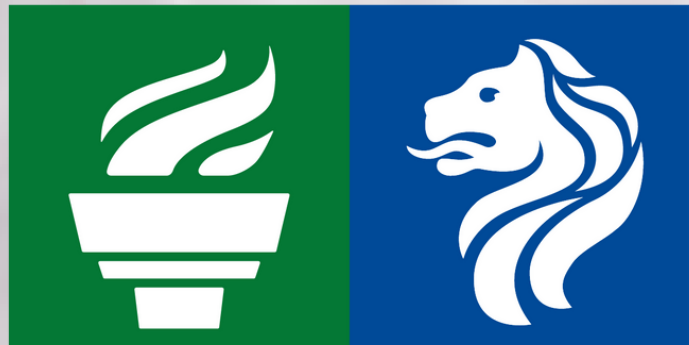


A State Roadmap to Developing Health Care Cost Growth Benchmarks

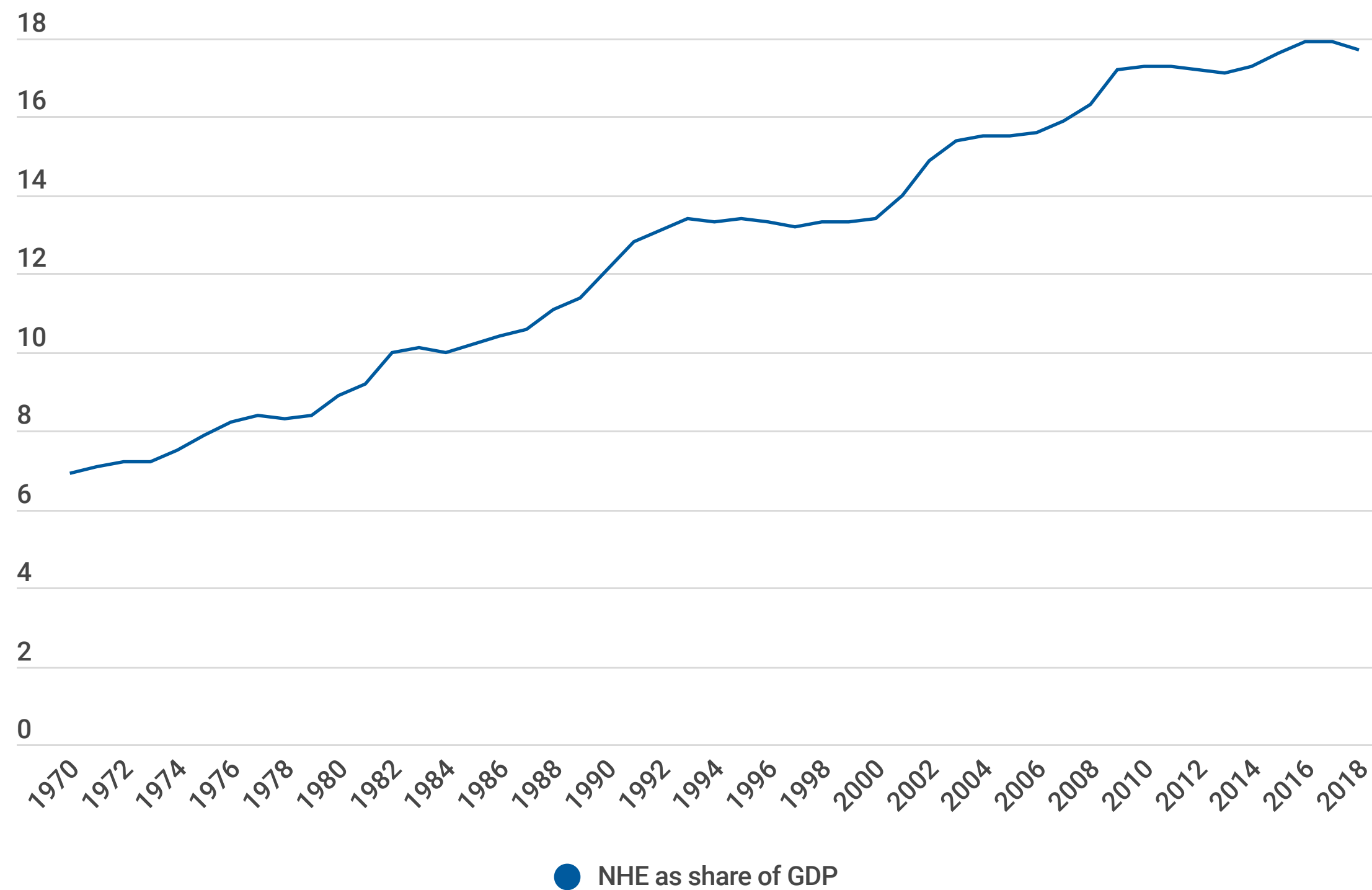


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Rising Health Spending

US health care spending has been rising rapidly for more than 40 years. Federal and state governments — and most individuals — are feeling the impact of this runaway spending.

Total National Health Expenditures as a Percent of Gross Domestic Product, 1970–2018

