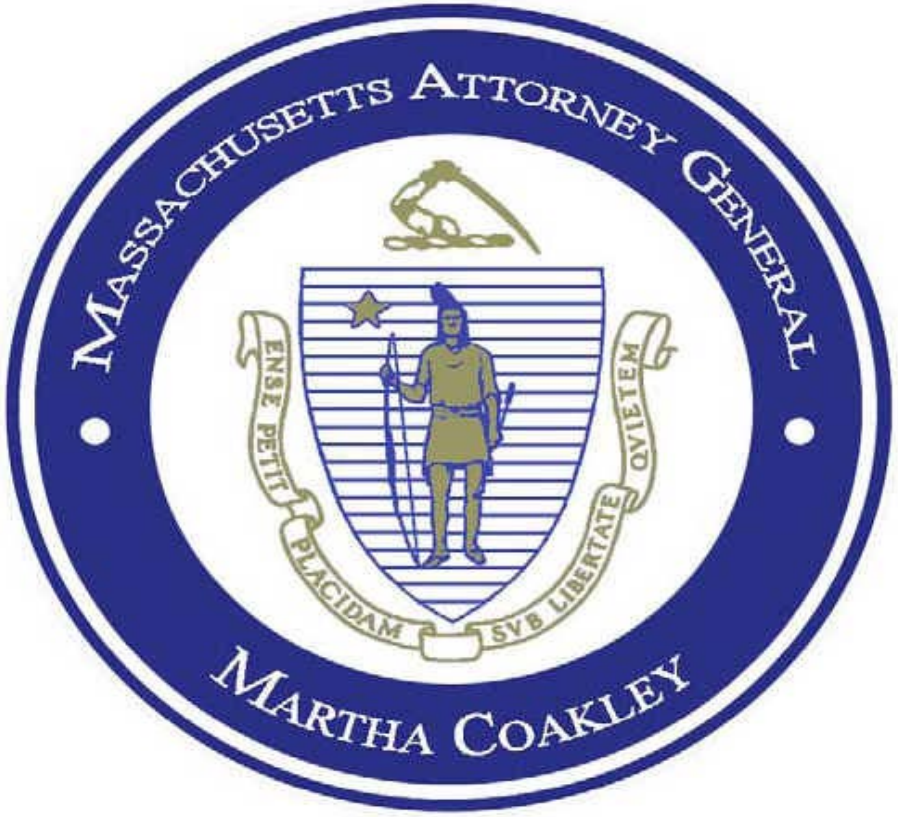

Examination of Health Care Cost Trends and Cost Drivers

Pursuant to G.L. c. 6D, **§ 8**

April 24, 2013

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Introduction

I. Health Care Reform in Massachusetts
   - AGO Examination of Cost Trends and Cost Drivers

II. 2013 Cost Containment Report
   - Shine light on current efforts to control costs
   - Identify potential tensions in reform efforts

Health Care In Massachusetts

We benefit from:

- Shared responsibility of employers, individuals, health plans and providers
- Highly rated health plans and hospitals
- Model for health care reform

We are challenged by:

- Trends in health care spending exceeding economic growth
- Lack of price transparency
- Lack of incentives for right care at right location

Massachusetts Is a National Leader in Health Care Reform

YEAR	MASSACHUSETTS HEALTH CARE REFORM	
2006	Chapter 58 – Health Reform	
	• Individual Mandate • Employer Responsibility	• Medicaid Expansion • Insurance Exchange
2008	Chapter 305 – Cost Containment Legislation I • AG Authority to Examine Cost Trends	
2010	Chapter 288 – Cost Containment Legislation II • Transparency • Tiered/Limited Network Products • Reform of Unfair Contracting Practices	
2012	Chapter 224 – Cost Containment Legislation III • Oversight of Payment Reform & Provider Registration • Benchmark Health Spending to Gross State Product • Price Transparency for Consumers	

2010 & 2011 Examination Highlights

1. Prices paid by health insurers to hospitals and physician groups vary significantly
2. Variations in prices are not adequately explained by value-based differences in the services provided
3. Variations in prices are correlated to provider and insurer market leverage
4. Global budgets vary significantly and globally paid providers do not have consistently lower TME
5. Variations in prices impact the growth in overall health care costs

2013 Examination Report

- Examine steps that purchasers (employers and consumers), health plans and providers are taking to make health care delivery more value-based.

