

Examination of Health Care Cost Trends and Cost Drivers

Pursuant to G.L. c. 12C, § 17

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AGO Cost Trends Examinations

- Authority to conduct examinations:
 - G.L. c. 12, § 11N to monitor trends in the health care market.
 - G.L. c. 12C, § 17 to issue subpoenas for documents, interrogatory responses, and testimony under oath related to health care costs and cost trends.
- Findings and reports issued since 2010.
- This examination focuses on variation in payment methodologies for health care services in the commercial market.



Questions Presented

- I. Are payment methods for health care services consistent across insurers and providers in the commercial market?
- II. What are the costs associated with administering complex and varied health care payment methods?
- III. How is this payment system a barrier to price comparisons for market participants?



Hospital Outpatient Payment: Significant Complexity and Variation

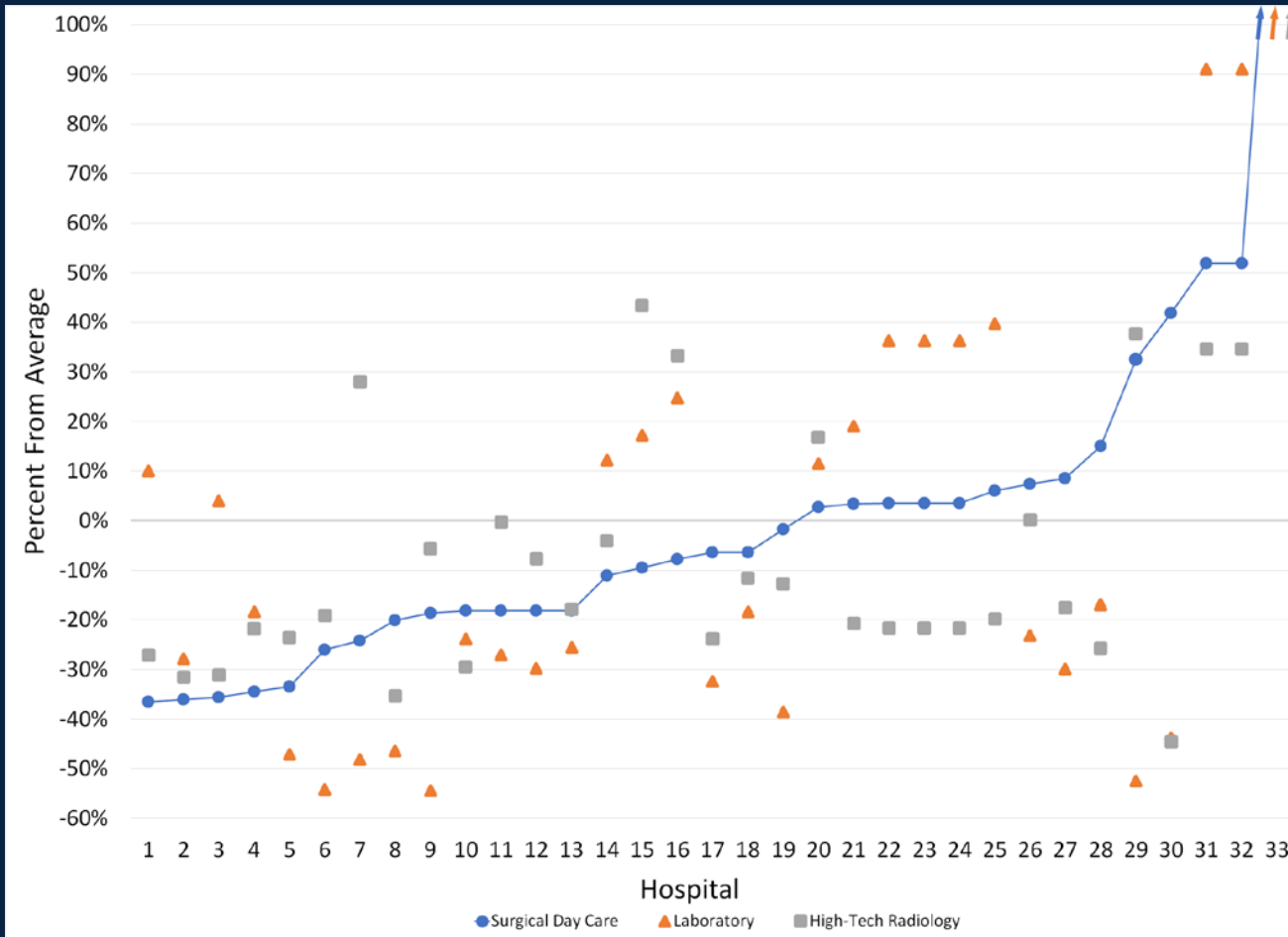
Hospital Outpatient Fee Schedules Do Not Share A Consistent Structure Across Payers

