



Hearing before the Massachusetts Division of Health Care Finance and Policy
March 16, 2010

Testimony of Alan G. Macdonald, Executive Director
Massachusetts Business Roundtable

The testimony of the Massachusetts Business Roundtable (MBR) at today's hearing is to address employer experiences with health care cost growth, particularly with regard to the impact of rising costs on employers and employees in Massachusetts; employer experiences with limited networks and tiered health plans; approaches for employers and employees as consumers to become prudent health care purchasers; and the feasibility of various policy solutions.

In order to be a successful enterprise, a business must identify its cost drivers, and develop options to mitigate them. Try as they might, however, in dealing with health care insurance as a cost driver, most businesses have not been successful in adopting sustainable options to mitigate their health care costs. As a result, health care costs for employers have grown from being relatively affordable as part of the national economy in the 1960s and 1970s, to being much less affordable—and sometimes entirely unaffordable—for employers in today's intensely competitive international economy.

In the 1980s and 1990s, employers identified fee-for-service health care delivery as a major cost driver in health care. At that time, many employers negotiated with health insurance plans to move away from fee-for-service by aligning their employee groups with specific provider networks for health care. By aligning employees with a limited network of health care providers, costs and prices for health care could be identified and negotiated ahead of the services being delivered. However, as the health care provider networks broadened later in the 1990s, and as more services moved out of network, costs and prices could not be identified ahead of time, and "managed care" networks moved from risk-sharing among providers (requiring lower insurance premiums) back to fee-for-service operations (requiring higher insurance premiums).

Since that time, through this first decade of the 2000s, employers have looked to other cost drivers in health care that need to be mitigated, especially unnecessary, inappropriate and/or avoidable use of the health care system by their employees. Toward that end, a growing number of employers have been finding ways to reduce unnecessary, inappropriate or avoidable health care delivery costs through insurance plans known as Consumer-Directed Health Plans (CDHPs).

The basic approach of CDHPs is to emphasize preventive care and to share cost savings between employers and employees, when employees use health care services in the most efficient and appropriate settings. CDHPs are designed to make employees discerning consumers of health care, by having them bear some of the costs, whenever appropriate, of their health care decisions.

Through the use of CDHPs, employers and employees have had significantly lower increases in health insurance premiums in recent years, compared to the average increases on the national and statewide level. Otherwise, for employers not using CDHPs, the average increases in health insurance premiums have been greater than ten percent per year since the late 1990s.

By 2005, the average cost of family health insurance coverage was \$12,146, equaling 13.3% of median income for a family of four in Massachusetts. If we assume annual income growth of 4% between 2005 and 2015, which might be considered high in this economy, and if we assume annual insurance premium growth of 10% until 2015, the average family premiums will reach more than \$31,000 by 2015, and will be equal to nearly 25% of median income for a family of four. Of course, if income growth is below 4% annually, which may be more likely, an annual growth of 10% in health insurance premiums will make the average family premiums in 2015 greater than 25% of median income for a family of four in Massachusetts.

Employers now are looking at a range of solutions to address this unsustainable trend in the growth of health care costs, including health care data mining; data distribution to create a market for choosing health care services; innovative products and designs that support responsible health care purchasing; greater personal responsibility for well-being and use of health care services; rational use of limited resources; and sharing responsibility for addressing costs among employers, consumers, providers, plans and government agencies.

Without a joint effort of all parties to examine such a combination of approaches, employers do not expect a reduction in the cost trends of health care in the foreseeable future. Therefore, MBR is grateful for the opportunity to address these concerns with the Division of Health Care Finance and Policy and with the Office of the Attorney General, and to engage in further discussions on this topic with the information discovered through these hearings.