Strategies to Control the Rising Cost of State Employee Health Care

A report from the Office of the Vermont State Auditor

Investigative Report Highlights 12 November 2021

Imagine that you are purchasing a new car. Two dealers in your town are selling the car that you want, but one of them is charging 50% more. You wouldn't choose the more expensive dealer, right? And yet, in health care, Vermonters frequently select (often without knowing it) the more expensive option, using providers that charge double, triple, or more *for the exact same procedure*. For a number of reasons, health care does not operate like other markets, and patients may not be able or incentivized to seek out a better deal. But when patients use more expensive providers, it increases the cost of health care for patients and employers.

This report examines the extent to which the Vermont State employee health plan pays different prices to different medical providers for the exact same service. The term used to describe this is "price variation." We then examine two strategies Vermont could pursue to reduce health care costs by addressing price variation.

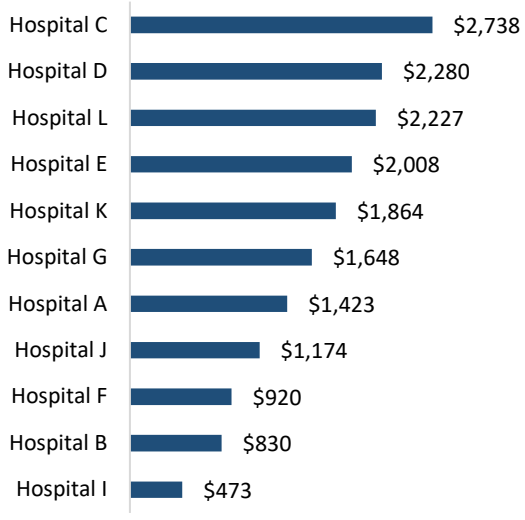
The State pays significantly different prices for the same health care services used by State employees

The State health plan covers more than 25,000 employees, retirees, and dependents. Each time someone covered by the plan receives a medical service, the State pays a pre-arranged price that is site-specific. We found significant variation in prices paid by the State for health care services frequently used by State employees. In our sample, **the highest priced provider for a given service was paid an average of 3.5 times more than the lowest priced provider for the same service**. For some services, the difference between the highest and lowest priced provider was even more extreme, such as a CT scan (5.8 times) and an echocardiograph (9.3 times).

When State employees use more expensive care, it increases the total cost of care and ultimately the taxpayers pay more. In our sample, State employees used higher priced providers for approximately 40% of services.

Utilization of higher cost providers – and the resulting increase in health care spending – matters because State employee health care is a significant and growing expense. **Between 2010 and 2019, annual medical payments covered by the State plan grew 51%, from $94 million to $142 million**, while the number of covered lives grew by just 16%. Reducing the cost of employees' health care would free up resources to support other State efforts or ease the pressure on taxpayers.

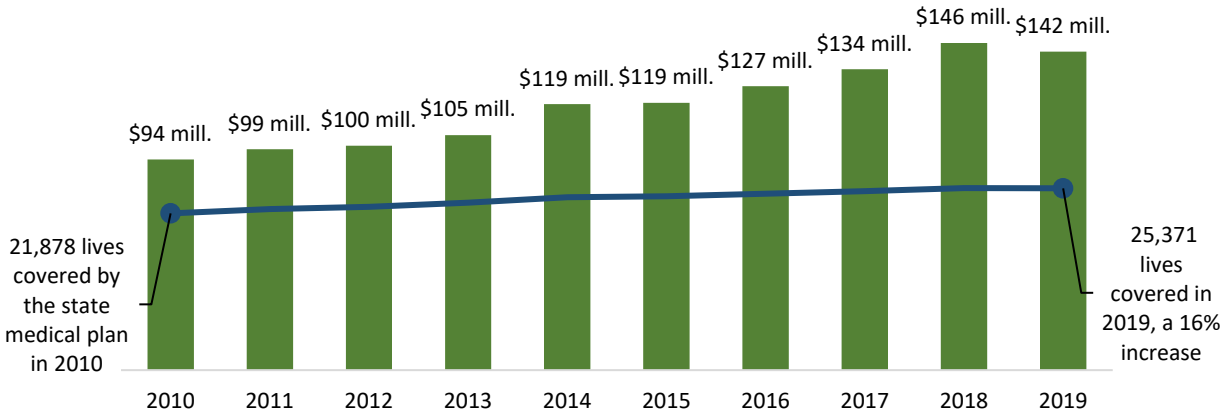
Median prices for a CT scan of the chest under the State health plan



Source: Blue Cross Blue Shield of Vermont, State of Vermont Employer Group: 2019 Median Prices

To access the full report, please visit our website.

Medical payments for the State plan grew 51% between 2010 and 2019



Source: Vermont Department of Human Resources, Annual Utilization Reports 2010-2019. Prescription drug costs are not included but added $29 million to the total in 2019.

