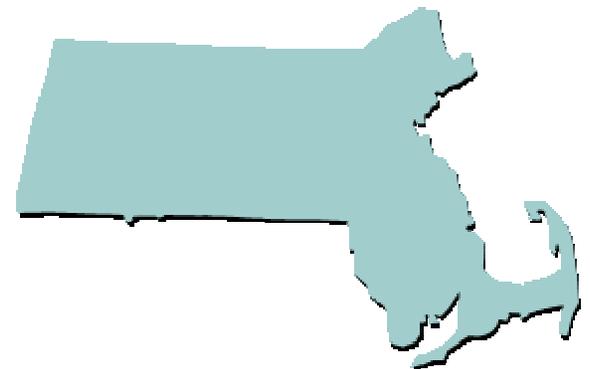


Policies to Slow the Growth of Medical Costs



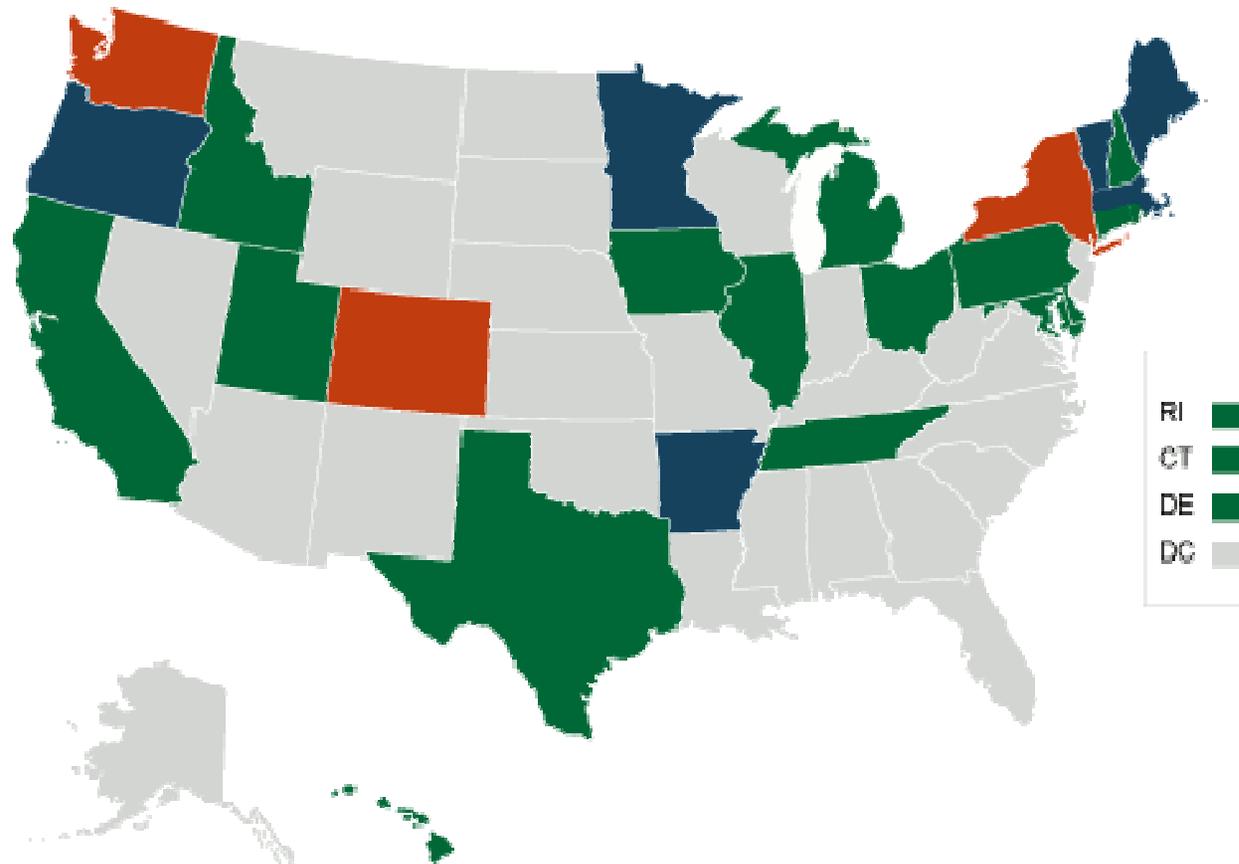
David M. Cutler
Department of Economics
Harvard University
david_cutler@harvard.edu

