



Office of the Inspector General Commonwealth of Massachusetts

Testimony of Inspector General Gregory W. Sullivan at the 2011 Health Care Cost Trends Public Hearing, June 2011

Good morning. Thank you for giving me the opportunity to offer some thoughts from the perspective of the Inspector General's Office. I'd like to use this opportunity to make two points:

First, I want to advocate strongly for passage of the essential elements of Governor Patrick's health reform legislation, and specifically, for expeditious passage of his proposal to enhance and expand the regulatory oversight authority of the Division of Insurance and the Department of the Attorney General over health care insurers and providers; and

Second, I want to reiterate my office's longstanding position that attempting to transform our health-care delivery system to an all-ACO system without first putting in place such effective regulatory oversight will likely exacerbate our health cost crisis.

Most of the efforts to contain private health care costs in Massachusetts have focused on creating Accountable Care Organizations ("ACOs") and reimbursing providers through global payment systems. In October of 2009, I testified before the Legislature's Joint Committee on Health Care Financing and recommended that a global payment ACO structure include review and approval of capitated global payment rates by the government in order to contain costs. And in March of this year, my office issued a report that examined the Blue Cross global payment contract known as the Alternative Quality Contract (or "AQC") and estimated "that increases in reimbursements to providers over the five-year term of an AQC could be in the 50% range."

My concern all along has been this: The global payment structure by itself does not inherently contain costs. The proven economic advantages of a global payment structure can be offset and overshadowed by global payment contracts that reflect excessive concentration of market power, disproportionate pricing structures, and lack of competitive fairness.

We are in a dire crisis, and we have very little time to act. I have raised the concern in a letter to Governor Patrick that major insurers and providers are negotiating long-term contracts early to get ahead of the legislation. He responded that "any entity that thinks it can 'beat the clock' by locking in cost increases now to pass along to consumers later is mistaken."

The Governor has asked the Legislature for important tools that I believe are necessary to address the crisis in the private market. Specifically, he asked that the powers of the Division of Insurance be broadened to allow the Commissioner of Insurance to set maximum increases in provider reimbursement rates and to allow those maximum increases to vary by categories of contracts or providers. He has also proposed an expansion of the authority of the Attorney General to protect the interests of consumers and guard against unfair competition. I strongly support these particular proposals and ask the Legislature to enact them. If the Legislature needs

additional time to reflect on the many other parts of the Governor's reform bill, I urge the Legislature to act separately on these pieces of his bill as soon as possible.

I thank you for the opportunity to testify today.