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MHA Statement on Attorney General Martha Coakley's Interim Report on Provider Payments

The Massachusetts Hospital Association (MHA) commends Attorney General Martha Coakley for her efforts to identify and address cost drivers in the Commonwealth's healthcare system. The Attorney General's (AG's) interim report on payments to healthcare providers offers some compelling and interesting initial findings. MHA has done a preliminary review of the report and is awaiting additional information about the AG's data and analysis before drawing final conclusions.

The report, although only making preliminary findings, sheds light on many important aspects of the current payment system. Many of these issues have been discussed by hospitals across the state as they engage in efforts to fundamentally change the way healthcare is delivered and paid for. Consistent with several of the AG's recommendations, MHA and its member hospitals similarly agree on and embrace the need for greater transparency and accountability, more standardization of measurement and reporting, and increased focus on payment tied to the quality of care provided. To achieve those objectives there will need to be change not only among those who provide care, but also by insurers, employers, government, and patients.

In comparing costs between hospitals, MHA has long pointed out that important differences in patient populations, specialized services provided, and the fulfillment of underlying societal needs – such as educating the next generation of physicians, maintaining 24/7 emergency capacity and providing care to underserved populations – must be taken into account. The interim report highlights inconsistent funding related to these hospital-based services, which benefit all citizens. Also while the report indicates efforts were made to adjust comparisons for patient acuity and other factors, it is unclear how exactly these adjustments were made, and these details would be helpful to our evaluation.

While there is no argument that costs vary among providers for many reasons at any point in time, it is not clear that price more than utilization has been the ultimate determinant driver of healthcare costs, as there are numerous complexities behind the data. Thus MHA wants to further examine some of the AG's findings regarding price and utilization, specifically:

- The report finds that “Increases in premiums appear to be driven largely by price (75%) rather than utilization (25%).” It refers to findings from the DoI's September 2008 Wyman study “Trends in Health Claims for Fully-Insured, Health Maintenance Organizations in Massachusetts, 2002-2006” and states that the AG's current findings are consistent with that report. MHA analysis of that same DoI report shows that for hospital services provided in the outpatient setting (which was a major driver of healthcare cost increases), increases in cost were clearly driven by *utilization* while on the inpatient side, increases were driven by ‘cost per service.’ For professional services, increases were driven by both utilization and cost per service, although slightly weighted toward the utilization side. Also nationally an October 2009 *Health Affairs* study found healthcare spending growth was driven largely by outpatient services, with utilization driving the entire outpatient increase.

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- There are also questions regarding the definition of “price” when detailing the costs of various healthcare services. ‘Cost per service’ frequently equates “price” with “per claim payment.” But there has been a shift over time from low cost procedures/drugs/implantables to higher cost procedures/drugs/implantables to treat the same conditions. So what is called “price” can in reality be a change in product mix driven by consumer demand and physician medical determination. It’s like comparing the “price” of a bag of groceries from year to year without examining whether the bag has the same mix of groceries in both periods.

A common understanding about historical cost drivers is important to guide the healthcare reform debate, but there should be no doubt that payment related to quality and outcomes is an important principle that should be a greater influence on future payment policy.

Recognizing that some information used to create the report may need to remain confidential, we encourage the Attorney General to publicly release all legally allowable information and analyses as soon as possible.

The AG’s interim report on provider payments is an important first step, but there are other aspects of healthcare costs that also need to be examined in order for there to be a more complete and balanced understanding of healthcare cost drivers and how to address concerns over rising costs. Increasing transparency and accountability among all healthcare stakeholders can only help this effort. MHA is committed to assisting the Attorney General in this endeavor, and to continuing to improve our healthcare system through reform of our current payment and delivery systems.

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