August 2015



There is enormous activity along these lines

Model Testing Awards Model Pre-Testing Awards Model Design Awards



Source: Centers for Medicare & Medicaid Services

The Need for Cost Reductions

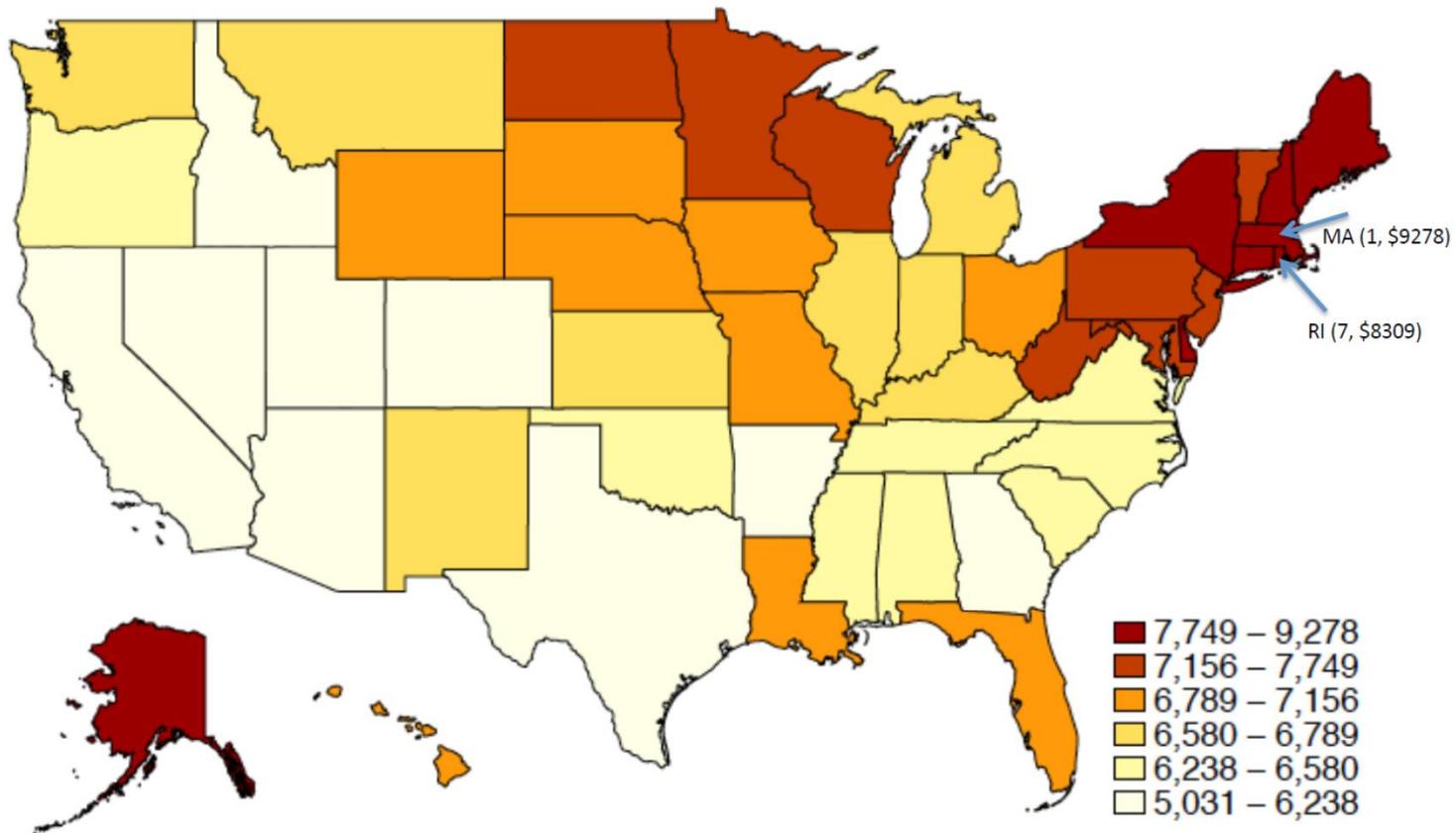
With insurance coverage close to universal, attention necessarily turns to costs.

