MAHP
MASSACHUSETTS ASSOCIATION of HEALTH PLANS

March 31, 2018

David Seltz, Executive Director
Health Policy Commission
50 Milk Street, 8th Floor
Boston, MA 02109

re: Health Policy Commission's Potential Modification Hearing on the 2019 Health Care Cost Growth Benchmark

Dear Director Seltz:

On behalf of the Massachusetts Association of Health Plans (MAHP), which represents 16 health plans that provide coverage to approximately 2.6 million Massachusetts residents, I am writing in response to the Health Policy Commission's Potential Modification Hearing on the 2019 Health Care Cost Growth Benchmark. We appreciate the Commission engaging with stakeholders to seek input and the opportunity to offer our comments.

As the Centers for Health Information Analysis (CHIA) recent *Annual Health Care Cost Trends* report noted, Massachusetts health care costs are continuing to grow although at a slower pace. For the years between 2015 and 2016, the total health care expenditure (THCE) grew at 2.8% which is below the 2015 final THCE of 4.8% and the 2018 cost growth benchmark of 3.6%. Yet, even as the State health care spending has grown, the rate of spending has slowed as result of the benchmark. According to initial findings presented at the Cost Trends Hearing, Massachusetts health care spending grew at the 4th lowest rate in the country from 2009 to 2014 from 3.14% to 2.32%. Preliminary findings from the *2017 HPC Cost Trends Report (CTR)* show that the state would have spent an additional $5.9B in commercial health care spending if we maintained the national rate of spending.

While the growth in Massachusetts health care spending has been lower than the increase in national health care expenditures, rising health care costs remain a significant challenge for individuals, families, employers and the Commonwealth and potential changes at the Federal level make it essential for the health care system to focus on containing health care costs. **To that end, we strongly encourage the Commission to keep the 2019 Health Care Cost Growth Benchmark at 3.1 percent.**

Our member health plans are continuing ongoing efforts to contain costs and bend the cost curve to improve the quality and affordability of health care. Among the initiatives that they have undertaken:

- Care management programs to ensure that care is coordinated for individuals with acute, chronic and complex health issues;
- Measures to integrate medical and behavioral health case management to help individuals struggling with addiction;
- Developing wellness programs with employers to help improve the health of their workforce;
- Support for providers as they move to alternative payment methods; and
- Engaging in value based contracts as one of several tools to deal with rising drug costs.

We want to thank the Commission and its Board for continuing its important work to shine a bright light on the factors that drive health care costs. These factors include:

- The persistent increases in the prices that doctors, hospitals and other providers charge,
- Coupled with care largely being delivered by high-cost providers in high-cost settings, and
- The excessive prices that the pharmaceutical industry is charging for specialty, brand-name and generic drugs

All of which will continue to threaten the cost growth benchmark, even at 3.1%.

While we support keeping the benchmark at 3.1%, we recognize that more needs to be done across the system to contain health care costs for employers and consumers. As the Commission monitors performance against the benchmark and sets priorities for addressing costs, we ask that the Commission consider the following factors in determining performance against the benchmark and setting priorties for the coming year.

Prescription Drug Prices

While breakthrough medications offer tremendous clinical benefits for patients, the prices charged for prescription drugs is a major threat to keeping health care affordable for Massachusetts employers and consumers. Various reports have documented that exorbitant increases in prescription drug prices have been a major factor for rising health care spending and, as the Attorney General's examination on specialty drugs noted, "Even after accounting for all discounts and rebates, growth in the health plans' spending on prescription drugs has significantly outpaced overall health care spending growth." The state therefore must undertake efforts to hold pharmaceutical manufacturers accountable for the prices that they charge.

In the *2017 Annual Report of the Massachusetts Health System,* prescription drug spending comprised 6.4% ($9.2B) of the $59B Total Health Care Expenditure (THCE) for 2016. Along with outpatient hospital spending, prescription drug spending was the largest cost driver for the increase in THCE from 2015 to 2016. As part of the 2017 Health Care Cost Trends hearings, the Commission noted that payer payments for prescription drugs increased by 6.4% from 2015 to 2016 and even with rebates the increase in prescription drugs would have reduced the increase to 6.1%. These increases are almost double the rate of inflation.

The growth in prescription drug costs is not unique to Massachusetts and is broadly consistent with national trends. Recent data from the National Health Expenditure (NHE) Centers for Medicare and Medicaid Services (CMS) indicate that prescription drug spending will increase by 4.4% for 2018 compared to 2.8% in 2017. The country is expected to spend roughly $360 billion this year on prescription drugs. By 2026, CMS predicts the U.S to spend more than $600 billion a year on prescription drugs, accounting for a little more than 10 percent of the nation's health expenditures. As the Commission considers performance against the benchmark, it would be important for pharmaceutical manufacturers to justify their price increases. Health plans and providers have been accountable to meeting the state's cost benchmark, but increases in prescription drug prices will threaten the ability for the state to meet the cost benchmark. As part of its annual health care cost trends hearings, pharmaceutical and biotech companies and pharmaceutical benefit managers (PBM) should be required to submit data to the Health Policy Commission and to be called as witnesses to present testimony under oath. Requiring drug manufacturers to be part of the annual hearings would be an important step to understanding the impact pharmaceutical pricing plays on the statewide cost benchmark, whether the costs associated with these therapies offer value in comparison to other therapies and treatments, and if they are improving patient care. At the same time, the statute already allows for the Commission to call any witness identified by the Attorney General or CHIA.[1] We recognize that the Commission has invited representatives from individual pharmaceutical manufacturers to testify at the hearings in recent years and would urge that the Commission consider issuing a list of entities that have declined or not responded to the invitation in future years.

