Written Testimony
Before the New Jersey Senate
Committee on Commerce and Committee on Health, Human Services and Senior Citizens
Hearing on the OMNIA Health Alliance formed by Horizon Blue Cross Blue Shield of New Jersey
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Good day Chairpersons Gill and Vitale and distinguished committee members. Thank you for the invitation to comment today on the OMNIA Health Alliance.

I am Joel Cantor, director of Rutgers University Center for State Health Policy and distinguished professor of public policy. The Center for State Health Policy was established in 1999 to inform, support and stimulate sound and creative state health policy in New Jersey and around the nation. The views that I express in this testimony are mine alone and do not necessarily reflect those of Rutgers University or the agencies and organizations that sponsor the work of the Center for State Health Policy.

The OMNIA Health Alliance addresses long-standing and serious deficiencies in New Jersey health care and I believe it has potential to improve care and "bend the cost curve". However, while I see considerable potential benefits arising from the OMNIA plan, I believe that it may also have some unintended consequences.

I will begin by commenting on why I believe that without innovation New Jersey health care is on an unsustainable path, and then I will turn to what I see as the potential benefits and risks of OMNIA.

Serious Gaps in New Jersey Health System Performance

The recent *Commonwealth Fund Scorecard on State Health System Performance* and other sources clearly show poor performance on key health care metrics for New Jersey. Here are some examples (the Table below provides additional metrics):

- New Jersey ranks 44th among states in our Medicare *30-day hospital readmission* rate.
- We rank 49th in the share of *hospitalized* patients reporting that they do not get the information they need to successfully *transition to home* at discharge.
- New Jersey ranks 31st in the rate of *potentially avoidable* hospital stays for conditions such as diabetes and heart failure among Medicare beneficiaries aged 75 or older.
- We rank 35th in *asthma admissions* among children, and
- According to the *Dartmouth Atlas of Health Care*, over 57% of Medicare patients with chronic illnesses who died visited 10 *or more different physicians* in the last six months of life, the highest percentage of any state.[1]

These statistics demonstrate that gaps in health care delivery performance in New Jersey are leading to high preventable and avoidable costs, suggesting that better care can lead to savings. In recent years, some of our system performance statistics have improved, but overall our standing relative to other states has remained stubbornly low.

[1] *Dartmouth Atlas of Health Care*. Available at: http://www.dartmouthatlas.org/data/table.aspx?loc=32&loct=2&ind=6.

Table: Selected Indicators from the Commonwealth Fund State Scorecard Health System Performance

Measure	Rate	State Rank
Medicare 30-day hospital readmissions, per 1000	57	44th
Hospitalized patients given information about what to do during their recovery at home, %	79	49th
Hospitalized patients who reported hospital staff always managed pain well, responded when needed help, and explained medicines and side effects, %	61	46th
Medicare hospital ambulatory care sensitive (potentially avoidable) admissions, ages 75+, per 1,000	72	31st
Hospital admissions for pediatric asthma, per 100,000	159	35th
Long-stay nursing home residents hospitalized within a 6-month period	23	39th
High-risk nursing home residents with pressure sores, %	9	49th
Total Medicare Parts A & B reimbursements per enrollee	$9,551	45th

Source: Radley DC, D McCarthy, JA Lippa, SL Hayes, & C Schoen, *Aiming Higher: Results from a Scorecard on State Health System Performance, 2014*, The Commonwealth Fund, May 2014. Available at: http://www.commonwealthfund.org/publications/fund-reports/2014/apr/2014-state-scorecard. Note: New Jersey performance is lowest in the *Scorecard*'s metrics of "Avoidable Hospital Use and Cost", in other areas, such as its "Healthy Lives" dimension, New Jersey ranks much better.

How OMNIA Could Bring Change

Horizon Blue Cross Blue Shield of New Jersey is the state's largest health insurer, covering roughly half of state residents with private plans (including some Medicare and Medicaid beneficiaries). Traditionally, private health plans have paid providers on a piecemeal, fee-for-services basis in which they are paid *more* for delivering *more* care without regard to the potential benefits to patients. Historically, payers have sought to contain health care costs mainly by negotiating lower reimbursements to providers. This dynamic too often has fostered mistrust and acrimony between providers and payers while failing to promote optimal care.

In recent years, Horizon and other insurers have pursued alternative care delivery models, such as Patient Centered Medical Homes and Accountable Care Organizations. While these models have met with some success, they have not yet changed the fundamental problems of fee-for-service payment.

OMNIA moves in a different direction. In this new approach, Horizon is forming partnerships with health system organizations to manage the *total cost of care*. It delegates significant responsibility

for managing care and cost to the health systems and moves away from piecemeal fee-for-service. It is my understanding that OMNIA partner health systems will take on substantial new responsibilities for the covered populations, and, subject to meeting quality standards, will have a significant stake in achieving cost savings.

