Testimony in Support of House Bill 3418 -5
House Committee on Health Care

Speaker of the House Tina Kotek
May 18, 2017

Thank you for the opportunity to testify in support of House Bill 3418 and the -5 amendment today.

This bill and amendment is one piece of a broader conversation about how to reduce cost-drivers within our state budget. Specifically, this bill seeks to contain the cost of providing health care services to state employees.

Health plans offered through the Public Employees Benefit Board (PEBB) cover over 136,000 state employees, spouses and children. Since 2013, the legislature has aimed to keep these costs in check by capping the annual cost growth for health insurance plans in PEBB to 3.4 percent. The PEBB board has generally done well to adhere to this cost trend through annual insurance contract negotiations, but I think we can do better – particularly on the provider side. The Oregon Educators Benefit Board (OEBB) covers over 140,000 employees and dependents.

HB 3418 would formalize the effort to contain the rate of insurance cost increases by instituting reasonable guardrails on our health insurance costs in PEBB and OEBB. The bill does two primary things:

- Sets a maximum allowable cost for in-network hospital claims at 200 percent of Medicare;
- Sets a maximum allowable cost for out-of-network hospital claims at 185 percent of Medicare.

Let's look at PEBB specifically:
The current average inpatient/outpatient cost for the self-insured plans is approximately 237 percent of Medicare. The bill targets 200 percent for in-network claims because it is an achievable benchmark that still moves us in the right direction.

The bill would apply to both self- and fully-insured plans on PEBB. The *maximum* allowable costs would apply to inpatient and outpatient costs. It would not apply to Type A, Type B, or Critical Access Hospitals; primary care services; behavioral health homes; or any other claim that could be included in a primary care incentive program.

I also want to be clear that HB 3418 does not prohibit incentive payments or value-based payments to improve outcomes; it simply defines a ceiling that provider contracts must consider.

We have made this explicitly clear in the -5 amendment and have worked with several insurers to ensure this bill would not have the unintended effect of discouraging incentive or value-based payments The goal is to increase transparency in specific health care costs, set expectations for how prices are set, and ultimately reduce the cost of providing health care services to state employees.

We can see the need for this measure by looking at a few key data points that support the findings of a recent Quality Corp study, through the Network for Regional Healthcare Improvement, which found the cost of health care in Oregon is 17 percent higher than neighboring states with no correlating increase in the quality of care.

In 2016, there was a 6.8 percent increase in medical costs across all PEBB plans compared to the previous plan year. Mercer actuaries determined that 3.2 percent of the self-insured cost increases were due to simple increases in the service cost – not increases in utilization or risk. We would not accept the level of variance in price for any other service. The cost trends do not align with traditional market values.

An Oregon PEBB Trend Components analysis, performed by Mercer actuaries in February 2017, analyzed two basic questions asked by the PEBB board:

1. Are Oregon's costs typically higher than other locations across the country?
2. What is causing the renewal increase for 2018 (cost increase, utilization, etc.)?

This trend component analysis compared geographic costs in different regions in Oregon to the average cost for services in the United States. Hospitals in half of the Oregon regions modeled were charging average costs. Hospitals in the other half of the regions surveyed were charging above average (7.5-15% greater) and of those, 75 percent were in the high cost category (over 15% of the average national price).

While the per-unit price of procedures accounted for 3.2% of PEBB's total increase, utilization only accounted for 1.4% of total cost increase, with risk accounting for an additional 1.4%. What does this mean in actual service terms?

Here are a few examples to help answer that question:

- Based on aggregate data of services and procedures, which you can review on OLIS, the state is paying up to 672% of Medicare to some hospitals.
- The number of cesarean sections across regions decreased from 2.1 to 0.1 per 1,000 from 2014 to 2016. Yet, the minimum allowed paid claim for PEBB increased from $6,314 to $11,655. This is an increase of 84% in cost and a decrease of 200 percent in utilization.
- Guiding catheter utilization did not increase between 2014 and 2016, yet the cost of this procedure increased 113 percent since 2015 and varied dramatically between regions.
- For a typical, 30-60-minute in-patient, critical care visit, charges range from $592 to $933, with the highest disparity in cost between the Metro area.

- Additionally, avoidable admissions and readmissions decreased from the previous year – making it even more difficult to account for the rate of growth in average costs for services.

With those data points in mind, it's clear that HB 3418 with the -5 amendment could both increase transparency in pricing and result in considerable cost savings. A preliminary model of potential cost-savings just for inpatient and outpatient hospital claims at 200% of Medicare found that PEBB could save over $30 million dollars per year on the self-insured plans alone. For OEBB, we could reap a 10% reduction in premiums: $47.5 million per year on plans offered by Moda alone. That's $155m a biennium in total funds or $112 million in general funds.

HB 3418 with the -5 amendment provides a meaningful and achievable way to follow through on our commitment to reduce the cost-drivers in our state budget. Given the nature of this conversation, I encourage your adoption of the -5 amendment and urge you to move this bill to the Joint Committee on Ways and Means. Thank you for your consideration.