California State Assembly
Committee on Health

Informational Hearing
Cost Containment: Considerations for California

February 25, 2020
State Capitol, Room 4202

Presenter:
Glenn Melnick
Professor of Health Care Finance
University of Southern California
Resident Researcher, RAND Corp.
Commissioning Change: How Four States Use Advisory Boards to Contain Health Spending
State Level Health Care Cost Commissions

• Other states have created Health Cost Commissions/Offices to reduce excessive cost growth

• Properly designed, a similar agency in California could provide policymakers a mechanism to achieve important benefits to California:
  
  • Lower the costs of expanding health insurance coverage to uninsured
  
  • Provide relief to millions of Californians struggling with premiums and out of pocket costs
  
  • Provide California’s policy makers with greater budgetary resources to support other, non-health care related programs and policies
  
  • Improve the economic well being California’s workers and their families
If Premium Growth Equaled CA Economic Growth
California Median Family Income Would be $9,500 Higher

<table>
<thead>
<tr>
<th></th>
<th>2003 Actual</th>
<th>2018 Actual</th>
<th>$ Increase</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>California GDP Per Capita</td>
<td>$51,780</td>
<td>$68,803</td>
<td>$17,023</td>
</tr>
<tr>
<td>2</td>
<td>Total Premium - California Family</td>
<td>$8,504</td>
<td>$20,831</td>
<td>$12,327</td>
</tr>
<tr>
<td>3</td>
<td>Total Premium - Tied to GDP Per Capita Growth</td>
<td>$8,504</td>
<td>$11,310</td>
<td>$2,806</td>
</tr>
<tr>
<td>4</td>
<td>Premium Savings</td>
<td>$9,521</td>
<td>$9,521</td>
<td>$9,521</td>
</tr>
</tbody>
</table>

Median Income in California

- 2003 Actual: $49,300
- 2018 Actual (+43%): $70,489
- 2018 Premium Savings Added to Income (+62%): $80,010
A California Commission Could Identify and Target Multiple Problem Areas

• No simple solution to our health care cost conundrum
  • Problems in our system are multiple

• Policies are needed to:
  • Set enforceable targets that encourage and create meaningful competition
  • Ensure markets are open, transparent, and competitive
  • Provide appropriate regulation when markets fail
As California Considers Creating a Health Cost Commission or Office

• Opportunity to learn from and building on what other states have done will ensure our efforts help bring about an affordable health care system that works for all of us.

• Extremely fortunate to have leaders from two other states to provide the Committee with first-hand knowledge of their models and advice for California

  • Massachusetts and Oregon
  • Well developed cost commissions

• Later, I will provide overviews of the Commissions in Maryland and Rhode Island
Notable Success Factors Common to Other States

- **Explicit Benchmarks**
  - Quantitative benchmarks
  - Measurable with reliable, agreed upon data
  - Cost growth tied to growth of the State’s economy

- **Authority to collect and analyze detailed data**
  - Further transparency
  - Understand major cost drivers
  - Improve market performance
  - Monitor performance relative to benchmark

- **Independent authority and stakeholder collaboration**

- **Enforcement mechanisms if targets are not met**
Part 2
Cost Commissions - Two Other States

