

Understanding Massachusetts Health Care Costs

Essex County Chambers of Commerce

July 28, 2010

Deval L. Patrick, Governor
Commonwealth of Massachusetts

Timothy P. Murray
Lieutenant Governor



JudyAnn Bigby, Secretary
Executive Office of Health and Human Services

David Morales, Commissioner
Division of Health Care Finance and Policy

Health-Related State Agencies

- Several state entities work on health care issues, including:
 - Commonwealth Connector Authority
 - Group Insurance Commission
 - Division of Insurance
 - Executive Office for Health and Human Services
 - Office of Medicaid
 - Department of Public Health
 - Department of Mental Health
 - Health Care Quality and Cost Council
 - Division of Health Care Finance and Policy

Overview of the Massachusetts Division of Health Care Finance and Policy

- DHCFP mission:
 - Improve health care quality and contain health care costs by critically examining the Massachusetts health care delivery system and providing objective information, developing and recommending policies, and implementing strategies that benefit the people of the Commonwealth
- What do we do?
 - Analyze, collect, and disseminate information about the health care delivery system

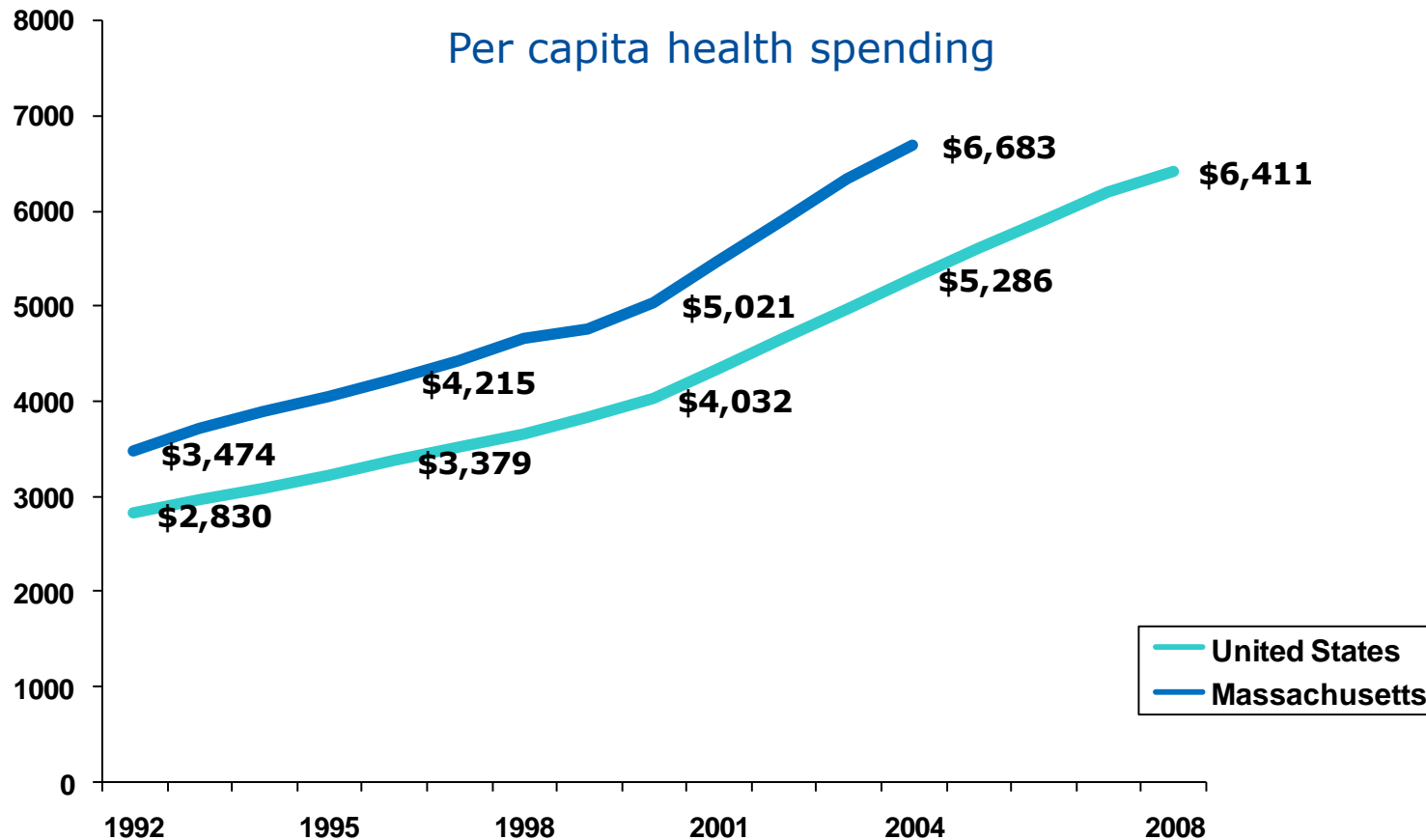


Overview of recent DHCFP efforts

- Chapter 305 of the Acts of 2008 directed DHCFP to:
 - Develop an annual report concerning health care cost trends and factors contributing to its growth
 - Make recommendations to increase the efficiency of the health care system
- Three preliminary reports released in February identified several key cost containment focus areas:
 - *The Massachusetts Health Care System in Context*
 - *Private Health Insurance Premium Trends*
 - *Health Spending Trends for Privately Insured*
- Public hearings were held in March to help inform development of recommendations:
 - 3 day hearing process with testimony under oath from key stakeholders and experts
 - Worked with the Office of the Attorney General, who intervened in hearing