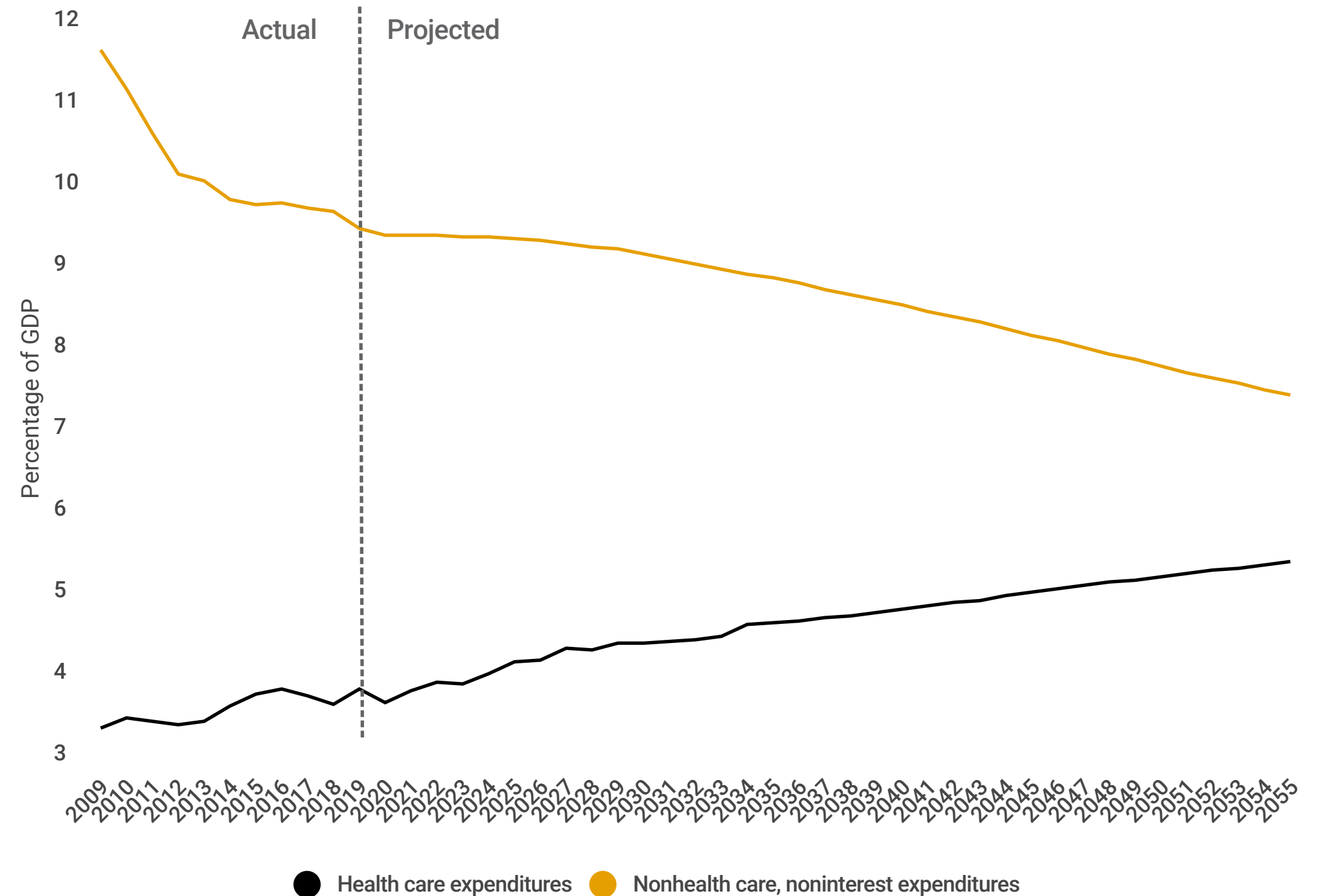


Source: Peterson-KFF Health System Tracker/KFF analysis of National Health Expenditure (NHE) data

Fewer Dollars for Other Priorities

At all levels of government, spending so much on health care means that there is less money available for priorities like education or housing, or any social determinants of health. The COVID-19 pandemic has meant less state revenue for states, intensifying