- Maryland
- Rhode Island
## Legislative History and Commission Structure

<table>
<thead>
<tr>
<th></th>
<th>MARYLAND</th>
<th>RHODE ISLAND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Formed</strong></td>
<td>1972</td>
<td>2004</td>
</tr>
<tr>
<td><strong>Year - Most Recent Update</strong></td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td><strong>Government Agency or Independent</strong></td>
<td>Government Agency</td>
<td>Government Agency</td>
</tr>
<tr>
<td><strong>Commission/Implementing Agency</strong></td>
<td>Maryland Health Services Cost Review Commission (HSCRC)</td>
<td>Office of the Health Insurance Commissioner (OHIC)</td>
</tr>
<tr>
<td><strong>Commissioners</strong></td>
<td>Appointed by: Governor</td>
<td>Appointed by: Governor</td>
</tr>
<tr>
<td><strong>Number of Commissioner Members</strong></td>
<td>Seven (7) Members</td>
<td>One (1), State Health Insurance Commissioner</td>
</tr>
<tr>
<td><strong>Commission Member Representation</strong></td>
<td>Independent Experts, Payors, Providers, and Consumers</td>
<td>State Official, Supported by Working Groups</td>
</tr>
<tr>
<td><strong>External/Supplemental Data Collection and Support</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Medicare/CMS Waivers</strong></td>
<td>All Payor CMS Waiver - includes Medicare and Medicaid</td>
<td>None</td>
</tr>
</tbody>
</table>
Maryland: All-Payer Global Revenue Budgets for Hospitals

- Sets Global Revenue Budgets for All Hospitals
  - Effectively controls spending for the largest component of health care costs for all payers
  - Sets statewide target for total spending for all payers
- Transitions Rural Hospitals from Cost-Based Reimbursement to Global Budgets
  - Provides predictable, stable revenue and cash flows for rural hospitals
- Provides Financial Incentives for Prevention and Population Health
Maryland: All-Payer Global Revenue Budgets for Hospitals – Some Limitations

• Sets Global Revenue Budgets for All Hospitals
  • Limited to hospitals only
  • Patient population and attribution difficult under hospital global budgeting

• Transitions Rural Hospitals from Cost-Based Reimbursement to Global Budgets
  • Accounting for factors outside hospital control
  • Adjusting for “leakage” of care from hospital to nonhospital settings

• Maryland has a unique CMS/federal waiver that is likely not to be available to other states
Rhode Island Model: Health Insurance Premium Regulation + Affordability Standards

• Review and Approve Health Insurance Premium Rates
  • Establishes a Global Health Spending Cap for Rhode Island Tied to Economic Growth
  • Ties 80% of Health Care Payments to Quality
  • Develops a Next-Generation Health Information Technology System for providers Health Care Payments to Quality
Rhode Island Model: Health Insurance Commissioner Leverages Affordability Standards

• Law allows Commissioner to Review and Approve Health Insurance Rates

• In addition -- Rhode Islands broad **Affordability Language** Allows Commissioner to:
  • Go beyond health insurance premiums
  • to underlying factors driving cost growth
  • both fully insured and self-insured plans

• Commissioner implemented a set of affordability standards (in 2010) for **all commercial insurers** in the state
  - Price controls on providers -- including annual price inflation caps for both inpatient and outpatient services (equal to the Medicare price index plus 1 percentage point)
  - Require contracts include value-based payments to hospitals
  - Require increased spending on primary care services -- by 1 percentage point per year without raising consumer premiums -- to support development the patient-centered medical home model
  - Mandate adoption of electronic health records and statewide health information exchange to support care coordination and quality
Closing Comments
Fundamental Building Blocks – Comprehensive Data

• Our current system lacks transparency
  • Effective markets need information and transparency
  • Proper public policy needs information and transparency

• Slowing cost growth will be very difficult
  • Without good data -- likely impossible
  • Difficult decisions will be required
  • The policy debates should focus on policy trade-offs and not on whether we have the right data to measure important policy parameters

• Good news - California has a history, experience and momentum with collecting needed health system data
  • Need to build on our experience and support development the essential APCD project
  • But, should not wait until we have everything
  • Need to make the data widely and easily available to the public and researchers to leverage the analytical resources within California health services research community
Fundamental Building Blocks – Benchmarks and Governance

• Develop and track progress against benchmarks
  • Measure and track *affordability* from multiple perspectives – not just total aggregate spending
    • Households
    • State government

• Provide Commission with independence (and data) to make difficult decisions
  • Our current system can be vastly improved
  • Competitive markets determine these outcomes in consumers interests
  • Intervention sometimes needed to ensure markets function properly