March 15, 2024

Ms. Deborah Devaux, Chair
Health Policy Commission
50 Milk Street, 8th Floor
Boston, MA 02109

Senator Cindy Friedman
Chair, Joint Committee on
Health Care Financing
State House, Room 313
Boston, MA 02133

Representative John Lawn
Chair, Joint Committee on
Health Care Financing
State House, Room 236
Boston, MA 02133

RE: Health Policy Commission's Public Hearing on the Potential Modification of the 2025 Health Care Cost Growth Benchmark

Dear Chair Devaux, Senator Friedman, and Representative Lawn:

On behalf of the Massachusetts Association of Health Plans (MAHP), which represents 14 member health plans and two behavioral health organizations that provide coverage to nearly 3 million Massachusetts residents, I am writing to offer testimony to the Health Policy Commission (HPC) as you consider modification of the health care cost growth benchmark for 2025. We appreciate the HPC engaging with stakeholders and the opportunity to offer our comments in support of maintaining a strong cost growth benchmark set at 3.6%.

The cost growth benchmark is a vital part of the HPC's cost containment mission and an important reminder that health care cost growth is a shared responsibility. In recent years, however, it seems that commitment to the benchmark has begun to fray, with hospitals and health systems routinely seeking reimbursement rate increases upwards of 20% to 30% per year.

As Massachusetts has experienced the largest increase in total health care expenditures in ten years, with an increase of 5.8% from 2021 to 2022 for a total of $71.7 billion, the benchmark itself must remain an important tool that should not be abandoned or weakened[1]. With total health care expenditures continuing to climb and health care cost growth outpacing inflation and income growth, affordability is the most significant challenge facing employers and consumers today.

Indeed, the very same factors that challenged our collective ability to meet the state's cost growth benchmark prior to the COVID-19 pandemic continue to exist today:

- Persistent increases in the prices that doctors, hospitals, and other providers charge, often driven by market leverage rather than quality of care,
- Care largely being delivered by high-cost providers in high-cost settings, and
- Continued excessive spending growth for prescription drugs.

[1] Center for Health Information Analysis. *Annual Report on the Performance of the Massachusetts Health Care System: March 2024.* Available at: https://www.chiamass.gov/assets/2024-annual-report/2024-Annual-Report.pdf

These cost drivers are not new. Since Attorney General Martha Coakley's seminal report on cost trends and cost drivers in the Massachusetts market, over 30 state reports from the HPC, the Center for Health Information and Analysis (CHIA), and the Massachusetts Office of the Attorney General have confirmed that these very same factors continue to challenge our ability to meet the cost growth benchmark and to provide affordable, high-quality health care to our state's residents.[2]

It is important to recognize that health insurance premiums are a direct reflection of the cost of health care. When pharmaceutical companies, hospitals, and providers raise their prices, employers and consumers bear those costs in their premiums and cost-sharing.

While the COVID-19 pandemic caused major disruptions in the Massachusetts health care system, including suppressed utilization, suppressed health care spending in 2020, and workforce challenges, these disruptions are long-standing and preexisting challenges that have long been predicted before the COVID-19 pandemic. The effects of the COVID-19 pandemic compounded by long-standing workforce issues like an aging health care workforce, have accelerated workforce pressures in the Commonwealth. Thus, we believe the reasons for delays in discharge are multi-factorial and are largely influenced by staffing challenges at post-acute care facilities and home health care agencies, which continue to see employment levels between 12% and 23% below pre-pandemic levels.[3]

MAHP and our member plans have long-supported the HPC's recommendations to rein in excessive price growth and ensure full-system accountability to the benchmark. Our comments below reflect on this year's findings from the CHIA *Annual Report on the Performance of the Massachusetts Health Care System* and the HPC recommendations that will make actionable changes to improve affordability for Massachusetts employers and consumers.

