



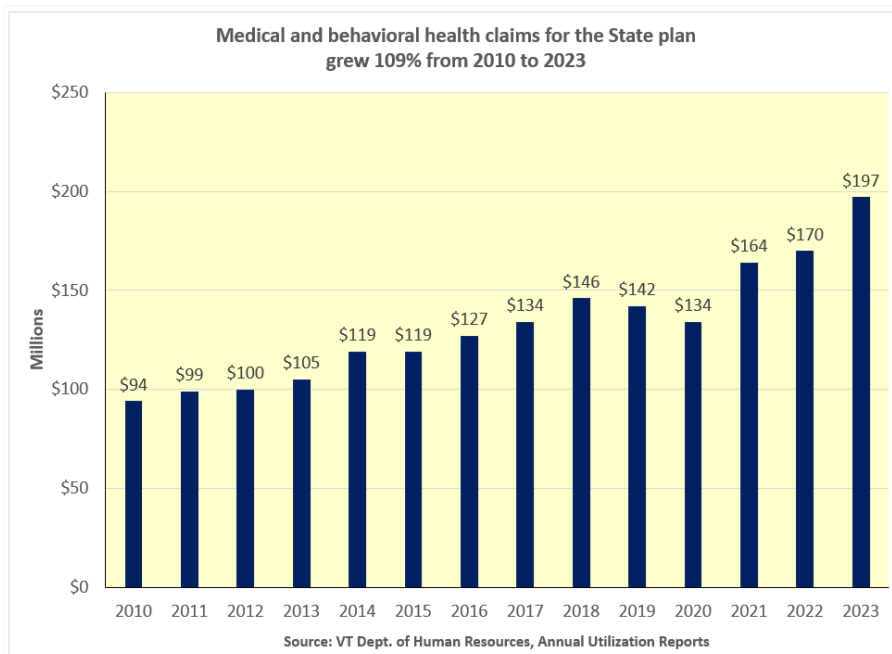
STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

To: Senate Government Operations Committee
From: Tim Ashe, Deputy State Auditor
Re: Reference-based Pricing
April 12, 2024

In 2021 the State Auditor’s Office explored reference-based pricing and its potential impact on the Vermont state employee health plan. The report can be found [here](#). In short, the report found that Vermont could save as much as \$16.3 million each year if it applied a midpoint price approach to paying for hospital services (based on 2019 data).

I’d like to briefly tell you about two developments since we released our report.

1. Total spending for the Vermont state employee health plan has risen *significantly* since 2019 and at a faster pace than had been anticipated by Administration officials in 2021. The chart below from the report shows the claims paid from 2010 to 2019. In 2020, claims dropped to \$134.3 million which was typical during COVID. In 2021, however, the cost of the plan shot up to \$163.7 million. In 2022 it rose again to \$170.4 million, and in 2023 it jumped by the highest single year amount ever to \$196.6 million. (The total number of covered lives in December 2023 was 26,076, a relatively small increase since 2019). The plan’s cost has now grown by 109% since 2010 with just a 19% increase in the number of covered lives.



2. The **State of Oregon** has reported on their experience with reference-based pricing for state employees and teachers. The [audit](#) they conducted based upon 2021 claims estimated **\$112.7 million in savings** for their plan due to reference-based pricing. (For perspective, their effort covers approximately 290,000 Oregonians.) This builds on the success enjoyed by Montana who were the basis of our analysis.

When we released our report, we fielded some questions that wondered whether reference-based pricing would be compatible with the variety of strategies Vermont is pursuing under the moniker “health care reform.” Oregon makes it clear that reference-based pricing can be implemented alongside other strategies. In fact, a review of the Oregon Health Authority’s website will indicate that they are pursuing many of the same strategies as Vermont – Coordinated Care Organizations (similar to VT’s ACO or Accountable Communities for Health concepts), Value Based Payments, Hospital Growth Targets, a Health Policy Board, Health Data Analytics, and more.

The rapid growth in spending on the state employee health plan has a parallel with the annual state contribution to the state employees’ pension system. The Actuarially Determined Employer Contribution (ADEC) to the state employees’ pension system more than doubled from 2012 to 2021. However, even after that rapid growth, the 2021 ADEC was \$83.9 million, compared to a cost in the same year for the state employee health plan of \$163.7 million. Pointing out that state employee health care expenditures were nearly double the annual pension payment is not intended to suggest that the substantial effort to address the pension obligation was inappropriate, but rather is intended to highlight that the health care expense has received little attention despite its significant and growing demands of the state budget.