Massachusetts Taxpayers Foundation

TESTIMONY PROVIDED TO THE HEALTH POLICY COMMISSION REGARDING THE ANNUAL HEALTH COST BENCHMARK

March 28, 2018

Thank you for the opportunity to submit written comments concerning the health care cost benchmark for 2019. I am Eileen McAnneny, President of the Massachusetts Taxpayers Foundation. The Foundation's mission is to provide accurate, unbiased research and balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well-being of the Commonwealth.

Limiting health care cost growth in Massachusetts is central to the state's long-term economic and fiscal well-being, clearly aligned with the Foundation's mission, and therefore, a top priority for us. The Foundation strongly urges the Commission to maintain for the upcoming year the 3.1 percent health care cost benchmark currently in effect and encourage providers and payers to do more to reduce overall healthcare costs and reward those who do.

1. The continuously rising cost of health care has major budgetary impacts for the state.

The Foundation has consistently identified health care cost growth as the single biggest budgetary challenge the state faces. Since fiscal year 2012, the average annual increase in MassHealth spending has been $835 million, with spending growth exceeding 10 percent in three of the last seven years. While some of this cost is certainly due to an expansion of eligibility in the MassHealth program, the unit cost of care is also a significant cost driver. Managing the growth in unit cost becomes even more important as the number of enrollees in the MassHealth program approaches 28% of the state's population and revamping benefits has proven politically difficult.

The inability to control MassHealth cost growth and other health care spending has impinged the state's ability to invest in other vital spending priorities. For example, state spending on early education and care has grown by just $14 million over this same time period. Higher education has fared little better, with annual increases for state higher education campuses growing, on average, by $32 million. While the same holds true for other budget priorities, these examples are particularly telling because we know that ensuring families have access to quality childcare and affordable education can be equally important determinants of a person's long-term health and well-being. Controlling MassHealth costs is the primary way for enabling the state to make other investments that we know will reap the largest long-term rewards. While the new MassHealth Accountable Care Organization model holds promise as an innovative way to improve care and reduce cost, more should be done to drive down the cost of providing health care.

2. **Private health insurance cost increases consume a larger percentage of discretionary spending and crowd out spending in other areas.**

We have included a chart at the end of our testimony which shows that the cost of medical services, particularly hospital services, have risen over the past two decades at a rate that far surpasses other consumer spending.

The rising cost of healthcare has captured the attention of Wall Street, as financial firms worry about the drag it has on other aspects of the economy. In fact, Amazon, JP Morgan and Berkshire Hathaway, frustrated with the state of the nation's health care system and the rapidly spiraling cost of medical treatment, are forming an independent health care company to address the cost of care for their respective workforces.

In Massachusetts, the effects of rising health care costs are even more acute. According to the Kaiser Family Foundation, employee premium contributions in Massachusetts for 2016 exceeded the national average by more than 25 percent and grew by five percent over the prior year. This rate of growth exceeds the inflationary rate and the average wage increase, meaning that more and more of individual's income is devoted to his/her portion of healthcare costs. Employers manage rising health care costs through benefit changes, lower wage increases, fewer capital investments or a lower profit margin – all of which have a profound impact on the greater economy. Over the next two years, employers will have to absorb more $200 million in the recently imposed health assessment, a misguided effort to offset healthcare cost increases in MassHealth.

3. **The benchmark must get more aggressive with time if we are ever to align health care costs with other consumer spending**.

Chapter 224 of 2012 devised the current health care cost benchmark to create a clear and meaningful standard against which we can measure cost control progress. To date, the results have been mixed. Total Health Care Expenditures (THCE) grew by 2.3 percent from 2012 to 2013; 4.2 percent from 2013 to 2014; by 4.1 percent from 2014 to 2015; and by 2.8 percent from 2015 to 2016.

The only way for this standard to serve its intended and essential purpose is to set a benchmark which asks the health care system to meet an aggressive, but achievable, goal. Last year, the Commission took an important first step in setting a more challenging benchmark by reducing the benchmark by 0.5 percentage points from potential gross state product. You should not retreat from this lower benchmark and in fact, the state should consider implementing a different benchmark based on actual inflation rather than expected economic growth in order to put a laser focus on cost. This more aggressive cost target may be necessary to create a greater sense of urgency.

