State Cost Containment Strategies

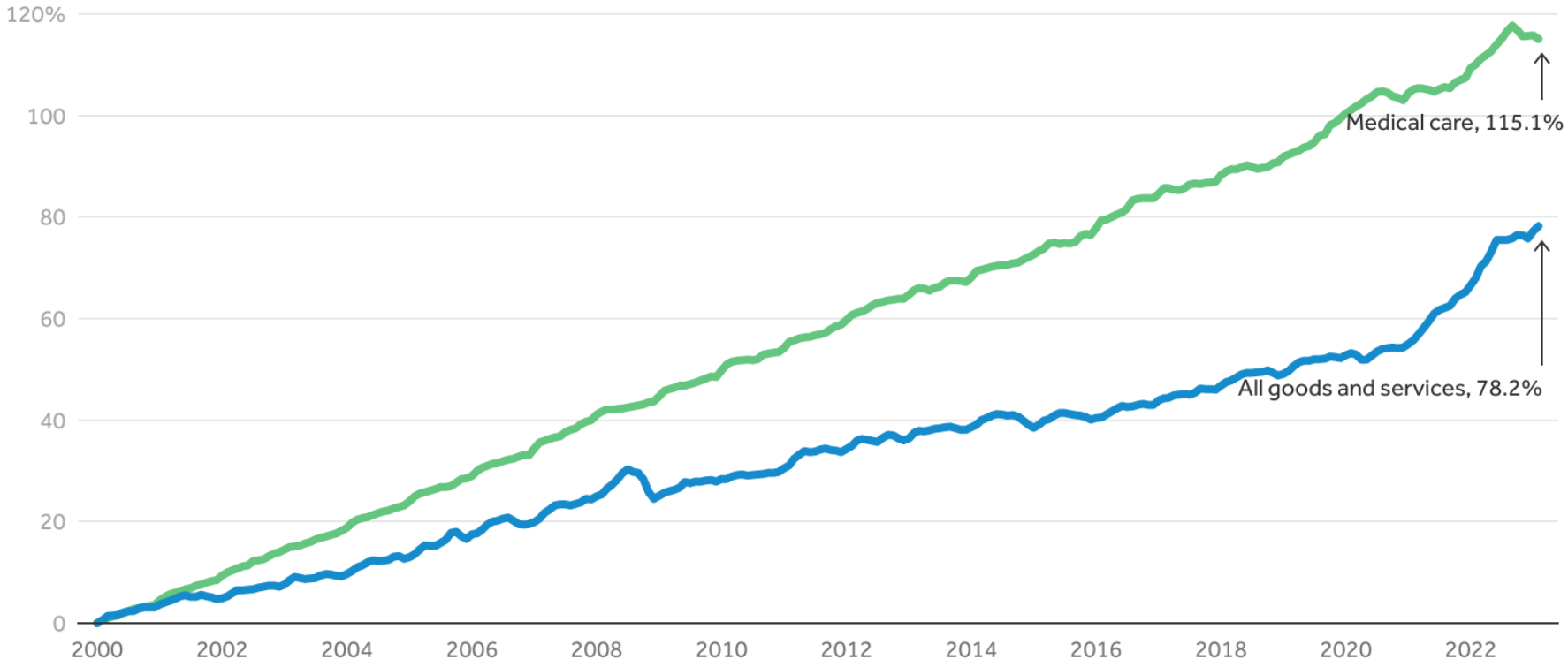
The State of Ohio's Health: 2023 Health Value Dashboard

January Angeles

bailit health

Health Care Costs Have Risen Much Faster than the Cost of Other Goods and Services

Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, January 2000 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

