Medicare Benchmarked Reference Pricing in Oregon's State Employee Health Plans

Discussion Overview

- Oregon’s state employee health plans
- Challenges - cost growth & payment variation
- SB 1067 (2017) – Hospital Payment Limit
- Savings
- Impact
- Considerations

Oregon's Public Employee Plans

The Oregon Educators Benefit Board (OEBB) and Public Employees' Benefit Board (PEBB) are Oregon's public sector employee health benefit programs.

Provides benefits for 240+ school districts & community colleges

Provides benefits for 200+ state agencies & universities

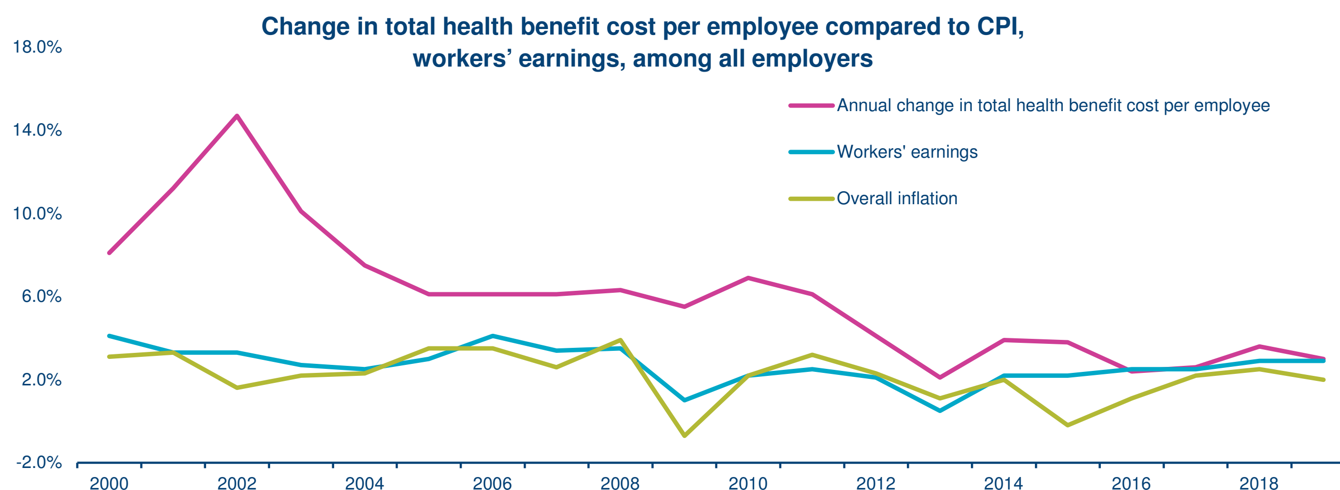
Together the programs cover 300,000 people – about 15% of Oregon's commercially insured.

OEBB and PEBB

- Provide comprehensive, high-quality benefit plans to the agencies, universities, and school districts that employ Oregon's state workers, educators, and school district employees
- Ensure the benefit plans offered promote prevention, support employee health, and advance health equity
- Manage costs so that benefit plans are affordable to employers and employees

Challenge: Health Benefit Cost Growth

Like most employer sponsored benefit plans, OEBB and PEBB have long worked to manage health benefit cost challenges.

