MAHP
MASSACHUSETTS ASSOCIATION of HEALTH PLANS

March 22, 2019

David Seltz, Executive Director
Health Policy Commission
50 Milk Street, 8th Floor
Boston, MA 02109

RE: Health Policy Commission's Potential Modification Hearing on the 2020 Health Care Cost Growth Benchmark

Dear Director Seltz:

On behalf of the Massachusetts Association of Health Plans (MAHP), which represents 17 health plans that provide coverage to approximately 2.8 million Massachusetts residents, I am writing in response to the Health Policy Commission's (HPC) Potential Modification Hearing on the 2020 Health Care Cost Growth Benchmark. We appreciate the Commission engaging with stakeholders to seek input and the opportunity to offer our comments.

As the Commission's recent 2018 *Annual Health Care Cost Trends* report noted, for 2017, Massachusetts' Total Health Care Expenditures (THCE) grew at 1.6 percent per capita, lower than the 3.6 health care cost growth benchmark set by the HPC. While we should be proud of this achievement, which is the product of continued pressure and accountability to rein in spending, the fact remains that Massachusetts healthcare costs remain among the highest in the country and are continuing to grow.

As your staff presented during the hearing confirmed, Massachusetts' health care costs remain the 2nd highest in the nation, creating very real challenges for individuals, families, businesses, and the state budget. While significant effort has been undertaken to meet the cost benchmark, there is still work to be done to improve the quality and affordability of health care, and we must not take our focus away from our mission to control health care costs.

As premiums reflect the cost of care, holding all entities accountable to a strong cost growth benchmark and addressing health care cost drivers are essential to making health care affordable for our state's residents. **To that end, we strongly encourage the Commission to keep the 2020 Health Care Cost Growth Benchmark at 3.1 percent.** This will keep continued pressure on the system to make health care more affordable for consumers and employers.

Our member health plans continue ongoing efforts to contain costs and bend the cost curve to improve the quality and affordability of health care.

We want to thank the Commission and its Board for continuing its important work to shine a bright light on the factors that drive health care costs. These factors include:

- The persistent increases in the prices that doctors, hospitals and other providers charge, coupled with care largely being delivered by high-cost providers in high-cost settings,
- Continued excessive spending growth for prescription drug and hospital outpatient departments, and
- The prevalence and cost of low value screenings, tests, and services identified as unnecessary and wasteful

All of which will continue to threaten the cost growth benchmark.

While we support keeping the benchmark at 3.1%, we recognize that more needs to be done across the system to contain health care costs for employers and consumers. As the Commission monitors performance against the benchmark and sets priorities for addressing costs, we ask that the Commission consider the following factors in determining performance against the benchmark and setting priorities for the coming year.

Prescription Drug Prices

Despite some moderation, prescription drug spending was one of the fastest growing categories of spending in Massachusetts, and the prices charged are a major threat to keeping health care affordable for employers and consumers. In the Center for Health Information and Analysis' (CHIA) *2018 Annual Report of the Massachusetts Health System,* prescription drug spending comprised 5.0% ($9.7B) of the $61.1B THCE for 2017. Furthermore, the HPC's 2018 *Annual Health Care Cost Trends Report* noted that, along with outpatient hospital spending, prescription drug spending was the largest driver for the increase in THCE from 2016 to 2017, growing at 4.1%. This continues a yearly trend, as both pharmacy and outpatient spending were the biggest cost drivers from 2015 to 2016 as well.

This growth in prescription drug costs is not unique to Massachusetts. In its most recent annual report on National Health Expenditures, the Centers of Medicare and Medicaid Services (CMS) projected that for 2019, prescription drug spending will increase by 4.6%, and from 2020 to 2027 drug spending will increase by 6.1%. By 2027, CMS predicts the U.S to spend more than $576 billion a year on prescription drugs, accounting for about 10 percent of the nation's health expenditures.

As the Commission considers performance against the benchmark, it is critical that pharmaceutical manufacturers are required to justify the high prices being charged for new and existing drugs and be held accountable to the benchmark. Health plans and providers have been accountable to meeting the state's cost benchmark but increases in prescription drug prices continue to threaten the state's ability meet the benchmark and bend the cost curve. We strongly support the HPC's recommendation from the 2018 *Cost Trends Report that* "…lawmakers should take action to increase public transparency and public oversight for pharmaceutical manufacturers, medical device companies, and pharmacy benefit managers (PBM), consistent with existing requirements on payers and providers, including through mandated participation in

the HPC's annual cost trends hearing and inclusion in CHIA and HPC's annual reports on health care cost drivers."

Requiring drug manufacturers to be part of the annual cost trends hearings is an important step to understanding the impact pharmaceutical pricing plays on the statewide cost benchmark, whether the costs associated with these therapies offer value in comparison to other therapies and treatments, and if they are improving patient care. We recognize that the statute already allows for the HPC to call any witness identified by the Attorney General or CHIA[1], and that the HPC has previously invited representatives from individual pharmaceutical manufacturers to testify at the hearings in recent years. We urge that the HPC consider issuing a list of entities that have declined or not responded to the invitation in future years.