Holding Pharmaceutical Manufacturers Accountable to the Cost Growth Benchmark

Prescription drug spending remains a significant challenge, with pharmacy costs accounting for $13.6 billion in health care spending in 2022 alone, according to CHIA's *Annual Report on the Performance of the Massachusetts Health Care System* for 2024.[4] From 2021 to 2022, pharmacy spending grew by nearly $1.1 billion gross of rebates and close to $1 billion net of rebates, increasing at an annualized rate of 8.8% and 8.3% respectively, well above the 3.6% benchmark. In fact, CHIA's Annual Report notes that prescription drug spending, gross of rebates, experienced the fastest growth of all claims-based service categories and surpassed hospital outpatient department spending to become the largest driver of the increase in overall total health care expenditures in 2022. Since 2014, prescription drug prices have risen 33%, 20 times faster than the rate of inflation and outpacing price increases for any other medical commodity or service.[5] In addition to price increases for existing generic and specialty medications, launch prices for new brand-name prescription drugs increased 20% per year between 2008 and 2021. Median launch prices increased from $2,115 in 2008, to $180,007 in 2022, and to $300,000 in 2023, representing a 35% increase in launch prices just from 2022 to 2023, while the share of drugs priced at $150,000 per year

[2] Freedman Healthcare. *Re-examining the Health Care Cost Drivers and Trends in the Commonwealth – A Review of State Reports (2008-2018).* (2019). Available at: https://secureservercdn.net/198.71.233.29/9a2.583.myftpupload.com/wp-content/uploads/2019/05/freedman-report-2018-final.pdf

[3] Health Policy Commission. February 2024 Adivsory Council Meeting Presentation. Available at: https://www.mass.gov/doc/presentation-advisory-council-february-29-2024/download

[4] Center for Health Information and Analysis. *Annual Report on the Performance of the Massachusetts Health Care System: March 2024.* Available at: https://www.chiamass.gov/assets/2024-annual-report/2024-Annual-Report.pdf

[5] GoodRx Health. *Prices for Prescription Drugs Rise Faster Than Prices for Any Other Medical Good or Services* (2020). Retrieved from: https://www.goodrx.com/blog/prescription-drugs-rise-faster-than-medical-goods-or-services/

or more rose from 9% in 2008-2013 to 47% in 2020-2021.[6] So far this year, pharmaceutical manufacturers have hiked priced on over 770 prescription drugs.[7]

Despite these significant increases, the pharmaceutical industry remains absent from the cost containment conversation in Massachusetts. MAHP and our member plans believe it is critical that drug manufacturers are held accountable to the benchmark, are called as witnesses at the annual Cost Trends Hearing and are subject to the associated data collection requirements by the HPC, CHIA, and the state's Attorney General, just as health plans and providers are today. Requiring drug manufacturers to be part of the annual hearings would be an important step toward understanding the impact drug pricing has on the statewide cost benchmark, whether the costs associated with novel drug therapies offer value in comparison to other therapies and treatments, and whether they are improving patient care. Without accountability, drug manufacturers have benefited from years of unchecked cost growth, threatening the state's ability to meet the benchmark.

In addition, we also strongly support the HPC's recommendation from the *2023 Cost Trends Report* that the state should authorize the expansion of the HPC's drug pricing review authority to include drugs with a financial impact on the commercial market in Massachusetts. This enhanced authority complements current strategies health plans use to maximize value and enhance access for consumers through risk-based contracts and value-based benchmarks and ensuring access to high-quality pharmacy services at competitive prices. It also aligns with authority granted to MassHealth that has yielded significant savings for the MassHealth program.

Addressing Continued Increases in Unit Price

As noted above, in the decade since 2010, over 30 state reports have examined health care costs and the key cost drivers in the Commonwealth and all have found that the prices charged by providers remain the most significant factor driving health care costs.[8] Price, rather than utilization, has been identified as a primary driver of health care spending and CHIA estimates that approximately 60% of spending growth in Massachusetts is explained by growth in unit prices.

This is not dissimilar to trends across the country – according to national research, as of March 2021, hospital price growth has emerged as the fastest growing price component, with prices 4.8% higher than they were at the start of the pandemic.[9] Hospital price growth has accelerated over the past year, hitting their fastest growth rate since 2004 in March of 2021 (previously presented in the Health Policy Commission's *Interim Report on the Impact of COVID-19*) with physician services prices, dental care price growth, and nursing home care prices following closely behind.[10]

Hospital outpatient spending has grown quickly in the commercial market, increasing by $627.6 million between 2021 and 2022 alone.[11] Similar to years past, increases in instances of outpatient surgery drove spending growth in this category; however, any potential cost savings have been mitigated by a shift to higher-cost outpatient centers as there is considerable variation in average payments for hospital outpatient

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[6] Rome BN, Egilman AC, Kesselheim AS. Trends in Prescription Drug Launch Prices, 2008-2021. JAMA. 2022;327(21):2145–2147. doi:10.1001/jama.2022.5542 https://jamanetwork.com/journals/jama/article-abstract/2792986

