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New Health Care Pricing Analysis: MA Among Nation's Highest *Review Questions Affordability Assumptions in Commonwealth*

Boston, MA – Massachusetts health care costs are among the most expensive in the United States and provider price variation is more extreme in the Commonwealth than nearly all other markets in the nation, a new analysis of state and national reports reveals. The review, conducted by Freedman HealthCare, shows how market-based efforts have failed to improve affordability and that short-term regulatory efforts may be necessary to improve the functioning of the health care market.

"While the AIM board has not endorsed regulatory intervention as recommended in this report, rising health care costs are the number one issue facing AIM members. The Freedman analysis is important to help us all better understand how Massachusetts health care costs impact employers and consumers, and his analysis that the market has failed to correct this variation requires us to provide health plans with the necessary tools to rein in costs and to continue to monitor the market to see if more robust product designs can drive employers and consumers to lower cost, more efficient providers," said Rick Lord, President and Chief Executive Officer of Associated Industries of Massachusetts.

With health care spending exceeding the state's cost benchmark the last two years, the analysis outlines the challenges high health care costs create for residents and employers. Among them:

- Employee health care costs as a percentage of income continues to grow;
- Massachusetts businesses competing nationally are disadvantaged by higher premiums; and
- Rising health care costs force crowding out of household and government spending.

"Despite the suggestion that Massachusetts' health care costs are affordable, continued increases in the cost of health care are a serious threat to small businesses, so it's important to provide a complete picture on health care spending in the Commonwealth," said Retailers Association of Massachusetts President, Jon Hurst.

The analysis also found that provider price variation in Massachusetts is much wider than nearly all other markets across the U.S. For example, the state's highest-priced hospitals were 2.5 to 3.4 times more expensive than the lowest-priced hospitals, a significantly higher spread than the range among hospitals in neighboring states. Further, the analysis noted that price variation has contributed to increases in health care spending and that disparities will continue to grow as providers consolidate and volume shifts to higher cost providers.

"Rising health care costs are the number one issue facing small businesses and the people who work for them. While it is important to address provider price variation, it is essential that any solution results in lower health care costs for Massachusetts employers," said Bill Vernon, Massachusetts State Director for the National Federation of Independent Business.

Despite efforts to address provider price variation through "market-based" reforms, such as tiered and narrow network plans and the use of alternative payment methods, the analysis concludes that these measures have had no discernible effect on price variation or market dysfunction.

Moreover, as suggested in reports from the Health Policy Commission and the Office of the Attorney General, further market based intervention are unlikely to help and short-term regulatory action is warranted. The analysis outlines a series of potential options to address price variation, including:

- Expanding authority under the Performance Improvement Plans;
- Driving price convergence through "guardrails" on contracted prices;
- Capping payments at a percentage of Medicare;
- Addressing overcharges in surprise bills; and
- Considering longer-term regulation such as Maryland-type rate setting

"Multiple state reports have shown that the price of services that doctors and hospitals charge is the main reason for increasing health care costs and the gap between the highest-priced and lower-priced providers is widening," said Lora Pellegrini, President and Chief Executive Officer of the Massachusetts Association of Health Plans. "As premiums reflect the cost of care, addressing unwarranted differences in provider prices must result in making health care more affordable for employers and consumers."

The analysis, conducted for the Massachusetts Association of Health Plans (MAHP), the National Federation of Independent Business (NFIB), and the Retailers Association of Massachusetts (RAM), examined the more than two dozen Massachusetts state reports on health care costs, as well as national data for all states on health care spending and prices, including information from the U.S. Department of Commerce, Centers for Medicare and Medicaid Services, and the Commonwealth Fund.

"Despite years of effort, four health care reform laws, and more than two dozen state reports, limited progress has been made in addressing high health care costs with no improvement in price variation. Given the impact of rising health care costs on employers and consumers, short-term regulatory action could address health care spending and price variation in a way that market-based solutions have not," said John Freedman, MD, MBA, President of Freedman HealthCare.

About AIM

Established in 1915, Associated Industries of Massachusetts is the largest nonprofit, nonpartisan association of Massachusetts employers. With nearly 4500 member companies employing more than 600,000 people in Massachusetts, AIM's mission is to promote the well-being and prosperity of the Commonwealth by reducing business costs, shaping state and federal business regulation, and ensuring a skilled and highly educated work force. For further information, visit www.aimnet.org.

About RAM

The Retailers Association of Massachusetts is a statewide trade association of 4,000 retailers and restaurants of all types and sizes. The retail sector in Massachusetts employs 600,000 residents, or 17% of all jobs, and has total sales of over \$100 billion annually.

About NFIB

The National Federation of Independent Business is the leading small business association representing small and independent businesses nationwide. Its mission is to promote and protect the right of its members to own, operate and grow their businesses. A non-profit, nonpartisan organization founded in 1943, NFIB represents the consensus views of its members in Washington and all 50 state capitals.

About MAHP

The Massachusetts Association of Health Plans represents 17 health plans covering more than 2.6 million Massachusetts residents. It is dedicated to improving health for all in Massachusetts by promoting affordable, safe and coordinated health care.

About Freedman HealthCare

Established in 2005, Freedman HealthCare is a leader in performance measurement, health care reform, and the data needed to guide change. Through Freedman HealthCare's work with state health organizations, healthcare providers, payers and policymakers, the firm assists diverse stakeholder groups in adopting policies and programmatic changes that drive quality improvement and cost containment.

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