



11 Beacon Street, Suite 710
Boston, MA 02108
Phone: 617-723-6100
Fax: 617-723-6111
www.cobth.org

October 2, 2013

Dr. Stuart Altman, Chair
Health Policy Commission
2 Boylston Place, 6th floor
Boston, MA 02116

RE: Cost Trend Hearings

Dear Dr. Altman:

Thank you for the opportunity to provide written comments relative to the Commission's Cost Trend Hearings. Having attended both days of the hearings and reviewed much of the written testimony, I commend the Commission and staff for their work in organizing the hearings and presentations. Much of the information presented at the hearings will inform us all as we continue our work to contain health care spending growth, while maintaining access and enhancing quality.

The hearings revealed that Massachusetts has much to be proud of and real progress is being made at containing costs and increasing coordination of care. Working together, hospitals, physicians, health centers, insurers, employers along with our partners in state government, have made real progress during the past several years, but the work must continue.

When looking at the cost of health care, the premium dollar is often broken down to medical and nonmedical - with 90% of the premium dollar going to provide medical care and approximately 10% remaining with the insurer. Naturally, attention and further review tends to focus on where the dollars are. However, the 10% of the premium dollar that remains with insurers cannot be ignored. To put it plainly, 10% of a very big number is also a very big number. In 2011 the portion of premium retained by insured was more than \$1.5B.

Massachusetts' health reform efforts following the initial coverage expansion in 2006 (Ch. 305 of 2008, Ch. 288 of 2010 and now Ch. 224 of 2012) have all contained provisions related to administrative simplification aimed at reducing administrative expenses at both the insurer and provider level and eliminating costs that provide little or no value to the patient experience. In addition, movement away from traditional fee-for-service to alternative payment methods which shift risk, and certain responsibilities, from insurers to providers should lead to a reduction in that 10% of the premium dollar which is retained by insurers. However, recent indications are that just the opposite is occurring.

A comparison of the Division of Insurance's financial summary reports for commercial payers in Massachusetts for 2010 and 2012 show a reduction in the medical loss ratio from 91.2% to 89.4% meaning that more of the premium dollar went to insurer expenses than medical

care for their enrollees. The table below, from the Center for Health Information and Analysis (CHIA) August report on the Massachusetts Healthcare Market, shows trends for all commercial payers in the Commonwealth.

Division of Insurance Financial Summary Reports Show Retention Trends

Division of Insurance Financial Summary data provide additional Massachusetts payer retention information. Total, for all commercial payers in Massachusetts:

- Administrative Expenses increased by \$110 million (10%) from 2010 to 2012, while payers' Incurred Claims remained steady at \$9 billion.
- Net income for payers grew from \$20 million in 2010, to \$160 million in 2011, to \$210 million in 2012.
- DOI reported average weighted MLRs, for the entire Massachusetts commercial marketplace, fell from 91.2% in 2010 to 89.4% in 2012.

Select Division of Insurance Financial Summary data definitions can be found in this report's Technical Appendix.

¹ Full definitions and descriptions can be found at: www.mass.gov/ocabr/docs/doi/legal-hearings/211-149.pdf

The August CHIA report also highlights retention rates for the six largest commercial payers in Massachusetts. As indicated below, the retention rate grew by more than 20% each year from 2009 to 2011.

TABLE 1: RETENTION BY PAYER (2009-2011)

Payers	Retention (in millions)			Change	
	2009	2010	2011	2009-2010	2010 - 2011
BCBS	\$410.94	\$441.45	\$518.68	7.4%	17.5%
Harvard Pilgrim Health Care	\$167.03	\$220.11	\$276.09	31.8%	25.4%
Tufts Health Plan	\$104.45	\$148.01	\$199.80	41.7%	35.0%
Fallon Community Health Plan	\$55.30	\$92.77	\$83.45	67.8%	-10.0%
Health New England Inc.	\$37.37	\$46.84	\$51.80	25.3%	10.6%
Neighborhood Health Plan Inc.	\$21.62	\$21.99	\$43.26	1.7%	96.8%
Total	\$796.72	\$971.16	\$1,173.08	21.9%	20.8%

¹ Premiums are post MLR rebates

Source: Oliver Wyman analysis of data from Massachusetts payers for resident and non-resident insured lives

COBTH member hospitals, most of which provided either written or oral testimony at the cost trend hearings, are committed to continuing to working with the Commission and all stakeholders and build on the progress we have made and encourage efforts to focus on **every** element of the premium dollar.

Sincerely,



John Erwin
Executive Director
Conference of Boston Teaching Hospitals

cc: Commission members, HPC Executive Director Seltz