

Sustainable Healthcare Expenditures Workgroup

July 23, 2014

Outline: The Massachusetts Model

- Background, Chapter 224 of 2012
- Definition of Total Health Care Expenditures
 - Commercial Insurance
 - Total Medical Expenses
 - Public Coverage
 - Net Cost of Private Health Insurance
- Exclusions
- Disaggregation
- Reporting Timeline
- Takeaways

Overview of Chapter 224 of 2012

- Established Center for Health Information and Analysis (CHIA)
 - Requires CHIA to annually calculate per capita Total Health Care Expenditures (THCE) at payer, provider, and provider organization level
- Established Health Policy Commission
 - Requires HPC to set annual benchmark for growth in per capita THCE (subject to limits set in statute)
 - Gives HPC authority to hold payers, providers, and provider organizations accountable for exceeding benchmark
- THCE reporting will contribute to annual (since 2010), ongoing public hearings by AG and HPC on Health Care Cost Trends

(Health Care Cost Trends)

| | Private Insurance | | Medicare | MassHealth |
|--|-------------------|---------|----------|------------|
| | 2008 | 2009 | 2008 | 2008 |
| Total spending | | | | |
| Spending per member year | \$4,427 | \$4,885 | \$12,995 | \$14,378 |
| Annual growth in spending per member per year | 5.70% | 10.30% | 4.80% | 2.80% |
| Inpatient hospital | | | | |
| Spending per member per year | \$704 | \$776 | \$3,998b | \$955 |
| Annual growth in: Spending per member per year | 6.30% | 10.30% | 4.90% | 7.90% |
| Admissions per member year | -0.60% | 4.00% | -0.20% | --c |
| Spending per admission | 7.30% | 6.30% | 5.20% | --c |
| Outpatient hospital services | | | | |
| Spending per member year | \$1,035 | \$1,172 | \$1,569 | \$566 |
| Annual growth in: Spending per member per year | 10.20% | 13.20% | 6.20% | -4.90% |
| Admissions per member year | 3.30% | 3.60% | 5.10% | -5.90% |
| Spending per admission | 6.70% | 9.20% | 1.10% | 1.10% |
| Professional services | | | | |
| Spending per member year | \$1,410 | \$1,576 | \$2,464 | \$923 |
| Annual growth in: Spending per member per year | 9.20% | 11.80% | 1.80% | 8.00% |
| Admissions per member year | 3.40% | 8.70% | 2.20% | 8.40% |
| Spending per admission | 6.10% | 3.10% | -0.40% | -0.40% |
| Prescription drugs | | | | |
| Spending per member year | \$847 | \$890 | \$2,213 | \$652 |
| Annual growth in: Spending per member per year | -1.60% | 5.10% | 4.00% | 4.70% |
| Admissions per member year | -5.70% | 3.40% | 1.50% | 6.20% |
| Spending per admission | 3.00% | 2.10% | 2.50% | -1.40% |
| Diagnostic imaging services | | | | |
| Spending per member year | \$421 | \$475 | \$602 | \$151 |
| Annual growth in: Spending per member per year | 8.30% | 7.50% | 1.80% | 26.80% |
| Admissions per member year | 0.5% | -0.3% | 2.20% | 42.0% |
| Spending per admission | 7.7% | 7.8% | -0.50% | -10.70% |

Total Health Care Expenditures - Legal Definition

- a) All categories of medical expenses and non-claims related payments to providers, as included in the health status adjusted total medical expenses (TME) reported by the Center
- b) All patient cost-sharing amounts (deductibles, copayments)
- c) The net cost of private health insurance
 - Difference between health premiums earned and benefits incurred
 - Includes net additions to reserves, dividends, profits or losses

THCE Model Elements

- 1. Commercial Insurance**
- 2. Public Coverage**
- 3. Net Cost of Private Health Insurance**

1. Commercial Insurance

- a) 10 largest payers required to report initial Total Medical Expenses (TME)
- b) Smaller carriers' expenses estimated from medical loss ratio reports filed with CMS

1.1 Total Medical Expenses (TME)

- In 2010, Division of Health Care Finance and Policy directed to promulgate regulations for the uniform calculation and reporting by payers of TME and Relative Prices and to publicly report that data
- Designed to capture health care expenditures of commercial payers and their members.
- Full amount paid to providers for health care services delivered to a payer's covered member population
 - Payer and member cost-sharing payments combined

1.1 Total Medical Expenses (cont'd)

- Claims and non-claims payments for the previous calendar year
 - Based on up to four months of claims run-out, incorporating completion factors as necessary.
- Payer-submitted data based on “allowed amounts”
 - Paid medical claims
 - Patient cost-sharing (co-payments, co-insurance and deductibles)
- Service categories include: hospital inpatient, hospital outpatient, professional physician, professional other, pharmacy, other, and non-claim payments
- Adjusted for Health Status

1.1 Total Medical Expenses: Partial Claims

- Some services such as behavioral health or pharmacy services may be “carved out” or provided separately from the other medical services
- In these instances, payers are unable to obtain the payment information and do not hold the insurance risk for the carved-out services.
- Payers will report this type of TME data separately in the commercial partial-claim category
- Subject to actuarial adjustments

