**Public Briefing Presentation on the Report Entitled**

**Annual Report on the Massachusetts Health Care Market**

August 2013

A note about this document: the slides conveyed in the corresponding PowerPoint presentation were presented by Áron Boros, Executive Director, Center for Health Information and Analysis on Wednesday, August 14, 2013 at a public briefing on the agency’s report entitled “Annual Report on the Massachusetts Health Care Market.” This document conveys the text of the voice narration added to the corresponding slide presentation. The slide presentation with narration is available online at <http://www.mass.gov/chia>.

**Slide 1 Title:**

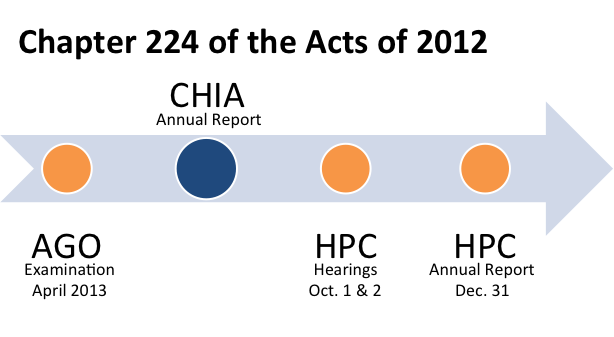
**Annual Report on the Massachusetts Health Care Market**

**Slide 1 Narration:**

This is the Center for Health Information and Analysis’ briefing on its first “Annual Report on the Massachusetts Health Care Market.”

**Slide 2 Title:**

**This Annual Report is part of a larger monitoring and   
cost containment effort.**



**Slide 2 Narration:**

Last summer’s cost containment bill, Chapter 224 of the Acts of 2012, created two new state agencies – the Center for Health Information and Analysis (or “CHIA”) and the Health Policy Commission – and gave specific new responsibilities to a number of other state agencies. Among other responsibilities, CHIA is charged with monitoring the effects of health reform on the Massachusetts Health Care Market. We work in coordination with the Office of the Attorney General and the Health Policy Commission to carry out this task.

The Office of the Attorney General published its annual Examination of Health Care Cost Trends and Cost Drivers report this past April. That volume, plus this Annual Report will serve as the basis for the Health Policy Commission’s Cost Trends Hearings on October 1st and 2nd. The Health Policy Commission will complete the annual cycle of this examination with its own annual report at the end of this year.

CHIA strives to provide a reliable, meaningful overview of the health care market in Massachusetts. We see our role as being the agency of record - or “the hub”- for the Commonwealth’s health care data.

Our Annual Report has three main sections focusing on the following themes:

Coverage and Premiums;

Payers’ Use of Premium Dollars; and

Medical Payments to Providers.

The Annual Report focuses exclusively on the commercial insurance market. CHIA will publish a more in-depth look at the public healthcare system, including Medicare and Medicaid, in 2014.

**Slide 3 Title:**

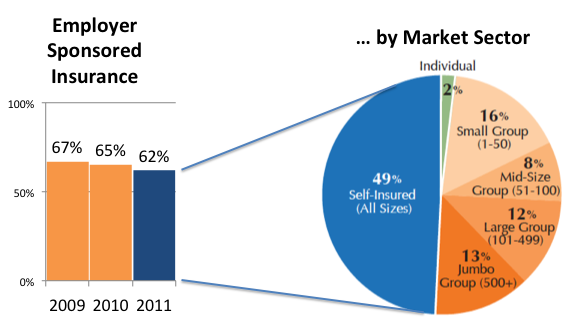
**1. Coverage & Premiums**

**Slide 3 Narration:**

In the first chapter of the report, we look at coverage and premiums. Dollars enter into the health care system through premiums paid by individuals and employers.

