What Legislators Can Do To Improve Health Care Affordability

Starting with a Health Care Cost Growth Target

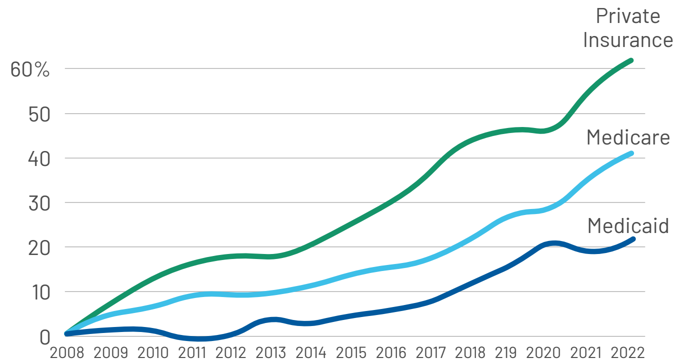
Health care costs are rising uncontrollably, draining the pocketbooks of families, businesses and taxpayers. State legislators can make health care more affordable by pursuing a range of policy options that tackle the drivers of high health care spending.

Health care cost transparency — making sure we understand what we're paying for and how much we're paying — can be an important first step in controlling runaway spending. States across the country are achieving this transparency by setting goals for their annual health care spending, often known as a **health care cost growth target**, and then collecting and publishing data on statewide spending to measure progress against these goals.

The health care cost growth target, or benchmark, is a foundational policy that:

1. Sets a statewide cost growth target to align health care spending increases with changes in the economy, state revenue, and wages
2. Brings transparency to health care spending by collecting and reporting data from insurance carriers on where our health care dollars are going and what's driving up costs
3. Incentivizes providers and insurance carriers to keep their own costs in check in order to stay under the target
4. Convenes policymakers and stakeholders to identify and build support for policy solutions that address the cost drivers these data analyses identify

Cumulative Growth in Per Enrollee Spending, by Private Insurance, Medicare, and Medicaid, 2008-2022



Some states, like California, Massachusetts and Oregon, have the authority to require hospitals and carriers that exceed targeted spending growth to submit performance improvement plans and/or face penalties. Delaware has created a hospital cost review board, which will be charged with reviewing and approving annual hospital budgets for those that exceed the target.

States with cost growth target programs

- California
- Connecticut
- Delaware
- Massachusetts
- New Jersey
- Oregon
- Rhode Island
- Washington

Complementary Policy Options

States have a number of policy options for addressing health care costs that complement health care cost growth targets. The chart below offers potential solutions that legislators can pursue. These include measures to foster healthy competition; keep hospital and prescription drug prices reasonable; and rebalance spending to support primary care, which improves population health, reduces disparities, and may prevent the need for expensive care.

Control Harmful Health Care Consolidation

- Pre-merger notification and review of health care transactions

Examples:

Indiana Senate Bill 9 will require health care entities to provide the Indiana Office of the Attorney General with notice of mergers or acquisitions 90 days prior to closing.

Oregon's Health Care Market Oversight Program can block transactions outright or impose conditions to mitigate the potential for adverse effects based on community input.

Support Primary Care

- Primary care targets

Examples:

Connecticut, Oregon, and Rhode Island have both cost growth targets and primary care targets, which aim to increase the percentage of total health spending going toward primary care services.

Limit Health Care Price Growth

- Hospital Global Budgets
- Enhanced Health Insurance Rate Review
- Hospital Price Caps (also known as Reference-Based Pricing)
- Prescription Drug Affordability Boards

Examples:

Maryland sets annual global budgets for each of its hospitals, based on approved unit prices and projected volumes and a target spending annual growth rate.

Rhode Island applies an affordability standard to its commercial insurance rate review process and caps hospital price growth.

Oregon prohibits hospitals from charging the state employee plan more than 200% of what Medicare pays for in-network hospital facility services and more than 185% for out-of-network services.

At least nine states, including Maine, Minnesota, and New York, have prescription drug affordability review initiatives, and many more have pharmacy benefit manager reform laws.

Promote Competition in the Health Care Market

- Anticompetitive Contracting Practices
- Public option
- Limits or bans on facility fees

Examples:

At least 20 states have banned most-favored nation clauses in health care contracts between insurers and health care providers. Such clauses guarantee that an insurer gets a price equal to or lower than its competitors.

Colorado has a public insurance option that competes with private plans available on its ACA health insurance marketplace.

A growing number of states, including Texas and Florida, have laws banning or reforming facility fees, which patients are charged when treated at a health system- or hospital-owned outpatient facility.