- We recommend greater scrutiny and transparency of market activity that threatens lower-cost providers and may limit consumer options.

Examination Approach

- Subpoenas issued to four major Massachusetts health plans and eleven provider organizations.
- Nearly three dozen interviews and meetings conducted with providers, health plans, health care experts, consumer advocates, employers and other key stakeholders.
- To assist in its review, the AGO engaged consultants with extensive experience in the Massachusetts health care market.

Report Examines Activity of Key Market Actors

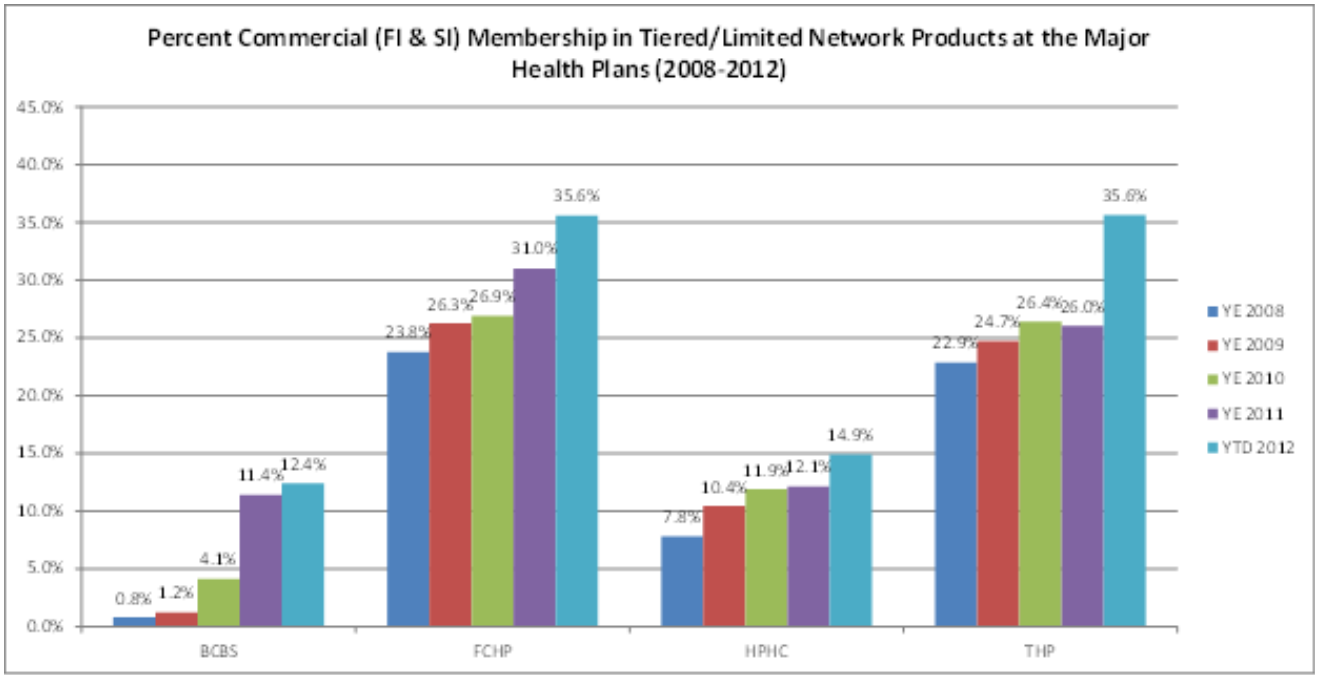
1. Purchaser activity
   - How are purchasers responding to new options and transparency?
2. Health plan activity
   - How are health plans moving towards value-based product designs?
3. Provider activity
   - How and why are provider groups realigning to deliver care?

