THE CASE FOR CHANGE IN NEW JERSEY
The Case for Change in New Jersey

The cost of health care is too high for New Jersey consumers and continues to rise at an unsustainable rate. Consumers in the Garden State pay 52 percent more on average for health insurance than do consumers nationwide.¹

The multiple drivers of high costs are varied and complex, ranging from environmental factors such as New Jersey’s aging population to market-driven factors including excess hospital capacity. Although costs are soaring, quality of care and member health outcomes for New Jersey residents are not keeping pace.

In order to optimize cost and quality in other markets, public and private payers across the country are working closely with providers to design and launch new models focused on quality of care, member outcomes and creating value.

Within New Jersey, businesses and residents are expressing the need for health care that is not only affordable but also provides value to the member through access to hospitals and physicians, online tools for decision making and support and complimentary health and wellness related products. As the leading payer in the state, over the last five years, Horizon Blue Cross Blue Shield New Jersey (Horizon BCBSNJ) has leveraged its strong relationships with local hospitals and providers and a deep understanding of the New Jersey market to design models of care that create cost savings and value for residents while improving quality of outcomes.
The Case for Change – Optimizing Cost & Quality

The cost of health care in New Jersey is high and rising at an unsustainable rate.

New Jersey residents are more likely to report dissatisfaction with health care costs and quality than the nation as a whole. Over one third of New Jersey residents report their health care costs are unreasonable and nearly one third say they are dissatisfied with the value of health care received. These responses are certainly justified as cost and quality data illustrates that New Jersey residents pay some of the highest prices for health care in the country and are not seeing a commensurate improvement in quality.

As shown in Figure 1, whether purchasing health plans on the Federal Exchange or enrolling in an employer-sponsored plan, health plan pricing for New Jersey consumers far exceeds national averages for comparable plans, as well as the national cumulative rate of inflation during the same time period. Furthermore, despite having the second highest average monthly premiums (after-tax credits) of the 38 states on the Federal Health Exchange, in 2014 the Commonwealth Fund ranked New Jersey 15th for quality of care based on prevention, treatment, healthy lives and avoidable costs.

As the rise of health care costs continues to outpace salaries and inflation, New Jersey residents often face difficult budgeting decisions, which can impact their long-term well-being. Similarly, New Jersey employers are experiencing a more challenging business environment, leading many businesses to leave the state for lower corporate tax rates and a more favorable business setting. In order to remain competitive at a local, national or international level, New Jersey employers must balance the need to provide value and high-quality care to employees with the increasing costs associated with covering employees and retirees.

Key forces driving high health care cost in New Jersey.

New Jersey health care costs are driven by several complex factors. While a number of these factors are reflective of national trends, others are unique to the state’s health care market. Figure 2 summarizes the key Environmental, Regulatory, Market-Driven and Consumer-Driven factors impacting health care cost trends in the state.

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**Figure 1**

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<tr>
<th>2016 Federal Exchange Average Monthly Premium (After-Tax Credit)</th>
<th>Employer Health Plan Premium Growth</th>
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<td>$106 National Average</td>
<td>$161 New Jersey</td>
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### Health Care Cost Drivers in New Jersey

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<tr>
<th>Factors</th>
<th>Description</th>
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| **Environmental**                            | **Aging population** – The proportion of New Jersey residents over 60 is growing faster than any other age group,\( ^{ii} \) creating a substantial retiree population who tend to require more medical services.  
**Unhealthy lifestyles** – Following national trends, the rate of obesity in New Jersey has continued to rise, from 17% in 2000 to 26.9% in 2014.\( ^{viii} \) Obesity increases an individual’s risk for preventable chronic conditions that requires costly treatment. |
| **Regulatory**                                | **Defensive medicine** – Exposure to malpractice liability may lead physicians to order incremental tests and procedures, which can lead to unnecessary medical costs.\( ^{ix} \)  
**Out-of-network billing practices** – Current regulations require insurers to pay out-of-network emergency services and hospital-based out-of-network surprise bills (e.g. inadvertent out-of-network care at an in-network care facility for non-emergent services) up to billed charges. As a result, a small group of hospitals and providers are charging exorbitant prices, which drives up the overall cost of care for New Jersey residents.\( ^{x} \)  
**State-mandated benefits** – New Jersey regulations can require insurance companies to provide expensive benefits, which increases the total cost of health care in New Jersey for residents covered under state-regulated commercial insurance plans. |
| **Market-Driven**                             | **Fee-for-service model** – The traditional model compensates providers for each service provided and incentivizes quantity of services performed over quality of services. Providers are not accountable for cost of treatment and may be incentivized to overutilize.  
**Excess hospital capacity** – Nationally, hospitals are experiencing excess capacity in hospital beds.\( ^{x} \) Overcapcity of hospital beds leads to increased utilization of inpatient services, which are costlier than treatment in an outpatient setting. New Jersey has more than twice the national average for hospital beds per capita.\( ^{xii} \)  
**New technology and medical innovations** – Investments in new technology, such as new surgery techniques and business intelligence software, require hospitals to fund significant expenditures.  
**Cost of specialty prescription drugs** – Existing and new, innovative specialty prescription drugs used to treat cancer, rheumatoid arthritis, multiple sclerosis, hepatitis C and other chronic conditions have caused drug spending to increase by 17.8% from 2014 to 2015.\( ^{xii} \)  
**Waste and errors** – Inefficient care and lack of integration create waste and preventable medical errors across the health care system, costing Americans up to $45 billion/year.\( ^{xiv} \) |
| **Consumer-Driven**                           | **Consumer utilization behavior** – New Jersey consumers have a higher propensity to use costlier health care options than the rest of the country, leading to higher overall cost of care. For example, more than one third of residents have seen a medical specialist instead of a general practitioner, more than half have used the ER for a “major health problem” and nearly one third report that their use of urgent care centers has increased in the past two years.\( ^{ii} \) The occurrence of these behaviors at rates far higher than national averages indicates that New Jersey residents may not be using the most appropriate-care setting. Use of preventive care and outpatient care may be more appropriate and cost-efficient in many instances.  
**Cross-border consumerism** – New Jersey residents have access to world-class medical treatment in nearby locations, such as New York City and Philadelphia. One quarter of New Jersey residents believe they would be unable to receive the best care available in New Jersey if they became seriously ill.\( ^{ii} \) These factors lead to higher spending by New Jersey residents as they select potentially higher cost options out of state. |