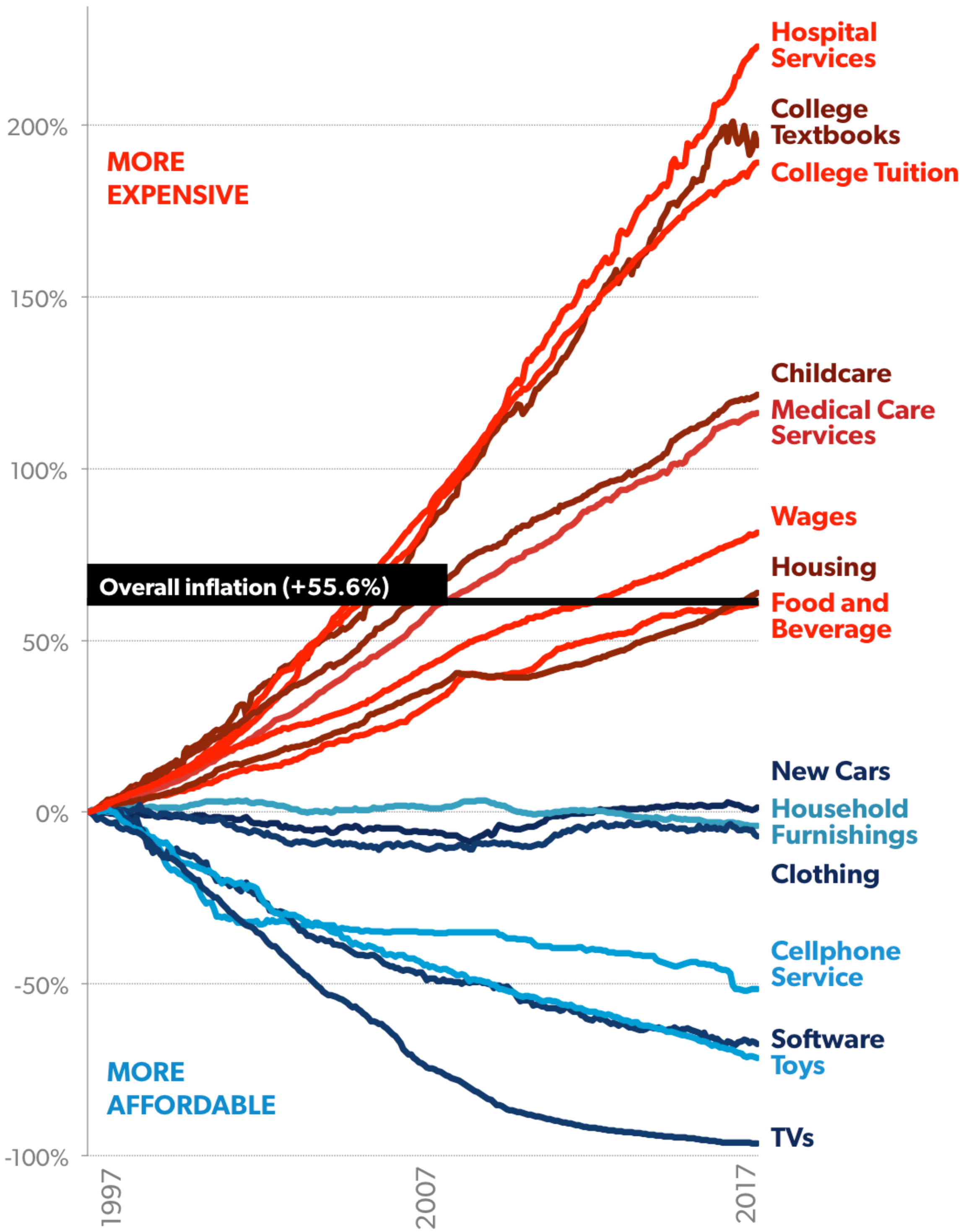
4. **The Health Policy Commission should reward innovation in health care and providers' effort to meaningfully reduce cost.**

The Baker administration has taken a different type of health care approach in its FY2019 budget that could reduce health care costs in meaningful but achievable ways. The Administration's budget shows the lowest level of MassHealth spending growth in almost a decade due to the success of ongoing program integrity efforts and an innovative proposal to achieve MassHealth savings, by shifting some program members to coverage through the Connector while maintaining benefits and cost protections. In addition, the Group Insurance Commission will achieve its cost growth benchmark of just 2 percent in FY 2019 by undertaking several farsighted reforms that will reduce member premiums for about half of its members. Both of these examples show that reducing cost growth is possible when clear goals are aligned with a shared focus and a willingness to innovate.

This session the Legislature is likely to pass health care reform legislation. The Foundation engaged with the Senate while it was developing its reform provisions and continues to be deeply engaged in this legislation as the House considers its version of reform. Our overarching message to both branches of the legislature is that cost containment and reduction must be the primary goal and all other provisions must be consistent with that effort. The Commonwealth has made great strides in both health care quality and access over the past decade, but cost control remains elusive. We strongly believe that the annual health care cost benchmark can be a major tool in achieving the state's cost goals. The benchmark should be maintained at 3.1 percent and providers should be encouraged to pursue even more aggressive and innovative cost reduction measures.

Price changes (Jan. 1997–Dec. 2017)

Selected US Consumer Goods and Services, and Wages



Source: BLS

Carpe Diem AEI