



Health Care Cost Drivers in Massachusetts:

Lessons for Federal Policymakers

FORUM SESSION
ANNOUNCEMENT

A DISCUSSION FEATURING:

Thomas O'Brien, JD

Assistant Attorney General

Health Care Division

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Commonwealth of Massachusetts

WITH RESPONDENTS:

Thomas "Tim" Greaney, JD

Chester A. Meyers Professor of Law

Co-Director

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St. Louis University School of Law

William J. Scanlon, PhD

Consultant

National Health Policy Forum

Former Commissioner

Medicare Payment Advisory Commission

MONDAY, JUNE 21, 2010

1:30PM–2:00PM—Refreshments

2:00PM–4:00PM—Discussion

LOCATION

Reserve Officers Association

One Constitution Avenue, NE

Congressional Hall of Honor

Fifth Floor

(Across from the Dirksen

Senate Office Building)

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The majority of Massachusetts residents—roughly 97 percent—are enrolled in a health insurance plan, in part due to a 2006 law expanding access to health insurance. With coverage nearly universal, the focus of the commonwealth’s policymakers has since turned to slowing health care spending growth. A recent high-profile challenge to proposed health insurance premium increases for small group and individual policies by the Office of the State Insurance Commissioner illustrates the tension building over rising health care spending.¹

In March 2010 the Massachusetts Attorney General’s office released *Examination of Health Care Cost Trends and Cost Drivers*,² which reports on its analyses of health care cost trends in the commonwealth from 2004 to 2008 and explores the key drivers of those trends. The report indicates that payments to health care providers varied widely among major insurers. For example, in 2008, the amounts paid by one insurer to its highest and lowest paid hospitals varied by 300 percent. Amounts paid by another insurer had a 240 percent spread. Physician group payments also varied widely: 130 percent for at least two insurers.

The report’s findings also indicate payment amounts were not correlated with quality, sickness of the patient population, numbers of low-income and Medicare patients treated (disproportionate share or DSH), hospital teaching status, or the actual cost of providing the services. Instead, payment amounts reflected market leverage. An insurer’s market leverage may be the result of the number of covered lives in an area. For providers, market leverage may be derived from the size of the practice or hospital, location, brand name, or services offered. In many cases, the “must have” providers secured higher payment amounts and gain market share, whereas providers with less clout receive lower payments.

Researchers and policymakers consider the report groundbreaking because it makes transparent the payment rates privately negotiated between insurers and hospitals and physician groups and because it exposes the lack of connection between higher provider payments and quality, illness severity, DSH status, teaching status and cost. Although other research has noted that dominant providers in a market command higher rates, the Massachusetts Attorney General’s report uses actual data from major insurers and arrays both hospital and physician group payment levels by insurer. While it would be tempting to declare that this is another case in which the rich get richer and the poor get poorer, the reality is more nuanced. This session will feature a briefing by the report’s authors and will

explore what the findings may mean for health care spending beyond Massachusetts.

SPEAKER

Thomas O'Brien, JD, is assistant attorney general and chief of the Health Care Division in the Office of Massachusetts Attorney General Martha Coakley. He and his staff authored the report, *Examination of Health Care Cost Trends and Cost Drivers*; he will present its findings, discuss local reaction to it (particularly from the provider community), and describe how the Massachusetts legislature and others are translating the findings into next steps.

RESPONDENTS

Thomas "Tim" Greaney, JD, is Chester A. Myers Professor of Law and co-director, Center for Health Law Studies at St. Louis University School of Law. A nationally recognized expert on health care and antitrust law, Mr. Greaney will discuss the effect of provider consolidation on health care spending in Massachusetts and nationally, and the legal remedies available to mitigate potential adverse consequences of consolidation.

William J. Scanlon, PhD, is a consultant to the National Health Policy Forum, having completed two terms as a Medicare Payment Advisory Commission member. He is former managing director of health care issues at the Government Accountability Office. Dr. Scanlon will comment on the report's findings from a federal perspective, particularly in light of Medicare and Medicaid payment policy.

EXAMINATION OF HEALTH CARE COST TRENDS AND COST DRIVERS

Summary of Findings

- Prices paid by insurers to hospitals and physician groups for the same service vary greatly, even within a geographic area.
- Price variations were not related to quality of care, illness severity of patients served, whether or not the hospital is a disproportionate share hospital (DSH) serving a large proportion of Medicare and Medicaid patients or an academic medical center or the actual cost of providing the service.
- Price variations were correlated with the amount of market leverage a hospital or physician group has in comparison to others.
- Price increases—not rising utilization—caused most of the health care cost increases in Massachusetts over the past several years.
- Hospitals receiving higher payments from insurers gained market share while hospitals that cannot command high payments are lost market share.
- Per member per month medical expenses were not necessarily lower for enrollees in risk-based plans than for enrollees in unmanaged fee-for-service.
- Certain contracting practices between providers and insurers, including so-called parity agreements, perpetuated current market dynamics.

ENDNOTES

1. See, for example, Kay Lazar, "Two Health Insurers Ordered to Use '09 Rates," *The Boston Globe*, April 22, 2010; available at www.boston.com/news/health/articles/2010/04/22/two_health_insurers_ordered_to_use_09_rates/.

2. Office of Attorney General Martha Coakley, *Examination of Health Care Cost Trends and Drivers Pursuant to G.L. c.118G, Section 61/2(b), Report for Annual Public Meeting*, March 16, 2010; available at www.mass.gov/Cago/docs/healthcare/final_report_w_cover_appendices_glossary.pdf.