The forces described above have created an unsustainable burden on New Jersey individuals, families, businesses and state budgets.
Innovative Solutions in the Marketplace

Locally, over the past five years, Horizon BCBSNJ has been at the forefront of implementing value-based reimbursement models within New Jersey through accountable care organizations (ACOs) and patient centered medical homes (PCMH).

Horizon BCBSNJ has developed the largest network of value-based patient centered programs, with more than 6,500 physicians and 800,000 members. The PCMH program is an “upside-only-bonus” model, through which a primary care practice coordinates patients’ health care needs and ensures they receive the appropriate level of care through the deployment of care coordinators, extra support and active patient monitoring. Participating practices receive higher reimbursement in exchange for managing and improving patient health, while controlling the cost of care. These practices also receive additional outcome-based or shared savings payments if they meet goals for delivering higher-quality care and controlling costs. Compared to traditional practices in New Jersey, value-based patient centered program members have experienced improved clinical outcomes and a 9 percent lower total cost of care, 5 percent lower rate of emergency room visits and 8 percent lower rate of hospital admissions.xv

Across the country, the most innovative players in the industry have created new payment models to incentivize high-quality care and improve patient outcomes at a reduced cost. These value-based reimbursement models reward providers for high-quality care, rather than the quantity of medical services provided. For example, the nation’s Blue Cross Blue Shield plans spent more than $145 billion from July 1, 2014, through June 30, 2015, on value-based care, more than double what they spent in the prior year.xvi UnitedHealth Group remains on course to deliver $65 billion in care annually by 2018 through value-based care contractsxvii and as part of the Health Care Transformation Task Force, Aetna commits to shifting 75 percent of spending to value-based care by 2020.xviii Value-based reimbursement models are supported through new clinical models, which seek to better coordinate member care and manage population health. While there is widespread agreement that value-based care is here to stay, there are various economic and governance models that can support change (Figure 3).

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**Figure 3**

**Continuum of Value-Based Reimbursement Models**

- **Pay for Performance**
  - CMS Medicare Shared Savings Program (MSSP)
    - Rewards Accountable Care Organizations (ACOs) that lower growth in health care costs while meeting quality performance standards
    - Pays providers under FFS payment system and develops a benchmark for savings to be achieved by each ACO, based on cost and quality performance

- **Upside Only Bonus**
  - CMS Next-Generation ACO
    - Allows providers to assume higher levels of financial risk and reward as compared to MSSP
    - ACO partners agree to tie 30% of FFS Medicare payments to alternative payment models by the end of 2016 and 50% by the end of 2018
    - Providers deliver coordinated, high-quality care at a lower cost to Medicare patients

- **Shared Risk**
  - Blue Cross Blue Shield of Massachusetts Alternative Quality Contract
    - An alternative payment system that links payments to quality, outcomes and efficiency through five-year arrangements with providers
    - Providers retain the margin resulting from reduced inefficiencies and can also earn bonus payments by providing safe and effective care based on clinical performance measures based on cost and quality performance

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Enabling Change in New Jersey

Horizon BCBSNJ recognizes that New Jersey individuals, families, businesses and state budgets are facing unprecedented challenges in managing health care costs while improving the health of New Jersey residents. By performing market research, Horizon BCBSNJ has confirmed that decision makers at New Jersey businesses often feel pressure to offer health insurance that is both affordable and high quality. Although cost containment is an important priority for some employers, many consider a range of other factors in addition to cost when purchasing health insurance for their employees. These factors include creating value for employees through flexibility and customization of health care options, group account management services and online consumer tools for decision making and support and complimentary health and wellness related products. The tremendous pressure on New Jersey businesses to find the best health care coverage for their employees means brokers in New Jersey must continue to focus on 1) understanding the product needs and pain points of employers 2) understanding the product options available in the market and 3) evaluating which products offer the best fit for employers.

