

Division of Health Care Finance and Policy

Health Care Cost Trends: Findings and Recommendations

Boston Bar Association
Commissioner David Morales
June 23, 2010

Timeline of Health Reform Efforts in Massachusetts

- 2006 - Chapter 58: *An Act Promoting Access To Affordable, Quality, Accountable Health Care*
 - Over 97% of the state's residents are now insured.
 - Massachusetts ranked first among all states in terms of access to health care and seventh among states overall on the 2009 Commonwealth Fund *State Scorecard*.
- 2008 - Chapter 305: *An Act to Promote Cost Containment, Transparency and Efficiency in the Delivery of Quality Health Care*
- July 2009 – The Special Commission on the Health Care Payment System, which was created under section 44 of Chapter 305 of the Acts of 2008, issued its unanimous recommendations
 - Predominance of the fee-for-service payment methodology rewards volume rather than value.

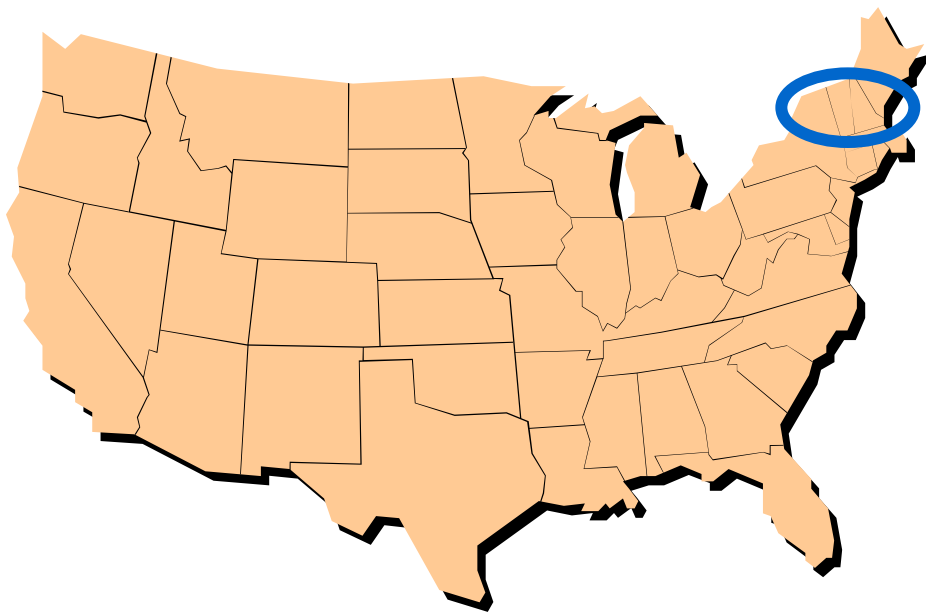
Overview of Cost Trends Hearings

- Chapter 305 also directed DHCFP to:
 - Develop an annual report concerning health care provider and payer cost trends and underlying factors contributing to the growth in expenditures and make recommendations for strategies to increase the efficiency of the health care system
- To inform this initiative, DHCFP was granted authority to collect data “without limitation” from public and private payers.
- Three preliminary reports released in February identified several key cost containment focus areas:
 - *The Massachusetts Health Care System in Context*
 - *Private Health Insurance Premium Trends*
 - *Health Spending Trends for Privately Insured*



Massachusetts Health Care System In Context

- DHCFP reviewed Massachusetts health care spending and trends in the context of other states, markets, and high performing health systems



- Health system structure
 - Health care resources and distribution
 - Utilization of teaching hospitals and number of residents and interns per bed
- Health care service utilization and spending
- Payment methodologies used by carriers to reimburse providers

MA Health Care System Overview: Selected Findings

- Massachusetts health care system has several unique characteristics that make it different from the rest of the country, some of which may contribute to its high health care costs:
 - A health care system with many highly specialized medical personnel and the strong presence of academic medical centers.
 - The greater availability and use of more expensive academic medical centers for both inpatient and outpatient hospital-based services.
 - Market consolidation and concentration may enable dominant providers to leverage and receive higher payments from insured patients.
 - The dominance of fee-for-service payment methods, which do not provide incentives to coordinate care or deliver services in more cost-effective, appropriate settings.
 - Near universal health insurance and richer insurance benefit packages than in other parts of the country.

