Thank you, Bob Gallery and the Chamber Board, for the warm welcome, and thank you especially, Paul Guzzi, for your leadership on health care reform, about which I want to talk this morning. This is a good forum for that conversation because something must be done about cost -- and nothing will without the help of those of you in this room.

I hope you all know by now that I believe in governing for the long term, without kicking the can down the road. Throughout my time in office, I've challenged state government and I've challenged you to confront the big issues before us - in pension and ethics, in transportation, in education, in municipal government and more. I've challenged you to be bold, because what we do today, or fail to do, will matter for a generation to come. And as we do so, no matter how our opinions may collide, I challenged you to turn to each other, instead of on each other. Because now and in the end we are all in this together.

Together, we chose to invest in education, in health care, and in job creation, because we all know that educating our kids, securing our good health care, and having a job is the best path to a better future.

That's why today your Commonwealth is first in the Nation in student achievement and creating jobs faster than most other states in this country. That's why our unemployment rate is well below the national average, why we're coming out of recession faster than the rest of the country, and why CNBC has moved our state up to the fifth best place in America to do business. Our budget is in balance, our years-long structural deficit has been eliminated, and our bond rating remains high and strong, not something many other states can say. None of this happened by accident.

We are also first in the nation in providing health care coverage to our residents. That didn't happen by accident either.

In 2006 a Republican Governor, a Democratic legislature, a Democratic United States Senator, and many people in this room worked together to develop and pass a landmark health care reform law. It was, in fact, more than just a law. It was a statement of values, of who we are as a Commonwealth. What we codified was the fundamental belief that health care is a public good and that everyone in Massachusetts deserves access to it. People may quarrel, and they do, about whether an exclusively private sector solution or an exclusively government one is better than the hybrid version we chose. But the bigger achievement is that we put a marker down as to the kind of state we wanted to live in - and then we worked towards it. That's important to remember. A broad range of interests came together to get a good bill, and then stuck together as we worked to implement and refine it - even in the face of an economic collapse.
And where are we today? More than 98 percent of our residents have health care coverage today, including 99.8 percent of our children. No state in America can touch that. More people are getting preventive care instead of waiting until they have to go to the emergency room. You no longer have to worry about a catastrophic illness forcing you into bankruptcy or being denied coverage because you are already sick. More private companies are offering health insurance to their employees now than were before the bill. We are the model for national health care reform because no one else was bold enough to try something different from the same old competing choices: a perfect solution or no solution at all.

The impact of expanded coverage on our state budget? About 1 percent. We paid for expanded coverage just as was forecast, by delivering more care in primary care settings than in emergency rooms. Universal health care coverage in Massachusetts has been a resounding success and rightly serves as a model of what's possible for the rest of the Nation.

But it costs too much. Health care in Massachusetts is now universally accessible, but it is not yet universally affordable. A report last year from the Division of Health Care Finance and Policy found that at the current pace of increase, health care spending will consume a third of median family income in Massachusetts by 2016. What health care threatens to do to family budgets it is already doing to government and business budgets. Compounded by the sharp downturn in the economy, health care costs account for 40 percent of state spending and have grown at nearly 8 percent annually the past three years while other areas of the budget have been flat or declining. That rate of increase pales in comparison to what small businesses have experienced. I have yet to meet a business owner in the state, especially a small business owner, who doesn't see health care costs as a major impediment to adding jobs. And with small businesses representing 85 percent of the businesses in this Commonwealth, we had better be paying attention to their impediments to hiring. Because if they don't hire, we don't get a recovery. It's as simple as that.

Growth in health care costs has outstripped growth in the rest of our economy. And while the debate about who should pay what share of health care costs, and how to shift costs from employers to employees, is important and timely, it should not distract us from the central issue of escalating cost in the system as a whole.

Now, let me assure you, the challenge of high health care costs is not unique to Massachusetts and has nothing to do with our health care reform. Escalating premiums, far outpacing the rate of economic growth or general inflation, are a challenge for businesses, governments and working families all over the country. Just as we devised the model for universal access, I believe we can crack the code on health care cost.

One of the main reasons for the high cost of health care is the way we deliver health care. Most health care is currently provided under a "fee-for-service" model that creates financial incentives for the quantity of care a patient receives, not the quality. We pay for individual procedures and appointments, not for coordinated care that treats the whole patient. Doctors who treat patients well or help them manage chronic medical problems are not rewarded for those outcomes. There is no financial incentive in the current system for good care, only for more care. What we have is an expensive system that fails to provide the best care to patients. In other words to create incentives to do so. That has to change.
A year ago, I stood before this Chamber an exasperated governor. So many here and elsewhere were telling me that the cost of health care was aggravating the economic crisis. It was stopping companies from hiring and crowding out investment in the economy. So I took what was an admittedly aggressive step: I directed the Division of Insurance to reject excessive increases in health insurance premiums. That move was not without its critics. But it had to be done. Not because health insurance companies are bad - they're not. Not because it was a permanent solution - it isn't. It had to be done because for all the good intentions and the broad consensus on the critical need to lower costs, the market wasn't doing it on its own. We needed something to prod the market forward. And it worked.

Just this week, the Division of Insurance approved health insurance rates for April. We are looking at single digit base rate increases - down from the twenty five to thirty percent increases that had become the norm and precisely the relief we sought by intervening last year.

