2017 Annual Health Care

COST TRENDS REPORT

MASSACHUSETTS
HEALTH POLICY COMMISSION

MARCH 2018

EXECUTIVE SUMMARY

The Health Policy Commission (HPC), established in 2012, is charged with monitoring health care spending growth in Massachusetts and providing data-driven policy recommendations regarding health care delivery and payment system reform. Consistent with this mandate, the HPC's annual Cost Trends Report presents an overview of trends in health care spending and delivery in Massachusetts, evaluates progress in key areas, and makes recommendations for strategies to increase quality and efficiency in the Commonwealth.

> Past cost trends reports have focused on four areas of opportunity: fostering a value-based market; promoting an efficient, high-quality healthcare delivery system; advancing aligned and effective financial incentives; and enhancing data and measurement for transparency and accountability.

The HPC continues to emphasize these opportunities in its analysis, recommendations, and strategic priorities.

This executive summary present a concise overview of the findings and recommendations detailed in this fifth annual report.

FINDINGS

TRENDS IN SPENDING

- In 2016, Total Health Care Expenditures (THCE) in Massachusetts grew 2.8 percent per capita, lower than the 3.6 percent health care cost growth benchmark set by the HPC. The average annual rate of growth in THCE in Massachusetts from 2012 to 2016 was 3.55 percent, slightly below the state's benchmark.
    - The Massachusetts growth rate of 2.8 percent in 2016 was below the national growth rate of 3.5 percent, continuing a seven year trend of total spending growth below the U.S. rate.
    - Growth in commercial health care spending continues to be below the national average. Cumulatively between 2012 and 2016, this lower growth rate amounts to commercial spending that has been $5.9 billion lower over this time period than would have been the case if growth rates matched the national average.
- Per capita spending grew 3.2 percent among commercial enrollees, 5.0 percent among full coverage MassHealth enrollees in the MCO and PCC programs (mostly due to an increase in health risk), and 0.3 percent among Original Medicare enrollees.
- Prescription drug and hospital outpatient department spending were the highest growth areas in 2016, with increases in spending of 6.1 percent net of rebates and 5.5 percent from 2015, respectively.
- In Massachusetts, employer-sponsored insurance premiums have grown more slowly in recent years compared to the U.S. overall. In 2012, family premiums were about 11 percent higher in Massachusetts compared to the U.S. average; in 2016, family premiums were 7 percent higher in Massachusetts. The average annual family premium plus cost-sharing for employer coverage in Massachusetts in 2016 was $21,085.
- While Massachusetts employer-sponsored insurance premiums are still among the nation's highest, Massachusetts Health Connector premiums were the second lowest in the U.S. in 2017.
    - Employer-sponsored insurance premiums in Massachusetts are fourth highest in the country, while the premium cost for a benchmark plan on the Massachusetts Connector was 31 percent below the average in ACA exchanges and second lowest in the country.
- The number of people getting health insurance through smaller employers dropped by 8 percent between 2014 and 2016, consistent with fewer small employers offering coverage. Enrollment in the individual market, most of which is offered through the Massachusetts Health Connector, has grown over this time.

OPPORTUNITIES TO IMPROVE QUALITY AND EFFICIENCY

- Care delivered in hospital outpatient departments is a high growth category of spending. While some hospital outpatient spending is high-value, the use of hospital-based care when the same services could be provided in a non-hospital setting may result in unnecessary higher spending.
    - Massachusetts residents are more likely to see providers in hospital settings rather than non-hospital

settings. For example, Original Medicare beneficiaries in Massachusetts use hospital outpatient departments for routine visits at twice the national rate (21 percent of routine office visits in Massachusetts took place in hospital settings, compared to 11 percent in the U.S.). Given that Medicare prices for routine visits are twice as high in the hospital outpatient department compared to an office setting, the higher hospital outpatient department use rate results in an additional $56 million a year spent in Massachusetts.

- Across many categories of health care utilization, there are some recent positive trends, as well as some areas for continued improvement.
    - Massachusetts residents continue to use more hospital outpatient, inpatient, and emergency department (ED) care than the nation overall, though the gaps have closed by roughly one-third between 2011 and 2015.
    - Access to behavioral health care remains an area for improvement. The rate of behavioral-health ED visits among Massachusetts residents increased 22 percent from 2011 to 2016.
    - The percentage of community-appropriate inpatient care treated at Massachusetts community hospitals continued to decline in 2016 to 58 percent from 60 percent in 2011.
    - Trends in post-acute care indicate shifts away from use of institutional settings. Between 2014 and 2016, the share of discharges to institutional post-acute care fell 1.3 percentage points, in large part due to reductions among discharges for musculoskeletal conditions and reductions among certain hospitals.
- There was considerable variation in risk-adjusted spending and utilization outcomes for patients depending on their provider organization. Spending varied by more than 30 percent between the highest (Partners) and lowest-spending organization (Reliant) in 2015, even accounting for patient health risk. Provider organizations anchored by academic medical centers tended to have higher spending than physician-led organizations.
    - The variation was primarily driven by hospital outpatient spending, which varied two-fold between the highest and lowest-spending organization.
    - Hospital inpatient, lab, and pharmacy spending tended to follow the same general patterns by organization type.
- ED visits and avoidable ED visits also varied two-fold across organizations in 2015, even adjusting for additional patient characteristics such as income of their zip code of residence, health risk, age, gender, and insurance product details.

