



# THE HEALTH CARE COST CHALLENGE AND POLICY RECOMMENDATIONS FOR MASSACHUSETTS

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## Introduction

When Massachusetts passed its landmark health reform law (Chapter 58 of the Acts of 2006, *An Act Providing Access to Affordable, Quality, Accountable Health Care*), it established a model for the nation in creating a path to achieve near universal health insurance coverage for its residents. Chapter 58 was designed to expand coverage and, with over 97 percent of the state's residents now insured, that effort has proven to be a success. However, the reform law of 2006 was not intended to tackle health care costs specifically, and the rapid annual escalation of costs is causing significant fiscal challenges. The state's individuals, families, and employers, as well as state and local government, are all struggling under the weight of high and rapidly rising health care costs, which is creating barriers to accessing care, cutting into wage growth, stifling job creation, and preempting spending in other sectors of the economy. *Massachusetts Health Care Cost Trends 2010 Final Report*, issued by the Division of Health Care Finance and Policy (DHC FP), outlines the causes and factors that have led to rising health care costs and recommends both immediate and longer-term strategies to mitigate its growth.

## Urgent Need for Action

Per capita spending on health care in Massachusetts is 15 percent higher than the rest of the nation, even when accounting for wages and spending on medical research and education in Massachusetts. While the economic activity associated with the health care sector and the near-universality of health insurance coverage in the state are important features of Massachusetts' economy, the continued increases in health care spending—if uncontrolled—will significantly hinder the state's economic performance.

Indeed, as the cost of health benefits consume more of employers' bottom lines, increases in the cost of health insurance negatively impact economic activity as businesses are unable to afford to hire new workers. Additionally, with health insurance premiums rising faster than overall economic growth, Massachusetts' employers—who historically have been more likely than their national peers to offer health insurance coverage to their employees—may over time, be forced to drop coverage for their employees or substantially reduce benefits.

Rising health care costs are a national problem, are not unique to Massachusetts, and are not caused by Chapter 58's expansion of access to coverage. In the past two decades, the percent of family income dedicated to health insurance has more than doubled from 7 percent of the nation's median family income in 1987 to 17 percent in 2006. Without action, economists estimate that the proportion of family income devoted to health insurance could rise to more than a third of median family income by 2016.<sup>1</sup> Clearly, such growth is unsustainable and underscores the need for immediate action in order to change this trajectory.

## Strategies for Mitigating Health Care Cost Growth in the Commonwealth

DHC FP proposes both immediate and longer-term strategies to mitigate health care cost growth. While those actions that have an immediate impact are blunt interventions, the economic imperative is critical enough to warrant their use as a short-term means of providing relief to Massachusetts' businesses and families. At the same time, steps should be taken immediately to implement those recommendations which will have a longer-term impact in order to begin the transition toward an economically sustainable, integrated, and patient-centered health care delivery system.

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<sup>1</sup> Testimony during Cost Trends Hearings from Len Nichols, Director for the Center for Health Policy Research and Ethics, College of Health and Human Services, George Mason University, March 16<sup>th</sup>, 2010.

<b>Recommendation</b>	<b>Description</b>	<b>Target Cost Area/Goal</b>	<b>Action Required</b>	<b>Timeframe for Impacting Cost Trend</b>
Premium rate oversight	Prior review of health insurance premium rates for all employer groups and in particular for the small group market who are in need of immediate premium relief.	Mitigate growth in insurance premium rates, in particular small business and direct-purchase insurance premium rates	Legislation and regulation. DoI has implemented a change to the small group rates reporting requirements	Immediate
Provider rate oversight	Review payment levels, rates of increase, fee schedules, and all components of total medical expenses in contracts between providers and insurers. Review should consider – among other items - payer mix and financial condition of the provider as well as the extent to which the provider delivers complex or unique medical procedures.	Reduce variation and growth in provider rates paid in private, fully insured market. Incentivize lower cost providers.	Legislation and regulation	Immediate
Changes to insurance rating rules to address premium volatility	Adjust rating rules so that small businesses do not experience sharp spikes in premium growth from year to year based on changes in the age of employees or group size.	While this strategy would not reduce total health care spending, it would realign cost burden so small businesses experience less volatility and rate shock.	Legislation and regulation	Immediate
Select networks and affordable, wellness-oriented insurance products	Require that every insurer that participates in the merged market create and offer to all participating employers and individuals a product which includes a select network of high-quality, low-cost providers. Ensure requirements pertaining to network adequacy (i.e., how many providers and services must be available to each enrollee within a certain geographic area) and facilitate insurer development and promotion of such products to consumers and employers.	Create more affordable insurance products for small businesses and individual purchasers; direct more care to lower cost providers.	Legislation and regulation	Immediate