In MA, a series of acts, culminating in an ambitious cost control bill.



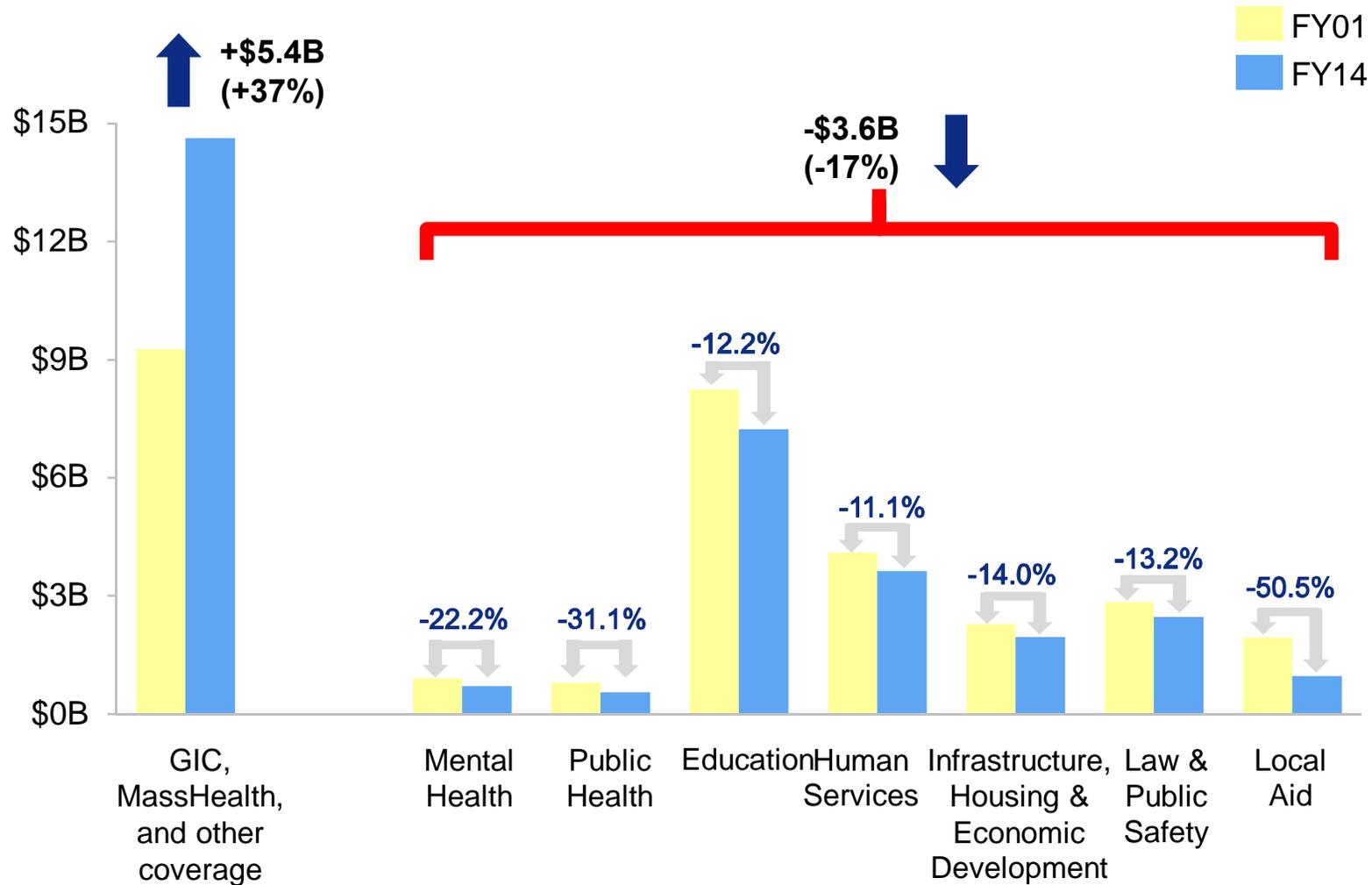
Massachusetts is the most expensive state; Rhode Island is 7th