the need to control continually health care rising costs in a rational way.

Health and Nonhealth, Noninterest Expenditures of State and Local Governments as a Percentage of Gross Domestic Product, 2009–2055



Source: United States Government Accountability Office, State and Local Governments' Fiscal Outlook: 2019 Update, December 2019.

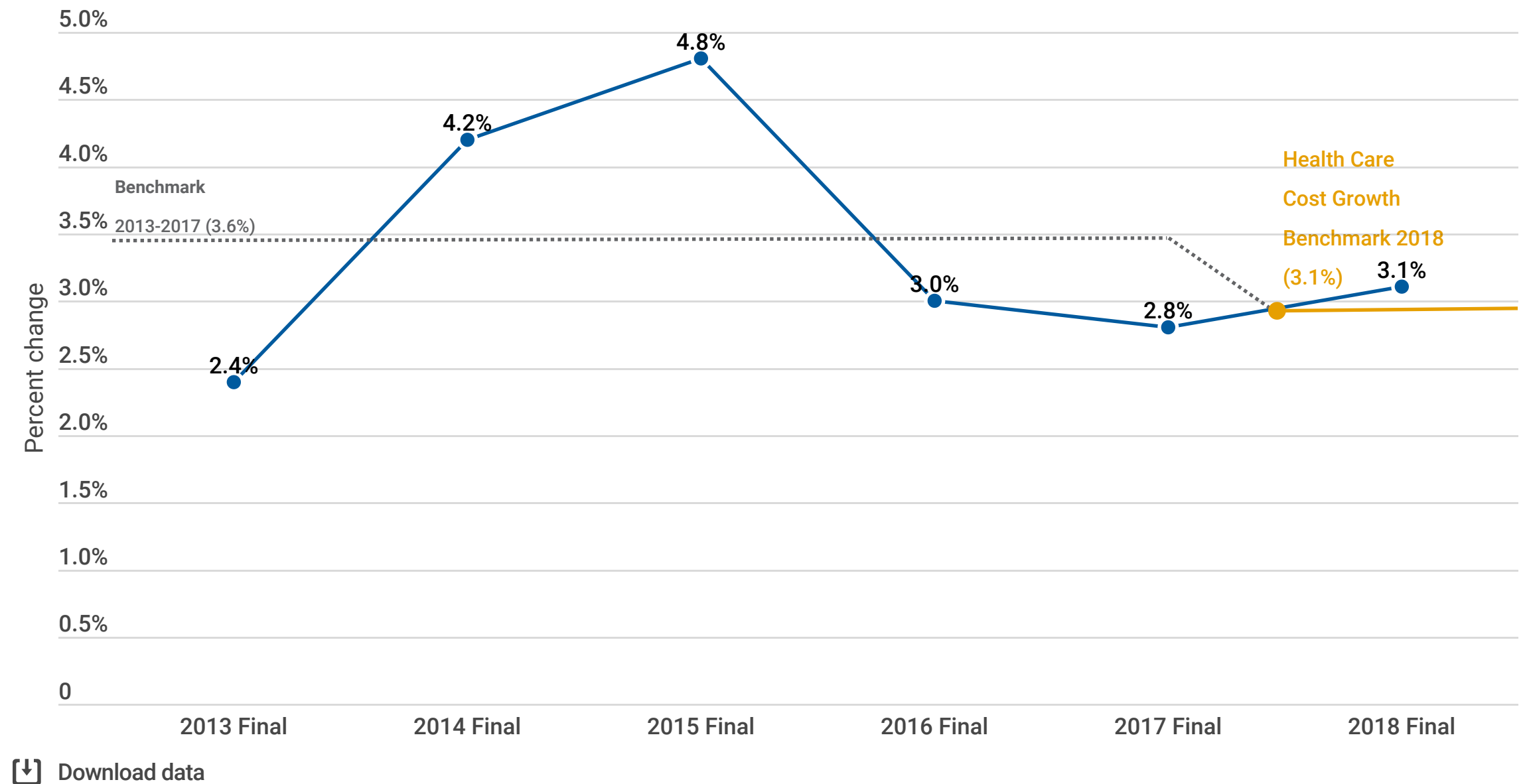
You Can't Improve What You Can't Measure