1. PURCHASERS

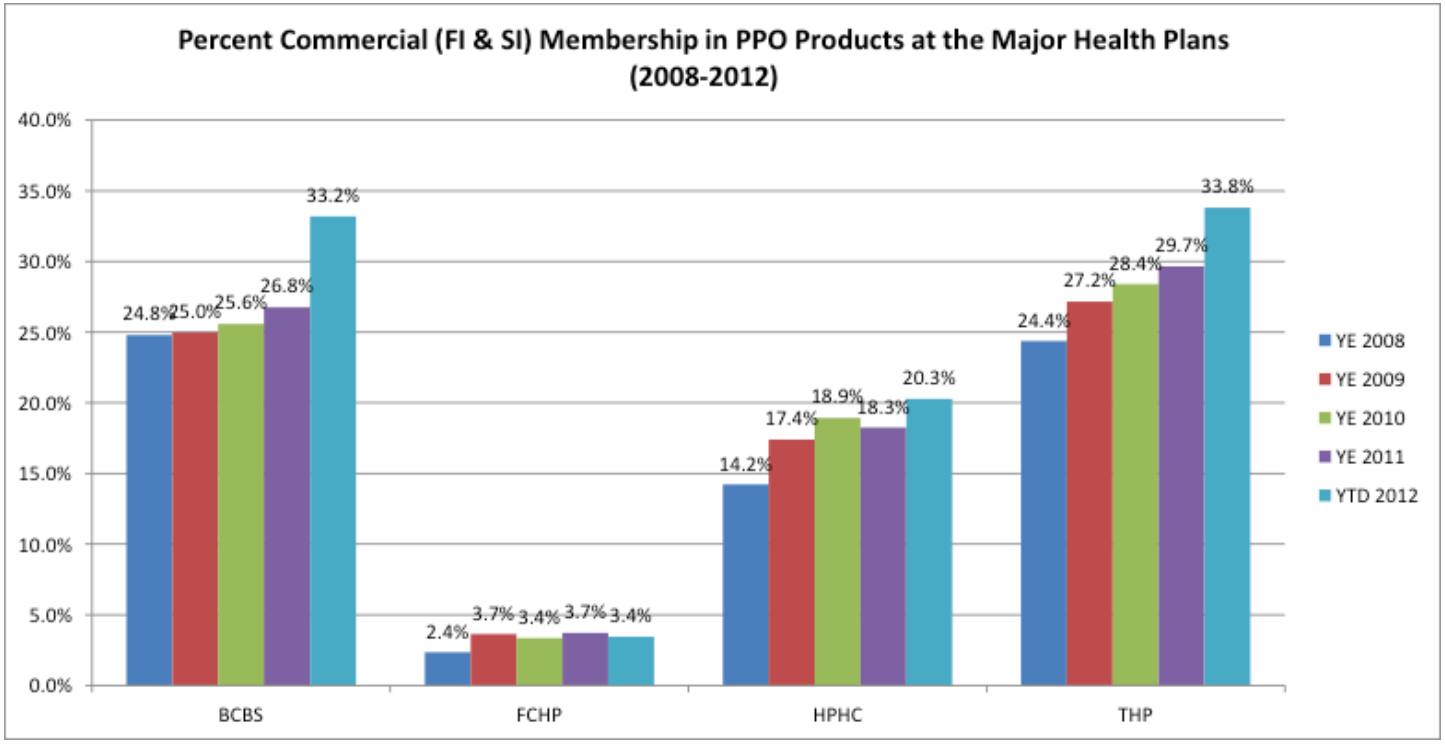
Employers and individual health care purchasers have increasingly:

- Moved to health insurance products with tiered networks
- Moved to PPO products and away from HMO products
- Moved to high-deductible health plans

Purchasers Increasingly Moving to Tiered and Limited Network Products



Purchasers Have Increasingly Moved To PPO Products, Including Self-insured PPO Products, And Away From Fully-insured HMO Products



Purchasers Have Increasingly Moved To High-Deductible Products

- From 2008 to 2010, proportion of individual market enrolled in high-deductible products increased from 45% to 55%.
- During same time period, small group plan enrollment in high-deductible products increased from 2% to 27%.
- Trends in Massachusetts are consistent with national trends.

Purchaser Decisions Affect Health Plans and Providers Implementing Risk Contracts

- Increased enrollment in PPO has resulted in membership shifting out of risk contracts.
- Consumer incentives under tiered network and other product designs to seek care from more efficient providers may come into tension with provider incentives.
- To support prudent purchasing, market participants should examine the factors underlying purchaser enrollment trends.