Per Capita Medical Spending by State, 2009



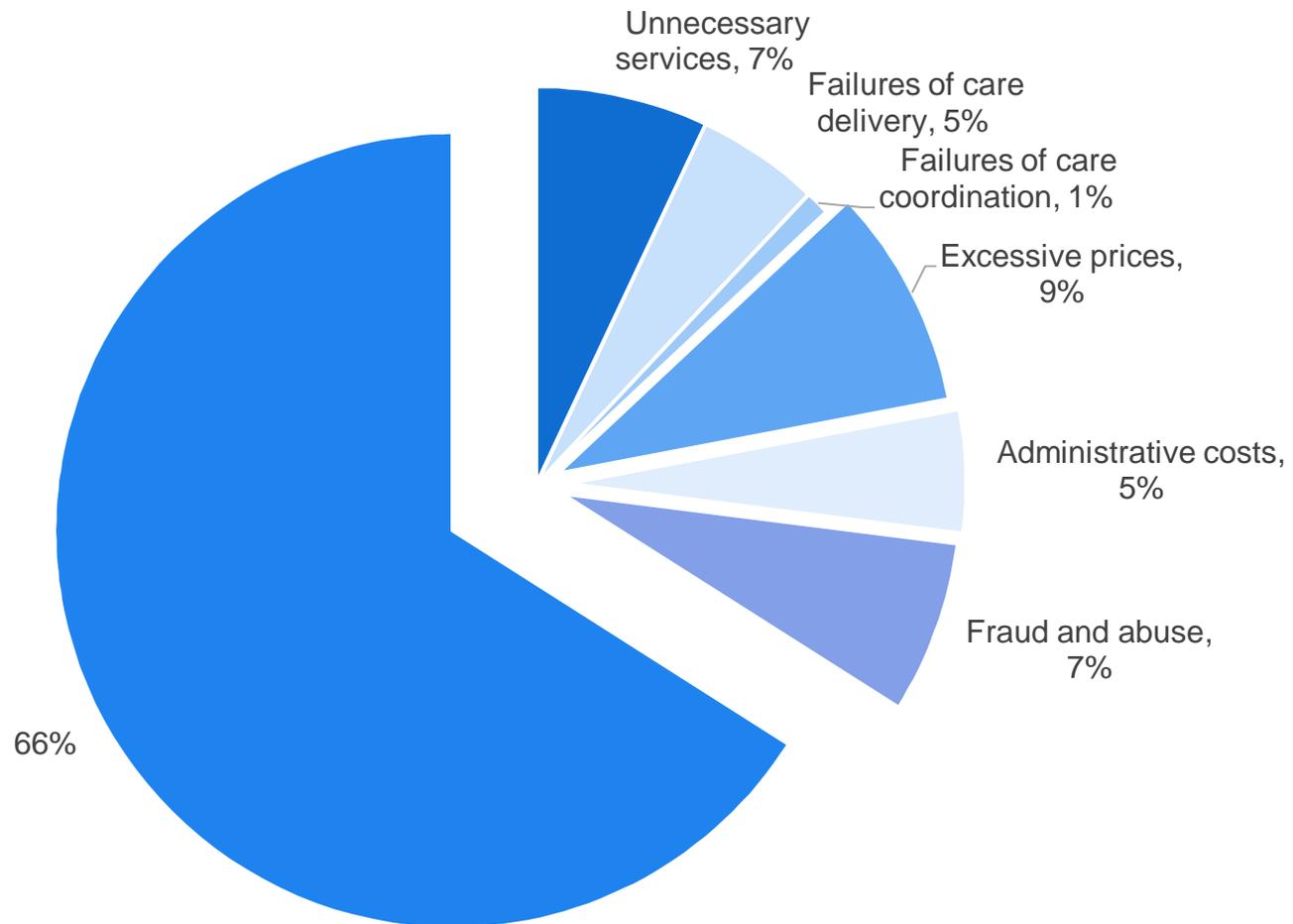
Medical care is ruining the state budget - FY01 vs. FY14