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Review of provider-insurer contract provisions	Review insurer-provider contract provisions which may limit fair and open competition, perpetuate market disparities, and inhibit product innovation, such as: provisions which tie rates of payment in one contract to rates included in a contract with another party; and, “all or nothing” provisions which require an insurer to contract for all services available from the provider or to include all affiliated providers within contracts.	Promote fair and open competition	Legislative review and intervention as needed	Immediate & Longer-term
Formation of oversight entity	Establish an independent public entity to coordinate and leverage existing state resources to make decisions regarding payment reform, set overall spending and performance targets, and monitor progress toward an integrated delivery system. Oversight entity to include mix of government officials and health care experts.	Create overall accountability, set market benchmarks, and guide transition to an integrated health care delivery system.	Legislation	Longer-term
Payment reform	Transition away from fee-for-service and toward methodologies that reward primary care and the provision of integrated services. Include all public and private payers including Medicare. Oversight entity will establish risk adjustment standards and set limits on price variation.	Align financial incentives to promote delivery of timely care in most appropriate setting.	Legislation and Medicare waiver	Longer-term
Delivery system redesign	Support the creation of integrated care organizations to more effectively and collaboratively meet patient care needs. Services to be coordinated include all services required under Minimum Creditable Coverage. Oversight entity to monitor formation of ICOs to ensure sufficient capacity and competition. Public-private partnerships to provide technical assistance in the form of grants and expertise.	Greater integration and coordination of care and improved communication across the continuum of patient care needs	Legislation	Longer-term

<b>Recommendation</b>	<b>Description</b>	<b>Target Cost Area/Goal</b>	<b>Action Required</b>	<b>Timeframe for Impacting Cost Trend</b>
Delivery system redesign <i>(continued)</i>	Continue to expand use of health information technology and develop uniform standards for usage and interoperability across hospitals, physician groups, home health, and long-term care providers.	Improve quality and safety, provide evidence-based decision supports, and make data available to support quality measurement.	Efforts by the eHealth Institute and HIT Council are underway	Longer-term
	Promote expansion of successful chronic care models such as Senior Care Options. Current barriers to such expansion—such as reserve threshold levels which can be very difficult for such small organizations to meet - should be examined for possible modification.	Greater integration and coordination of care and improved communication across the continuum of patient care needs	CMS approval of SCO contract changes	Longer-term
	Enhance Determination of Need and other health care planning efforts by using geographic characteristics, community health needs, patterns of utilization, and other relevant factors when reviewing provider applications for capital investment and other development projects.	Align capital investments with health resource needs of communities	Legislation	Longer-term
Transparency of cost and quality information	Collect health care claims data from all payers, produce analytic datasets for researchers and others, and produce quality and cost measures for public reporting.	Provide full transparency for consumers and employers to be prudent purchasers and increase provider and insurer accountability	Both public and private carrier claims data to be collected by DHCFP	Longer-term
Invest in public health and wellness	Promote provision and use of wellness strategies, such as smoking cessation programs among private and public payers and employers.	Reduce preventable hospitalizations and emergency department visits	DPH can promote; may require additional resources to be effective	Immediate

Recommendation	Description	Target Cost Area/Goal	Action Required	Timeframe for Impacting Cost Trend
Invest in public health and wellness <i>(continued)</i>	Support public-private partnerships to invest in evidence-based public health interventions to reduce the incidence and prevalence of chronic conditions.	Prevent need for medical care to treat chronic conditions.	Legislative appropriation of funds	Longer-term
	Encourage health plans to offer and employers to purchase products that include an employee engagement strategy that promotes individual employee and family wellness. Reward employers for offering such wellness-oriented initiatives to their employees.	Improve employee health and wellness and educate employees on their own individual and family health needs.	Regulation	Longer-term

**About DHCFP**

The mission of the Division of Health Care Finance and Policy is to improve health care quality and contain health care costs by critically examining the Massachusetts health care delivery system and providing objective information, developing and recommending policies, and implementing strategies that benefit the people of the Commonwealth.