The Urgency of Rising Health Care Costs

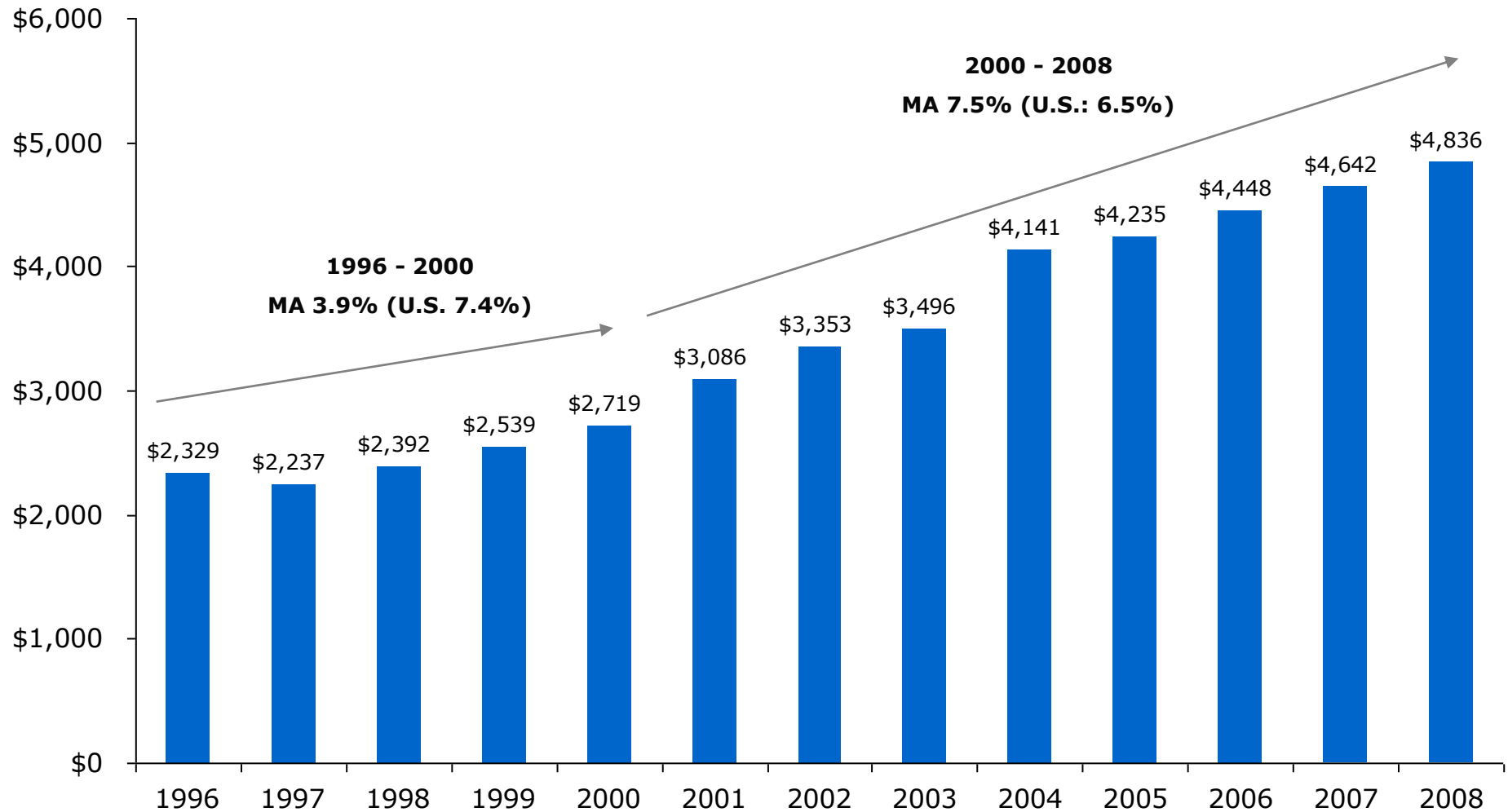
Massachusetts historically has had higher health spending than the U.S.



- Massachusetts unadjusted health care costs have increased to 27% higher than the U.S.
- Even after adjusting for non-patient revenues and wages, MA per capita health spending is 15% higher than the US avg.
- These higher costs are related to various factors, such as broad insurance coverage and generous benefits, health system structure differences, etc.