PROGRESS IN ALIGNING INCENTIVES FOR EFFICIENT AND HIGH QUALITY CARE

- Use of alternative payment methods (APMs) among commercial payers increased overall in 2016, reflecting different trends by payer type.
    - APM use among the three largest Massachusetts payers increased sharply from 46 percent to 56 percent of covered lives in 2016. However, the rate remained at 36 percent among other Massachusetts-based carriers, which increased their market share in 2016. APM use among national carriers in Massachusetts – which cover 20 percent of the commercial population – is very low, totaling only 2 percent of their covered lives (see **Chartpack**).
- Uptake of tiered and limited network insurance products grew slightly in 2016, though the increase in tiered network plans was entirely due to plans offered to state employees enrolled through the Group Insurance Commission (GIC) (see **Chartpack**).

RECOMMENDATIONS

In light of these findings and the HPC's other analytic and policy work throughout the year, the HPC makes the following recommendations to advance the goal of better care and better health at a lower cost for the people of Massachusetts:

RECOMMENDATIONS TO STRENGTHEN MARKET FUNCTIONING AND SYSTEM TRANSPARENCY

1. **Pharmaceutical spending:** The Commonwealth should take action to reduce increases in drug spending, and payers and providers should consider further opportunities to maximize value. Specific areas of focus should include authorizing reforms in the MassHealth program, increasing price transparency and

accountability, adding pharmaceutical and medical device manufacturers as Cost Trends Hearing witnesses, using value-based benchmarks and contracts, using treatment protocols and guidelines, and enhancing provider education and monitoring of prescribing patterns.

2. **Out-of-network billing:** The Commonwealth should enhance out-of-network (OON) protections for consumers. Specific actions should include requiring advanced patient notification, consumer billing protections in emergency and "surprise" billing scenarios, and reasonable and fair reimbursement for OON services.

3. **Provider price variation:** The Commonwealth should reduce unwarranted variation in provider prices through advancing data-driven interventions and policies in the coming year.

4. **Facility fees:** The Commonwealth should take action to equalize payments for the same services between hospital outpatient departments and physician offices. Specific actions should include establishing limits on sites that can bill as hospital outpatient departments and implementing site-neutral payments for select services.

5. **Demand-side incentives:** The Commonwealth should encourage payers and employers to enhance strategies that empower consumers to make high-value choices. Specific areas of focus should include encouraging employees to choose high-value plans; encouraging employers to purchase health insurance through the Massachusetts Health Connector; improving the design of tiered and limited network plans, and testing new ideas such as primary care provider tiering; and encouraging broad use of CHIA's new CompareCare website.

RECOMMENDATIONS TO PROMOTE AN EFFICIENT, HIGH-QUALITY HEALTH CARE DELIVERY SYSTEM

6. **Social determinants of health:** The Commonwealth should emphasize the importance of social determinants of heath on health care access, outcomes, and cost. Specific areas of focus should include flexible funding to address health-related social needs, inclusion of social determinants in payment policies and performance measurement, and research and evaluation of innovative interventions and policies to build the evidence base.

7. **Health care workforce:** The Commonwealth should support advancements in the health care workforce that promote top-of-license practice and new care team models. Specific actions should include scope of practice reform, including removing restrictions that are not evidence-based; establishing a new level of dental practitioner for expanded oral health care access; supporting new care team models, particularly to address patients' behavioral health and health-related social needs; and engaging the health care workforce in cost containment and delivery reform efforts.

8. **Innovation investments:** The Commonwealth should continue to support targeted investments to test, evaluate, and scale innovative care delivery models. Emerging ideas that should be considered for funding include pharmacologic treatment for substance use disorder in primary care settings; telehealth, particularly to enhance access to care for certain high-need services and patient populations; and mobile integrated health, in which community paramedicine and other providers treat patients in their homes and communities.

9. **Unnecessary utilization:** The Commonwealth should focus on reducing unnecessary utilization and increasing the provision of care in high-value, low-cost settings, consistent with the HPC's improvement targets. Policymakers and market participants should seek progress on avoidable emergency department utilization, avoidable hospital admissions and readmissions, treating low-acuity conditions in community hospitals rather than academic medical centers and teaching hospitals, and unnecessary institutional post-acute care.

10. **Alignment and improvement of APMs:** The Commonwealth should continue to promote the increased adoption of alternative payment methods (APMs) and improvements in APM effectiveness. Specific areas of focus should include increasing APM coverage in the commercial market, aligning quality measurement in APMs, adopting HPC Accountable Care Organization certification standards, incorporating bundled payments, and reducing disparities in budget levels.