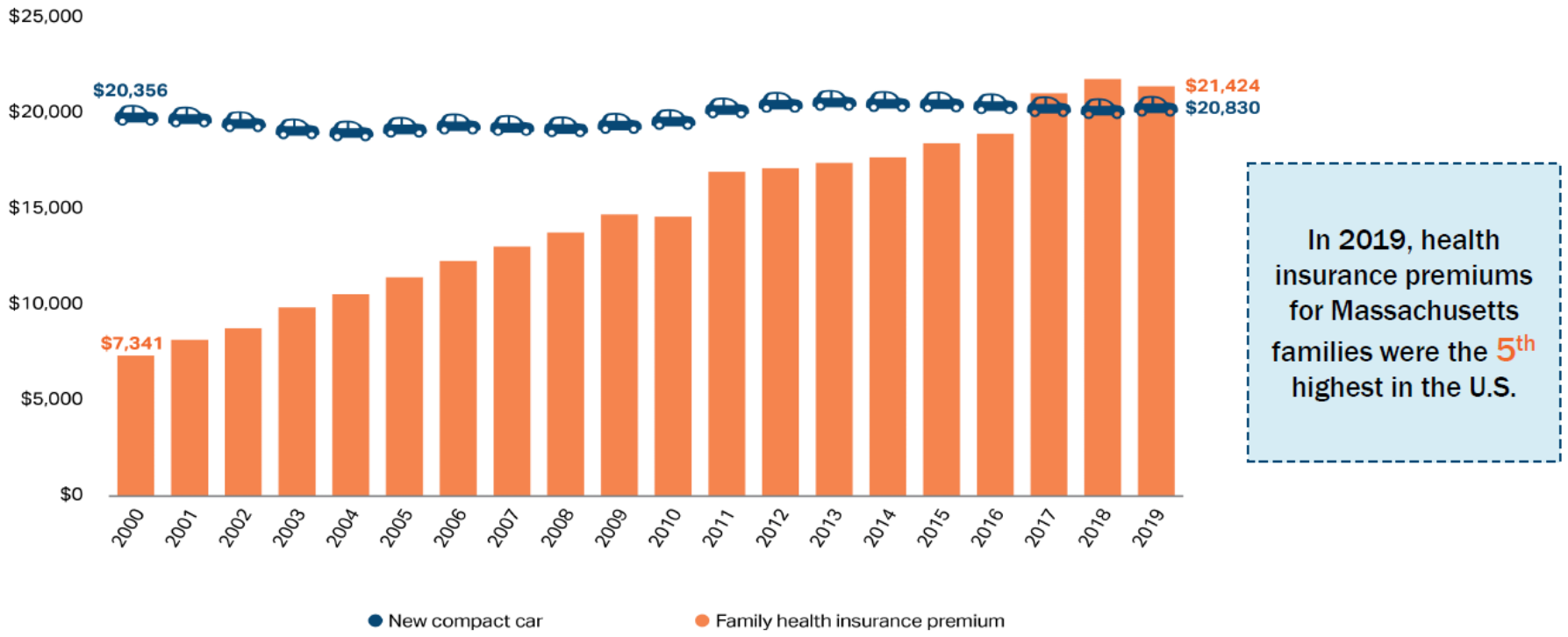
Peterson-KFF
Health System Tracker

Premiums for Family Health Insurance now Cost More than a New Compact Care

In 2000, premiums for family health insurance in Massachusetts were 1/3 the cost of a new compact car. Since 2017, premiums have been higher and continue to grow.

HPC

Average total cost for Massachusetts family health insurance premiums and national cost of a new compact car