	Payer 1	Payer 2	Payer 3
Number of outpatient billing service categories	17	12	4
Rate multipliers negotiated by outpatient billing service category?	Yes	Yes	No



Even Where Service Categories Align, Negotiations Over Fee Schedules Result In Significant Differences in Relative Price Across Services at a Single Hospital

Hospital Rate Multipliers for Three Outpatient Services for One Massachusetts Payer (2018)





Outpatient Payment Variation: Observation Services Case Study

Payer 1

Six different time-based payment structures (each for different time ranges)

Payer 2

Negotiated base rate multiplied by hours of observation and a negotiated multiplier

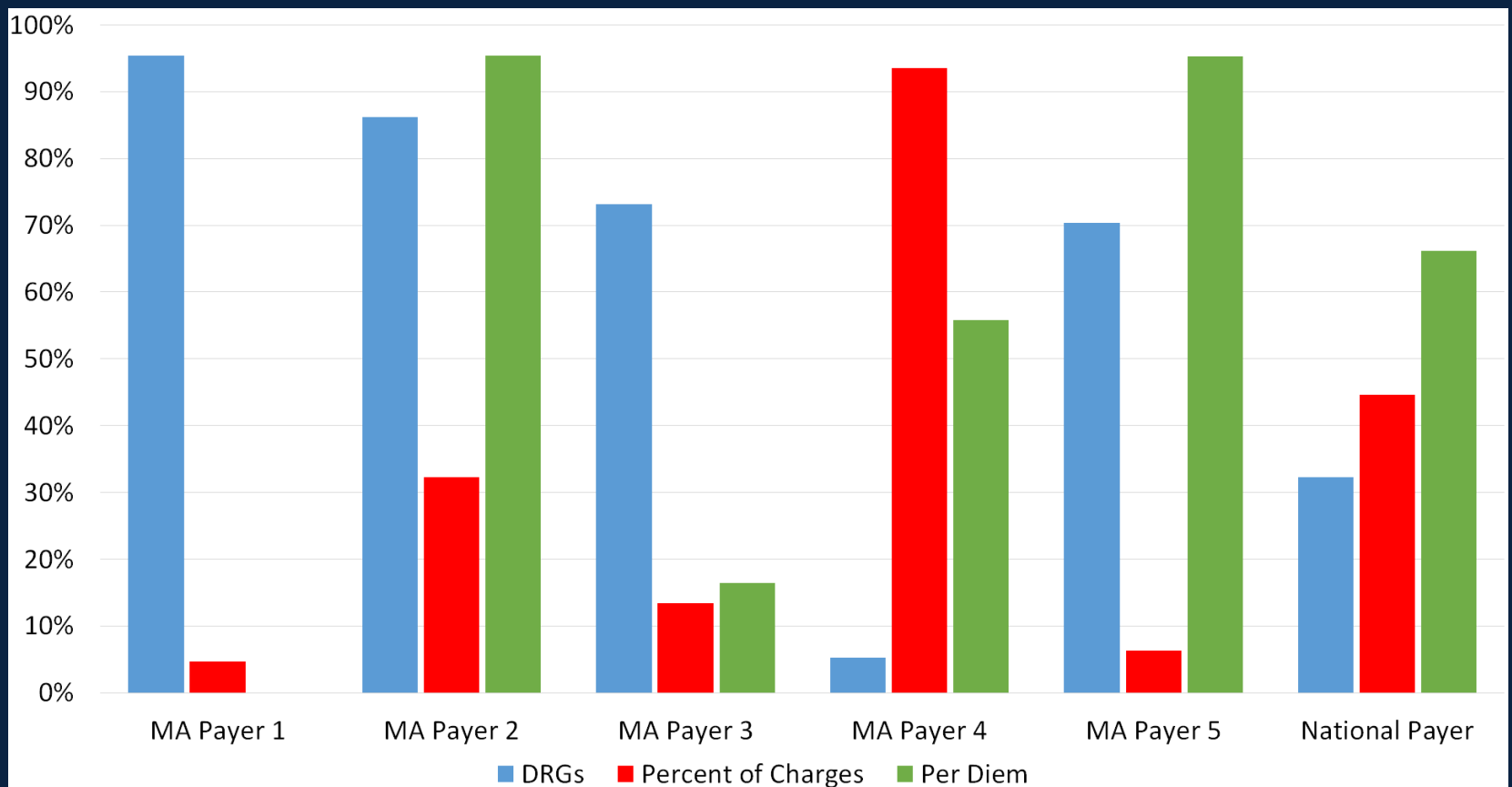
Payer 3

24-hour all-inclusive rate



Hospital Inpatient Payment Is Somewhat More Standardized Across Big Three Payers, But Variation Exists Across State