Premium Trends In Private Health Plans

Health Insurance Premiums



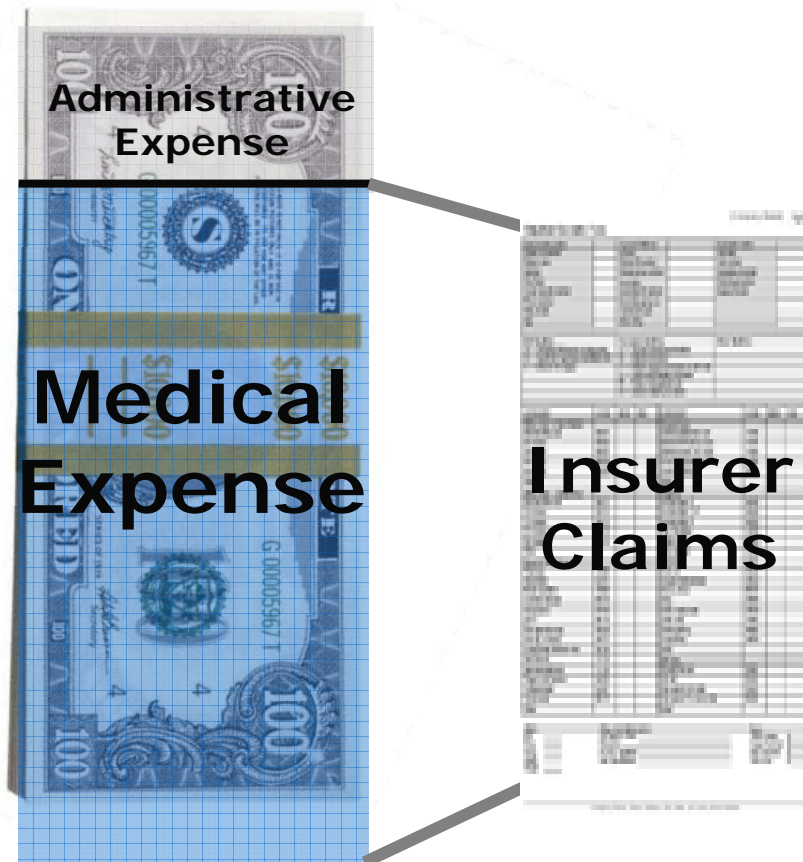
- DHCFP analyzed the change in premiums, benefit design, and enrollee demographics and identified cost drivers.
 - How do premiums and trends vary by market segment (individuals, small, mid-size and large groups)?
 - What proportion of premiums and trends are due to medical versus administrative costs?
- Note: data reflected 48% of market, fully insured only

Premium Trends: Selected Findings

- Most of a health insurance premium goes toward spending on health care services (88%) as opposed to administrative and other non-medical services.
- Average monthly health insurance premiums increased 12% from 2006 to 2008.
 - The growth was caused almost entirely by growth in medical expenses.
 - Premium trends and benefit levels vary across different-sized employer groups.
- Employers are reducing benefits and increasing copayments and deductibles for employees.
- Small businesses disproportionately affected by premium increases

Health Spending Trends For Privately Insured

Health Insurance Premiums



- DHCFP analyzed insurer claims to identify medical spending trends and drivers and the role of changes in price vs. volume.
- Analysis of 2006-2008 trends by:
 - Service (inpatient & outpatient hospital, physician, Rx)
 - Hospital spending by region and teaching/tertiary status
 - Market segment (individuals, small, mid-size and large groups)

Health Spending Trends: Selected Findings

- Private spending per insured individual for health care in MA grew by 15.5% from 2006-2008, after adjustments.
- Price (not utilization) was the major driver of the growth in spending.
 - Wide variation in prices paid by private health plan for the same service at different providers
- Over 75% of the spending growth occurred in outpatient hospital facilities and physician and professional services.
- Large employer groups experienced faster growth in per person medical spending than small employers.
- Employees are paying a greater share of total health care costs (some evidence of benefit buy-down)

Cost Trend Public Hearings

- Public hearings were held in March to help inform development of final report with recommendations:
 - 3 day hearing process with testimony under oath from key stakeholders and experts: employers, consumers, health care providers, insurers, government officials, and health care experts
 - Worked closely with Office of the Attorney General
- Broad consensus that it is an economic imperative to immediately address annual increases in costs – small businesses (representing over 75% of the state's jobs) are at risk
 - Health care accounts for over 13% of the state's \$365 billion GSP and is the largest employer in the state, but continued cost growth comes with consequences.
 - Economists estimate that proportion of family income devoted to health ins. could rise to 34-45% of median family income by 2016.