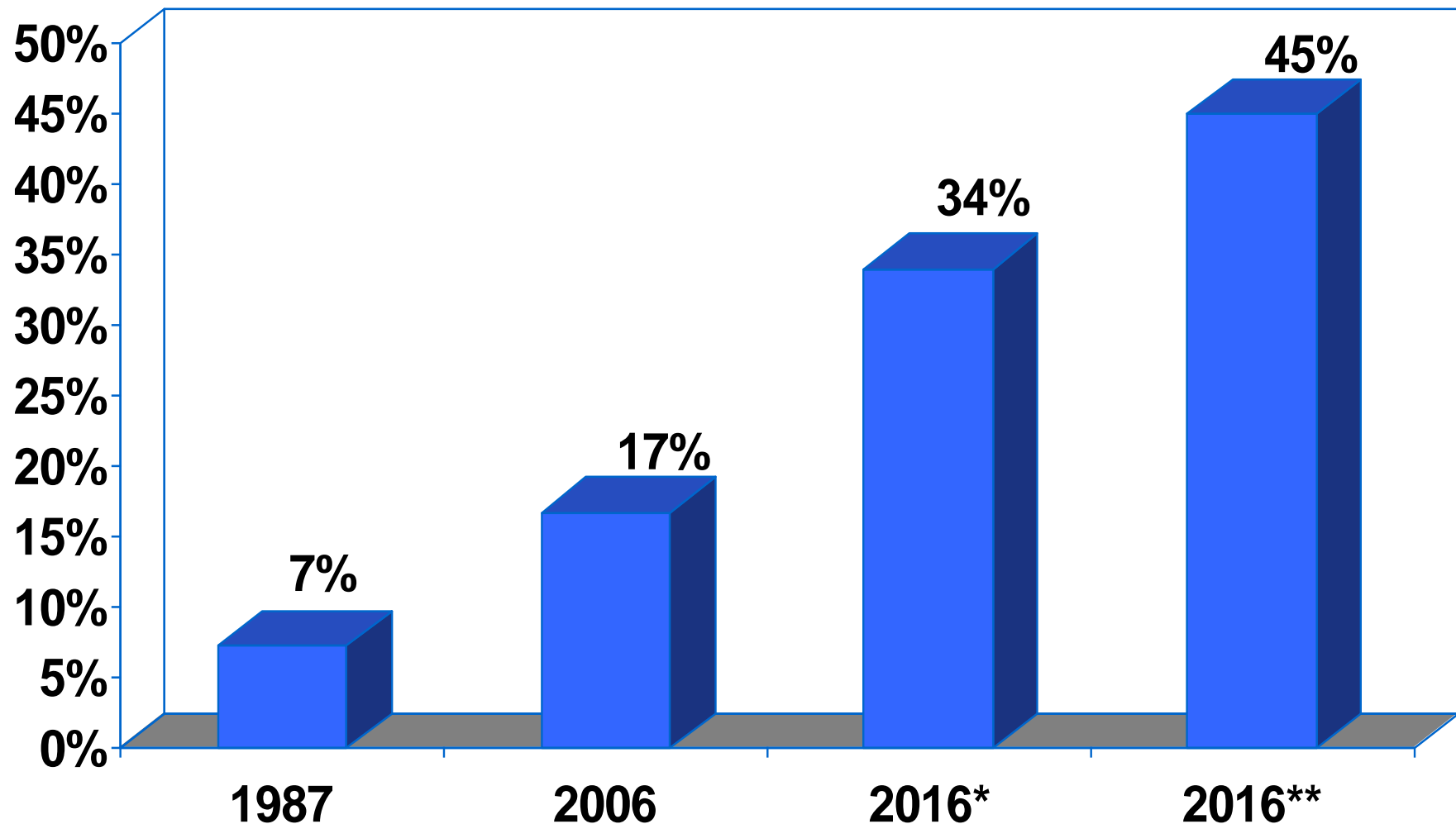
Health insurance premiums in Massachusetts are rising rapidly



Sources: 1996-2006 and 2008: Agency for Healthcare Research and Quality (AHRQ), Medical Expenditure Panel Survey (MEPS)-insurance component. 2007 premiums are estimated using the average of 2006 and 2008 premiums.