Percent of Payers' Massachusetts Hospital Contracts that Use DRG, Percent of Charges, and Per Diem for Inpatient Payment





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Administrative Costs

- Recent national studies have documented the high costs of administrative complexity in health care.
 - 25% of hospital costs are administrative.
 - For every 10 MDs, there are 7 FTEs engaged in billing activities.
 - Growth of billing costs from 14% in 2009 to 17% in 2014.
 - Administrative costs are a major driver in the difference in overall cost between the US and other countries.
 - Reducing US spending for hospital administration to that of Canada or Scotland would have saved ~\$158 billion in 2011 dollars.
 - Higher administrative costs do not appear to be connected to higher quality care.



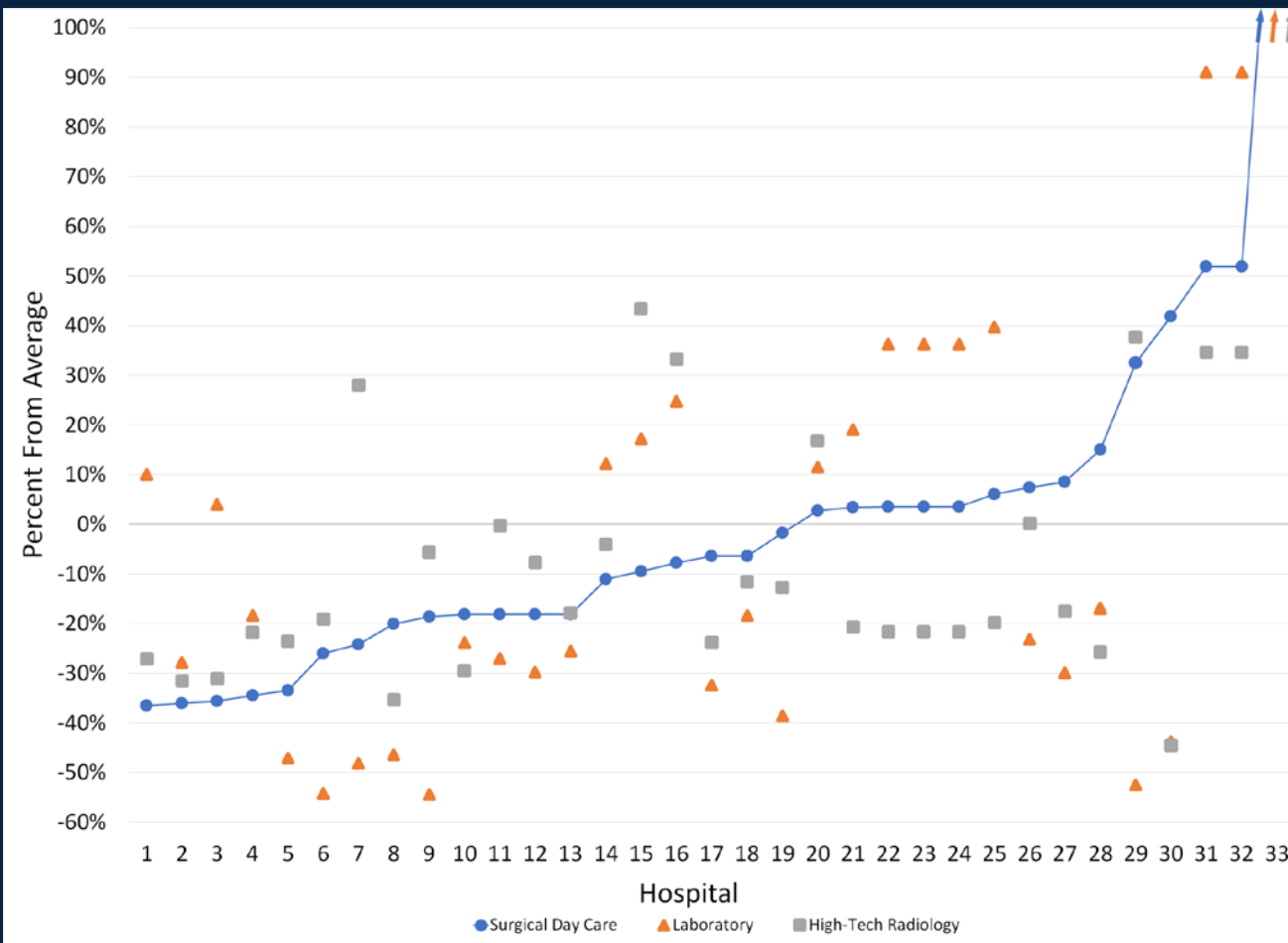
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Comparing Prices Across Providers Is Challenging