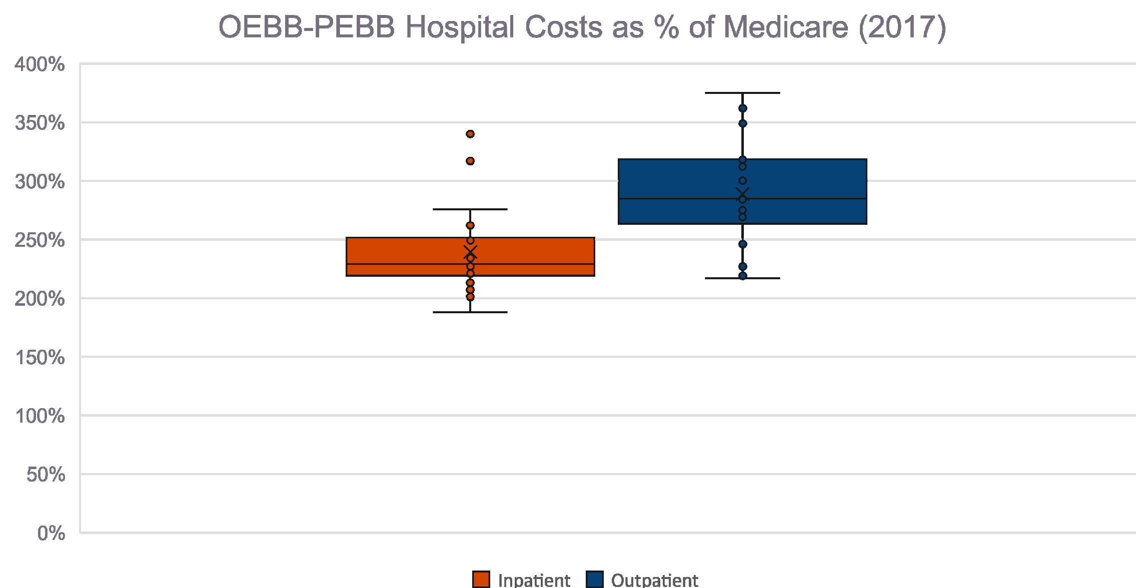


Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April); Bureau of Labor Statistics, Seasonally Adjusted Weekly Earnings from the Current Employment Statistics Survey (April to April).

Challenge: Payment Variation

OEBB and PEBB data examining payment levels at large hospitals showed variation across hospitals.

Payment levels at these hospitals ranged from 185% to 340% Medicare for inpatient services and from 215% to 375% Medicare for outpatient services.



SB 1067 (2017)

In 2017 Senate Bill 1067 was passed by the Oregon Legislature and included two major provisions related to public employee health benefit costs

- 3.4% limit on OEBB & PEBB benefit plan annual cost & premium growth
- Limit on the amount insurers and third-party administrators that contract with OEBB and PEBB can pay for inpatient and outpatient hospital services

Hospital Payment Limit

- OEBB & PEBB's insurers & TPAs are prohibited from paying more than twice the amount Medicare would pay for inpatient and outpatient services at network hospitals
- Limit is 185% Medicare for non-network
- Applies to hospital services only, not professional fees
- Does not apply to out of state hospital services (HB 2266, 2019)
- Hospitals paid in accordance with the limit may not balance bill
- Some hospitals are exempt, generally small/rural hospitals - 24 of the state's 62 hospitals are under the payment limit

Hospital Payment Limit

Agency rules establish further requirements (OAR 101-080-0010 and 111-080-0065)

- CMS-designated children's hospitals excluded (only a few in the state)
- Actual payments are the lesser of billed charges, the insurer/TPA's contracted rates, or the statutory payment limit
  - Medicare rates are not an ideal benchmark for certain types of care common in younger/commercial populations – for example, maternity, newborns
  - Payments at or near 200% Medicare on these services can result in payment levels far above typical commercial rates

Hospital Payment Limit

- Carriers and TPAs negotiate contracts with providers – OEBB and PEBB do not participate in these negotiations
- No contracted hospitals left the network due to payment cap implementation
- Hospitals expressed concerns about potential impact on their revenue
- Some indicators that hospitals sought increases up to the 200% Medicare limit on services that were previously paid below that level
- No evidence of inappropriate increases in service use

Savings

- Effective date October 2019 for OEBB, January 2020 for PEBB
- Almost 70% OEBB-PEBB hospital use occurs in capped facilities
- Savings during first two years estimated at over $160M

