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HPC Cost Growth Trend Hearing Testimony of Dianne J. Anderson, President & CEO, Lawrence General Hospital

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Thank you Chairman Altman, Executive Director Seltz, HPC Commission members and HPC staff. The groundbreaking work you do for the Commonwealth is appreciated very much, particularly in our region.

Lawrence General Hospital is a growing regional medical center, with top notch medical, surgical and trauma capabilities, a new surgical building, and an emergency department that sees 70,000 patients a year from all over the Merrimack Valley. We are a high value, high quality organization and have succeeded in attracting more patients, thereby keeping care local at a much lower cost than Boston.

Our most significant challenges include very low relative rates of payment from commercial payors, very high exposure to Medicaid for which we are now at risk, and competition from far more well-resourced providers in the State for staff, physicians, and patients. That said, we have a proven strategy for success, evidenced by our growth in key services and programs and seeing a 4.3% increase in volume in 2017.

I am grateful to have an opportunity to testify today, and want to thank the HPC for inviting me, because there is no other more sensitive issue for us than this cost growth benchmark.

While the overarching philosophy of the cost growth benchmark is a brilliant policy initiative in the Commonwealth, it has not played out well for us.

Because payors use the cost growth benchmark as a leading rationale for very modest rate increases in negotiations with woefully underpaid independent community hospitals, regardless of whether we negotiate through a larger enterprise like BIDCO, or independently.

This was not the intention of the cost growth benchmark. If all of the health plans in Massachusetts were to pay us and all of the other providers who are paid less than 90% of the average relative price, at that level, it could be done within the current cost growth benchmark AND leave plenty of headroom for other cost growth.

My colleagues and I are focused on unwarranted price variation, and believe strongly that without legislative intervention we will never catch up to any rate that approximates near average relative price.

If we were paid a 3.1% increase year over year, even if other providers in the Commonwealth received increases of half that, we would never get to average relative hospital price in our lifetimes.

And, it is not only hospitals like Lawrence General Hospital that have looked ahead and estimated that we will never catch up. The HPC, in 2015, performed this calculation. In the HPC's 2015 Cost Trends Report in a section called "unwarranted price variation is unlikely to diminish over time absent direct policy action to address the issue....

The HPC said, "the HPC modeled the time it would take for the lowest-priced hospitals to reach the price level of the 75th percentile, with an assumption of annual 3.6% price increases, and it would take 16-19 years for some hospitals – definitely Lawrence General Hospital- to reach the prices of the 75th percentile in the three major payers' networks".

While establishing an acceptable cost trend is a laudable policy, it has had unintended, negative consequences.

In fact, from 2015 to 2016 Lawrence General went from 5th lowest paid hospital out of 63 hospitals, to 3rd lowest. I would encourage the HPC to send a policy signal to payors that the cost growth benchmark is an aggregate growth benchmark, never intended to lock providers with less market clout in the basement on rates.

The communities we serve need access to the same services and quality of care, and we have proven to be a valuable regional medical centers whose community care is second to none.

The HPC Board indicated its interest in evaluating certain factors relative to the benchmark, including overall health system performance, changes in the federal landscape and enrollment impacts.

There is no other bell weather for the impact of these market dynamics than Lawrence General. We are significantly exposed to State and Federal funding, and believe that the Commonwealth has done all it can to negotiate the best deal possible with the current Medicaid Waiver. We are independent and competing in a health care system of haves and have nots, and we are succeeding against these odds.

I would encourage the HPC Board to include in their recommendations concerning the cost growth benchmark a policy directive that signals that the cost growth benchmark is not, by any measure, intended to be used to hold back those rates of providers who have been perpetually underpaid.

Imagine how much more volume and success we could model for the Massachusetts health care system if policy making bolstered providers like us. Thank you for your thoughtful consideration of signaling to the payors that the cost growth trend you set is not intended to be used as a high bar for rate increases for providers who are paid so much less than other providers.