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His Excellency Governor Deval Patrick
Massachusetts State House
Office of the Governor
Boston, MA 02133

Dear Governor Patrick:

I am writing because I thought you would be very interested in a discussion that took place at the most recent monthly meeting of the Health Care Quality and Cost Council. At that meeting, the Council reviewed an article entitled "Health Care Quality and Spending in Year 1 of the Alternative Quality Contract," which appeared in the July 13, 2011 edition of the New England Journal of Medicine. The discussion at the meeting demonstrated exactly why it is critical for the Legislature to embrace the provisions of your bill ("An Act Improving the Quality of Health Care and Controlling Costs by Reforming Health Systems and Payments") that establish regulatory oversight of insurer payments to providers.

The article focuses primarily on the effect of the global payment contract of Blue Cross Blue Shield of Massachusetts ("BCBSMA"), known as the "Alternative Quality Contract" (or "AQC"), on the amounts and types of health care services rendered by providers. As proponents of global payment arrangements had predicted, the AQC helped to reign in the excessive use of health care services. Just as important, AQC providers also scored higher than traditional fee-for-service providers on quality measures. Taken together, these results indicate that global payment arrangements hold real promise for eliminating unnecessary expensive procedures while simultaneously improving health care quality.

The discussion at the Council, however, raised a very important concern for policymakers. The article reported that the underlying claim dollars reported under the AQC increased by 7% in

the first year, whereas the underlying claim dollars reported for the traditional fee-for-service control group increased by 9%, producing a 2% difference. But there's more to the story because the underlying claims under the AQC are, of course, irrelevant to the actual payments made to the AQC providers. In fact, the whole point to using global payments is to disconnect claims from the amounts paid to providers.

Using data from the article, my office calculated a 16% increase in actual payments to providers under the first year of the AQC, due to high budgets, quality bonuses, and other payments to entice providers to adopt the AQC. This means that the first year of the AQC produced payments to providers that increased at a rate 7% higher – or nearly double – the 9% annual increase in payments to fee-for-service providers. The lead author of the article, who was presenting his results to the Council, agreed with that analysis. Clearly, a 16% increase in payments undermines the whole purpose of paying providers on a global basis. It also underscores the vital importance of regulatory oversight of insurer payments to providers, especially when global payments are involved.

I would note that in June of this year, Attorney General Martha Coakley highlighted similar facts and raised the same types of concerns about the need for regulatory oversight of payments to providers. Her office and the Division of Insurance both should have integral roles in such oversight.

Public officials in Massachusetts have an opportunity and a responsibility to control health care costs. The bill you filed contains regulatory oversight tools that are necessary to control those costs. I wholeheartedly support the adoption of those tools and will do all that I can to assist you in assuring expeditious passage of legislation that includes them.

Sincerely,

Gregory W. Sullivan

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Inspector General

Cc: Therese Murray, Senate President
Robert A. DeLeo, House Speaker

Richard T. Moore, Senate Chair, Health Care Financing Committee
Steven M. Walsh, House Chair, Health Care Financing Committee