Payers must understand the needs of employers in order to offer the products that consumers demand. Additionally, payers need to collaborate closely with providers in order to solve the cost and quality challenges facing New Jersey today. Horizon BCBSNJ recognizes the importance of partnering with providers to change existing incentive structures, as well as realigning resources and processes to enhance the member experience.

Based on understanding of models across the country and local market experience, Horizon BCBSNJ has identified five crucial attributes which must be addressed to holistically solve the cost and quality challenges. These are summarized in Figure 4:

“Quality is a large part of the equation, but health care costs and the prudent use of the patient’s dollar must be factored into the approach to care. Patients deserve choices when spending their money on health insurance. Moreover, they deserve to access a delivery model that helps them avoid chronic illnesses that can diminish the quality and shorten the length of their lives.”

Dr. Jeffrey Le Benger, Summit Medical Group Chairman and Chief Executive Officer
## Value-Based Care Attribute

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<td><strong>1</strong></td>
<td>Create economic and governance models that stimulate change – Horizon BCBSNJ and some of its provider partners have agreed to change existing payment structures to create an incentive for all parties to change behavior. Providers can take on varying degrees of risk and reward, from sharing in savings to potential risk savings. Examples include patient centered medical homes (PCMHs), Episodes of Care Centers, and accountable care organizations (ACOs).</td>
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<td><strong>2</strong></td>
<td>Increase collaboration and information sharing between payers and providers – Horizon BCBSNJ and some of its provider partners are collaborating to share valuable information to create greater transparency into historical medical expenditures, coordinate care and continually evolve the model to address lessons learned.</td>
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<td><strong>3</strong></td>
<td>Realign payer and provider resources and processes – Both Horizon BCBSNJ and some of its provider partners are redeploying staff and redefining traditional workflows to focus on the most value-add activities that enable quality monitoring, patient care coordination across all levels of care and improvement of health outcomes.</td>
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<td><strong>4</strong></td>
<td>Engage members through a focus on population health management – Horizon BCBSNJ and some of its provider partners are creating new and innovative population health programs to drive increased member engagement and improved health outcomes.</td>
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<td><strong>5</strong></td>
<td>Develop new medical and ancillary products that meet consumers’ needs – With New Jersey consumers in mind, Horizon BCBSNJ has developed new health care products that provide optimal member benefits and accessibility to high-quality providers. Unlike traditional High Deductible Health Plans (HDHP) which have lower premiums but high out-of-pocket costs, with these new products members can achieve better health outcomes using a product that has both lower premiums and out-of-pocket costs.</td>
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### Impact to Cost and Quality

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<tr>
<td><strong>1</strong></td>
<td>Compensating providers to improve quality of care, rather than linking compensation to quantity of services, is a vital component of Horizon BCBSNJ’s shift from a fee-for-service model to a value-based reimbursement model.</td>
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<td><strong>2</strong></td>
<td>Through a high degree of integration with providers, Horizon BCBSNJ can share critical information such as cost and utilization metrics that support more efficient and coordinated care. This transparency prevents waste, unnecessary procedures and avoidable medical errors.</td>
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<tr>
<td><strong>3</strong></td>
<td>Redeployment of resources to focus on engaging members inside and outside of the hospital setting helps improve member health and decrease unnecessary care costs.</td>
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<tr>
<td><strong>4</strong></td>
<td>Members of the population who require more services due to age, disability or unhealthy lifestyles are actively managed to provide greater preventive care, avoid emergency treatment, reduce hospital readmissions and improve pharmacy outcomes.</td>
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<tr>
<td><strong>5</strong></td>
<td>These products promote the right behaviors in members and increase each member’s engagement in their health care. Transparency tools allow consumers to make informed choices when selecting health plans and helps members manage their health and wellness.</td>
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Development of financial models that incentivize and support increased collaboration between payers and providers has only been the first step in enabling change. Clinical models developed jointly by payers and providers that promote patient-centered care and hold primary care physicians accountable for health outcomes are critical to deliver efficient, consistent and coordinated care while curbing rising costs. Furthermore, real-time actionable data related to procedures, diagnoses and medication must be shared transparently between payers and providers to ensure continuity of care and high-quality health outcomes for patients. With all of this in mind, Horizon BCBSNJ is at the forefront of health care transformation in the state and will continue to lead the shift in mindset from fee-for-service to fee-for-value with its innovative models of care.

About Horizon Blue Cross Blue Shield of New Jersey

Horizon BCBSNJ, the state’s oldest and largest health insurer, is a tax-paying, not-for-profit health service corporation, providing a wide array of medical, dental, and prescription insurance products and services. Horizon BCBSNJ is leading the transformation of health care in New Jersey by working with doctors and hospitals to deliver innovative, patient-centered programs that reward the quality, not quantity, of care patients receive.

Learn more at www.HorizonBlue.com. Horizon BCBSNJ is an independent licensee of the Blue Cross and Blue Shield Association serving more than 3.8 million members.
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