For states, understanding the rate at which health costs are growing — and the growth rate that the economy and consumers can bear — is important for their financial health and that of their residents.

Following the maxim “you can’t improve what you can’t measure,” a first step toward controlling health care costs is to measure per-person health care spending in a state across all payers, including Medicare, Medicaid, and employer-based coverage, and then set a statewide health care cost growth target, or benchmark.

How Has the Health Care Cost Growth Target Affected Spending in Massachusetts?

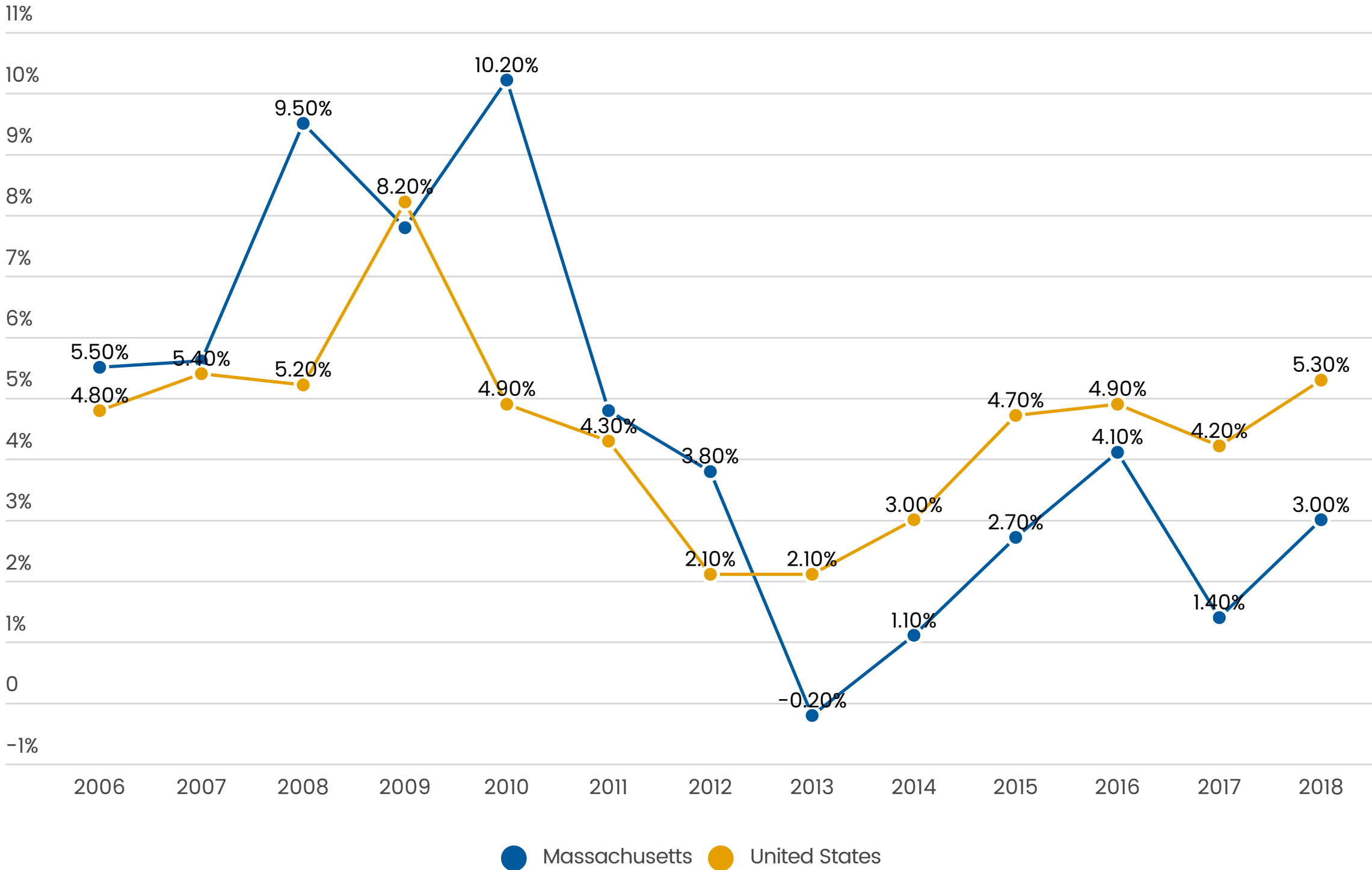
- In 2012, Massachusetts became the first state to establish a health care cost growth benchmark, or target.
- Since implementation, annual all-payer health care spending growth per enrollee has been below the target level, on average, and has been lower than the national rate of growth.



Data: Massachusetts Health Policy Commission, 2018 Cost Trends Report.