2. HEALTH PLANS

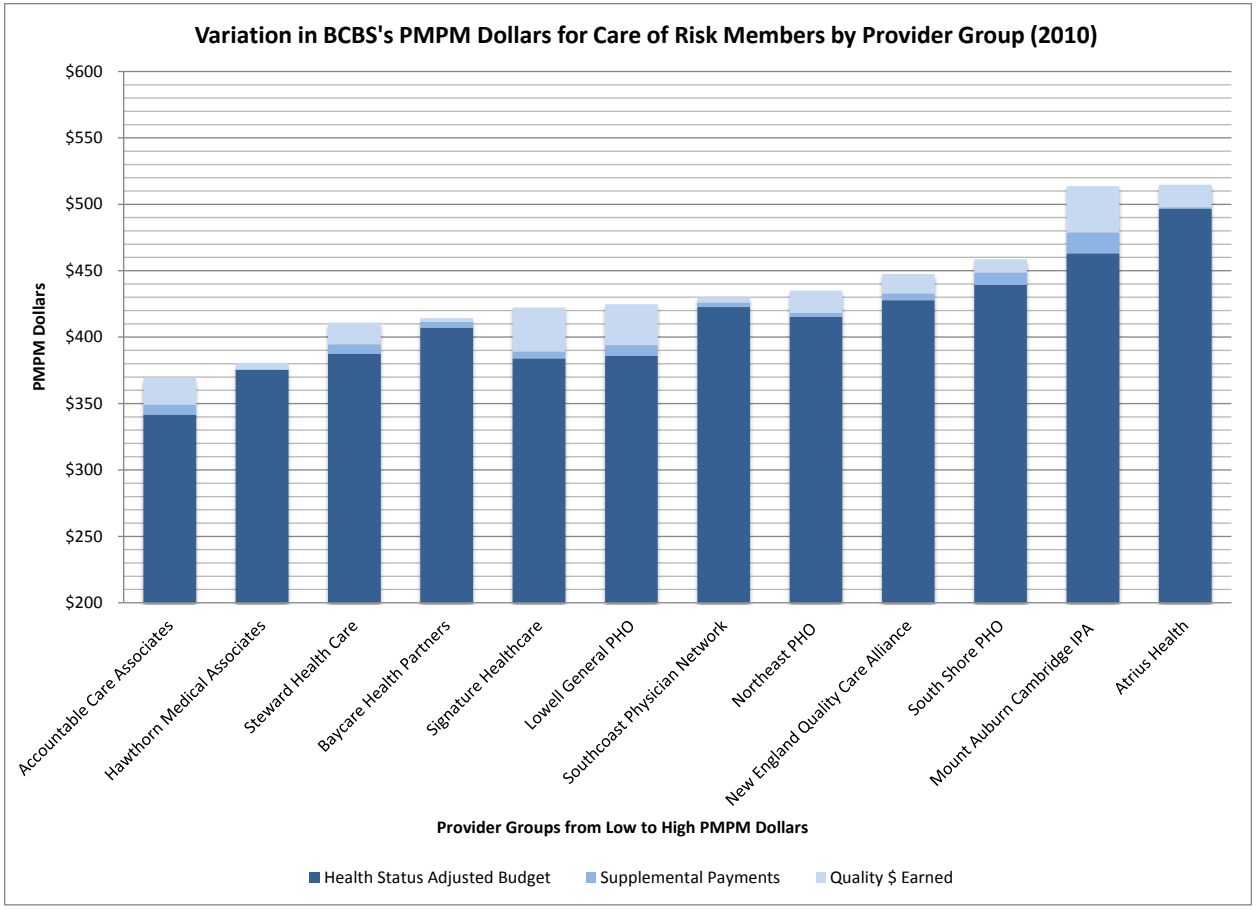
Health plans negotiate different amounts with providers to care for patients of comparable health, reflected in variation in:

- Risk budgets
- PPO and HMO payment rates
- Across geographic areas

Health plan product designs impact:

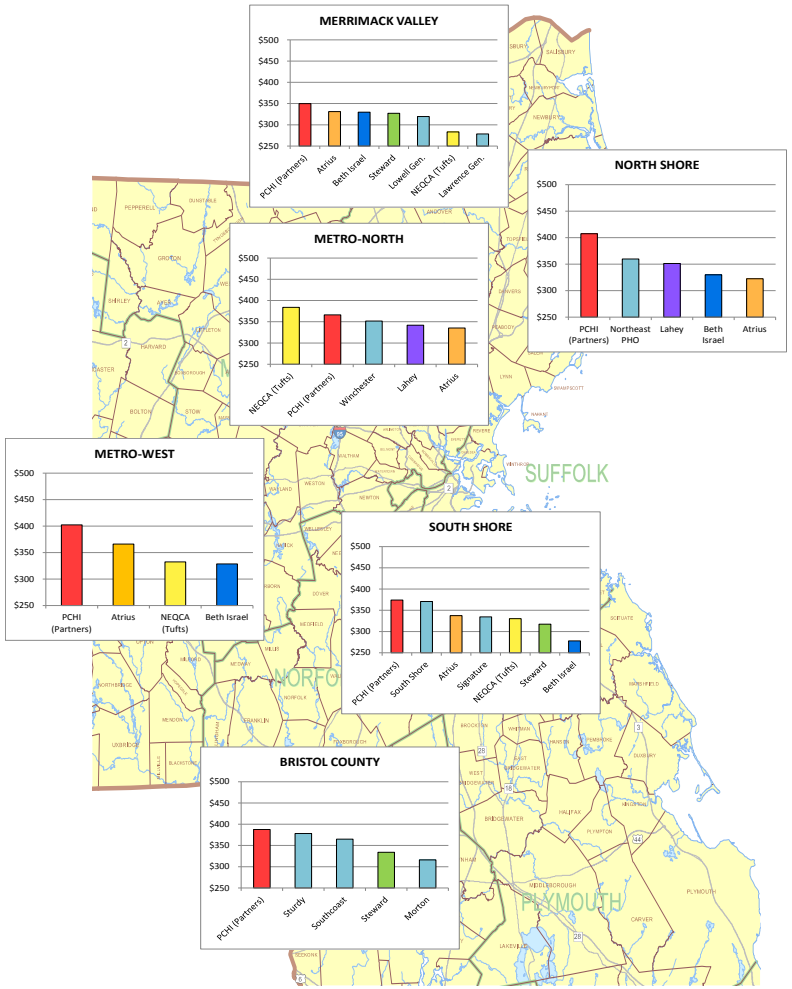
- Risk selection (consumer purchasing based on health)
- Total medical spending
- Care management

Health Plans and Providers Negotiate Budgets of Different Sizes to Care for Patients of Comparable Health