Year	Savings	Total Medical + Rx Costs
2020	$59 million, about 14% of claims subject to limit • Inpatient: ($5 million) • Outpatient: $64 million	$1.25 billion
2021	$112 million, about 30% of claims subject to limit • Inpatient: $38 million • Outpatient: $74 million	$1.60 billion

Savings

- Savings concentrated in outpatient - higher relative to Medicare prior to limit
  - Outpatient services at capped hospitals averaged ~285% Medicare at baseline
  - Inpatient services at capped hospitals averaged ~235% Medicare at baseline, with some hospitals below 200% Medicare for inpatient rates

- First year savings were lower than initial projection of $81M
  - Reduced utilization during Covid pandemic
  - Unintended higher payments on maternity/newborn services at launch cancelled out inpatient savings (addressed through updated rules)

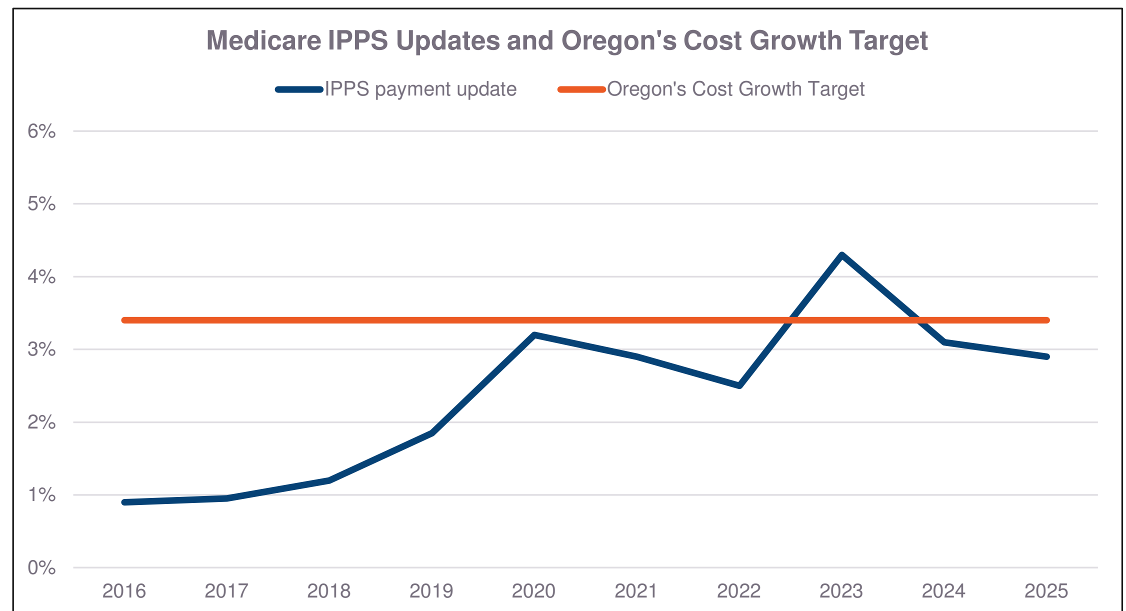
Impact

- Carriers and TPAs contracted with OEBB and PEBB have maintained networks alongside reduced payment levels
- No concerns or disruption expressed by covered employees – majority of employees are likely unaware of this policy
- Inpatient payments at capped hospitals average roughly 165% Medicare*
- Outpatient payments at capped hospitals average roughly 190% Medicare*
- Analyses to date have not found evidence of disproportionate impacts on other commercial plans