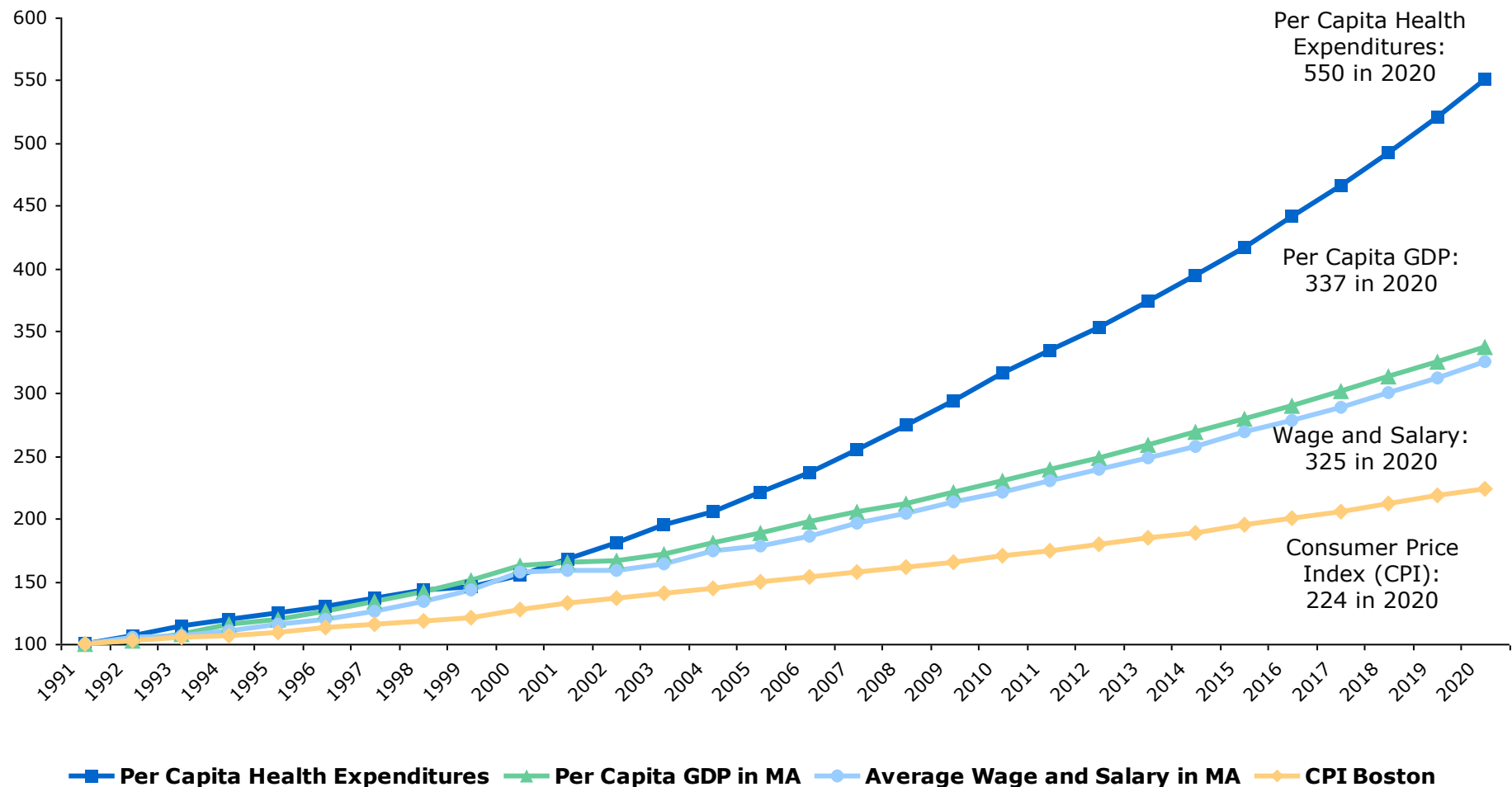


Without intervention, over a third of family income will go to health insurance by 2016



Source: Len Nichols, presentation at DHC FP cost Trends Hearings, March, 2010; Author's calculations, using KFF and AHRQ premium data, CPS income data, plus projections from Carpenter and Axeen, The Cost of Doing Nothing, 2008.

Growth in health spending is expected to surpass other economic indicators in MA

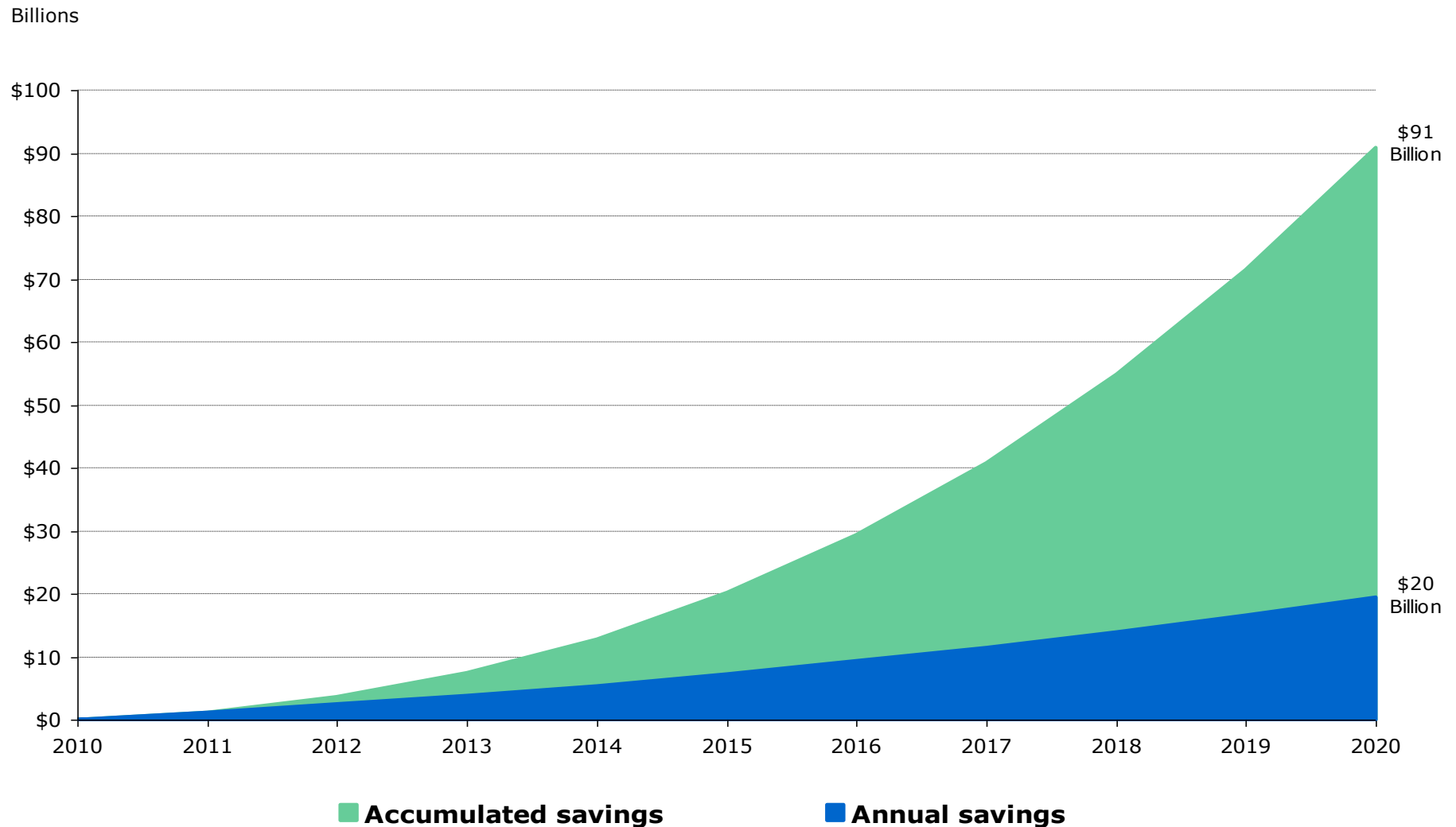


Sources: 1991-2007: Per capita health expenditures: Centers for Medicare & Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group, 2007 (2004-2020 data are projected). Per capita GDP and wage and salary: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce. CPI-Urban for Boston area: Bureau of Labor Statistics, U.S. Department of Labor. 2008-2020 (except for health spending): US Social Security Administration, "The 2008 OASDI Trustees Report," Supplemental Single-Year Tables, intermediate projection, www.ssa.gov/OACT/TR/Tr08/index.html. Per capita GDP index: real GDP annual change + GDP price index annual change - population annual change; wage index: average annual wage in covered employment.