**Slide 4 Title:**

**The employer-sponsored insurance market is shrinking and diverse.**



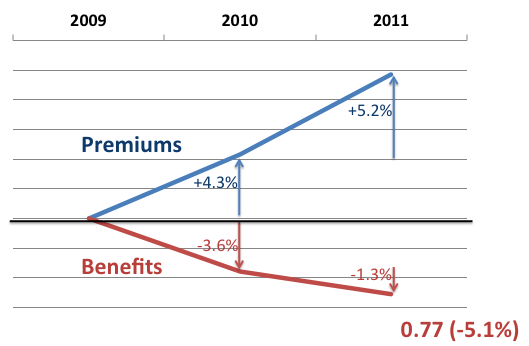
**Slide 4 Narration:**

From 2009 to 2011, there was a decline in employer-sponsored insurance to 62% of all coverage. This may be at least partly attributable to the recession and the slow economy.

About half of all employees (covered by their employers) in Massachusetts are covered by employers that self-insure, meaning the employers pay directly for their employees’ health care costs rather than purchasing an insurance product. Fully-insured employers (the other half) purchase health insurance coverage for their employees from a commercial payer, and employees typically pay a portion of the premiums.

**Slide 5 Title:**

**Premiums are rising faster than inflation while benefit levels are falling**



**Slide 5 Narration:**

From 2009 to 2011, premiums have increased while benefit values have decreased. Premiums overall have grown twice as fast as inflation. While premiums grew by 9.7% during this period, benefits (as measured by actuarial value) fell by 5.1%. Premiums increased at an even higher rate in the mid-size group market. Benefit values dropped the most in the small group market.

Health plan deductibles are also increasing. From 2009 to 2011, Massachusetts deductibles have grown over forty percent, which is a much faster rate than the national rate in recent years, although they still remain just below the national average.

**Slide 6 Title:**

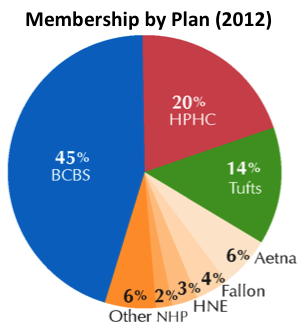
**2. Insurers.**

**Slide 6 Narration:**

The second chapter of the report focuses on insurers. Insurers receive premium dollars and use them for a variety of purposes such as enrollee medical expenditures and administrative costs and investments.

**Slide 7 Title:**

**Commercial enrollment is concentrated in the three largest insurers.**

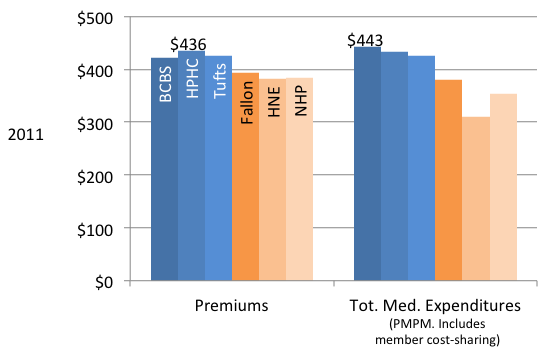


**Slide 7 Narration:**

The payer market in Massachusetts is highly concentrated. In 2012, more than three-quarters of enrollees were enrolled in plans from three payers. Blue Cross Blue Shield alone accounted for 45% of enrollees.

**Slide 8 Title:**

**The big three insurers had higher premiums and total medical spend.**



**Slide 8 Narration:**

In 2011, the average premiums of the top three payers were higher than premiums of other payers. Furthermore, total spending on member medical expenses, including patient cost-sharing and the self-insured market, which grew by 3.8% overall from 2010 to 2011, is also higher for the top three payers. It appears that these large payers have not been successful in using their size to drive down costs. There may also be selection issues, since these results are not adjusted for selection factors.

