Examination of Health Care Cost Trends and Cost Drivers

Pursuant to G.L. c. 12, § 11N

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Previous AGO Reports Identified Market Dysfunction

- Providers were paid widely different commercial prices that were not explained by differences in quality, complexity of services, or other common measures of consumer value.
- Price increases drove increases in health care spending from 2004 to 2008.
- Higher priced hospitals were gaining market share over lower priced hospitals.

2015 Examination

I. What progress has the Commonwealth made on initiatives to contain health care costs?

II. Has previously identified market dysfunction improved?

III. Recommendations to improve market operation.

Initiatives to Contain Health Care Costs

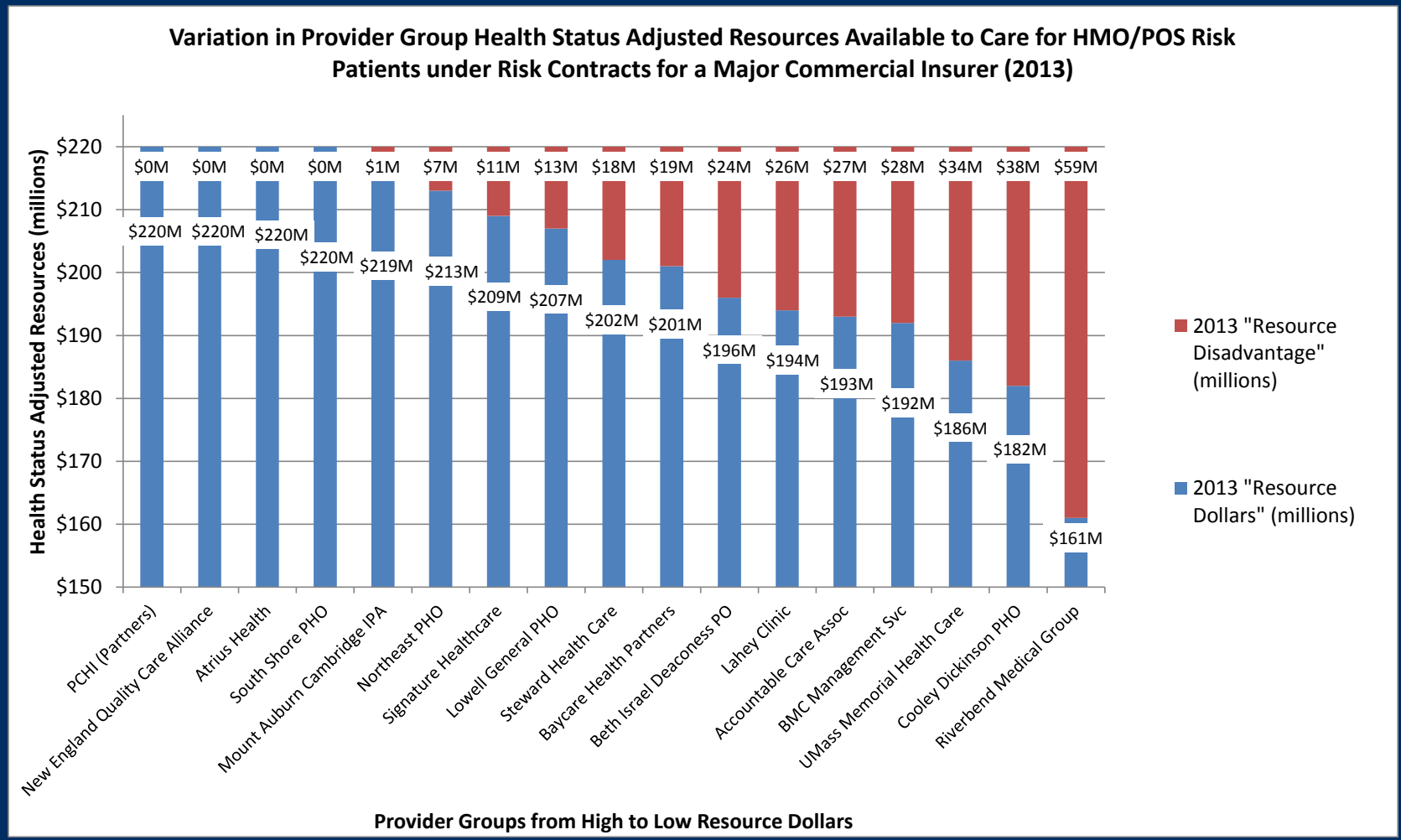
A. Consumer Directed Initiatives
   - Transparency for consumers in costs associated with health care services
   - Tiered network insurance products

