Massachusetts Taxpayers Foundation

TESTIMONY OF EILEEN MCANNENY, PRESIDENT OF THE MASSACHUSETTS TAXPAYERS FOUNDATION, BEFORE THE HEALTH POLICY COMMISSION REGARDING THE HEALTH CARE COST BENCHMARK

March 8, 2017

Good Afternoon and thank you for the opportunity to offer comments with respect to the health care cost benchmark. I am Eileen McAnneny, President of the Massachusetts Taxpayers Foundation. The Foundation's mission is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well-being of the Commonwealth.

It is with that mission in mind that I urge you to allow the 3.1% health care cost benchmark as outlined in Chapter 224 to take effect. There are numerous compelling reasons for the state to aggressively control the cost of health care, but let me highlight five of them:

1. **The cost of health care has dramatically impacted state finances.**

The cost of health care for state workers and retirees, for MassHealth enrollees, for Connector products and other health care purchased or subsidized by the state each year rises at a rate that is higher than general inflation and in recent years at a rate that is higher than the growth in tax revenues. As the chart included in my written testimony indicates, state tax revenue has grown by $5.8 billion over the past decade, while healthcare costs have increased by almost $7.8 billion. While it is important to acknowledge that the growth in health care costs reflect enrollment expansions in both the GIC and MassHealth and not simply unit costs increases; the fiscal challenge posed by the state's growing health care obligations are no less real.

This leaves fewer tax dollars available for other critical public needs such as infrastructure, education and public safety. We have to understand that the growth in health care costs come at a significant price in the form of reduction of other vital state services.

Finding ways to reduce this growth in health care costs is a primary policy focus of the Governor's FY18 budget and indicates the Baker Administration's recognition that we must right size health care costs in order to have sufficient financial resources for other spending areas.

2. **A primary purpose of Ch. 224 and a critical component of the Massachusetts landmark reform was to reduce costs.**

When healthcare reform was being debated, all stakeholders agreed that there were three critical components of healthcare that must be addressed – access, quality and cost. Chapter 58 made great strides in providing universal access to insurance coverage and there have been ongoing efforts to improve the top-notch quality of care delivered by Massachusetts' providers. The unfinished work of the 2006 reforms is in the area of cost. Without sufficient progress on this element, we threaten to unravel the successes we have achieved.

3. **The uncertainty in Washington makes the need to reduce costs even more compelling.**

While no one can say for sure what will happen with respect to the ACA or Medicaid, the state must prepare for a reduction in federal financial support of Medicaid. As a Commonwealth, we will have to figure out how to deliver health care services for less money. Massachusetts should be better positioned than most states to do so, as we have spent more than a decade analyzing and piloting how best to lower healthcare costs. But the state no longer has the luxury of time in fixing our health care cost problem, as federal changes are imminent.

Adhering to the statutory cost benchmark seems like a modest step in recognition of that new impending reality.

4. **The Health Policy Commission (HPC) was the entity established to oversee the state's cost reduction efforts and you must take the lead in those efforts.**

As you know and appreciate, the overarching purpose of Chapter 224 was to reduce healthcare costs through increased transparency, efficiency and innovation and the HPC was the entity that was formed to oversee and coordinate stakeholders' collective efforts. The statutory framework envisioned a ramping up of those efforts by tying the cost benchmark to the potential gross state product initially and then a more aggressive target over time. It is important that you demonstrate the ongoing need to make progress by adhering to these statutory requirements.

5. **The benchmark is aspirational.**

There are no penalties or consequences for failing to meet the annual health care cost benchmark, therefore, we should aim high. It is also important to note that at issue is not an actual reduction in overall healthcare spending, making this effectively an exercise in aligning healthcare cost growth more closely with the growth in CPI or general inflation.

For this and the other aforementioned reasons, I respectfully urge the Commission to allow the statutory benchmark to take effect. Thank you for the opportunity to offer comments and I would be happy to answer any questions.