**Slide 9 Title:**

**Medical spending didn’t rise as fast as premiums, so insurers retained more.**



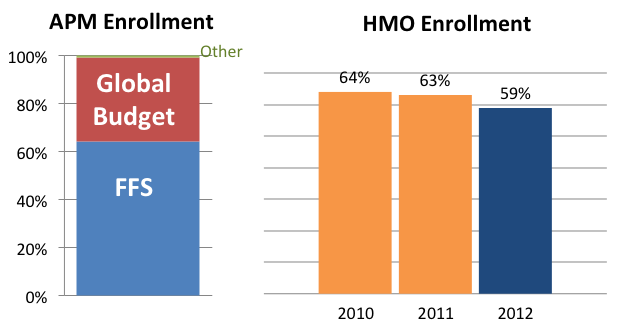
**Slide 9 Narration:**

Because premiums grew at a faster rate than medical spending on members between 2009 and 2011, payers retained more premium dollars for administrative and other expenses, including IT investments, financial reserves, taxes, fees, and cost containment and quality measurement expenses.

From both 2009 to 2010 and 2010 to 2011, we saw a twenty percent increase in payer retention. Because premiums are set prospectively, an unanticipated change in expenses may result in higher retention in any given year. Nationwide, in many cases, medical expenses have recently been lower than projected. These retention rates may also reflect payer investment in alternative payment methodologies and IT systems for better coordination of care.

**Slide 10 Title:**

**We are a national leader in payment innovation, but FFS remains dominant.**



**Slide 10 Narration:**

In 2012, FFS was still the most common payment method, but there has been a significant focus on the use of global payment methods in Massachusetts. Thirty-five percent of commercial market enrollees are in plans managed under a global payment arrangement; Blue Cross Blue Shield is the primary driver of this recent shift accounting for 63% of all global payment dollars. These global payment arrangements were ALL within Health Maintenance Organizations (HMOs).

Under a global payment method, a budget is set for all of a patient’s care under a provider, and the provider is held liable for spending. Because global payment arrangements are generally negotiated with primary care groups, the financial incentives may still be mixed, since specialists, who typically provide more costly care, might still be paid on a traditional Fee-for-Service basis.

Massachusetts has traditionally had a larger HMO market than other states, though enrollment in HMOs has declined (it was 59% in 2012). This is important to note because and all global payment arrangements were in the HMO environment. However, payers such as Medicare are increasingly looking into alternative payment arrangements in PPO settings.

**Slide 11 Title:**

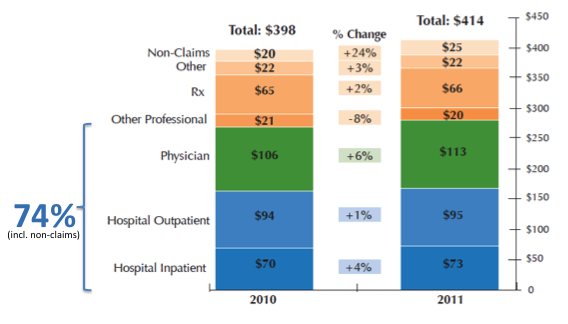
**3. Providers**

**Slide 11 Narration:**

In Chapter Three, we examine payments made by payers to individual and system health care providers.

**Slide 12 Title:**

**Total Medical Expense growth was driven by hospital and physician services.**



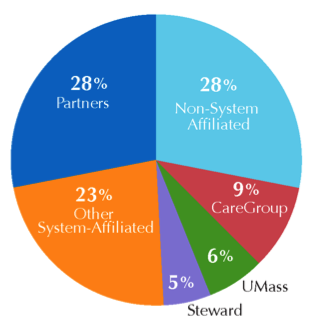
**Slide 12 Narration:**

Total Medical Expenses (“TME”) for all payers in the Commonwealth increased by 3.8% between 2010 and 2011. TME includes payer spending on member medical expenses, patient cost-sharing, and the self-insured market. The growth in spending was driven primarily by hospital and physician services, which represented 74% of Total Medical Expenses in 2011. Physician spending rose by 6%, and non-claims payments (still a small amount) rose by 24%.

Payers estimate a projected 2% growth in overall TME between 2011 and 2012.