We have seen other movement in the past year as well. Last summer I signed an economic development bill which gave companies new options to lower their health care cost. Small businesses can now pool their purchasing power to buy health insurance as part of a cooperative. Insurers can offer so-called "select network plans," which give small businesses another lower cost option. Last month, I filed a bill that would give cities and towns more flexibility to design the health plans they offer their employees. And in my budget, I have proposed cutting nearly a billion dollars of state spending by re-procuring the health care the state buys, leveraging the state's buying power to get better deals and change market behavior.

The private sector is trying lots of new things. Blue Cross Blue Shield is modeling a new global payment system that pays doctors for quality, not quantity. Mass General has a pilot program underway with Medicare that provides intensive management of some of their sickest patients; in a year, they've seen healthier outcomes and markedly lower costs, and share those savings with Medicare. There are doctors in Springfield working in integrated care settings and patient-centered medical homes springing up around the state.

All of these different initiatives are important. None of them solves the problem on their own but each moves us closer to our goal and gives us models from which to learn what works best.

It's time to scale these efforts up.

So today, I will file legislation to hasten the market's movement to integrated, high quality care and lower costs to consumers. The bill proposes

- to provide a set of standards and benchmarks for the formation of integrated care organizations, commonly known as ACOs, and alternative payment methodologies;

- empowers the Commissioner of Insurance to consider a wider array of factors when considering whether to disapprove premium increases, including the underlying provider rates and how they compare to medical cost inflation and GDP growth;

- organizes an advisory council of stakeholders and consumer voices to monitor the progress of payment reform and other experiments in cost control; and
• modernizes the system of medical malpractice in favor of an apology and prompt resolution, to de-emphasize so-called "defensive medicine."

Many existing agencies have a role in the health care system we have today. But through this transition we propose to make the Department of Health Care Finance and Policy a one-stop shop for innovators in the medical community. This office will work closely with the community to expand the integrated care groups that are being formed now, to monitor the creation of new ones, and set up guidelines for insurers and providers.

We will lay out clear methodologies that caregivers can use to right-size costs and deliver the best quality care. And we will require that the savings generated benefit consumers -- those families and businesses paying the premiums -- not just improve the margins of the health care industry.

Under our plan, integrated care organizations and insurers that pay for healthy outcomes, not just service, will predominate in our Commonwealth by June of 2015.

I have a lot of people I want acknowledge here and thank some of the many thinkers and doers who have influenced our approach to this bill.

• Paul Guzzi and Jim Klocke of the Greater Boston Chamber.
• Lynn Nicholas of the Massachusetts Hospital Association.
• Rick Lord of the Associated Industries of Massachusetts.
• Alan Macdonald of the Massachusetts Business Roundtable.
• Andrew Dreyfus of Blue Cross Blue Shield of Massachusetts.
• Jim Roosevelt and Lora Pellegrini of the Massachusetts Association of Health Plans.
• Michael Widmer of the Massachusetts Taxpayers Association.
• Jon Hurst of the Retailers Association of Massachusetts.
• William Vernon of the National Federation of Independent Business.

My thinking has been influenced by leaders from organized labor, by consumer advocates such as Health Care for All and the Greater Boston Interfaith Organization, by hospital leaders like Gary Gottlieb of Partners Healthcare and David Phelps of Berkshire Health Systems. I have invited these and others to form a working group right now to help us to get the right bill out of the Legislature and on my desk this session. I look forward to starting that work formally later today.

Some in the industry, including some among those I just named in fairness, say that the state needs only to lay out a framework for reforming the way we deliver care, and the market will take care of the rest. But experience tells a different story. The market has made tremendous progress in the last year or so, but
much of it only after the regulatory hammer came down and new legislation was passed. As exciting as the progress we have made is, it's not enough. We must maintain a sense of urgency to our work. If the legislation I file today feels like pressure on the market, good. Good. That's exactly what it's intended to do. The goal is not to punish any part of the industry or to return to the days of price regulation. I believe that everyone in the Massachusetts health care industry is sincere in their efforts and desire to deliver lower cost and better health care.

The goal of this proposal is to keep the pressure on all of us - including the state - to move as fast we need to move in order to bring the cost savings we need to keep our economy growing.

Taken as a whole, these measures make up the next phase for health care reform in Massachusetts. The details may be complicated, but our goals and our values are simple - even universal. Better, more affordable health care for us all. By most accounts, higher quality care -- meaning well-integrated, whole person care -- equates to lower cost. From now on, we propose to pay for that rather than the fragmented system we have today.

Every day I appreciate more and more the phenomenal accomplishment of the first round of health care reform. A broad coalition joined together to try something, to get off the dime and move. I also understand more clearly every day why they decided to put cost control off to another day: because if you think access was hard, wait until you take on cost control. But just like with the first round of health care reform, this is about what kind of Commonwealth we want to live in. The goal is more affordable care and higher quality care. The legislation I am filing gives us some tools to get us there. Once enacted, it is going to take partnership with you and commitment on the part of us all to make it real. We're going to have to work together, dealing with issues as they arise in a serious and thoughtful manner, without the drama, without the overheated rhetoric, and without the fear of change. We led the Nation to the most successful model for universal coverage ever. If anyone's going to crack the code on cost containment, it will be we here in the Commonwealth of Massachusetts.

In some fundamental way, solving this challenge has everything to do with fulfilling our generational responsibility - that old-fashioned idea that each of us in our time must do all we can to leave things better for those that come behind us. It's about building a better, stronger Commonwealth - not just for ourselves, but for generations to come. This is their health care as well. We owe it to their future to get this right. I look forward to working with you to do so.

Thank you all and I look forward to your questions.