Estimated savings in total MA health spending

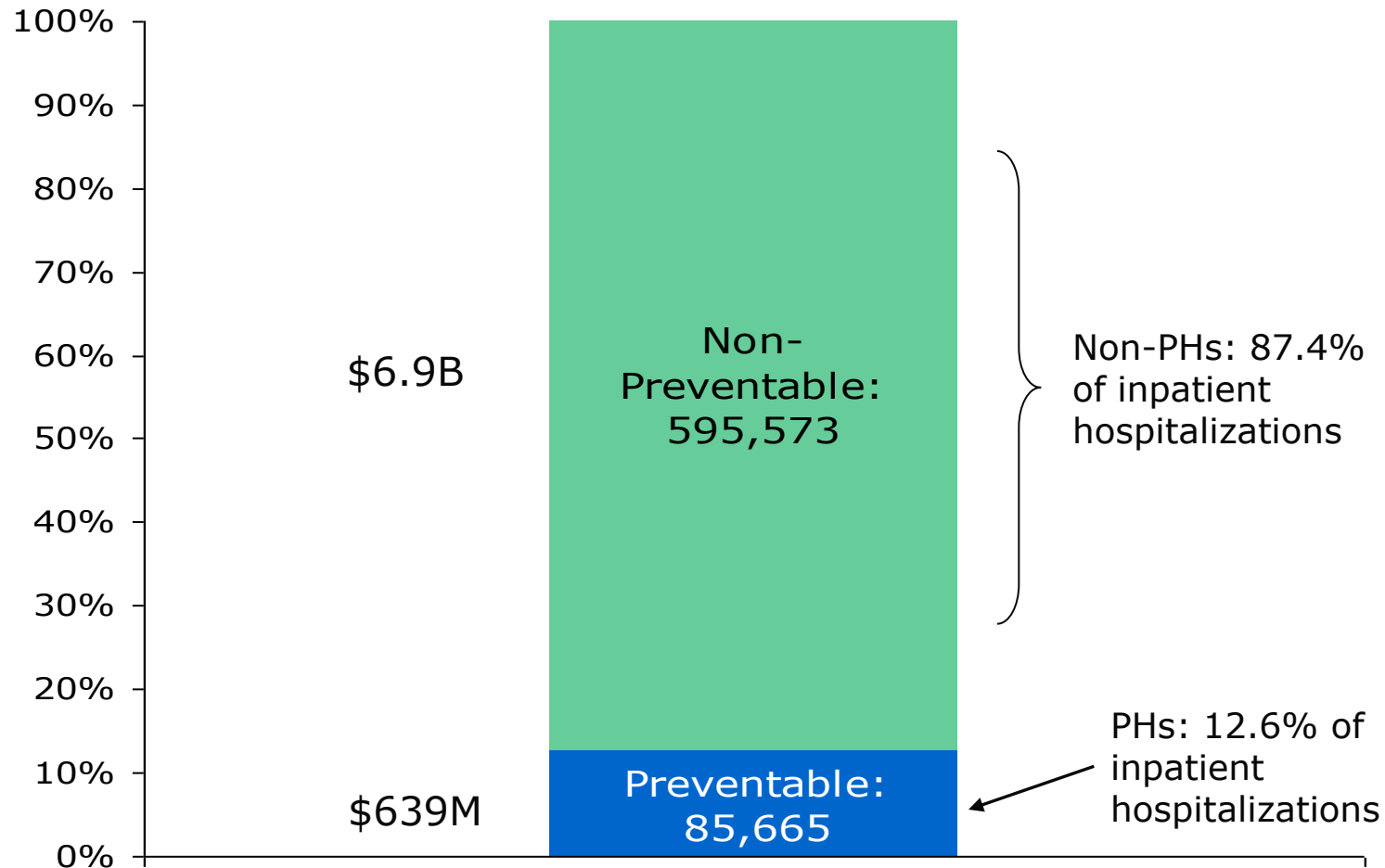
If growth of per capita health expenditures were held to the same rate as growth in projected per capita GDP



Sources: per capita GDP growth rate is based on national projection data. US Social Security Administration, "The 2008 OASDI Trustees Report," Supplemental Single-Year Tables, intermediate projection, www.ssa.gov/OACT/TR/Tr08/index.html. Per capita GDP index: real GDP annual change + GDP price index annual change - population annual change.

13% of MA adult inpatient admissions are potentially preventable in FY08 (\$639M)