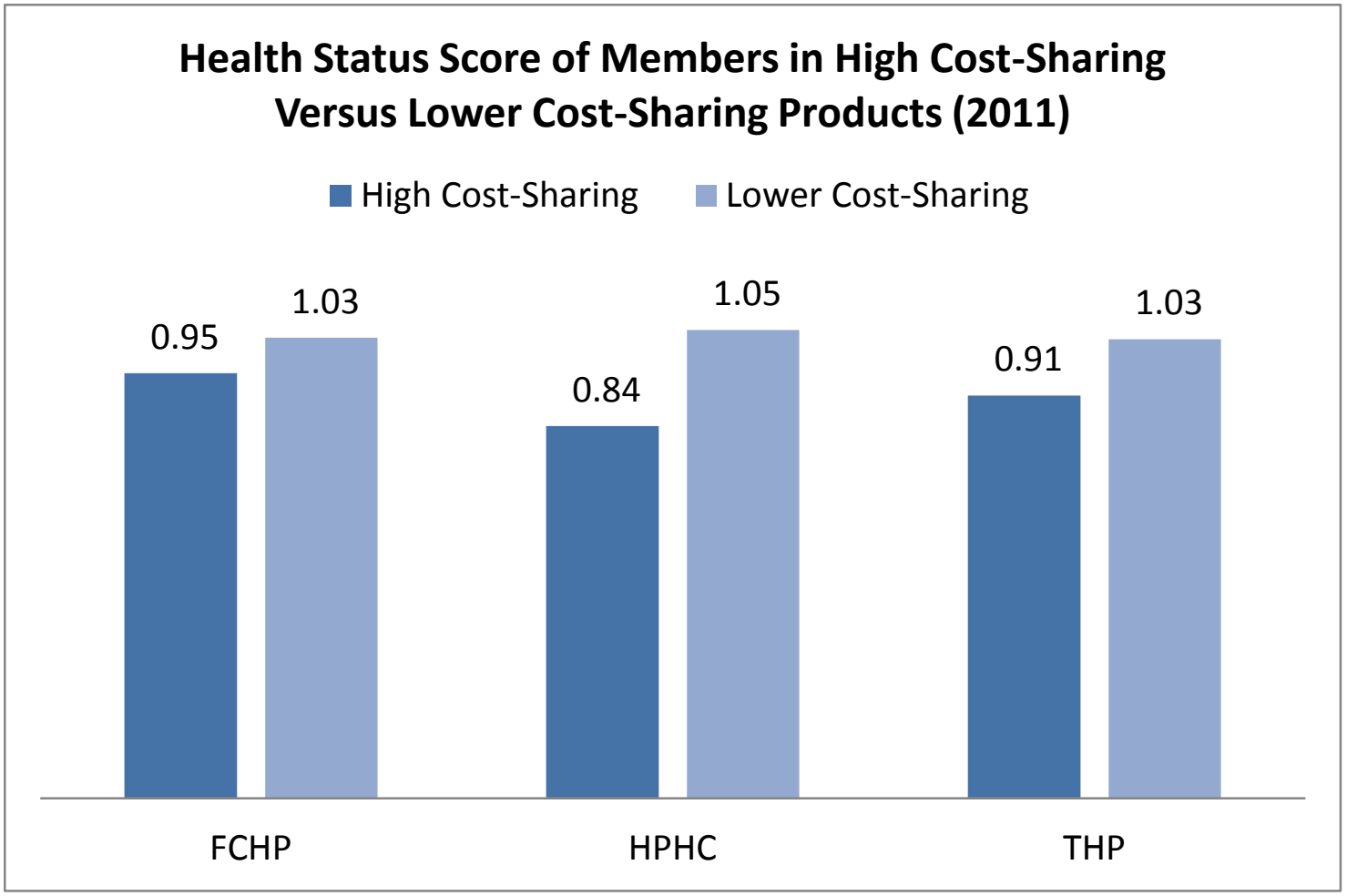


Variation in Provider TME Exists Across Massachusetts and Within Separate Geographic Areas

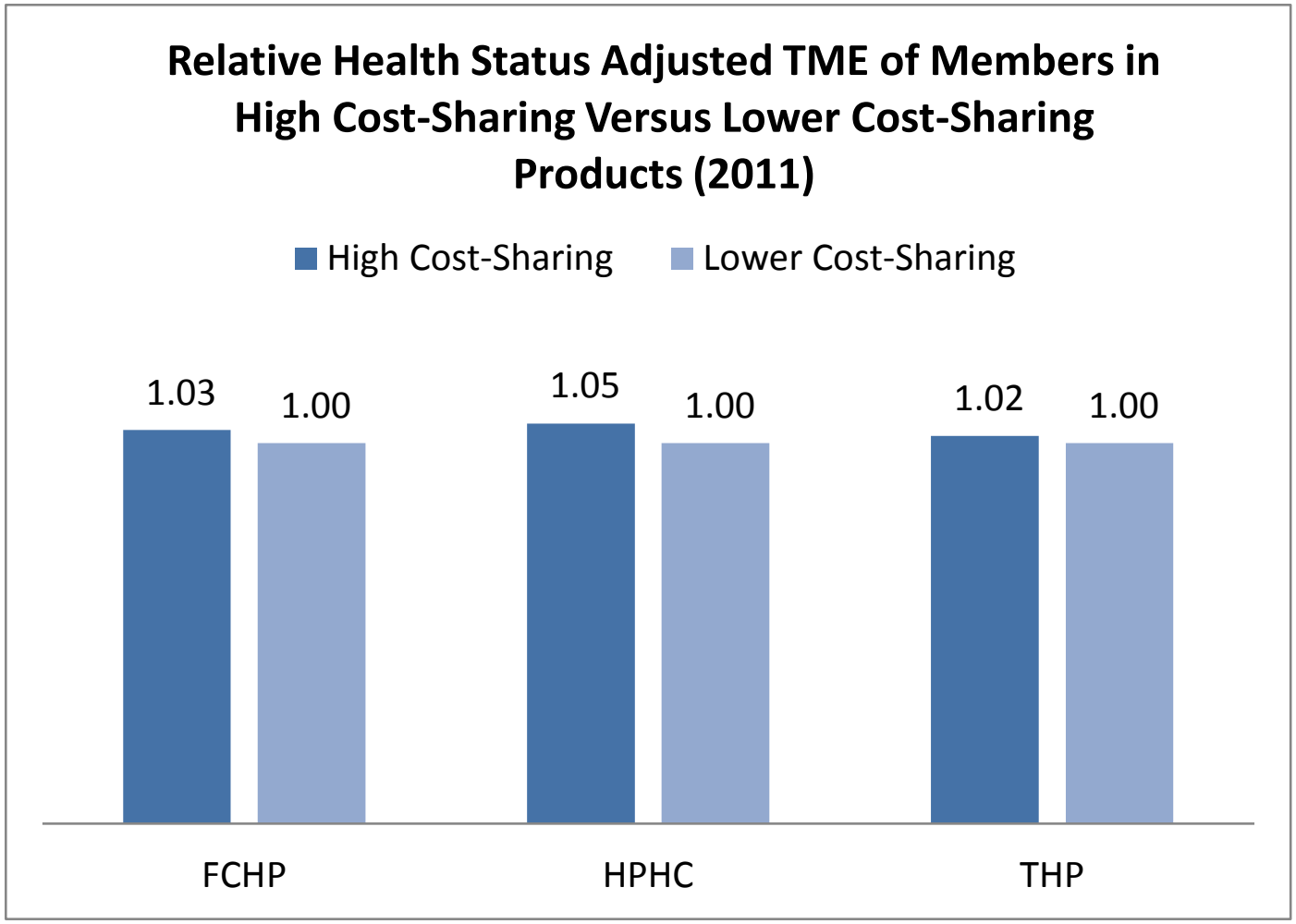
Variation in a Major Health Plan's Provider Group TME by Region (2011)