B. Provider Oriented Initiatives
   - Global risk arrangements

Tiered Network Insurance Products Hold Promise, but Current Approaches Are Weakened by Mixed Incentives for Consumers

- Enrollment in tiered insurance products has increased, but has not resulted in an overall shift in inpatient volume away from higher priced providers.
- Tiered insurance products would benefit from further consideration of:
  - The scope of services and providers tiered
  - The size of cost share differentials between tiers
  - The transparency in methodology used to tier providers

Global Payment Arrangements Reflect Historic Payment Differentials, and Result in Widely Different Dollars Available to Care for Similar Patient Populations



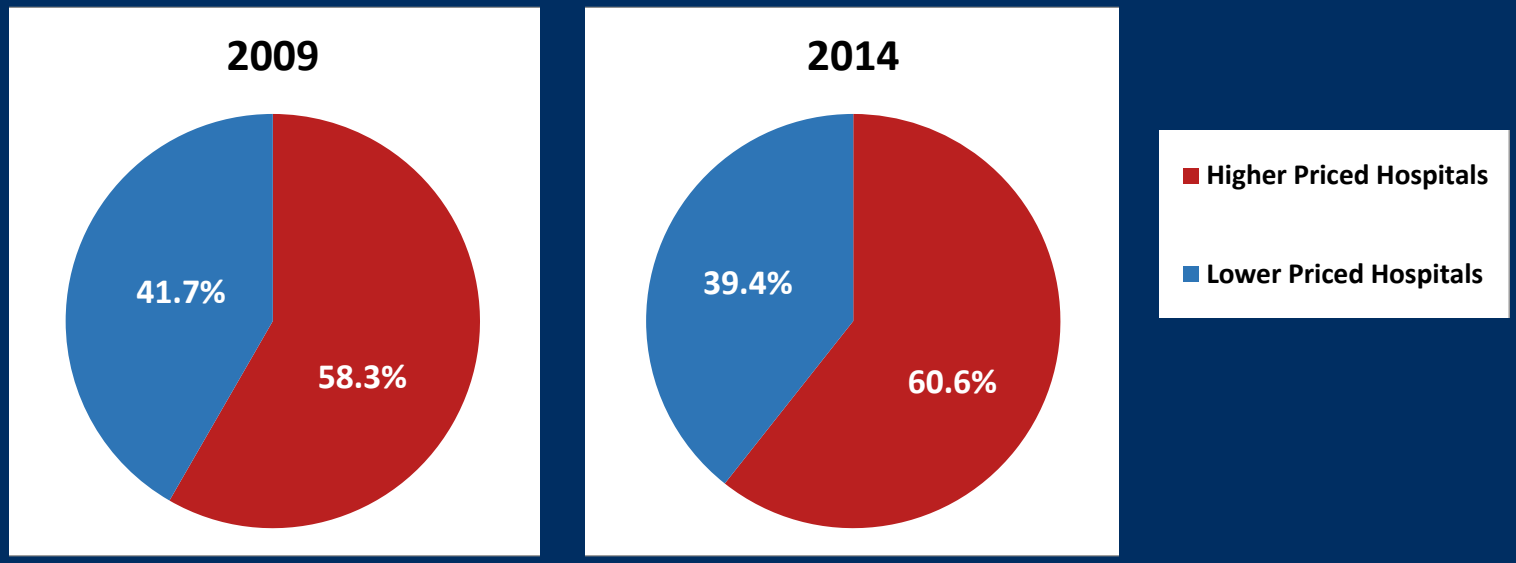
Price Variation Unexplained by Quality Persists, Contributing to Providers Having Different Levels of Resources to Carry Out Their Mission