Adult Inpatient Hospitalizations: 681,238

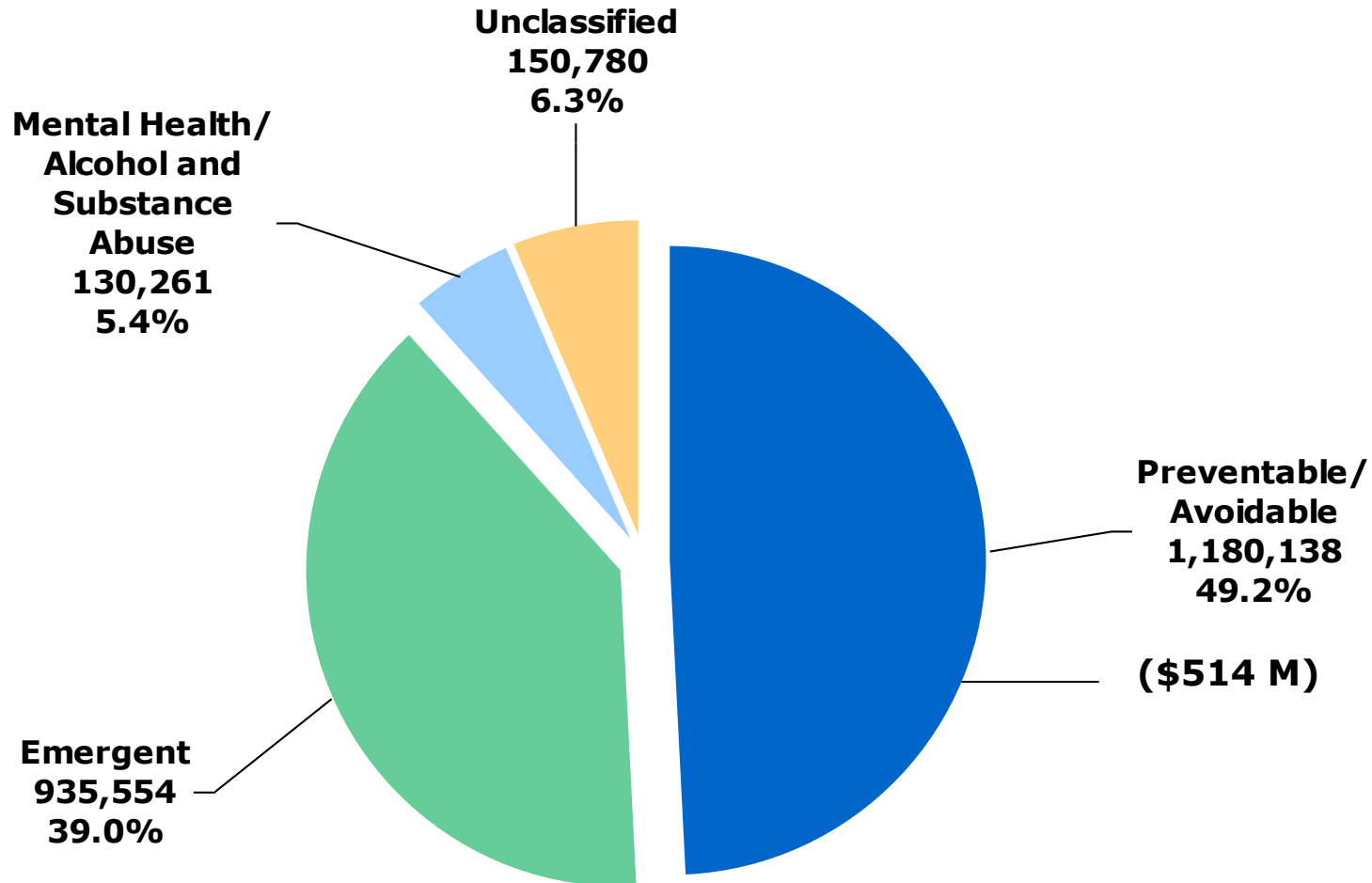


*Non-Preventable Hospitalizations (Non-PHs) are inpatient hospitalizations that are for conditions that are not considered ambulatory care sensitive.
**Adult inpatient population is defined as those age 18+ (this group represents 85% of total inpatient hospitalizations for all ages).



Nearly 50% of MA outpatient ED visits were considered preventable or avoidable in FY08 (\$514M)