1.1 MA Methodology for adjusting partial claims

| | |
|----|---|
| 1. | Calculate partial TME by payer and service category using zip code records. |
| 2. | Calculate full claims TME adjusted to reflect partial TME risk scores by payer and service category. |
| 3. | For service categories where partial TME (PMPM) exceeds adjusted full claims TME, use reported claims. |
| 4. | For non-claims, use reported claims. (It is anticipated the partial claims are primarily ASO, where non-claims are uncommon.) |
| 5. | For remaining claims categories, gross up claims such that they represent the same % of TME as in full claims with excess non-claims re-distributed to the other categories. |
| 6. | If all service categories have partial TME < full claim TME, report claims such that PMPM for each category is the same as adjusted full claims. (Service categories may not be accurate since partial likely has less non-claims, but total TME should be reasonable.) |

2. Public Coverage

- a) Medicaid MCOs
 - TME reports
- b) Medicaid FFS and other programs
 - reported by Mass Health
- c) Medicare data
 - MA: Reported by commercial payers to CHIA
 - Parts A, B & D: CMS data summary to CHIA
- d) Veterans Affairs
 - National Center for Veteran Analysis and Statistics

3. Net Cost of Private Health Insurance

- Designed to measure cost to MA residents associated with administration of private health insurance
- Difference between health premiums earned and benefits incurred, which shall consist of:
 - i. All categories of administrative expenditures, as included in medical loss ratio regulations promulgated by the Division of Insurance;
 - ii. Net additions to reserves;
 - iii. Rate credits and dividends; and
 - iv. Profits or losses, or as otherwise defined by regulations promulgated by the Center (CHIA) under chapter 12C.

3. Net Cost of Private Health Insurance (cont'd)

- Individual & small group markets
 - Medical Loss Ratio reports filed with Department of Insurance
 - *Direct Premium Earned - Incurred claims - Rebate + Allowable Fraud Deduction Expense*
- Large Group Fully-Insured Market
 - Supplemental Health Care Exhibit from National Association of Insurance Commissioners (NAIC)
 - *Health Premiums Earned + Net Reinsurance Premiums Earned + Other Premium Adjustments + Risk Revenue - Total Incurred Claims + Deductible Fraud & Abuse Expense - Net Reinsurance Claims Incurred - Other Claims Adjustments - Estimated Rebates Unpaid Current Year*

3. Net Cost of Private Health Insurance (cont'd)

- Medicare Advantage
 - Annual Statutory Financial Statements
 - *Health Premium earned - Amount Incurred for Provision of Health Care services*
- Medicaid MCO
 - Health Annual Statutory Financial Statements
 - *Health Premium earned - Amount Incurred for Provision of Health Care services*
- Self-insured
 - Supplemental Health Care Exhibit (NAIC)
 - *Income from Fees of Uninsured Plans*

What's Excluded

- Dental Insurance
- Vision Insurance
- Workers' Compensation
- Out-of-pocket spending not covered by insurance
- Health insurance offered or administered by out-of-state carriers
- Other government programs (Tricare, Indian Health Services, SAMHSA)
- Administrative expenses for public payers

Disaggregation

- Components of THCE will support analysis of expenditures at the payer, provider and provider organization level
 - TME Disaggregated by geography and line of business
- CHIA will perform ongoing analysis of collected data to identify payers, providers, or provider organizations whose increase in TME is considered excessive, and who may jeopardize ability of state to benchmarks

Reporting Timeline: Initial & Final Assessments

- CHIA required to report whether rate of growth met benchmark by September 1st annually
- Timing affects model design and approach
 - Claim payment amounts finalized after close of calendar year
- Initial assessment
 - Based on (up to) four months of claims run-out
- Final assessment
 - Released 12 months later
 - Refined version, incorporating 16 months of claims run-out and settlements
 - APCD analysis to enhance model calculations

Summary of MA THCE model for 2011

| Category | 2011 |
|--|-------------------------|
| Total Public and Private Spending | \$46,316,873,940 |
| Net Cost of Private Health Insurance | \$2,249,544,596 |
| <i>Total Health Care Expenditures</i> | <i>\$48,566,418,537</i> |
| | |
| Total Massachusetts Population (2011) | 6,607,003 |
| | |
| <i>Total Health Care Expenditures Per Capita</i> | <i>\$7,351</i> |

Takeaways

- Incremental Approach
 - Already collecting annual total medical expenses by provider from most payers (TME)
 - Begin with statewide measurement and benchmarking of Total Health Care Expenditures in 2013 and 2014
 - Health entity level reporting not likely until 2015 or later
- Transparent
 - CHIA consults with Technical Advisory Group on methodology
 - CHIA publishes white paper on methodology and calculations

Sources

Massachusetts Total Health Care Expenditure Methodology & Data Appendix
(December, 2013)

<http://www.mass.gov/chia/docs/r/pubs/13/thce-methodology.pdf>

<http://www.mass.gov/chia/docs/r/pubs/13/thce-methodology-data-appendix.xlsx>

Blue Cross Blue Shield of Massachusetts Foundation Summary of Chapter 224 of the
Acts of 2012

http://bluecrossmafoundation.org/sites/default/files/download/publication/Chapter%20224%20Summary_2.pdf

Massachusetts Total Medical Expenses: 2009 Baseline Report (June 2011)

<http://www.mass.gov/chia/docs/r/pubs/11/tme-baseline.pdf>

Massachusetts Health Care Cost Trends: Trends in Health Expenditures (June 2011)

<http://www.mass.gov/chia/docs/cost-trend-docs/cost-trends-docs-2011/health-expenditures-report.pdf>