Addressing Provider Prices and Price Variation

Over the past nine years, close to 30 state reports have examined the health care costs and cost drivers in the Commonwealth. Report after report has found that provider prices remain the most significant factor driving health care costs and have found wide variation in prices that are not correlated to quality.

The HPC's 2018 Report found, total spending per patient varies substantially by provider system, noting as much as 30 percent differences in PCP spending per patient. In addition, the report also found spending differences continued even when analyzing groups of patients with similar demographics and health status. Spending for patients with diabetes with PCPs in physician-led organizations was 19 percent lower than spending for similar patients with PCPs in hospital-based organizations anchored by an academic medical center (AMC). This difference is even more evident in the area of outpatient services, such as labs, tests, and minor surgeries, where average spending at the AMC-anchored organizations was over 70 percent higher than spending at physician-led organizations.

Further impacting provider prices and price variation are the mergers, acquisitions and other significant provider transactions that have taken place in recent years. As the Commission's February 2019 presentation noted, the HPC has received 96 notices of material changes, with 39 percent of these transactions involving physician group acquisitions or contracting affiliations, increasing market concentration for physician services. Furthermore, 21 percent of the transactions involved a merger, acquisition or network affiliation of an acute hospital, including the recent multi-hospital merger between Beth Israel and Lahey Health to create the second largest hospital system in the state.

Most material change notices have been approved, with only 7 undergoing a full cost and market impact review. We appreciate the HPC's efforts to monitor whether the affiliations, acquisitions and mergers that have been approved have resulted in lower costs and better care for consumers and employers.

The trend of mergers, acquisitions and affiliations among hospitals, physicians and other providers has fundamentally altered the health care system for years to come." In recent

[1] M.G.L. c. 6D§8(d)(xi)

testimony at the House Judiciary Committee Hearing on Hospital Consolidation, Professor Martin Gaynor at Carnegie Mellon University testified that "extensive research evidence shows that consolidation between close competitors leads to substantial price increases for hospitals, insurers, and physicians, without offsetting gains in improved quality or enhanced efficiency. Further, recent evidence shows that mergers between hospitals not in the same geographic area can also lead to increases in price."[2]

As the Commission considers performance against the benchmark and sets priorities for addressing costs, it is important to pay special attention to these transactions, including:

- How the actual results align with the anticipated benefits providers articulated in their material change notices,
- Whether they have leveraged higher prices as a result of these transactions, and
- What impact the concentration of institutions is having on the state's ability to meet the benchmark.

In addition to price increases resulting from these transactions, we ask that the HPC continue to consider all the relevant factors that contribute to our ability to meet the benchmark including:

  - Wide variation in prices paid to health care providers for the same set of services
  - More care being delivered in high cost settings by high cost providers,
  - Increasing member disease severity, and
  - The general availability of new technologies and prescription drugs

Another factor that affects provider prices and ultimately the ability to meet the benchmark is provider cost structure. The state currently does not collect information that would enable an understanding of a provider's cost structure or a measure of a provider's efficiency. The state should collect additional information regarding the underlying cost structure of health care providers and develop a measure of efficiency to compare hospital performance and understand how cost structure relates to financial performance.

Health plans today are subject to both the Cost Growth Benchmark and aggressive rate review by the Division of Insurance (DOI). Price disparity is well documented in our marketplace and MAHP has continuously advocated for tools to rein in our highest paid providers. Health plans cannot solve the rate disparity issues of our lowest paid providers without additional regulatory tools to address high-cost providers. Without these tools to effectively constrain high-cost providers, simply increasing rates for the lower paid providers will increase total costs, jeopardize our ability to meet the benchmark and make it difficult to meet the expectations of the DOI.

[2] Diagnosing the Problem: Exploring the Effects of Consolidation and Anticompetitive Conduct in Health Care Markets: Committee on the Judiciary Subcomittee on Antitrust, Commercial, and Adminstrative Law. March 7, 2019.

We appreciate the opportunity to offer comments as the Health Policy Commission considers the 2020 Health Care Cost Growth 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

cc: Stuart Altman, Ph.D., Chairman, Health Policy Commission
Barbara Blakeney, MS, RN, FNAP
Michael Heffernan, Secretary, Executive Office for Administration and Finance
Marylou Sudders, M.S.W., Secretary, Executive Office of Health and Human Services
John Christian Kryder, M.D.
Don Berwick, MD, MPP, President Emeritus and Senior Fellow, Institute for Healthcare Improvement
Martin Cohen, President and CEO of the MetroWest Health Foundation
David Cutler, Ph.D., Otto Eckstein Professor of Applied Economics, Department of Economics, Harvard University
Tim Foley, Vice President, 1199SEIU
Richard C. Lord, President & CEO, Associated Industries of Massachusetts
Ron Mastrogiovanni, President & CEO, HealthView Services
Distinguished Members of the Joint Committee on Healthcare Financing