Total Outpatient ED Visits (MA residents): 2,396,733*

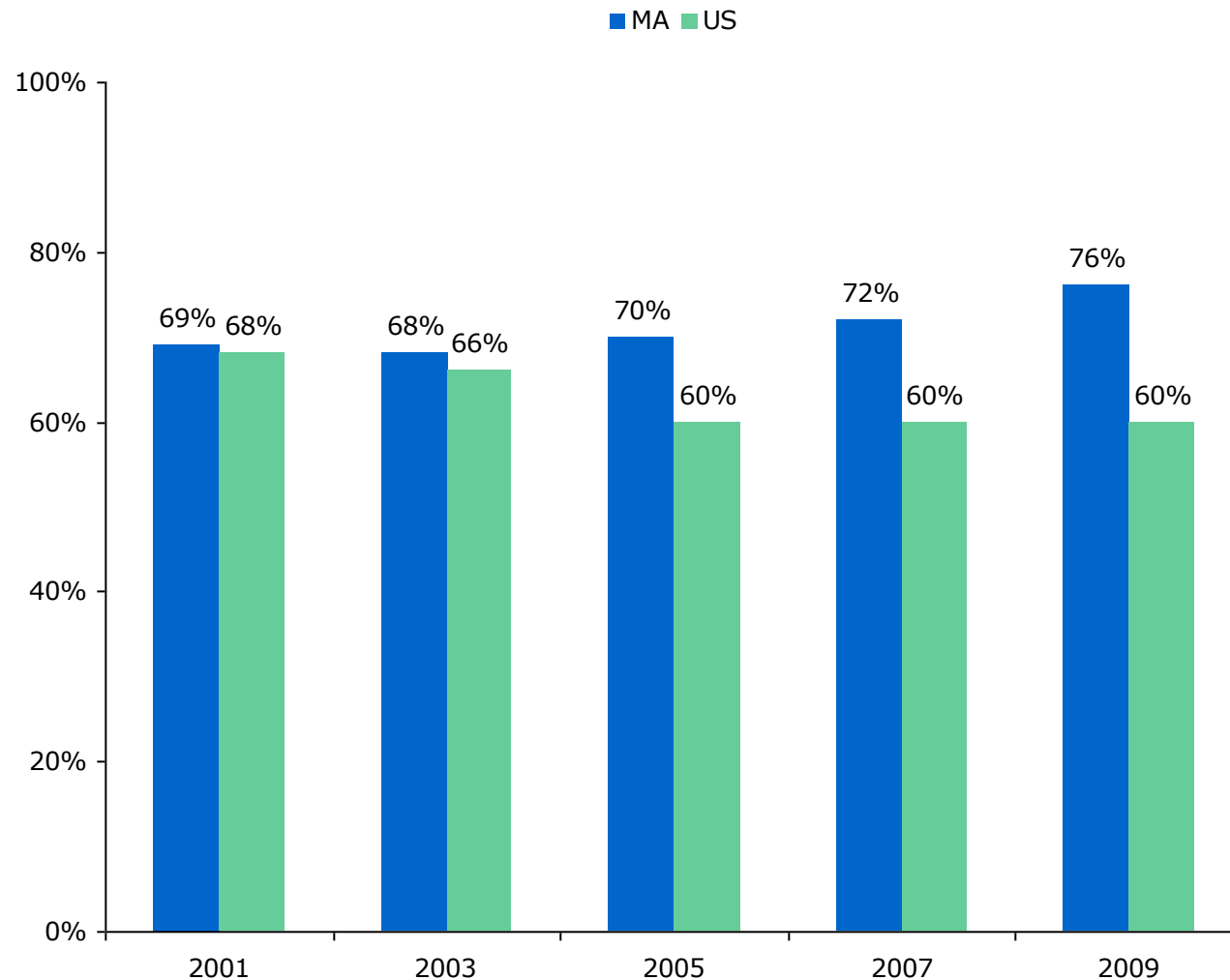


*ED visits included here are restricted to MA residents only and those that did not result in a hospital admission.

What Does This Mean For Massachusetts Employers?



Good News: More MA employers offer health insurance coverage compared to the nation

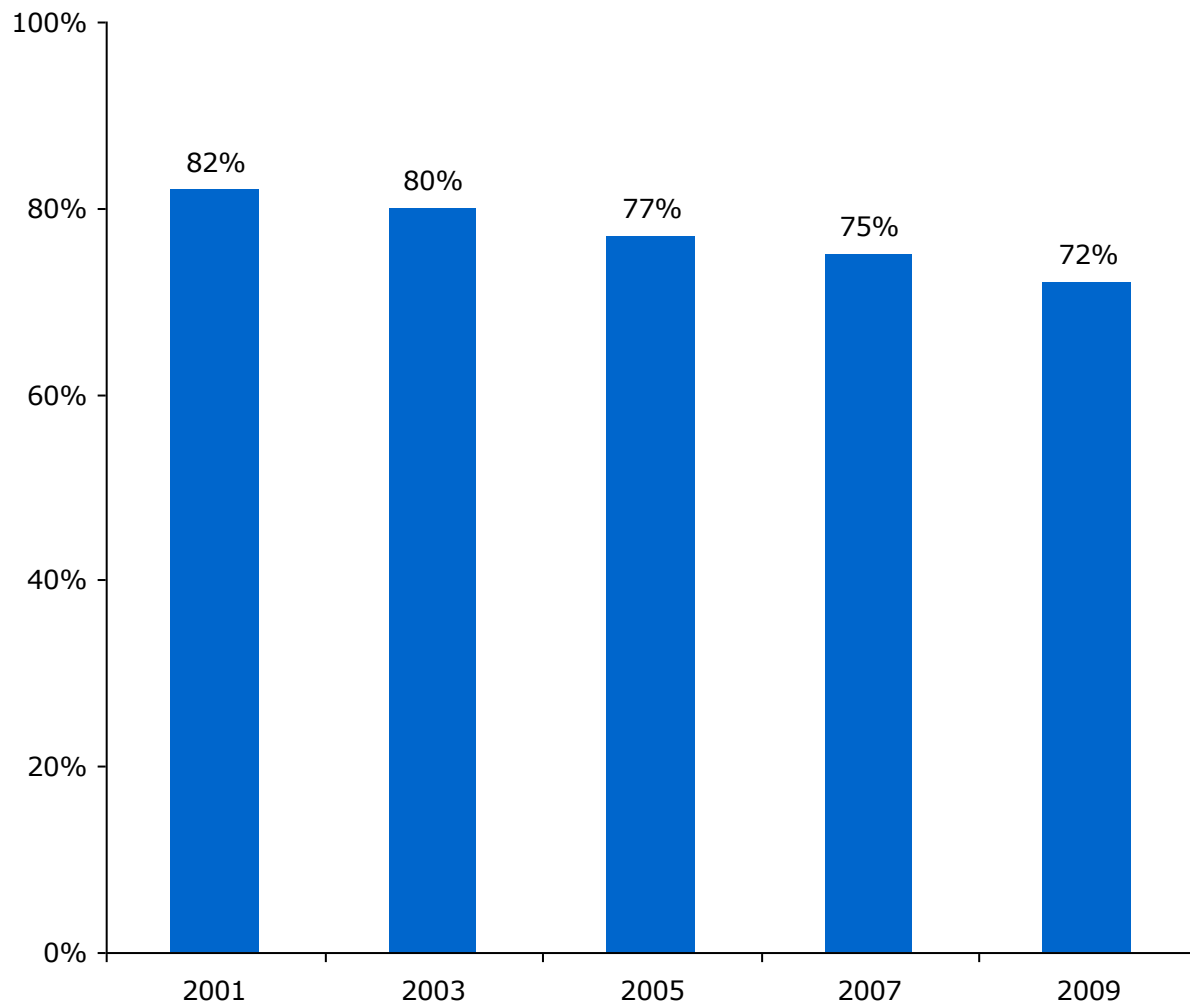


More than 75% of Massachusetts employers offer health insurance to their employees.

The Massachusetts offer rate increased to 76% in 2009 from 69% in 2001.

During the same period, the national offer rate declined to 60% from 68%.