Change in Extent of Price Variation by Hospital Peer Cohort from 2010 to 2013

	AMCs		Teaching Hospitals		Community Non-DSH		Community DSH	
	% Variation in 2013	Change in Variation Since 2010	% Variation in 2013	Change in Variation Since 2010	% Variation in 2013	Change in Variation Since 2010	% Variation in 2013	Change in Variation Since 2010
BCBS	66%	None	58%	Slight Decrease	225%	Moderate Increase	107%	Slight Increase
HPHC	43%	None	94%	Moderate Decrease	107%	Slight Decrease	144%	None
THP	95%	None	77%	Slight Decrease	109%	Slight Decrease	129%	None

Higher Priced Providers Continue to Draw Greater Patient Volume

Share of Total Commercial Discharges in Massachusetts by Higher Priced and Lower Priced Hospitals



Note:

1. Discharges exclude discharges for normal newborns and specialty services not fully captured by available discharge data.
2. Higher priced hospitals defined as hospitals with above average prices (relative prices above 1.0) for the largest commercial insurer in 2013.
3. Hospitals without a relative price for 2009 or 2014 were excluded from this analysis.

Projected Growth in Health Care Spending Underscores the Urgency of Addressing Market Dysfunction

- While data show that price increases have slowed, they have not slowed in a way that addresses price variation.
- Utilization and pharmacy trends are expected to increase, and are likely to consume most of the growth in medical trend "permitted" under the statewide cost growth benchmark.

If the Distribution of Price Increases Follows Historic Patterns, Price Disparities Will Only Persist or Worsen

Effect of Increased Pharmacy Trend and Illustrative Provider Contractual Increases on "Allowed" Commercial Unit Price Trend for All Other Providers and Services under State Cost Growth Benchmark

Unit Price Increase Negotiated for Providers Comprising One Third of Non-Pharmacy TME	Unit Price Increase Remaining Under Benchmark for All Other Non-Pharmacy Providers and Services
1.0%	0.7%
2.0%	0.2%
3.0%	-0.3%

	Estimated % Commercial TME in 2014	Estimated Commercial Expenses in 2014	Trend Assumptions for 2015		Benchmarked Commercial Expenses in 2015
			Utilization	Unit Price	
Prescription Drug Expenses	16.7%	$3.2 billion	12.5%		$3.6 billion
All Other Expenses	83.3%	$15.8 billion	1.0%	0.8%	$16.1 billion
Total Medical Expenses	100.0%	$18.9 billion	3.6% Benchmark		$19.6 billion

Recommendations

- Simplify and expand demand side efforts:
  - Require clear, easily compared information on the cost and quality of different insurance plans and provider systems for employers and consumers at the time of health insurance plan and PCP selection.
  - Simplify and strengthen how tiered networks are designed.
  - Promote consumer access to and understanding of health care cost and billing information.

Recommendations

- Consider ways to implement supply side incentives and penalties more evenly:
  - Monitor variation in health status adjusted global budgets.
  - Evaluate provider performance under the statewide cost growth benchmark in ways that take into account existing differences in provider efficiency.

Recommendations

- Monitor and address disparities in the distribution of health care resources:
  - Consider forms of directly regulating the level of variation in provider prices and/or medical spending.
  - Monitor income and health status adjusted medical spending by zip code on an annual basis.
  - Promote the development of population health status metrics that better account for socioeconomic risk factors.