Billions of dollars

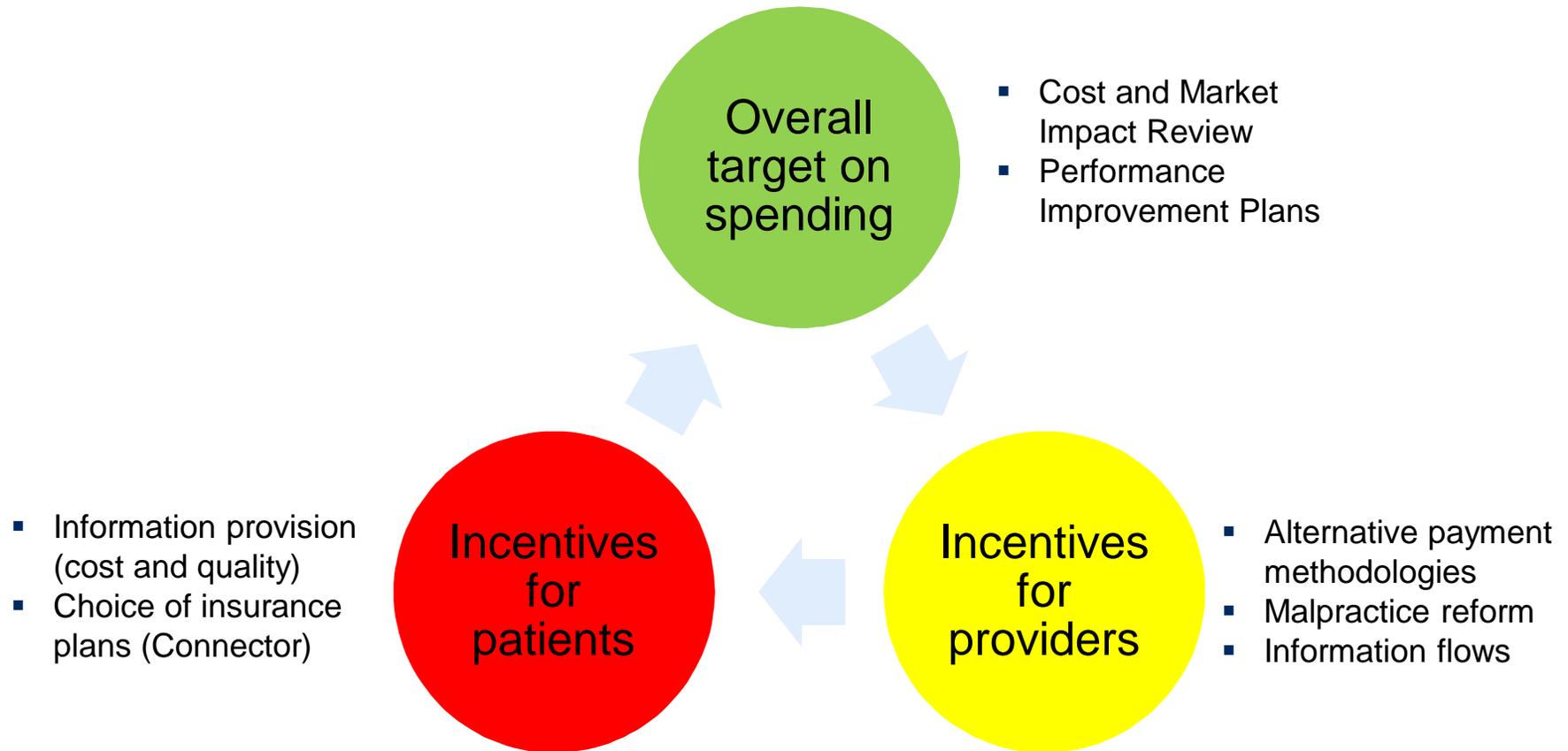


Note: Figures all adjusted for GDP growth
 Source: Massachusetts Budget and Policy Center

There is enormous waste in medical care