[7] 46Brooklyn. Brand Drug List Price Change Box Score, Derived by 46Brooklyn Research from Elsevier's Gold Standard Drug Database: 2024. Available at: https://www.46brooklyn.com/branddrug-boxscore

[8] Freedman Healthcare. *Re-examining the Health Care Cost Drivers and Trends in the Commonwealth – A Review of State Reports (2008-2018).* (2019). Available at: https://secureservercdn.net/198.71.233.29/9a2.583.myftpupload.com/wp-content/uploads/2019/05/freedman-report-2018-final.pdf

[9] Corwin Ryan, *Perspective: Are Rising Health Care Prices Another COVID-19 Side Effect?* Altarum. April 2021. Available at: https://altarum.org/news/are-rising-health-care-prices-another-covid-19-side-effect

[10] Health Policy Commission. *Interim Report on the Impact of COVID-19 on the Massachusetts Health Care System.* (April 2021). Available at: https://www.mass.gov/doc/impact-of-covid-19-on-the-massachusetts-health-care-system-interim-report/download

[11] Center for Health Information and Analysis. *Annual Report March 2024.* Available at: https://www.chiamass.gov/assets/2024-annual-report/2024-Annual-Report.pdf

surgeries. In fact, HOPD settings have significantly higher costs for all service categories, with no added value for patient care, and unnecessarily increasing consumer out-of-pocket and premium costs, further encouraging provider consolidation into hospital-based systems. For example, 78% of specialty services performed in hospital outpatient departments were paid more than 200% of Medicare's price, with almost 40% of hospital outpatient department specialty services priced more than five times Medicare's rate.[12]

In addition, hospitals and physician groups with greater market power garner price increases that exceed their costs to deliver care. As Massachusetts, like other states across the country, sees the continuing trend of mergers, acquisitions, expansions and consolidations, the impact of these transactions is borne out in the cost of hospital and provider services. The academic evidence on the effect of hospital mergers and provider consolidation has made clear that, in most cases, consolidation does not lead to better care and lower prices, but rather leads to enhanced bargaining power with no notable improvement in quality for patients.[13,14]

As such, MAHP and our member plans urge the HPC and Legislature to consider the importance of full-system accountability to the performance improvement plan (PIP) process. Today, accountability under the PIP process applies only to health plans and primary care provider groups. As the PIP process provides significant insight for the HPC into market trends and entities' cost control strategies, even without a PIP being required, inclusion of hospitals will provide strengthened oversight. We also support more authority for the HPC within the existing PIP process, including allowing the HPC to set savings targets and require reporting on how savings flow through to purchasers of insurance, with greater penalties for non-compliance or above-benchmark spending as have been enacted in other states. In addition, we support expansion of the HPC's authority to review above benchmark spending, including baseline levels of spending in addition to price growth and baseline prices relative to the market.

Preserving Health Plan Cost Containment Tools

Without action to address the key drivers of health care costs- continuously increased provider and prescription drug prices, and increased utilization of high-cost care settings- the Commonwealth cannot successfully address health care affordability. Health care affordability is the number one challenge for consumers, small businesses, and health care purchasers. Massachusetts health care cost growth is a shared responsibility among health plans, providers, and the pharmaceutical industry. While health plans are vital to the Massachusetts community and bring value to employers and consumers by fighting to make high-quality health care more affordable, health plans alone cannot address affordability challenges.

When taken together, continued increases in unit price for hospital and provider services, exorbitant launch prices and excessive price increases for prescription drugs, mandated coverage expansions and payment parity directives challenge health plans' ability to cover the costs of member care. Efforts to remove or restrict vital health plan tools effectively eliminate a health plans' ability to constrain health care costs. Managed care tools are used by health plans to protect patients, reduce medical expenses, prevent fraudulent care, and ensure care is consistent with evidence-based practices.

Employers, individuals, and families purchasing health insurance coverage entrust health plans to manage care and ensure that members receive the right care, in the right setting, at the right time. Today, vital

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[12] Health Policy Commission. *2023 Health Care Cost Trends Report.* Available at: https://www.mass.gov/doc/2023-health-care-cost-trends-report/download

[13] See: O'Malley AS , Bond AM , Berenson RA . Rising hospital employment of physicians: better quality, higher costs? Washington (DC) : Center for Studying Health System Change ; 2011 Aug . (Issue Brief No. 136). Google Scholar & Delbanco S , Galvin R , Murray R . Provider consolidation and health spending: responding to a growing problem . Health Affairs Blog [blog on the Internet]. 2012 Nov 14 [cited 2016 Dec 1]. Available from: http://healthaffairs.org/blog/2012/11/14/provider-consolidation-and-health-spending-responding-to-a-growing-problem/ Google Scholar