*Based on 2022 OEBB and PEBB payments

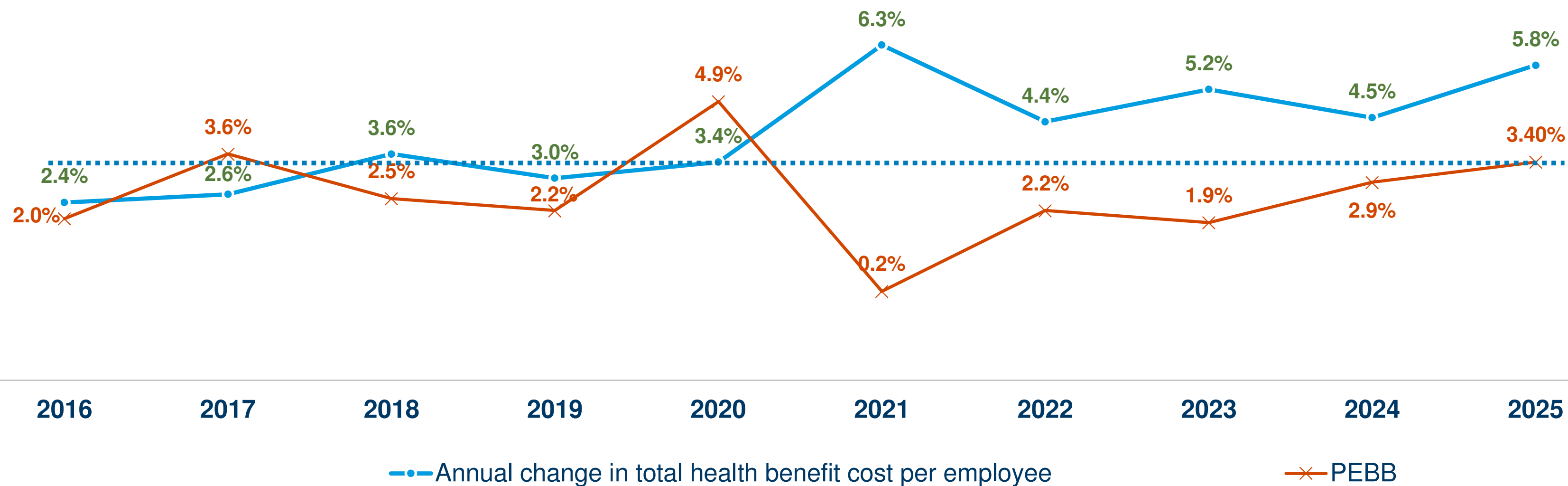
Impact

- Progress towards sustainable rate of annual cost growth
- CMS annual rate updates for IPPS generally fall near or below 3.4%
- 3.4% limit on OEBB and PEBB annual benefit program cost growth aligns with Oregon's statewide target for sustainable health care cost growth.



PEBB's Year-Over-Year Cost Growth Compared to Large Employers

Health Benefit Cost Growth Remains High in 2025



PEBB's annual cost growth has generally stayed at or below the 3.4% mandate – however, maintaining sustainable cost growth is an ongoing challenge.

Beginning in 2020, survey results are based on employers with 50 or more employees. 2025 benchmark cost increase is projected.

Source: Mercer's National Survey of Employer-Sponsored Health Plans (beginning in 2020 results are based on employers with 50 or more employees); Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1993-2024; Bureau of Labor Statistics, Seasonally Adjusted Weekly Earnings from the Current Employment Statistics Survey (April to April) 1993-2024

Considerations

- Payment limits are one approach to support sustainable cost growth, but continued strategies needed to manage health care cost increases

- Medicare is a useful, reasonably transparent, and broadly familiar price benchmark, however, thoughtfully consider nuances in applying Medicare rates to commercial plans
  - May not be the most accurate price benchmark for services infrequently used by Medicare population (for example, maternity, neonates)
  - Consider how retroactive Medicare rate adjustments CMS may provide could impact commercial plan administration

Considerations

- Payment ceilings absolutely impact contract negotiations and specifics of that impact vary by community.
  - May influence some providers to seek increases beyond current payment levels
  - May influence providers' perspectives on advancing Value-Based Payments (VBP) and transition away from fee for service

- Payment ceiling level, included benefit programs, and exempt providers are all features that can be informed by data analyses and local considerations.

Thank You

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