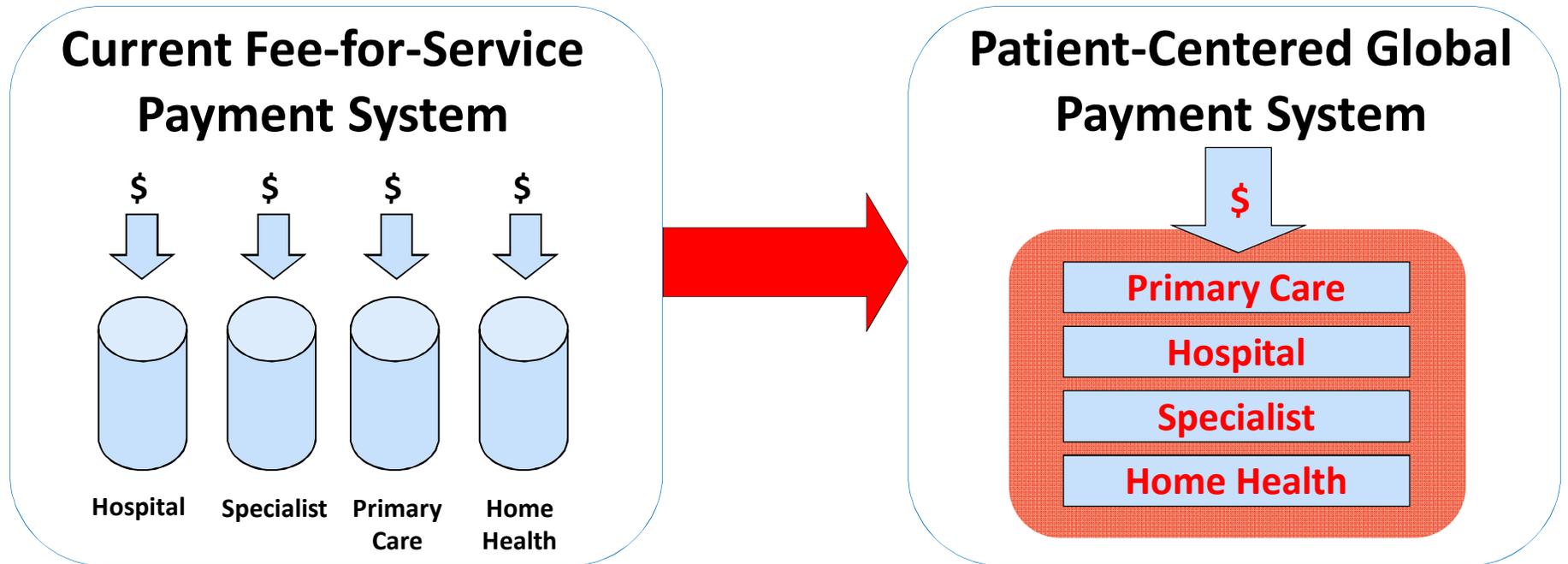


The Massachusetts Strategy



Payment reform

- ” Move to ~~a~~ alternative payment systemsq
- ” Primary care, specialty care, and fully integrated care



