Implementing Stakeholder Accountability to Limit Healthcare Spending Growth

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Speakers

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What is a cost growth target and why pursue one?

- A health care cost growth target is a per annum rate-of-growth target for health care costs for a given state.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Growth Rate (2015-2019)</th>
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<tbody>
<tr>
<td>Average Per Capita Health Care Cost Growth</td>
<td>4.1%</td>
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<tr>
<td>Average Per Capita GDP Growth</td>
<td>3.5%</td>
</tr>
<tr>
<td>Average Hourly Wage Growth Growth</td>
<td>2.6%</td>
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**Sources:**
Established (CT, DE, MA, OR, RI)
Committed to development (NJ, NV, PA, WA)
Active discussions underway (CA)
States pursued cost growth targets to curb health care spending growth

- **Connecticut**: health care costs outpaced growth in the State’s economy, with personal health care expenditures taking up a larger portion of the State’s GDP.

- **Delaware**: had the 3rd highest per capita health spending in the U.S.

- **Massachusetts**: State-purchased health care rose 40% over 12 years while spending on other services decreased by 17%.

- **Oregon**: health insurance premiums cost 29% of a family’s total income.

- **Rhode Island**: 7 of 10 health insurance filings in the large and small group markets outpaced annual wage growth.
## Historical growth in health care expenditures in other states with cost growth targets

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</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>2.4%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>3.4% for 2021</td>
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<td>3.2% for 2020</td>
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<td></td>
<td></td>
<td>2.9% for 2023-2025</td>
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<tr>
<td>Massachusetts</td>
<td>3.0%</td>
<td>4.7%</td>
<td>5.1%</td>
<td>3.6% for 2013-2017</td>
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<tr>
<td></td>
<td></td>
<td></td>
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<td>3.1% for 2018-2022</td>
</tr>
<tr>
<td>Delaware</td>
<td>5.1%</td>
<td>5.7%</td>
<td>5.6%</td>
<td>3.8% for 2019</td>
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<td>3.5% for 2020</td>
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<td>3.25% for 2021</td>
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<td></td>
<td>3.0% for 2022-2023</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>2.6%</td>
<td>3.7%</td>
<td>5.3%</td>
<td>3.2% for 2019-2022</td>
</tr>
<tr>
<td>Oregon</td>
<td>5.3%</td>
<td>5.9%</td>
<td>5.7%</td>
<td>3.4% for 2021-2025</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0% for 2026-2030</td>
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- **States started with target values that were 59-70% of their 20-year growth, and dropped those values over time to 52-60%, except for Rhode Island which kept a steady target at 60% of the State’s 20-year growth.**

- **Note that the averages reflect data not available to Massachusetts when it set its targets.**

The logic model for a cost growth target

- Setting a public target for health care spending growth alone will not slow rate of growth.
- A cost growth target serves as an anchor, establishing an expectation that can serve as the basis for transparency at the state, insurer and provider levels.
- To be effective, it must be complemented by supporting strategies.
The logic model for a cost growth target

Implement
Implement strategies to slow cost growth

Measure
Measure performance relative to the cost growth target

Analyze
Analyze spending to understand cost trends and cost growth drivers

Report
Publish performance against the target and analysis of cost growth drivers

Identify
Identify opportunities and strategies to slow cost growth
Measuring total health care expenditures requires data from multiple sources:

- **Most spending data come from payer-submitted reports:**
  - Claims and non-claims spending by commercial (both fully- and self-insured), Medicare Advantage and Medicaid managed care plans.
  - Pharmacy rebate information.

- **Other sources of data include:**
  - CMS for Medicare fee-for-service claims.
  - State Medicaid agency for fee-for-service Medicaid claims and non-claims.
  - Department of Corrections and Veteran’s Health Administration for other public program expenditures (only in some states)
  - Regulatory reports for the net cost of private health insurance.
Reporting performance against the benchmark is applied at four levels:

**State**
- Medicaid
- Medicare
- Commercial

**Market**
- Fee-For-Service
- Managed Care Carriers

**Payer**
- Fee-For-Service
- Managed Care Carriers
- Self-Insured Carriers
- Fully-Insured Carriers

**Large Provider Entity**
- Provider Entity
Analysis of cost growth drivers in other states

- **Price Growth**
  - National analysis (and Connecticut analysis) shows that price growth is the primary driver of health care spending growth in the U.S. Both Oregon and Rhode Island are currently giving the topic analytic attention.

- **Outpatient Hospital Spending**
  - Analysis by Rhode Island’s e revealed hospital outpatient spending as the most significant commercial and Medicaid cost driver in 2019. Further analysis is currently under way.
Hospital outpatient and retail pharmacy are driving spending growth in Rhode Island at the state level.

