Examination of Health Care Cost Trends and Cost Drivers

Pursuant to G.L. c. 118G, § 6½(b)

Attachment 2b

Report for Annual Public Hearing

March 16, 2010

Summary of Findings

Our examination identified several factors that we believe should be considered when analyzing cost drivers and pursuing cost containment. We found:

A. Prices paid by health insurers to hospitals and physician groups vary significantly within the same geographic area and amongst providers offering similar levels of service.

B. Price variations <u>are not correlated</u> to (1) quality of care, (2) the sickness of the population served or complexity of the services provided, (3) the extent to which a provider cares for a large portion of patients on Medicare or Medicaid, or (4) whether a provider is an academic teaching or research facility. Moreover, (5) price variations are not adequately explained by differences in hospital costs of delivering similar services at similar facilities.

C. Price variations <u>are correlated</u> to market leverage as measured by the relative market position of the hospital or provider group compared with other hospitals or provider groups within a geographic region or within a group of academic medical centers.

D. Variation in total medical expenses on a per member per month basis <u>is not correlated</u> to the methodology used to pay for health care, with total medical expenses sometimes higher for risk-sharing providers than for providers paid on a fee-for-service basis.

E. Price increases, not increases in utilization, caused most of the increases in health care costs during the past few years in Massachusetts.

F. Higher priced hospitals are gaining market share at the expense of lower priced hospitals, which are losing volume.

G. The commercial health care marketplace has been distorted by contracting practices that reinforce and perpetuate disparities in pricing.

Each of these findings is detailed in the report.

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