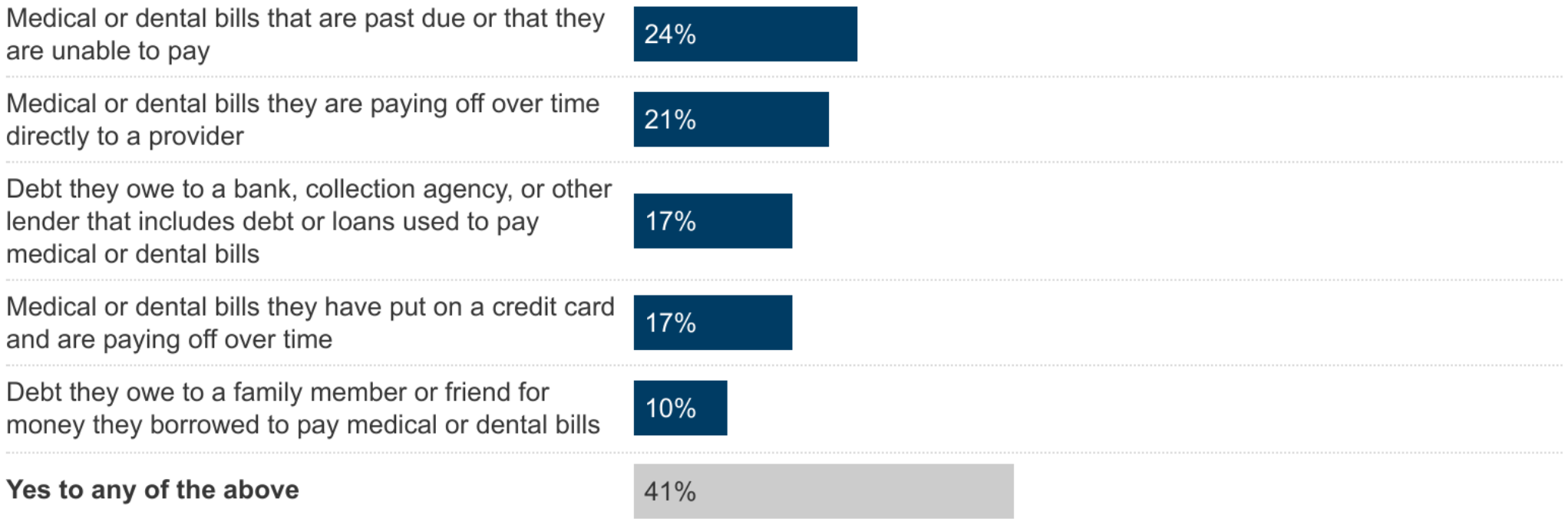


In 2019, health insurance premiums for Massachusetts families were the 5th highest in the U.S.

Notes. Data are in normal dollars of the year shown.
Sources: Family Health Insurance premiums are for Massachusetts from the Agency for Health Care Quality – Medical Expenditure Panel Survey, Insurance Component. Car cost information is based on car-specific inflation from the BLS and the compact car price index from Kelly Blue Book. https://www.prnewswire.com/news-releases/average-new-car-prices-up-nearly-4-percent-year-over-year-for-may-2019-according-to-kelley-blue-book-300860710.html