[14] Beaulieu ND, Chernew ME, McWilliams JM, et al. Organization and Performance of US Health Systems. *JAMA.* 2023;329(4):325–335. doi:10.1001/jama.2022.24032

tools used by health plans at the request of insurance purchasers are under attack. This legislative session, approximately 37 bills have been filed to eliminate or modify utilization management tools like prior authorization and approximately 56 bills have been filed to limit or eliminate consumer cost-sharing. Likewise, there are also two bills filed to prohibit carriers from utilizing the cost growth benchmark in provider negotiations. Without these important tools, health plans will be left with few, if any, strategies to effectively drive quality, ensure proper utilization and rein in unnecessary spending. This will result in employers and consumers bearing the brunt of increased costs through higher premiums.

Consumer Cost-Sharing

We are deeply concerned about efforts to eliminate consumer cost-sharing, whether for targeted treatments or more generally. As health insurance premiums and medical costs are inextricably linked, the rising cost of medical services charged by providers and the exorbitant increases in the prices of prescription drugs have affected consumers in the form of consumer cost sharing.

Cost sharing is an important aspect of plan design that engages consumers in health care decision-making. This is an important tool that employers request to ensure that employees partner with them to choose care that is both high quality and cost effective. For example, cost-sharing strategies have been very effective in driving members to lower cost prescription drugs and away from emergency rooms to less costly settings. In addition, prohibiting health plans from establishing copayments ignores existing state and federal laws on permissible cost-sharing measures. Under the Affordable Care Act, health plans in Massachusetts are required to provide coverage for a broad range of preventive services and plans may not impose cost-sharing, such as copayments, deductibles, or co-insurance, on patients receiving preventive care services.

Likewise, removing cost-sharing will have the unintended consequence of significantly raising health care premiums. In compliance with the ACA, all health insurance products offered to individuals and small businesses must fit into narrow actuarial value ranges, meaning that the ratio of consumer costs to insurer costs is heavily regulated. The amount of out-of-pocket expenses a member may be subjected to depends on the metallic tier into which the particular member's health plan falls. For example, a member who enrolls in a Platinum product will pay more each month in monthly premiums but will spend less out-of-pocket each time they receive health care services. As a result, even minor reductions to copayments or coinsurance for a medical or prescription drug benefits make a product's benefits to the member richer, increasing the plan's actuarial value and bringing it into a higher metallic tier, ultimately raising the premium cost for the consumer. Similarly, if a health plan wants to keep a product in a specific tier, they would need to reduce other benefits to accommodate the reduction in cost-sharing.

Utilization Management

Prior authorization and other utilization management tools are vital to the goals of ensuring that members can access safe, cost-effective, and high-quality care at the right time and in the right setting. Health plans use prior authorization in limited circumstances to lower patient's out of pocket costs, protect patients and prevent misuse, overuse, and unnecessary or potentially harmful care, and to ensure that care is consistent with evidence-based practices. While often raised as a concern by providers, our health care system needs prior authorization for three key reasons:

1. To protect against unnecessary care – doctors themselves estimate that nearly a quarter of care is unnecessary[15], which has been confirmed by numerous studies.

[15] Lyu H, Xu T, Brotman D, Mayer-Blackwell B, Cooper M, Daniel M, et al. (2017) Overtreatment in the United States. PLoS ONE 12(9): e0181970. https://doi.org/10.1371/journal.pone.0181970

2. To protect against harmful care – inappropriate care can be more than merely wasteful, it can be harmful.[16] (Exposure to unnecessary radiation, missed diagnoses and false positives, and ineffective procedures and treatments).[17]
3. To increase health care affordability – needless medical tests waste billions of dollars every year; $200-$800 billion is wasted annually on excessive testing and treatment.[18]

