Policies to Slow the Growth of Medical Costs

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There is enormous activity along these lines.
The Need for Cost Reductions

With insurance coverage close to universal, attention necessarily turns to costs.

In MA, a series of acts, culminating in an ambitious cost control bill.
Massachusetts is the most expensive state; Rhode Island is 7th
Medical care is ruining the state budget - FY01 vs. FY14

Billions of dollars

Note: Figures all adjusted for GDP growth
Source: Massachusetts Budget and Policy Center
There is enormous waste in medical care

- Unnecessary services, 7%
- Failures of care delivery, 5%
- Failures of care coordination, 1%
- Excessive prices, 9%
- Administrative costs, 5%
- Fraud and abuse, 7%

66%
The Massachusetts Strategy

- Overall target on spending
  - Cost and Market Impact Review
  - Performance Improvement Plans

- Incentives for providers
  - Alternative payment methodologies
  - Malpractice reform
  - Information flows

- Incentives for patients
  - Information provision (cost and quality)
  - Choice of insurance plans (Connector)
Payment reform

- Move to alternative payment systems
- Primary care, specialty care, and fully integrated care

**Current Fee-for-Service Payment System**

- Hospital
- Specialist
- Primary Care
- Home Health

**Patient-Centered Global Payment System**

- Primary Care
- Hospital
- Specialist
- Home Health
# The Target

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Approximate magnitude</th>
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<tbody>
<tr>
<td>Premiums</td>
<td>8.0%</td>
</tr>
<tr>
<td>Forecast medical spending per capita</td>
<td>5.5% - 6.0%</td>
</tr>
<tr>
<td>Forecast GSP per capita</td>
<td>3.6%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

**Target:**

<table>
<thead>
<tr>
<th>Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-2017</td>
<td>Potential GSP</td>
</tr>
<tr>
<td>2018-2022</td>
<td>Potential GSP - .5%</td>
</tr>
<tr>
<td>2023-</td>
<td>Potential GSP</td>
</tr>
</tbody>
</table>
The target

- Per capita medical spending in the Commonwealth as a whole
- Includes all services that are measured inpatient, outpatient, pharma, post-acute
  - Excludes services not running through insurance.
- All payers (cost shift doesn't affect total)
- Sets a clear goal for contracting
Formalities

- Target is growth of potential Gross State Product (PGSP)
- Set by House and Senate budget committees and ratified by Health Policy Commission
- Performance is measured by Center for Health Information and Analysis
If the target is not met:

- CHIA makes determination about why target was not met
- Performance Improvement Plan (PIP) filed by identified organization and approved by Health Policy Commission (HPC)
- Penalties are minimal; real threat what subsequent steps would be taken
## Impact so far

<table>
<thead>
<tr>
<th>Metric</th>
<th>Grade</th>
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<tbody>
<tr>
<td>Costs relative to target</td>
<td>⬤</td>
</tr>
<tr>
<td>Increased use of APMs</td>
<td>⬤</td>
</tr>
<tr>
<td>Taking out clinical waste</td>
<td>⬤</td>
</tr>
<tr>
<td>Availability/use of appropriate data</td>
<td></td>
</tr>
<tr>
<td>- clinical</td>
<td>⬤</td>
</tr>
<tr>
<td>- individual/family</td>
<td>⬤</td>
</tr>
</tbody>
</table>
Health care spending growth has slowed
Growth of Alternative Payment Methods

**Figure 8.3:** Statewide use of APMs and projected growth under four scenarios
Percentage adoption of APMs across all payers, 2012 and 2013 (actual), 2016 (hypothetical)

<table>
<thead>
<tr>
<th>SCENARIOS</th>
<th>2012</th>
<th>2013</th>
<th>2016 (Hypothetical)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>29%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+7pp</td>
<td>+11pp</td>
<td>+2pp</td>
</tr>
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</table>

**SCENARIO DESCRIPTIONS**

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>HMO</th>
<th>PPO</th>
<th>ACO</th>
<th>Additive</th>
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</thead>
<tbody>
<tr>
<td>All payers expand APMs in HMOs to close 2/3 of gap between 2013 coverage and 90% (BCBS rate)</td>
<td>+7pp</td>
<td>+11pp</td>
<td>+2pp</td>
<td>+20pp</td>
</tr>
<tr>
<td>All payers expand APMs in PPOs to half of their projected HMO rate</td>
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<tr>
<td>MassHealth expands APMs (via ACO) to close 1/3 of gap between 2014 coverage and 100%</td>
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<td></td>
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<tr>
<td>HMO +PPO +ACO</td>
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</tbody>
</table>

**Note:** See Technical Appendix B8.

**Source:** Center for Health Information and Analysis 2014 Annual Report Alternative Payment Methods Data Book, 2013; Center for Health Information and Analysis 2013 Alternative Payment Methods Baseline Report Data Appendix, 2012; Centers for Medicare & Medicaid Services Shared Savings Program Performance Year 1 Results; Other Centers for Medicare & Medicaid Services data; MassHealth personal communication.
Material Change Notices Received

Figure 2.9: Frequency of provider alignment types for which the HPC received Material Change Notices
Number of transactions received April 2013 through December 2014

Physician Group Acquisition or Contracting Affiliation: 5
Acute Hospital Acquisition or Contracting Affiliation: 4
Clinical Affiliation: 3
Formation of Contracting Entity: 3
Change in Ownership or Merger of Owned Entities: 3
Acquisition of a Post-Acute Provider: 2
Affiliation between a Provider and Carrier: 1

NOTE: HPC received notice of 33 transactions, in total, between April 2013 and December 2014. Some transactions involve more than one type of provider alignment.
SOURCE: Material Change Notice Filings, Health Policy Commission