This bubble chart shows:
- Unadjusted per capita trend on state level spending, net of pharmacy rebates*
- PMPY spending for each category of service.
- Width of bubble represents the contribution to trend.

*NOTE: Due to data availability, pharmacy rebates are included for all market segments except traditional Medicare.

In Connecticut’s commercial market, inpatient and outpatient unit spending grew considerably faster than professional unit spending.  

Acute inpatient PMPM spending grew 22 percent while utilization decreased.

Spending PMPM for emergency department visits grew 22 percent while utilization declined.

Spending PMPM for outpatient visits (excluding ED) grew 22 percent while utilization grew 2 percent.

Cost growth mitigation strategies in other states

- **Value-Based Payment**
  - Oregon and Rhode Island stakeholder advisory bodies have prioritized movement towards non-fee-for-service, budget-based payment models as a strategy to slow cost growth.
  - Oregon has created a stakeholder body to translate a set of principles into an action plan with measurable targets. Rhode Island is just assembling a similar body to do the same.

- **Pharmacy**
  - Rhode Island’s stakeholder body recommended that Governor McKee pursue the same pharmacy price legislation being pursued in Connecticut and Massachusetts.
Since establishing the cost growth benchmark in 2012, annual all-payer health care spending growth has averaged the cost growth benchmark level.

Growth in total health care spending accelerated the past two years and exceeded the benchmark in 2018 and 2019.

Massachusetts’ cost growth benchmark experience

Since 2010, spending growth in MA has been 0.6% lower on average than the national trend, following a similar pattern.

Massachusetts’ cost growth benchmark experience

**Commercial** medical spending growth in MA has been below the national rate every year since 2013.

The cost growth benchmark’s impact in Massachusetts

**Common goal**
Payers and providers have aligned on a common target for reducing health care cost growth.

**Total cost of care approach**
The benchmark is consistent with a TCOC contracting approach which has become the common contracting structure.

**Influence on negotiations**
Negotiations between payers and providers have been influenced by the benchmark, thereby tempering price growth.

**Transparency**
Reasons for cost growth have been studied and publicized, keeping the policy and its consequences in the public eye.
“With an expected utilization increase of about 2%, payers and providers generally agree on annual price increases of about 1.5%”
- David Cutler, HPC member

“The [cost growth target]…sets the bar upon which most activities in the health system are judged. It’s more than just a symbol, it’s become an operational component of how our health system works.”
- Stuart Altman, HPC Chair

“Payer and provider rate negotiations are now conducted in light of the 3.6% target”
- State Auditor study
Lessons learned

- Stakeholder engagement and input is critical to a successful strategy.
  - All states that have established cost growth targets thus far did so using a very public, transparent process for setting the methodology and public reporting requirements.
  - Participation from a broad range of stakeholders, including payers, providers and consumers seems to be essential for sustaining the program.

- “If you’ve seen one cost growth target state, you’ve seen one cost growth target state.”
  - There is a common framework for states to follow in establishing their cost growth target programs, but specific design details are heavily influenced by the culture and health care landscape of each state.
Lessons learned (cont.)

- The program’s data needs can serve as an impetus to strengthen data infrastructure that can also support other aims.
  - Measuring performance against the target requires access to comprehensive data, which can be leveraged to strengthen the state’s data infrastructure generally (e.g., development of a statewide provider directory).

- Transparency has been a powerful tool, but it remains to be seen whether it is enough.
  - Only Massachusetts and Oregon have enforcement mechanisms for entities that exceed the target.
  - Massachusetts, the only state with enough program experience, has not had to take enforcement action. This may change soon.
Employer and purchaser coalition involvement in cost growth target programs

- In Rhode Island, the Rhode Island Business Group on Health, which represents employers of all sizes, sits on the governance body for the state’s cost growth target program, along with individual employer purchasers.

- In Oregon, employer health care purchasers are represented in the Implementation Committee.

- Washington’s Health Care Cost Transparency Board includes individuals representing local government purchasers, large employers, and small business.
Health care cost growth targets and considerations for purchasing coalitions

- Coalitions can play an active role in getting states to pursue a health care cost growth target strategy.

- Focus for advocacy could include:
  - **State legislators**: legislation is key to establishing and sustaining a cost growth target program that is less vulnerable to changes in administrations.
  - **Governors**: governors have initiated efforts in DE, NJ, NV and RI through executive order or other action
  - **Health insurers**: employers can leverage their purchasing power to increase health insurers’ support of a cost growth target strategy.
Reactor Panel

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Questions?

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Upcoming Webinars & Events

Health Action Alliance: Last Mile for Vaccines
May 13 | noon-1 p.m. (EDT)

Mental Health Index – U.S. Worker Edition April Results
May 14 | noon-12:30 p.m. (EDT)

Shifting Mindsets to Improve High-value Benefit Design
June 3 | noon-1 p.m. (EDT)