In fact, removing health plans' ability to conduct prior authorization, which, according to a 2023 study by Milliman, will result in commercial premium increases ranging from 9.1% to 23.3% annually, or between $2.2 billion and $5.6 billion in additional premium costs for employers and consumers every year[19]. In fact, the Commonwealth has seen, firsthand, the direct impacts of removing prior authorization on members' care and costs with the waiver of prior authorization for admissions to post-acute care facilities from acute care hospitals for the period from December 6, 2022 through March 6, 2023. During this 90-day period, two MAHP member plans tracked the waiver's impact and found that waiving prior authorization created care coordination challenges, raised concerns about members being placed in inappropriate or ill-equipped post-acute care facilities, and increased out of network charges for members. Rather than facilitating placement in appropriate post-acute care sites – including home with services – eliminating prior authorization for this period resulted in increased admissions to post-acute care facilities by 14% exacerbating existing capacity challenges, increased use of non-participating providers by 50%, and resulted in a significant number of members admitted to inappropriate sites of care. For members with complex medical and behavioral health needs, inappropriate placement can prolong inpatient care and exacerbate existing conditions. Eliminating prior authorization removes an important check in the health care continuum aimed at ensuring access to high-quality, affordable, and appropriate care.

As detailed in CHIA's *Annual Report on Performance of the Massachusetts Health Care System* for 2024, employers and consumers are eschewing benefit design choices developed to constrain costs, such as limited and tiered network products, in favor of high-deductible health plans (HDHPs) that offer broader networks and lower premium costs. As more consumers move to HDHP's, tools like consumer cost-sharing and utilization management programs are necessary to constrain costs and make health care affordable for employers and consumers. Without these tools, we are gravely concerned about our ability to meet the state's cost growth benchmark. We respectfully request the HPC and Legislature be mindful of these ongoing attacks on managed care as you contemplate cost containment in 2024 and beyond.

As the HPC continues discussion on the potential development of an affordability index, it is crucial that an affordability benchmark is paired with commensurate action to address the primary drivers of health care costs, high provider and prescription drug prices. In fact, the 2023 Cost Trends Report recognizes that price regulation, rather than market initiatives alone, are necessary to ensure an equitable and affordable health care system. Rhode Island's affordability index has made it clear that affordability standards must be coupled with action to address high provider prices and increased provider price variation. In the eight years that followed Rhode Island's implementation of affordability standards, which included provisions that limited hospital's annual price growth to one percentage above inflation, growth in hospital prices only rose 19% from 2011-2019 compared to 38% in Massachusetts, and growth in the underlying cost of care in Rhode Island also rose only half as fast as in Massachusetts ($457 vs. $931 per capita).

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[16] https://www.washingtonpost.com/health/how-one-medical-checkup-can-snowball-into-a-cascade-of-tests-causing-more-harm-than-good/2020/01/03/0c8024fc-20eb-11ea-bed5-880264cc91a9_story.html

[17] Ganguli, I., Simpkin, A.L., Colla, C.H. *et al*. Why Do Physicians Pursue Cascades of Care After Incidental Findings? A National Survey. *J GEN INTERN MED* **35**, 1352–1354 (2020). https://doi.org/10.1007/s11606-019-05213-1

[18] Smith, M. et al. National Academy of Sciences. (2012). Best Care at Lower Cost: The Path o Continuously Learning Health Care in America. Available at: http://medecon.pbworks.com/w/file/fetch/58367928/Best%20Care%20at%20Lower%20Cost.pdf

[19] Milliman, 2023. Potential impacts on costs and premiums related to the elimination of prior authorization requirements in Massachusetts. https://www.milliman.com/en/insight/potential-impacts-costs-premiums-elimination-prior-authorization-massachusetts

In closing, MAHP and our member plans are committed to ensuring access to high-quality, affordable, and equitable health care services. We urge the HPC to set the cost growth benchmark at 3.6% for 2025, an aggressive, but achievable goal, as a strong signal that health care cost containment remains a priority in the Commonwealth.

We appreciate the opportunity to offer these comments as you consider the 2024 benchmark. Please feel free to contact me directly should you have any questions or need additional information on our comments.

Sincerely,

Lora Pellegrini
President & CEO, Massachusetts Association of Health Plans

Cc: Secretary Kate Walsh, Executive Office of Health and Human Services
Secretary Matthew Gorzkowicz, Executive Office of Administration and Finance
David Seltz, Executive Director, Health Policy Commission
Coleen Elstermeyer, Deputy Executive Director, Health Policy Commission
Martin Cohen, Health Policy Commission Vice Chair
Barbara Blakeney, MS, RN, FNAP, Committee Chair, Care Delivery Transformation
Matilde Castiel, M.D., Health Policy Commissioner
David Cutler, Ph.D., Committee Chair, Market Oversight and Transparency
Tim Foley, Health Policy Commissioner
Patricia Houpt, Health Policy Commissioner
Ron Mastrogiovanni, Health Policy Commissioner
Alecia McGregor, Ph.D, Health Policy Commissioner