The Target

Benchmark	Approximate magnitude
Premiums	8.0%
Forecast medical spending per capita	5.5% - 6.0%
Forecast GSP per capita	3.6%
Inflation rate	2.0%

Target:

2014-2017

Potential GSP

2018-2022

Potential GSP - .5%

2023-

Potential GSP

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

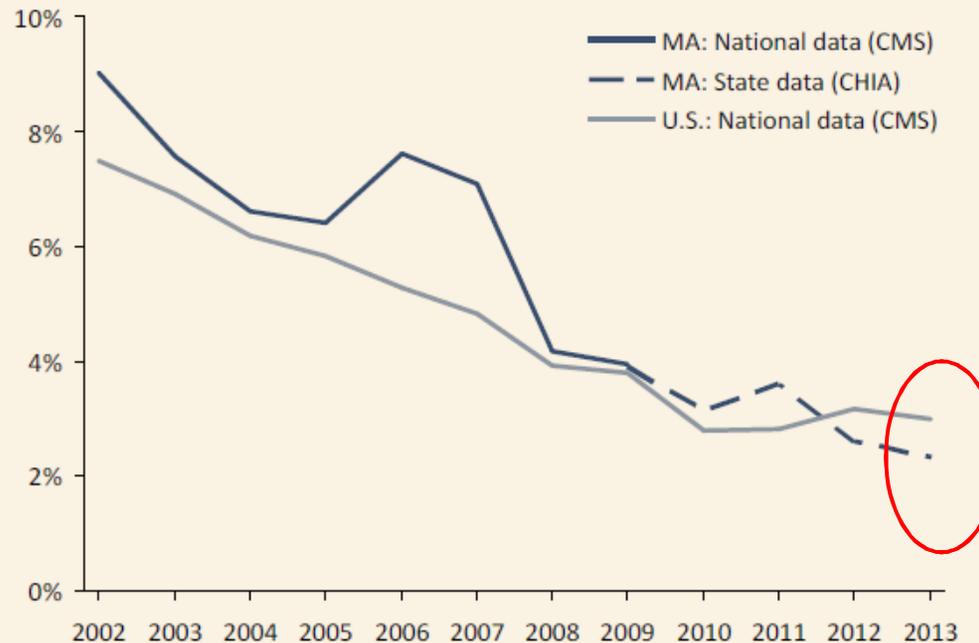
Impact so far

Metric	Grade
Costs relative to target	●
Increased use of APMs	●
Taking out clinical waste	●
Availability/use of appropriate data - clinical	●
- individual/family	●

Health care spending growth has slowed

Figure 2.3: Annual growth in per-capita healthcare spending: Massachusetts versus the U.S.