Healthier Consumers Appear to Be Attracted to Certain Products



Certain Products Appear to Be Associated with Lower Medical Spending on a Health Status Adjusted Basis



3. PROVIDERS

- Providers are entering new risk contracts and are taking on increased insurance risk without consistent mitigation by health plans.
- Provider consolidations and alignments are taking place without adequate analysis of the potential benefits and cost implications.

Providers Are Taking On Increased Insurance Risk Without Consistent Mitigation By Health Plans

ADJUSTMENTS PRESENT IN 2012 RISK CONTRACTS				
	BCBS	HPHC	THP	CMS (P-ACO)
Health Status	Yes	Sometimes	Sometimes	No
Mandated Benefits	Sometimes	No	No	Yes
Unit Price	Sometimes	No	No	n/a

Approaches to Mitigate Providers Exposure to Extraordinary Individual and/or Aggregate Claims Experience Are Inconsistent

- Claims truncation
- Individual Stop Loss Insurance
- Aggregate Stop Loss Insurance

The Impact of Provider Alignments Should Be Measured and Monitored

- Providers serve patient populations that vary by health status and size:
  - 2011 health status scores of provider systems with the least healthy populations were more than twice that of provider systems with the healthiest populations.
  - Acton Medical Associates manages roughly 6,100 risk lives under three commercial risk contracts.
  - Larger systems manage more than 50,000 risk lives under individual risk contracts.
- Potential benefits of provider alignments should be balanced against concerns of increasing market leverage and reducing consumer options.

4. The Commonwealth

- The Commonwealth must work with purchasers, health plans and providers to promote a value-based health care market.
- We should support and participate in efforts to improve the health care delivery system.
- We can help address some of the tensions that result from the interaction between purchaser, health plan and provider decisions on market developments.

Health Policy Commission

- Through provider registration and cost and market impact reviews, HPC should require the disclosure of information that can support other key regulatory functions and help market participants develop best practices.
- Such information includes:
  - Detailed information about provider operations and finances
  - The impact of proposed changes in contract prices as a result of proposed provider alignments on health care costs
  - Changes in referral patterns over time

Center for Health Information and Analysis

- CHIA should regularly gather, analyze and report on metrics that track the effects of product designs and payment arrangements on cost and quality.
- These metrics include:
  - Non-claims based payments by category
  - Health status scores using a standard, industry accepted tool
  - TME by local practice group, product line and market segment
- In developing and maintaining the payer and provider database, CHIA should gather, report and analyze data in a format and level of specificity that enables market participants to adequately analyze the data.

Division of Insurance

- DOI should develop minimum standards to protect risk-bearing providers from excessive insurance risk.
- Such minimum standards may include:
  - A consistent approach to adjusting for changes in health status
  - Claims truncation thresholds per percentage of revenue at risk
- DOI and CHIA should require regular reporting of information sufficient to monitor trends in membership, premiums, health status, product design and payment methodology across market segments to track cost and market changes over time.

Office of the Attorney General Examination

- We look forward to working with HPC in preparation for the upcoming October 2013 Cost Trends Hearings.
- We will continue to collaborate with HPC, CHIA and DOI as they move forward to meet the significant responsibilities they have been delegated by the Legislature.

Thank you