There is a growing belief that larger health care delivery enterprises that integrate care across settings – including ambulatory care, hospital, home health and rehab services – are best positioned to improve the overall health of the populations they serve while reducing cost. Such systems can invest in the infrastructure needed to facilitate better care using health information technology and adopting higher-performance care management strategies. With the right accountability and financial arrangements, such organizations have strong incentives to collaborate closely with community physicians and other practitioners to help patients manage complex health conditions so they can improve patient outcomes and reduce cost.

A controversial element of OMNIA is that Horizon has limited the number of "Tier 1" health systems in its network. Horizon reports that they have selected Tier 1 partners that they believe have the greatest chances of success. OMNIA's tiered benefit structure entices partners to join the program with the promise of increased patient volume. Substantially lower premiums, deductibles and other cost sharing will provide strong incentives for patients to use the Tier 1 providers. It is likely that Tier 1 partners accepted payment discounts in return for the expected higher patient volume and the promise of financial rewards if they achieve quality outcomes and savings. Lower reimbursement rates, in turn, very likely contributed to Horizon's ability to offer lower premiums cost-sharing to consumers purchasing OMNIA plans.

If OMNIA is to succeed, their health system partners will have to think differently than they did in the predominantly fee-for-service environment. They will have to invest in high-value, often low-tech

but under-utilized services including preventive care, patient coaching and education, and other population health improvement measures. They will have to pivot away from a culture of maximizing admissions and the volume of highly remunerative specialty procedures when effective and less costly alternatives are available. This is a major paradigm shift that could pay dividends for patients and premium payers.

From consumers' perspectives, OMNIA also departs from the long-standing trend toward rising premiums, deductibles and other patient cost sharing. Users of the OMNIA Tier 1 network will face significantly reduced out-of-pocket costs, although some will have to change providers to take advantage of Tier 1. Those using the Tier 2 network will continue to face cost sharing that is typical of many plans in the marketplace.

Possible Unintended Consequences and Risks

There is emerging evidence that total-cost-of-care models are promising,[2] but there is considerable uncertainty about the impact of OMNIA. I want to highlight four specific concerns that warrant close scrutiny.

First, it is likely that the OMNIA will deliver on its promise to shift patient volume to Tier 1 health systems. The success of the model depends on this movement. But if the shift is significant, Tier 2 facilities will experience lower volume and lower revenue. While it there are regions of the state that have more hospital beds than they need, even hospitals in areas that not over-bedded could experience new financial pressures. Hospitals facing such financial challenges are unlikely to be able to sustain money-losing but important service lines or to invest in care improvements, such as programs to reduce

[2] See, for example, Chernew ME, RE Mechanic, BE Landon, & DG Safran. Private-payer innovation in Massachusetts: the "alternative quality contract." Health Aff. 2011; 30(1):51-61.

readmissions. Given these potential impacts, OMNIA could exacerbate disparities in the accessibility and quality of care in some areas. This potential is of greatest concern for facilities serving large numbers of Medicaid patients and other vulnerable populations.

Second, there is a risk that some OMNIA health system partners may not succeed. History tells us that some health care delivery systems are poor managers of financial risk. Horizon is positioning its delivery system partners achieve costs savings by improving care, but there is no guarantee that they will. While the consequences of mismanagement would fall mainly on Horizon and its partners, we should be concerned about possible consequences for patients and communities. OMNIA delivery system partners that struggle to find the "sweet spot" of better care at lower cost may face pressures to stint on needed care. Close monitoring for possible under-delivery of necessary services is important.

Third, with the implementation of the Affordable Care Act and for the first time in many years, New Jersey's private health insurance market has grown more competitive. We have two new carriers participating in the individual market. To the extent that engagement in OMNIA discourages Tier 1 health systems from entering into innovative contracts with other insurers, we could see diminished competitiveness in insurance markets, particularly for persons buying in the individual market.

Finally, competition among health delivery organizations is also a concern. There is strong evidence that hospital market consolidation leads to higher costs.[3] Hospitals have undergone significant consolidation in recent years nationally and in New Jersey, and it is possible that OMNIA could accelerate such consolidation.

[3] See for example Gaynor M, R Town. (2012). The impact of hospital consolidation–update. The Synthesis Project. Robert Wood Johnson Foundation. http://www.rwjf.org/content/dam/farm/reports/issue_briefs/2012/rwjf73261.

Conclusions

Lagging health system performance in New Jersey is a serious, persistent problem that should be addressed. It is essential that the current system which is driven by fee-for-service incentives that reward greater volume be replaced by systems that reward higher quality of care, better population health, and lower costs. The OMNIA Health Alliance seeks to make such a paradigm shift, but does so by providing strong incentives for patients to select OMNIA Tier 1 delivery systems. I believe that OMNIA has substantial potential to promote better care, lower cost and more affordability for patients. But there are also potential risks to the institutions left out of Tier 1, to vulnerable patient populations, and to our health care delivery and insurance markets. It is important that Horizon and its delivery system partners commit to transparency in implementation and that regulatory agencies pay careful attention to possible negative unintended consequence of this major system change.