication. Another barrier could be that since *regular* benefits are confusing enough to

employees, trying to help them understand a special benefits program like this one is an even tougher challenge. Lastly, many employees are loyal to certain providers and/or are put off by the need to travel to an unfamiliar area and seek care at an unknown hospital.

As a result, the County and its partners are trying to think of new ways to reach employees. The County also noted the need to create a simple and effective marketing strategy for communicating the benefits of the program to early retirees, as once they retire there are few opportunities to reach them about benefits, including those that may be useful to them down the road. To save money and improve the quality of care for the broader population of employees, reaching them about the program will be critical.

Results

The County and Alliant look at a variety of factors when it comes to measuring the success of the program. As the hard dollar savings come from the number of procedures performed through Carrum, instead of through the County's regular insurance plans, measuring and boosting utilization of the program is key to success.

By looking at the County's claims data on a monthly basis, Carrum can run predictive analytics to identify those employees at risk of needing surgery. The County and Carrum then reach out to those employees with information about the program encouraging them to take advantage of its benefits should surgery become necessary. This proactive, patient-first approach helps ensure that employees who can benefit most from the program are aware of their options and that the right patients get the right information at the right time.

Utilization is the key metric for this program

As the savings come from the number of procedures performed through Carrum, as opposed to through the County's regular insurance plan, measuring and boosting utilization of the program is key to success.

The County tracks the rate of adoption, such as how many out of ten joint replacement surgeries went through Carrum. The County estimates it has caught 18% of joint replacements to date. The County is also able, on an ongoing basis, to use its claims data to identify those eligible procedures that did not go through the Carrum program and the resultant costs. It is estimated that in 2016, the Carrum program saved the County \$70 per employee per year across all County employees enrolled in the health program. The County and Carrum were able to achieve these savings even though only 18% of joint replacements went through the program. It is important to note that these estimates are based on experience to date with the program and over time these estimates may vary.

Patient satisfaction is a differentiator

In addition, patients that go through the program are given a survey to gather information about their experience and satisfaction with the program. The aggregate results are reported back to the County. Thus far, all six patients who have gone through the Carrum program have rated it a 10 out of 10 and would recommend the program to others.

Unexpected benefits in the form of avoidance of unnecessary surgery

The County found that some patients, whom local physicians had recommended for surgery, were told by Carrum's contracted surgeons that surgery was not necessary. Avoidance of unnecessary surgeries was an unanticipated benefit to the County. Thus far, 1 out of 3 surgeries have been avoided. Those patients that ended up not needing surgery received recommendations for alternative treatment.

Other employers join the model

After the County implemented Carrum's prospective bundled payment program, the California State Association of Counties Excess Insurance Authority (CSAC EIA), a purchasing pool in which the County of Santa Barbara participates, offered it to all participants in their program, representing nearly 50,000 total eligible lives statewide. Today, over 400 employer groups have access to Carrum Health's offerings in California, mostly through joint purchaser arrangements such as CSAC EIA.

Insights Gained Along the Way

Insights from one employer to another

The County was pleased with the design and implementation of the prospective bundled payment program and would not change it given the chance. While they noted that taking on an additional program like this can be daunting for employers with limited bandwidth, this program felt to Santa Barbara County like a win-win for the County and its employees given the ease of implementation. Programs like this can even be launched off cycle, with low upfront costs and administration fees, and don't require significant investments in technology or infrastructure. The County noted that it continues to fine-tune its communications strategy, and it continues to work to make it as easy and seamless as possible to get members through the program. For instance, they are working with Carrum to hone its care concierge service.

Insights from key partners

Alliant Insurance Services commented that employers should not blindly trust that they are getting the best discounts from their network and should always be on the lookout for new ways to use alternative payment structures.

What's Next?

Moving forward, the County wants to enhance its marketing strategy to make more employees aware of and, as appropriate, taking advantage of the Carrum program. They are also looking to expand the program to include bariatric surgery.

Carrum started with a focus on services with high cost variation, which tend to be lower volume. Going forward, Carrum aims to include services that are high-volume and have high quality variation as well. This way, Carrum can help ensure that employees going through its program will have access to higher-quality providers, keeping the focus on making sure that they are going to the right care centers for their particular care needs.

Encouraged by the initial success of this program, the County is working with Alliant to continue to look for alternative ways to enhance its health care purchasing strategy.