Percentage growth from previous year, 2002- 2013

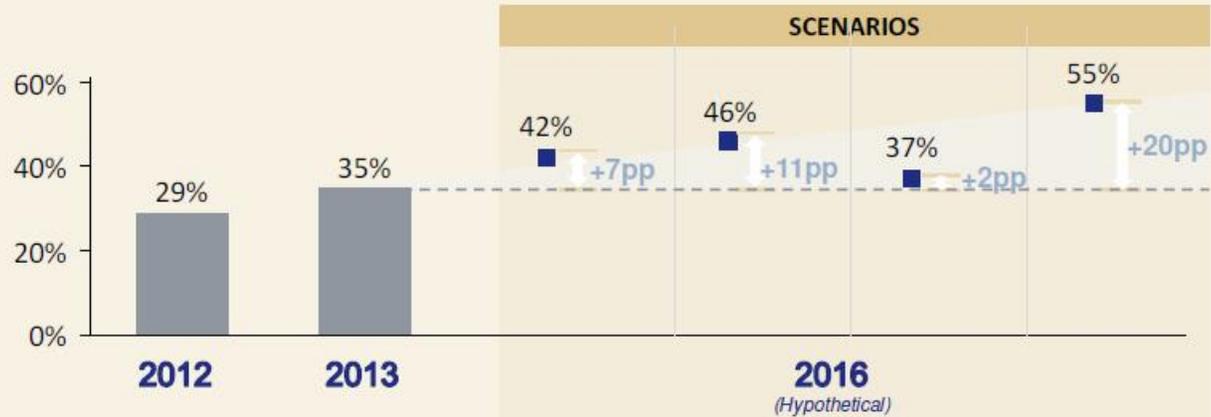


NOTE: Solid lines indicate CMS data; dashed line indicates Massachusetts-specific data. Specifically; CMS NHE & SHEA 2002-2009, US NHE 2009 – 2013, MA TME 2009 – 2012, MA THCE 2012-2013

SOURCE: Centers for Medicare & Medicaid Services, Massachusetts Center for Health Information and Analysis, United States Census Bureau

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)



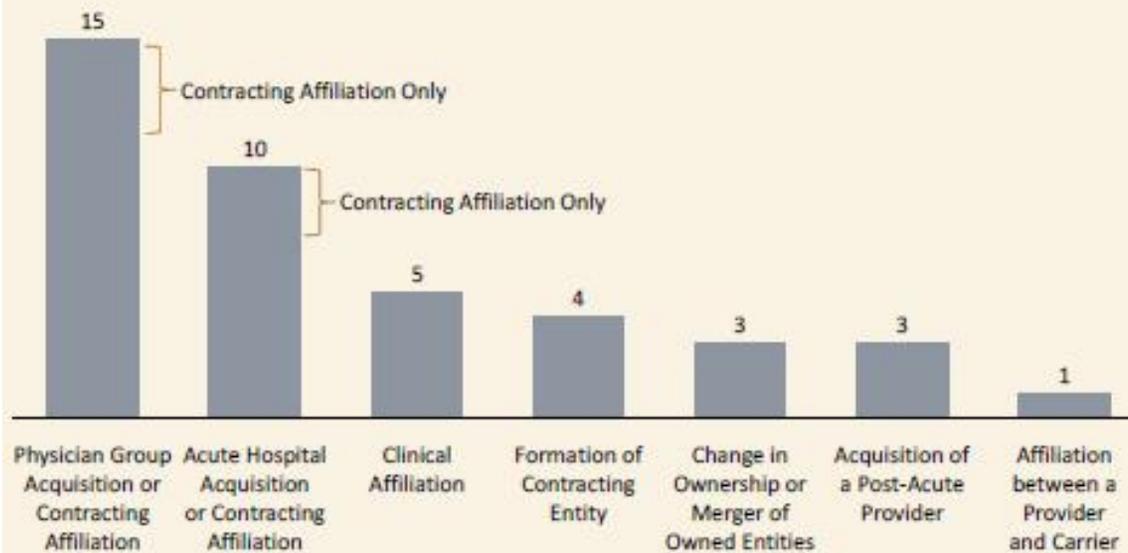
SCENARIO DESCRIPTIONS				
	HMO	PPO	ACO	Additive
Assumptions	All payers expand APMS in HMOs to close 2/3 of gap between 2013 coverage and 90% (BCBS rate)	All payers expand APMs in PPOs to half of their projected HMO rate	MassHealth expands APMs (via ACO) to close 1/3 of gap between 2014 coverage and 100%	HMO +PPO +ACO
Projected impact	+7pp	+11pp	+2pp	+20pp

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



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