Cost Trend Public Hearings: Common Themes and Opportunities

- Lack of integration in the health care delivery system is costly and leads to inefficiencies and uncoordinated health outcomes
 - Avoidable ED Visits = Estimated cost is approximately \$400 million
 - Preventable Hospitalizations = \$580 million
 - Potentially Preventable Readmissions = \$380 - \$575 million
- Lack of information available to guide consumers and purchasers of health care to make prudent health care decisions based on quality or cost
 - As Dr. Michael Collins recently wrote, “we need easy access to the true price of our office visits, hospitalizations, and diagnostic tests. If we can find out the price of a hotel room or a cross-country flight with a few clicks of the mouse, we can lift the veil currently covering the price tag attached to health care.”
- Need stronger focus on primary care and prevention, i.e. move from a medical treatment model to a wellness (not illness) model
- **Three key opportunities emerged for DHCFP to focus future analytic efforts: Transparency; Integration; and Wellness**

Final Report

- DHCFP submitted its final report to the Legislature in April.
- Report included both short-term and long-term recommendations to mitigate health care cost growth.
- For more information and copies of the reports, go to: www.mass.gov/dhcfp/costtrends

Cost Trends: Short-Term Recommendations

- Leverage federal reform opportunities
 - *Premium relief opportunities through federal tax credits for small business*
 - *Requirement for review of premium increases and reporting of medical loss ratios*
 - *Capitalize on funding opportunities for innovative payment approaches including integrated care organizations and patient centered medical homes and projects that focus on managing chronic conditions as well as community-based prevention and wellness*
- Oversight of premium and provider rates
 - *Although blunt tools, necessary to address costs immediately*
 - *Both premium and provider rates must be reviewed*
 - *Provider rate review must address inequities found in AG report and tie into a longer-term transition to an integrated delivery system*
 - *Review and oversight to eliminate contract provisions that limit competition*
- Engage consumers and employers through innovative market changes
 - *Cultural challenges, Select networks, employee engagement strategies, education for self-insured business community, promotion of “Best Practices” to wider audiences*

Cost Trends: Long-Term Recommendations

- Comprehensive, Coordinated Payment Reform
 - *Build on unanimous recommendations of special commission by moving away from fee-for-service model*
- Formation of Oversight Entity
 - *Establish an independent public entity to coordinate and leverage existing state resources to make decisions regarding payment reform, develop overall spending and performance targets, and monitor progress toward an integrated delivery system over 5 years*
- Delivery System Redesign
 - *Support the creation of integrated care organizations to more effectively and collaboratively meet patient care needs at lower cost settings*
- Transparency of Cost and Quality Information
 - *Collect health care claims data from all payers, produce analytic datasets for researchers and others, and produce quality and cost measures for public reporting*
- Invest in Primary Prevention and Wellness
 - *Promote wellness through public-private partnerships, employer programs, and public health investments*



Next Steps

- The Division is currently conducting analytic and strategic planning for “Year 2” of the cost trends analyses and report.
 - *Continued analyses around health care cost growth trends, but also more “drilled down” analyses into specific areas of growth and trends that may be driving health care cost growth and prices in MA.*
 - *Geographic focus on health spending and medical utilization*
- DHCFP proposed regulations to develop an all-payer claims database (APCD):
 - includes fully-insured and self-insured data derived from medical, eligibility, provider, pharmacy, and/or dental claims from all payers serving MA residents
 - APCD will facilitate better understanding of cost, quality, and utilization in MA
- DHCFP is expanding its efforts to engage consumers and employers by ensuring that its analyses are accessible and understandable to a wide range of audiences
 - Facts sheets, issue briefs, and roundtables with Chambers of Commerce