Other states have successfully reduced the cost of their employees' health care by controlling price variation

Many states are grappling with the rising costs of their employee health plans. Some states, including Montana and New Hampshire, have implemented innovative policies to reduce the cost of care for their employees by limiting price variation:

	Montana: Reference-based Pricing	New Hampshire: Incentive Program
Model overview:	**Reference-based pricing occurs when a health care purchaser sets a maximum price for what they are willing to pay for a service rather than merely paying the prices negotiated by insurance companies and hospitals.** Montana used reference-based pricing for inpatient and outpatient services at acute care hospitals across the state.	**Under an incentive-based program, insurers provide employees with comparative price information and a cash incentive when an employee opts for a lower priced provider.** New Hampshire offers cash rewards to State employees, retirees, and their dependents when they select lower priced providers across more than 50 services.
Years in place:	State fiscal year 2017 to present	2010-present
Estimated savings:	$47.8 million in state fiscal years 2017 to 2019 (avg. $15.9m per year)	$4.7 million in 2019
Action required by employees:	None	Utilize comparative price tool and select less expensive providers
Limitations to employee choices:	None	None
Guaranteed savings:	Yes	No, hinges on employee participation
Observed impact on hospitals:	None	None

Implementing similar approaches in Vermont's State employee plan could result in significant savings
Drawing on the examples from Montana and New Hampshire, we used price data from the Vermont State health plan to estimate potential savings if Vermont implemented similar programs.

Reference-based Pricing: We estimate that if reference-based pricing using the midpoint price was implemented for just the 39 services we sampled, **the State could save $2.3 million annually, with an average of 13% savings per service. If this level of savings was achieved across all services, total savings could reach $16.3 million annually.**

For example, in our sample, the State plan covered 366 CT scans of the abdomen or pelvis in 2019, at a total cost exceeding $1 million. Of the 366 visits, 240 (two-thirds) took place at hospitals that were above the midpoint price. If Vermont capped the price for CT scans at the midpoint price, we estimate annual savings of approximately $191,000, or 18% of the total cost for just this one service.

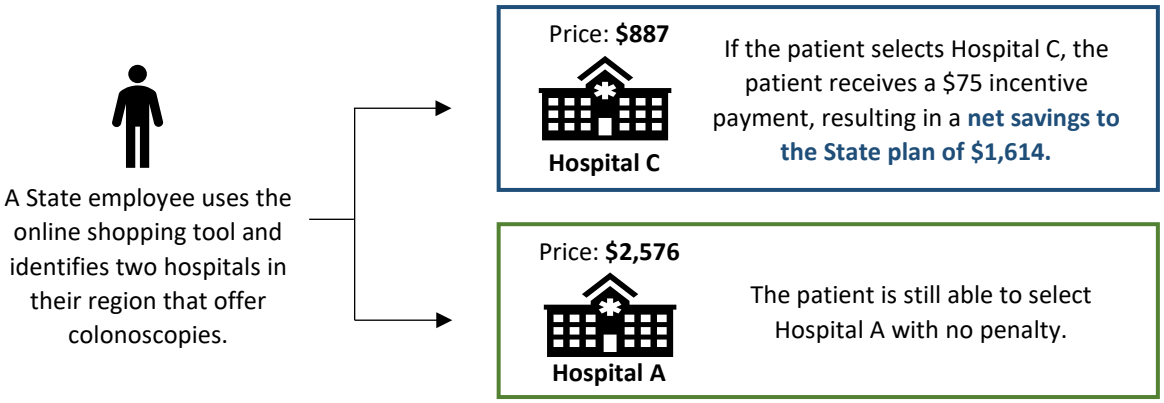
Estimated savings for CT scans of the abdomen or pelvis using the midpoint price as the reference price

Hospital	Median Price	Visits
Hospital A	$2,615 ~~$3,505~~	94
Hospital B	$2,615 ~~$3,449~~	94
Hospital F	$2,615 ~~$3,418~~	15
Hospital L	$2,615 ~~$3,270~~	12
Hospital E	$2,615 ~~$2,969~~	25
Midpoint → Hospital D	$2,615	23
Hospital K	$2,362	6
Hospital J	$2,305	24
Hospital C	$1,867	43
Hospital G	$1,632	8
Hospital I	$1,075	22

Estimated savings using the midpoint price: $190,853

Incentive Program: We also modeled potential savings if Vermont offered an incentive for employees to select lower priced care (at the midpoint price or below). We estimated savings for seven types of "shoppable" services, meaning services that patients can schedule in advance. If an incentive program resulted in one third of more expensive services moving to the midpoint price, **savings for just these seven types of services could reach approximately $202,000 annually, with an average of 3% savings per service; with each added service (there are hundreds), the State would enjoy additional savings.**

Example of an incentive payment for a colonoscopy



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