Four in Ten Adults Have Medical Debt

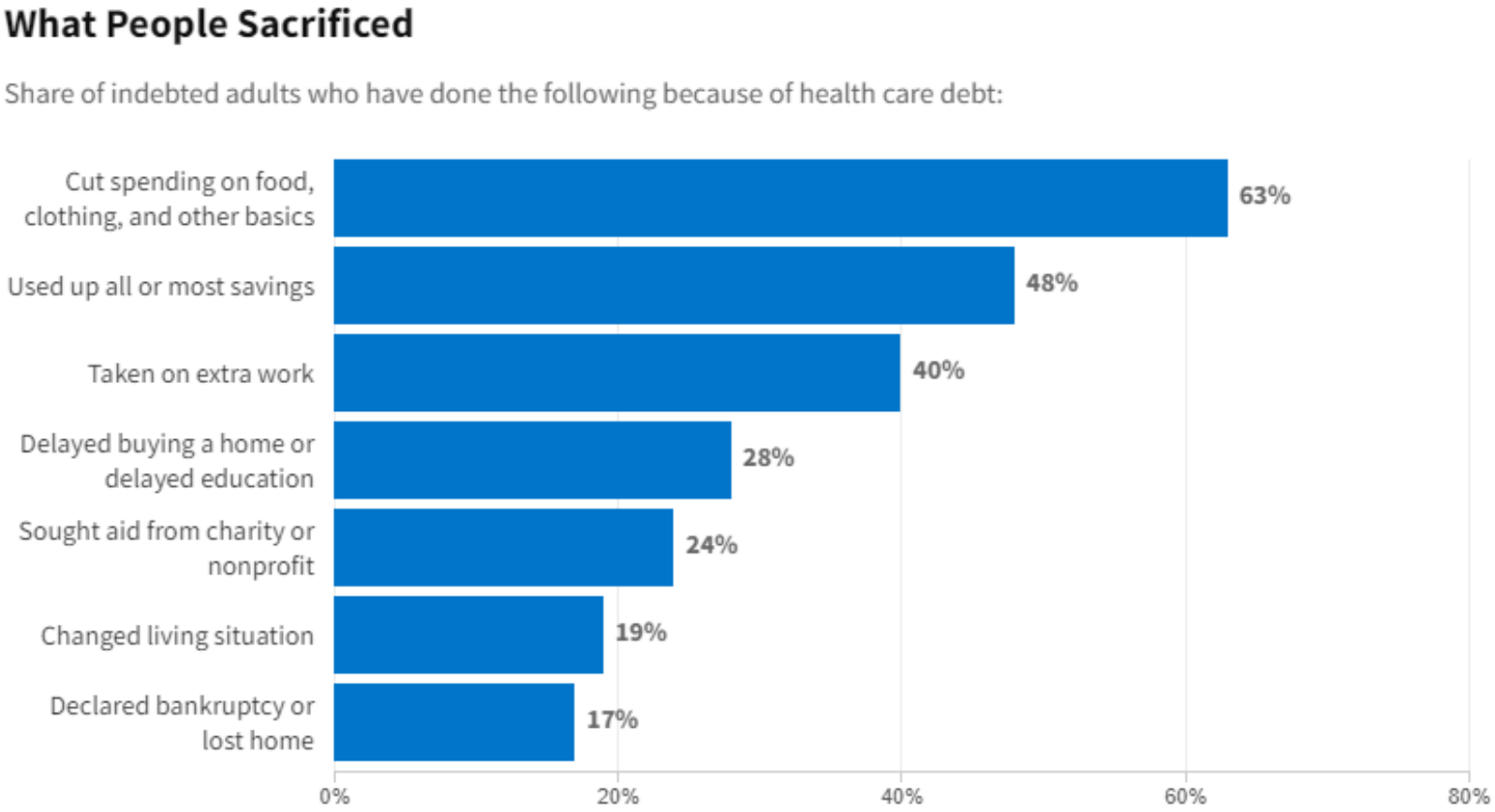
Percent who say they have each of the following types of debt due to medical or dental bills for themselves or for someone else's care, such as a child, spouse or parent:



NOTE: See topline for full question wording.
SOURCE: KFF Health Care Debt Survey (Feb. 25-Mar. 20, 2022)

KFF

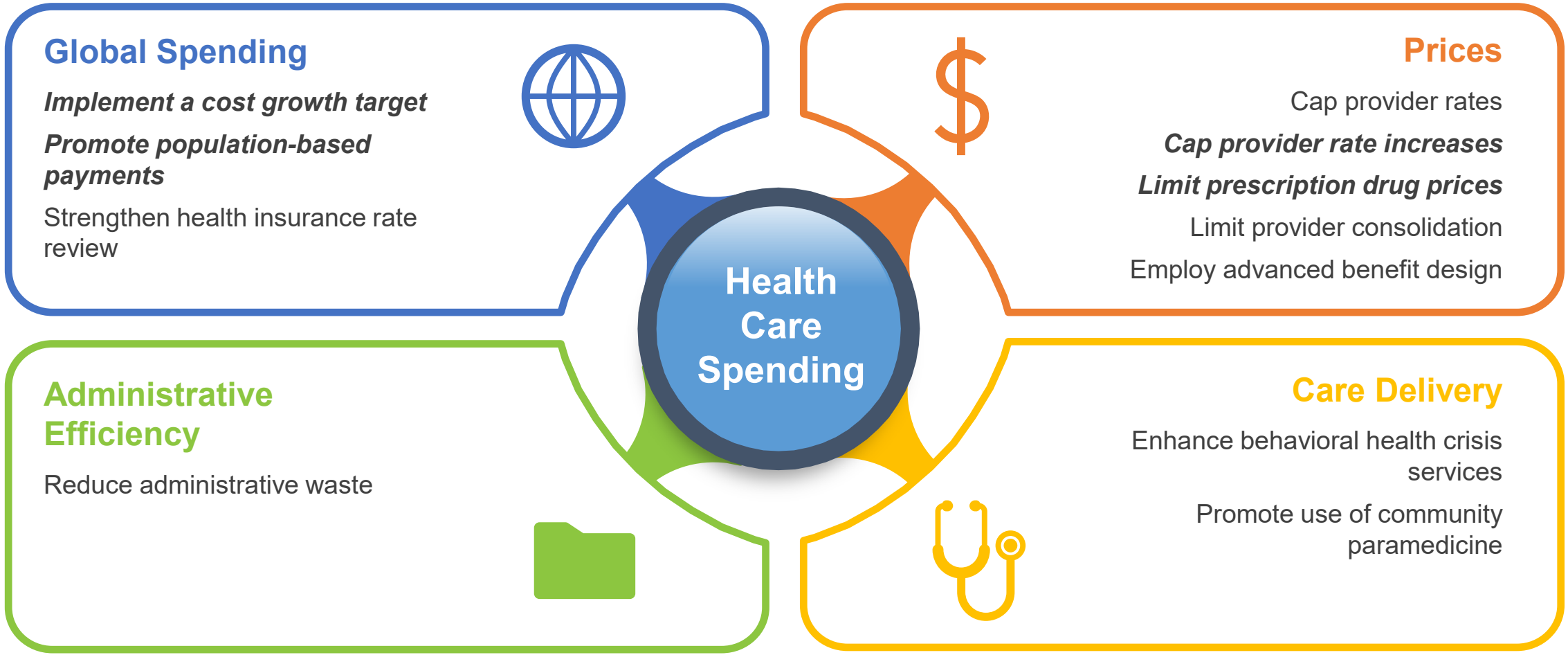
Individuals with Medial Debt Face Difficult Tradeoffs