**Slide 13 Title:**

**Hospital-physician systems dominate the market as consolidation continues.**

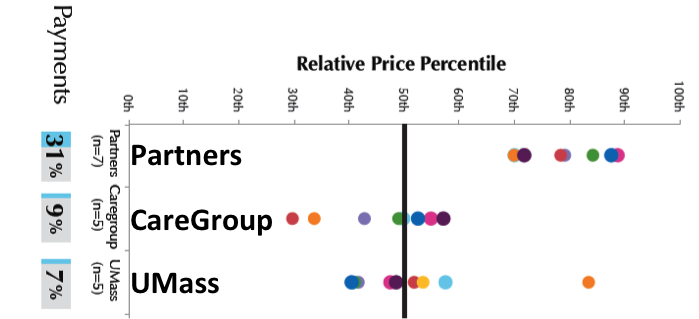


**Slide 13 Narration:**

Hospitals and physicians affiliated with larger provider systems received 75% of the payments made to all providers in Massachusetts in 2011. Partners HealthCare, at 28% of all payments, is the dominant provider system in Massachusetts. They received more than 3 times the amount that went to the next closest system, CareGroup at 9% of provider payments.

**Slide 14 Title:**

**Partners is the biggest system and commands the highest prices.**

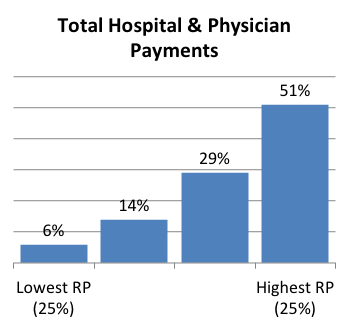


**Slide 14 Narration:**

From a price perspective, acute care hospitals affiliated with Partners HealthCare generally negotiated higher than average prices at every plan. Prices for providers affiliated with CareGroup and UMass, the next largest systems, were generally more in line with payers’ network average price levels.

**Slide 15 Title:**

**High prices at large providers drive overall costs.**

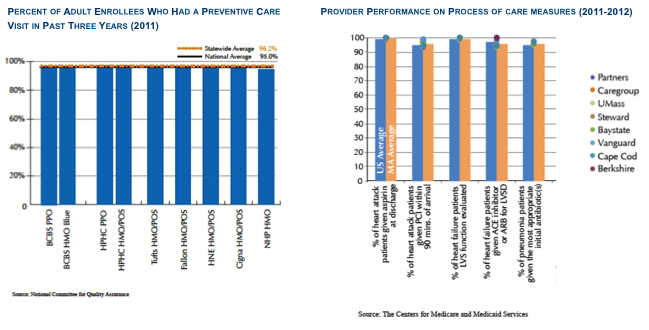


**Slide 15 Narration:**

80% of overall payments to providers went to hospitals and physician groups with higher than average prices in each payer’s network, while over 50% of payments to providers went to the highest priced providers. This reflects the fact that the highest price providers in many cases are the largest providers with the greatest service volume. Reducing the growth of overall costs will depend in part on achieving cost reductions in these facilities and systems, rather than in the lower priced providers.

**Slide 16 Title:**

**Health plans and providers deliver high quality care.**



**Slide 16 Narration:**

When examining quality, Massachusetts health plan and health care provider performance on select quality measures generally exceed national benchmarks. Though we do highlight opportunities for improvement in the report, there is little variation across plans and providers in quality performance. There is no clear correlation between these quality measures and either premium costs or Total Medical Expenditures.

**Slide 17 Title:**

**CHIA: Monitoring a Bilateral Oligopoly with Differentiated Products   
since 2012.**

**Slide 17 Narration:**

Both the payer and provider markets in Massachusetts are characterized by relatively few large competitors. This situation is referred to as a bilateral oligopoly – it’s not a monopoly, but it’s also far from perfect competition.

Moreover, neither hospital services nor health plans are homogeneous products. That is, one hospital stay is not like another and one health plan is not exactly like another either.

It is the interplay between these two markets that influences prices and contributes to premium levels.

Our Annual Report tries to shed some light on the result of this bargaining in Massachusetts. CHIA will continue to assess the impact of cost containment and quality improvement initiatives on public and commercial market health care trends to increase transparency in the Massachusetts health care payment and delivery system.

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