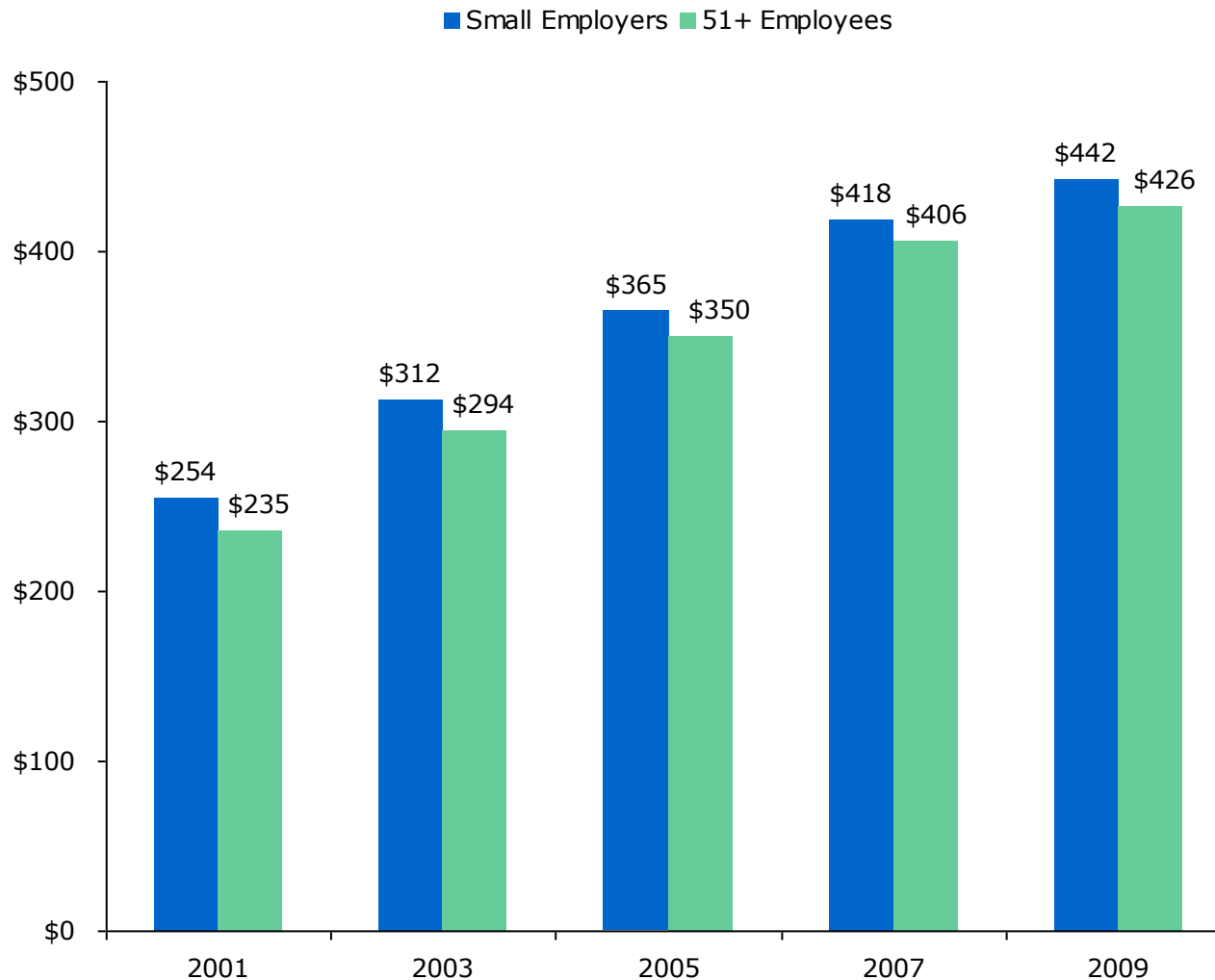
Not So Good News: Employers pay 72% of the premium costs (down from 82% in 2001)



Employers' percentage contribution to the cost of individual plan premiums has steadily declined.

As the total cost for individual plan premiums has increased, the employer contribution level has declined to 72% in 2009 compared with 75% in 2007.

Bad News: Small firms experienced faster increases and pay higher premiums compared to large firms (Median Monthly Premium Cost)



Small firms pay higher premiums than large firms.

Small firms' median monthly premium costs for an individual plan have increased by 6% since 2007 and by 74% since 2001.

Large firms' median monthly premium costs for an individual plan have increased by 5% since 2007 and by 81% since 2001.

Note: Small employers in 2009 had 3 to 50 employees; prior years it was 2 to 50 employees.

Source: Center for Survey Research tabulations on the 2009 MES data; Division of Health Care Finance and Policy tabulations on the prior year MES data.

Next Steps



DHCFP will focus its analytics in 3 key areas

- Transparency
 - Utilizing the All-Payer, All-Provider Claims Database, design new reports about health care costs, quality, and utilization
- Integration
 - Develop analyses that will inform the health care system's transformation toward a more integrated, coordinated, and patient-centered model
 - Current lack of integration is costly and leads to uncoordinated health outcomes
 - The estimated cost of avoidable ED visits, preventable hospitalizations, and potentially preventable readmissions is approximately \$1.4 billion.
- Wellness
 - Support transition toward a wellness model that promotes primary prevention and primary care
 - Current delivery system is built to treat (rather than prevent) illness



Employers must leverage their role as health care purchasers

- Target of transparency efforts: Employers
 - Most Massachusetts residents have health care coverage through an employer
 - Health care costs are opaque to patients and heavily subsidized by employers
- Utilize health care utilization and cost data to inform decisions
 - Health plans and providers
 - What data is needed to empower employers to become more prudent purchasers of health care?
- Advocate for and support innovative insurance product designs which promote use of cost-effective, high-quality providers
- Engage employees in adopting healthy behaviors
 - Develop worksite wellness programs
 - Be creative in designing innovative, incentive-based programs

Please visit for more information:
www.mass.gov/dhcfp/costtrends