Addressing Provider Prices and Care in High Cost Settings

Over the past eight years, more than two dozen state reports have examined the health care costs and cost drivers in the Commonwealth. Report after report has found that provider prices remain the most significant factor driving health care costs and have found wide variation in prices that are not correlated to quality. The wave of mergers, acquisitions and affiliations among hospitals, physicians and other providers will reshape the health care system for years to come. The Medicare Payment Advisory Commission (MEDPAC) recently found that, horizontal hospital consolidation leads to higher inpatient prices. [2] Further, recent research notes that hospital consolidation has few positive effects and " [T]he literature fails to find strong evidence that financial consolidation consistently leads to lower costs or higher quality."[3]

As the Commission's January 2018 presentation noted, the HPC has received 90 material changes of notices, with 42 percent of these transactions involving physician group acquisitions or contracting affiliations, increasing market concentration for physician services. The vast majority of material notice changes have been approved with only 6 undergoing a full cost and market impact review. We appreciate the Commission's efforts to monitor whether the affiliations, acquisitions and mergers that have been approved have actually resulted in lower costs and better care for consumers and employers.

[1] M.G.L. c. 6D§8(d)(xi)

[2] Medicare Payment Advisory Commission (MedPAC), Report to the Congress: Medicare and the Health Care Delivery System, Chapter 10: Provider Consolidation: The Role of Medicare Policy, at 299 (June 2017)

[3] *Ibid at 290*

As the Commission considers performance against the benchmark, it would be important to pay special attention to these transactions, including how the actual results align with the anticipated benefits providers articulated in their material change notices, whether they have leveraged higher prices as a result of these transactions, and what impact the concentration of institutions are having on the state's ability to meet the benchmark. The HPC should also consider other factors when examining the benchmark. This includes utilization growth, which could be due to service and provider mix changes, the acuity of a patient's disease, and the general availability of new technologies which all contribute to increased utilization. Another factor that affects the ability to meet the benchmark includes provider cost structure. One area of information the state does not have a lot of is provider efficiency and cost structure. This could help understand if a provider is truly underpaid or if they have high cost structures that affect their margins.

Health care stakeholders raised concerns during the hearing that health plans are using the Cost Growth Benchmark as a proxy for contracting, limiting rate increases to the benchmark.

Health plans today are also subject to the Cost Growth Benchmark as well as aggressive rate review by the Division of Insurance. Price disparity is well documented in our marketplace and MAHP has continuously advocated for tools to rein in our highest paid providers. Health plans cannot solve the rate disparity issues of our lowest paid providers without additional regulatory tools to address those providers at the top. Without these tools to effectively constrain growth at the top, simply increasing rates for the lower paid providers will increase total costs, jeopardize our ability to meet the benchmark and make it difficult to meet the expectations of the DOI.

In considering measures to address provider price variation, MAHP and members of the business community have articulated a series of principles that should be included in any proposal seeking to constrain health care costs:

- Any effort to address price variation between low-and high paid hospitals must not increase health care spending for employers and consumers;
- Any adoption of a rate floor for providers must include a ceiling; and
- Any effort to address provider price variation must not jeopardize the state's cost growth benchmark.

These principles should help guide the HPC and others as they consider the issue of rate disparity, and how to assist our lowest paid providers.

Impact of Changes to the Affordable Care Act

The Affordable Care Act (ACA) has had a profound impact on expanding coverage for Massachusetts residents. While our state's health care reform law paved the way for national health care reform, changes to the ACA could have the potential to create an environment of extreme uncertainty and disrupt care and coverage for thousands of Massachusetts residents. The Commonwealth's ability to retain the gains in coverage realized under state and federal health reform will be contingent on the elements included in any ACA replacement proposals. This was reflected when the State used its own funds to fund the 2018 Cost Sharing Reduction (CSR) when the Trump administration declined to provide these funds. While some modifying the benchmark out of concern over the impact those federal changes may have on the state, the uncertainty of potential changes makes it more important than ever for stakeholders to redouble their efforts to contain health care costs and keep the benchmark at 3.1%. Yet, we urge to Commission to recognize the uncertainty any Federal health changes has on the Commonwealth and how that may impact the ability of the Commonwealth to meet the benchmark.

We appreciate the opportunity to offer comments as the Health Policy Commission considers the 2019 Health Care Cost Growth Benchmark. Please feel free to contact me directly should you have any questions or need additional information on our comments.

Sincerely,

Lora Pellegrini
President & CEO

cc:
Stuart Altman, Ph.D., Chairman, Health Policy Commission
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