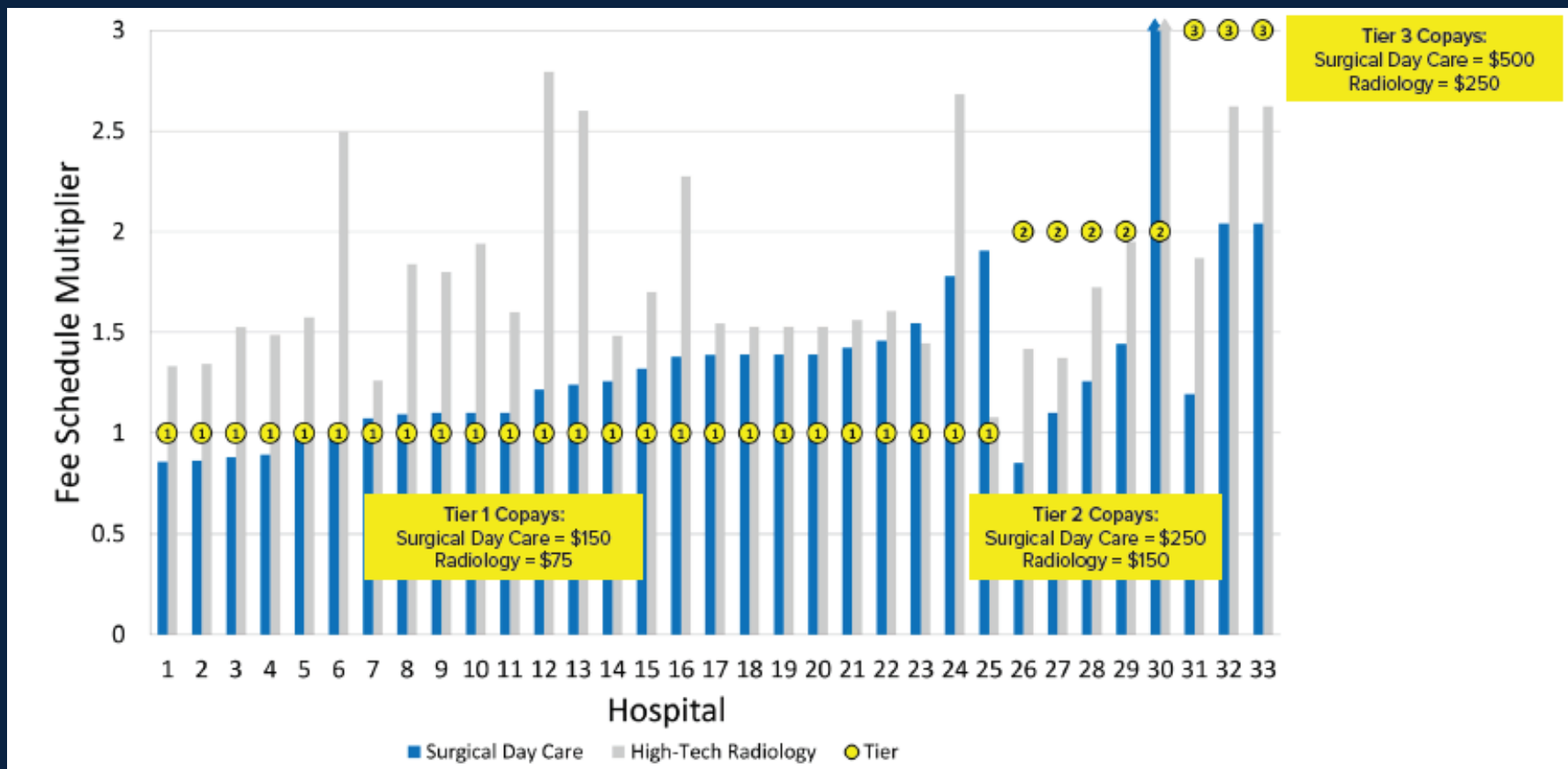
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Comparing Prices Across Providers Is Challenging for Consumers