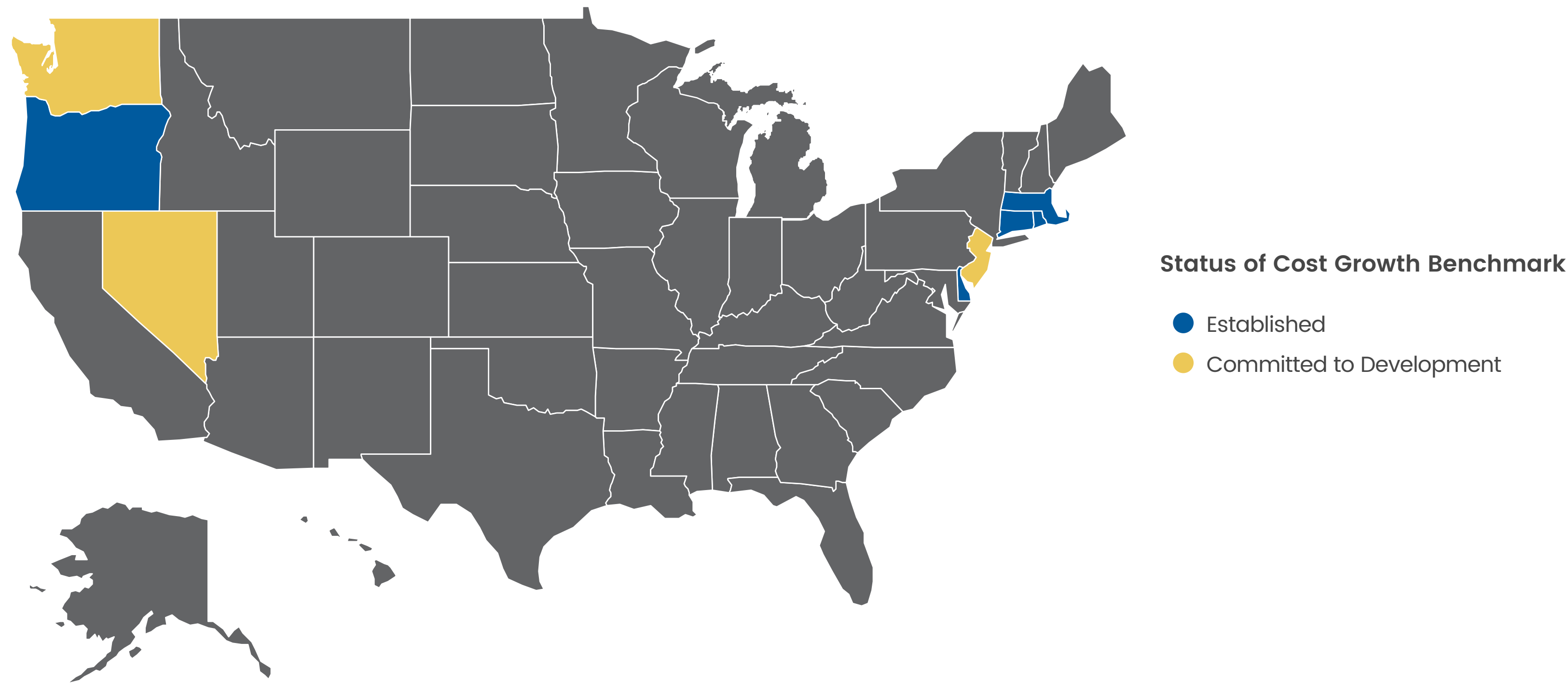
How Has the Health Care Cost Growth Target Affected Commercial Spending in Massachusetts?

The impact is most pronounced in per-capita commercial spending, where spending growth has historically been highest.



Data: Centers for Medicare and Medicaid Services, National Health Expenditure Accounts, Personal Health Care Expenditures, 2014–2018; State Health Expenditure Accounts, 2005–2014; Massachusetts Center for Health Information and Analysis, Total Health Care Expenditures, 2014–2018; and Massachusetts Health Policy Commission, 2019 Annual Health Care Cost Trends Report (HPC, Feb. 2020).

Which States Are Implementing Health Care Cost Growth Targets?



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Working with the Peterson Center on Healthcare, the Milbank Memorial Fund, with Bailit Health, is providing technical assistance to Connecticut, Nevada, New Jersey, Oregon, and Washington over two years. These states have — or have committed to — developing targets for per-capita trends in total health care spending statewide, as well as examining which factors are driving the most cost growth.

Total health care spending includes:

- *All medical expenses paid to providers by private and public payers, including Medicare and Medicaid

- *All patient cost-sharing amounts (e.g., deductibles and co-payments)

- *The net cost of private health insurance (e.g., administrative expenses and operating margins for commercial payers)

Developing a Health Care Cost Growth Target: What Are the Steps for State Leaders?

1. Convene a stakeholder group to provide input
2. Determine what kinds of spending should be measured (e.g., types of claims and non-claims payments)
3. Develop a cost growth target methodology, e.g., select an indicator(s) to benchmark spending growth and determine how often it should be modified
3. Determine which insurers and health providers should be assessed and create detailed instructions for state staff and payers on data submission
4. Build analytic capacity to monitor and publicly report cost growth performance
5. Analyze performance against the benchmark and create a "data use strategy" to identify the biggest cost drivers
6. Develop policy responses

A Flexible Model for Containing State Health Care Costs

This model of developing public measurement capacities and consensus on health care cost containment goals is flexible and can be replicated by other states. Any state that is committed to examining health care spending trends could follow this path, regardless of its partisan composition.