



# Addressing Spending Trends in Massachusetts

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# Valuable Massachusetts Data and Analysis from DHCFP and AG

- Richer than national data
- Shows price to be a key factor in recent trend
- Utilization contributes to trend as well
- Large variation in prices across providers
  - Reflection of market leverage



# What Drives Provider Prices? (1)

- Absence of demand-side restraints
  - Extensive third-party payment
  - Purchaser demands for broad choice of providers
    - Limited interest in narrower networks where offered
    - “Must-have” providers face little risk of network exclusion
  - Benefit structures provide few patient incentives to choose low-priced providers
    - Little use of tiering for hospitals/physicians
      - GIC a pioneer in this approach
      - Promising initiative from BCBSMA



# What Drives Provider Prices? (2)

- Supply-side issues can be important
  - Degree of excess capacity
  - Degree of provider consolidation
  - Extent of hospital employment/alignment of physicians



# Recent National Trend of Growing Provider Leverage

- Trends in supply-side factors increasing market power
  - Greater hospital employment of physicians
  - Increasing consolidation and tighter capacity
  - Medicaid cuts lead to providers increasing use of their leverage to shift costs to private insurers



# Recent Trend of Growing Provider Leverage cont.

- MedPAC analysis of Medicare margins, overall margins, costs
  - Medicare fixed payments not constraining costs at strong hospitals



# Addressing Rising Prices

- Market and regulatory approaches
  - Not mutually exclusive
    - Regulation could incorporate market forces
  - History in U.S. is reluctance to pursue either
    - Exception is use of administered prices by public payers instead of passive methods to set prices



# The Market Approach

- Insurance benefit structures that incent provider choice
  - Example: Vary hospital copay or deductible according to provider chosen
  - Ultimate design is reference pricing
    - Patient pays the difference from low-cost provider





# Such Benefit Structures Rare

- CDHP designs include only limited provider-choice incentives
  - Large deductible does not impact inpatient care
  - Some incentives for outpatient tests/procedures
- Tax treatment of health insurance blunts incentives for such designs
- Tiered networks limited by data and by hospital resistance



# Role of Price Transparency in Market Approaches

- Under universal coverage, insurer is ideal data source for consumers
  - Focus on provider differences in cost to patients
  - Relevant only with incentives to choose low-cost providers



# Role of Price Transparency in Market Approaches cont.

- Unpredictable impact of government posting of negotiated prices
  - Potential constraint of dominant providers through public pressure
  - Potential for higher prices if providers know competitors' prices
    - Extensively documented in other industries



# The Regulatory Approach

- Rate setting applicable to private payers
  - Addresses provider leverage issues
  - Potential to lead reform of provider payment
    - Set payment methods for all to use
  - Opportunity for patient incentives to address remaining provider price differences



# Rate Setting Challenging to Do Well

- High degree of sophistication needed
  - Current contracting recognizes measured quality and utilization differences
- Governance structure is critical
  - Independence of Maryland Commission a key factor in its long-term success
- Unlikely to achieve large short-term gains in an industry with low margins



# Importance of Provider Payment Reform

- Service volume key component of spending trends
- Need for broader payment units covering multiple providers
  - More meaningful units to price
- Key to both market and regulatory approaches
- Massachusetts path to global payment



# Importance of Provider Payment Reform contd.

- Range of large and small steps for reform
  - New versions of capitation
    - BCBSMA Alternative Quality Contract
    - Accountable care organizations
  - Per-episode payment for selected episodes
  - Payment to medical homes
  - Incorporate post-acute care into hospital payment
  - Incentives to reduce hospital readmissions



# Observation from Interviews

- Theme of our Boston visit was focus on controlling costs
- Boston providers anticipating greater accountability for spending as well as quality
  - Efforts to increase efficiency already underway
  - Reports that AQC contracts spurring changes





# Leadership in Provider Payment Reform

- Private payer experimentation
- Potential for Medicare reform
- State development and prescription of payment methods
  - Seek Medicare waiver
- Potential for all-payer rate setting system to lead payment reform



# Conclusion

- Great deal at stake in slowing spending trends
- Price and quantity both deserve attention
- Reform of provider payment methods key to substantial “bending the curve”
- Market and regulatory elements can work together