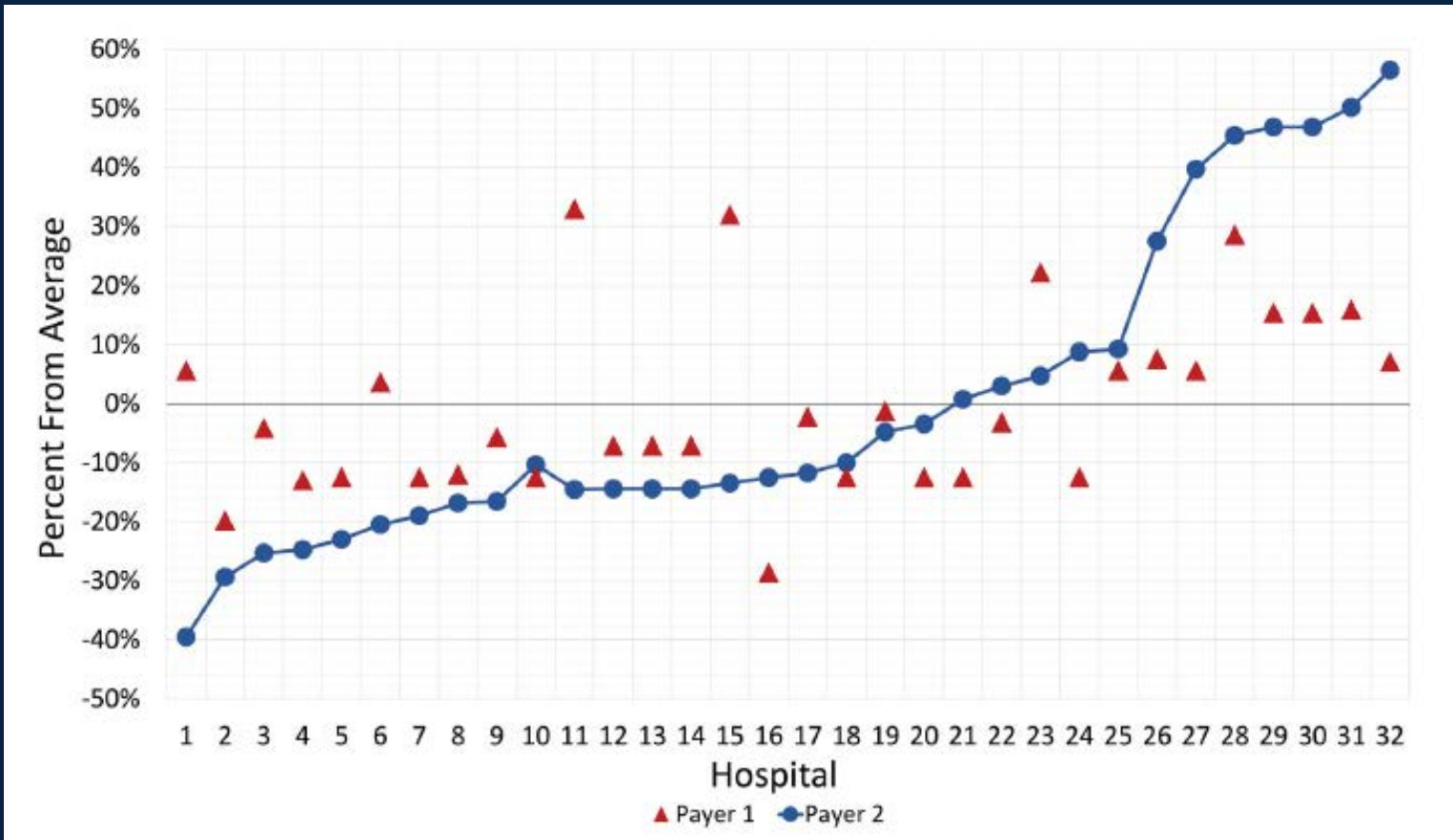
Hospital Surgical Day Care and High-Tech Radiology Prices by Tier for One Massachusetts Payer (2018)





Comparing Prices Across Payers Is Challenging for Employers and Referring Providers

Hospital High-Tech Radiology Prices for Two Massachusetts Payers (2018)





Recommendations

1. Study further the administrative costs associated with current complex and varied approaches to payment for health care services with the goal of developing strategies to reduce these costs.
2. Reduce complexity and explore increasing standardization where appropriate in the methods for determining health care payment rates to reduce the cost of claims and contract administration and facilitate “apples-to-apples” price comparisons.
3. Establish real-time, service-level price transparency for employers, consumers, policymakers, and providers.