Source: KFF Health Care Debt Survey of 2,375 U.S. adults, including 1,674 with current or past debt from medical or dental bills, conducted Feb. 25 through March 20. The margin of sampling error for the overall sample is 3 percentage points.

Credit: Daniel Wood/NPR and Noam N. Levey/KHN

State Strategies to Slow Health Care Cost Growth



Implementing a Health Care Cost Growth Target

- A health care cost growth target (sometimes referred to as benchmark) is an annual rate of growth target for a given state.
- Seven states (CT, DE, MA, OR, RI, WA, CA) have health care cost growth target programs.
  - The targets range from 2.8% to 6% and most go down over time.
  - They have typically been pegged to some indicator of consumer well-being.

The Logic Model for a Cost Growth Target

Measure

Measure performance relative to the cost growth target

Analyze

Analyze spending to understand cost trends and cost growth drivers

Report

Publish performance against the target and analysis of cost growth drivers

Identify

Identify opportunities and strategies to slow cost growth

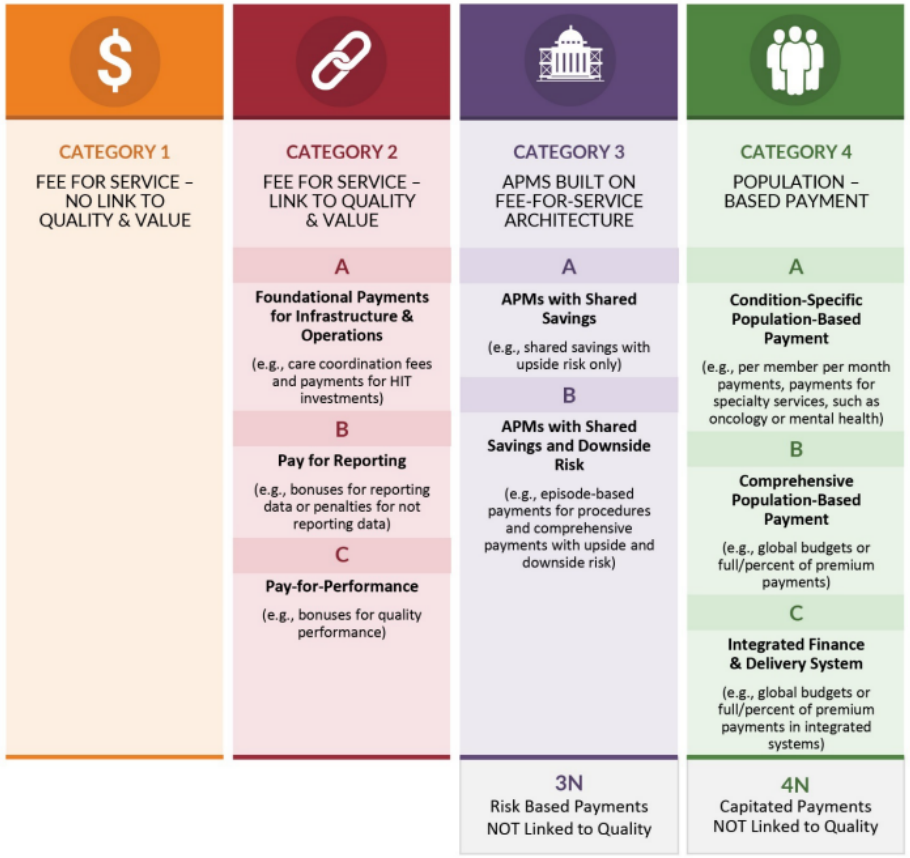
Implement

Implement strategies to slow cost growth

The Cost Growth Benchmark Impact in Massachusetts

- Alignment around a common goal.
- Increased provider willingness to participate in Accountable Care Organizations.
- Influence on contract negotiations.
- Greater transparency around who/what is contributing to high and rising health care costs.

Increasing Adoption of Advanced Value-Based Payment Models



- Value-based payment (VBP) models that reward providers based on achievement of quality goals and in some cases, cost savings.
- Advanced VBP models are those that move further away from the FFS architecture and increase incentives for improved outcomes and efficiency through the use shared savings/risk or capitation payments.

Oregon's VBP Strategy

- Oregon established a VBP compact, with 47 signatories, representing a voluntary commitment by payers and providers to advance VBP models.
- Oregon created a value-based payment workgroup to:
  - Identify paths to accelerate the adoption of VBP across the state
  - Highlight challenges and barriers to implementing and recommending policy change and solutions
  - Coordinate and align with other state VBP efforts
  - Monitor progress on achieving the compact's principles, including specific VBP adoption targets.

Rhode Island's Efforts to Design a Hospital Global Budget

Current Hospital Payment Model

- Hospitals are **paid per unit of service**.
- Hospitals are compelled to **deliver more services**, and **higher margin services**, to maintain financial viability.

Hospital Global Budget

- Hospitals receive a **budget** for **defined set of services** that is determined **prospectively**.
- Budgets are based on **anticipated utilization** during a specific time period.
- Budgets can be **modified from year to year** based on changes in market share and other factors.

Evidence for Cost Savings Is Limited

- The Alternative Quality Contract, Blue Cross Blue Shield of Massachusetts' ACO program, has been shown to improve quality and lead to savings.
- In Medicare's Shared Savings Program, physician-led ACOs achieved modest savings in total spending.
- Maryland's Hospital Global Budget was found to slow total hospital expenditures Medicare and commercial members.

Implementing Caps on Provider Rate Increases

- Price growth caps place an upper limit on how much an insurer can annually increase the price paid for a service.
  - They do not set prices.
  - Nor do they address already high prices.

- Price growth caps can be structured in a number of ways. For example:
  - Price growth caps can apply to overall prices, or they can be aimed at specific services.
  - The caps can vary based on baseline prices that providers charge, e.g., higher caps for lower paid providers, and lower caps for higher paid providers

Rhode Island and Delaware's Use of Rate Review to Cap Hospital Price Growth

- Rhode Island and Delaware have implemented hospital price growth caps, which limits price increases for inpatient and outpatient services.
  - Rhode Island limits hospital cost growth to inflation plus 1 percentage point.
  - Delaware limit is no more than 3% or core CPI plus 1 percentage point, whichever is greater. The limit is reduced for 2024 through 2026 to no more than 2% or core CPI plus 1 percentage point, whichever is greater.
- The cap in administered through Affordability Standards provisions of insurance rate reviews.

Impact of Price Growth Caps on Spending Growth

- A study of Rhode Island's Affordability Standards found a 2.7 percent decrease in total spending growth from 2010 to 2016.
- Utilization did not change significantly, suggesting that the decrease in spending was driven primarily by lower prices.

PRIVATE HEALTH INSURANCE

By Aaron Baum, Zirui Song, Bruce E. Landon, Russell S. Phillips, Asaf Bitton, and Sanjay Basu

Health Care Spending Slowed After Rhode Island Applied Affordability Standards To Commercial Insurers

ABSTRACT States are introducing regulations to slow health care spending growth, but which of these successfully reduce spending growth remains unclear. We studied Rhode Island's 2010 affordability standards, which imposed price controls—particularly inflation caps and diagnosis-based payments—on contracts between commercial insurers and hospitals and clinics and required commercial insurers to increase their spending on primary care and care coordination services. Using a difference-in-differences design, we compared spending among 38,001 commercially insured adults in Rhode Island to that among 38,001 matched adults in other states in the period 2007–16. Relative to quarterly fee-for-service (FFS) spending among the control group, quarterly FFS spending among the Rhode Island group decreased by $76 per enrollee after implementation of the policy, or a decline of 8.1 percent from 2009 spending. Quarterly non-FFS primary care coordination spending increased by $21 per enrollee. Total spending growth decreased, driven by lower prices concordant with the adoption of price controls. Quality measures were unaffected or improved. The Rhode Island experience indicates that states may be able to slow total commercial health care spending growth through price controls while maintaining quality.

Efforts to slow health care spending currently garner widespread interest.[1,2] With bipartisan support, states are experimenting with regulatory approaches to reducing spending growth, particularly in the commercial insurance sector. Regulatory approaches include price controls, such as inflation caps on annual contract renewals between commercial insurers and private hospitals and clinics, and investments in primary care that include hiring care managers and using electronic registries to proactively manage chronic diseases.[3,4] Whether these measures reduce spending growth remains unclear.

In 2010 Rhode Island's Office of the Health Insurance Commissioner implemented a set of affordability standards for all commercial insurers in the state.[5,6] The standards provide an important policy test of a bold, large-scale, multipayer reform coordinated by a state government to reduce the growth in commercial-sector health care spending. The standards introduced multiple requirements for all commercial insurers in the state (details are in online appendix exhibit A1).[5] Chief among them are price controls, including annual price inflation caps equal to the Medicare price index plus 1 percentage point for both inpatient and outpatient services; transitioning of hospital payments from per diem to value-based payments and those based on diagnosis-related groups (DRGs), which pay a fixed fee for a given type of diagnosis and inpatient stay; and increasing

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Limiting Prescription Drug Price Increases

- Some states have tried to introduce legislation to address prescription drug prices.
- The scope and focus of prescription drug pricing legislation vary:
  - Some aim to increase drug pricing transparency through reporting and notification requirements.
  - Some institute some form of price control, including through fines for unsupported price increases, benchmarking of drug prices, and establishment of drug price affordability review boards to have a more active role in setting drug prices in the state.

Examples of Prescription Drug Price Control Legislation

- The Connecticut and Massachusetts governors previously introduced similar legislative proposals to impose financial penalties on drug manufacturers for excessive price increases.
  - The benchmark for drug price increases is set at the rate of increase in the CPI plus 2%.
  - The penalty would equal 80% of the amount by which the drug's price exceeds the benchmark.
- Hawaii, Maine and Washington introduced bills to impose a penalty on manufacturers of drugs with "unsupported" price increases, as identified by the Institute for Clinical and Economic Review.

Potential for Savings from Efforts to Address Pharmaceutical Pricing

- States are trying a number of different strategies to address prescription drug costs, but efforts are still nascent and we don't yet have evidence of cost-savings.
- Still, several analyses show that pharmaceutical spending is a large and growing component of spending, particularly in the commercial market.

In Summary…

- There are several strategies a state can take to contain health care spending.
- Strategies that offer the greatest promise are those that address prices, and areas of spending that data show are high and rising fast.
- There is no magic bullet, and truly addressing health care costs will take significant commitment from all health care stakeholders.

A Closing Thought

"When you choose an action, you choose the consequences of that action. When you desire a consequence you had damned well better take the action that would create it."

- Lois McMaster Bujold, *Memory*