Health Care Cost Transparency Board

Annual Report
Second Substitute House Bill 2457; Section 7(2); Chapter 340; Laws of 2020
August 1, 2022

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Executive summary

House Bill (HB) 2457 (2020) established the Health Care Cost Transparency Board (board) under the Health Care Authority (HCA). The board is responsible for reducing Washington’s health care cost growth by:

- Determining Washington’s total health care expenditures.
- Identifying cost trends and cost drivers in the health care system.
- Setting a health care cost growth benchmark for health care providers and payers.
- Reporting annually to the Legislature on benchmark performance and cost drivers.

The board made significant progress in its work since the initial legislative report, including:

- Finalizing Washington’s cost growth benchmark values for years 2022-2026.
- Completing the design of the benchmark data call and completion of the 2022 data call technical manual and submission template.
- Securing grant funding for the development of the cost driver analysis tool, with a comprehensive report expected in December 2022.
- Analyzing Washington hospital cost and profit through a contract with independent consultants.
- Issuing the first cost benchmark data call to 11 carriers and two state agencies, with a comprehensive report expected in early 2023.
- Doing initial project planning work for new legislative assignment on primary care measurement.
- Participating with other states engaged with the Peterson-Milbank Program on Sustainable Health Care Costs.
Background

Nationally, health care spending is growing at a faster pace than other measures of our economy, including gross domestic product and annual wages. Washington is the sixth state in the nation to adopt a cost growth benchmark and be accepted into the Peterson Milbank Program for Sustainable Health Care Costs.

The board’s primary objective is to set a target for future cost growth and collect Washington-specific data on total health care expenditures. The board will also report on growth trends in the state and by insurance market, and in future years by health insurance carrier and large provider. Benchmark data and the cost driver analysis will inform recommendations from the board on how to lower spending and curb health care cost growth.

In 2022, the board has established a solid foundation for future recommendations. They established the two required advisory committees to assist with its work. The Advisory Committee for Health Care Providers and Carriers provides expert advice from the provider and carrier perspective and supports the creation of the benchmark and cost driver data calls. The Advisory Committee on Data Issues provides expert advice on many aspects of the benchmark data call, and in the analysis of existing data sources to determine cost drivers.

The board also conducted an environmental review of health care costs in Washington and nationally. This included the programs intended to impact cost growth or reduce cost, including market consolidation oversight, price growth caps, and prescription drug pricing legislation. The board selected three priority areas for further analysis and review:

- Hospital costs
- Pharmacy costs
- Relationship of value-based payments compared to cost reduction

This year, the board initiated these reviews, starting with an expert and independent analysis of Washington hospital cost and profit.

The board selected OnPoint, the data vendor for the Washington State All Payer Claims Database (WA-APCD). OnPoint is creating an interactive analysis of cost drivers using WA-APCD aggregate data. The board has also determined areas of comparative analysis for OnPoint to include in the eventual reporting:

- Spend and trend by geography
- Trends in price and utilization
- Spend and trend by health condition
- Spend and trend by demographics

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Achievements

The board achieved four significant milestones that support the board’s goals of reducing health care cost growth and increasing price transparency. These include:

- Establishing Washington’s health care cost growth benchmark
- Initiating the cost driver analysis, including establishing cost driver analysis focus areas
- Designing and issuing the first benchmark data call
- Understanding variation in all market sectors, including Medicaid, Medicare, and commercial (both self-and fully insured).

Washington’s health care cost growth benchmark

The benchmark is a specific rate that carriers and providers’ expenditure performance will be measured against. The goal of the benchmark is to lower health care cost growth and make health care more affordable. The board implemented a benchmark covering a five-year period, so that providers and policymakers can rely and plan on it.

Table 1: historical health care spending growth in states with cost growth benchmarks

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>3.0%</td>
<td>4.7%</td>
<td>5.1%</td>
<td>3.6% for 2013-2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.1% for 2018-2022</td>
</tr>
<tr>
<td>Delaware</td>
<td>5.1%</td>
<td>5.7%</td>
<td>5.6%</td>
<td>3.8% for 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.5% for 2020</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.25% for 2021</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0% for 2022-2023</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>2.6%</td>
<td>3.7%</td>
<td>5.3%</td>
<td>3.2% for 2019-2022</td>
</tr>
<tr>
<td>Oregon</td>
<td>5.3%</td>
<td>5.9%</td>
<td>5.7%</td>
<td>3.4% for 2021-2025</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0% for 2026-2030</td>
</tr>
<tr>
<td>Connecticut</td>
<td>2.4%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>3.4% for 2021</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.2% for 2020</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.9% for 2023-2025</td>
</tr>
<tr>
<td>Washington</td>
<td>4.1%</td>
<td>5.8%</td>
<td>6.7%</td>
<td>TBD</td>
</tr>
</tbody>
</table>

In those states (listed above) that have implemented a benchmark, the rate of health care spending growth has reduced. Recognizing that a cost benchmark alone is not expected to result in market transformation, successful benchmarks in other states have been paired with other transparency, accountability, and quality measures.

Many similar efforts are already underway in Washington, including the transition to value-based payments and requiring increased levels of primary care investment. Two states, Massachusetts and Oregon, have also imposed consequences, including fines for failure to meet the benchmark without rational after a reasonable period.
The board reviewed how other states created their benchmarks and considered many different factors that might influence their choice. The board considered how current economic indicators, such as wages and inflation, would impact the benchmark. In designing Washington’s benchmark methodology, the board examined rates of health care inflation in other states with cost growth benchmarks, as well as those states’ benchmark methodologies.

Research shows that the rate of health care inflation is higher in Washington compared to the majority of other states with a health care cost growth benchmark. (See Table 1\(^2\)). Additionally, Washington’s aggregate health care costs have outpaced the rate of inflation and wages, which means consumers spend more of their income on health expenses.

In September 2021, the board approved Washington’s cost growth benchmark for years 2022-2026. This benchmark is based on a hybrid of median wage and potential gross state product (PGSP) at a 70:30 ratio.\(^3\)

By 2026, Washington will have set a lower target compared to other states.\(^4\)

<table>
<thead>
<tr>
<th>Years</th>
<th>Target</th>
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<tr>
<td>2022</td>
<td>3.2%</td>
</tr>
<tr>
<td>2023</td>
<td>3.2%</td>
</tr>
<tr>
<td>2024</td>
<td>3.0%</td>
</tr>
<tr>
<td>2025</td>
<td>3.0%</td>
</tr>
<tr>
<td>2026</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

In March, the board reviewed impacts of inflation on spending trends in 2020 and 2019, and in June invited the Washington State Hospital Association to present on cost challenges, including the impact of COVID-19 and increasing labor costs.

While the board recognized the significant impacts of the pandemic, it also considered the impact of increasing cost to citizens, and the need for an aspirational cost growth target to support more affordable access. To date, the board—like all other benchmark states—decided to maintain the current benchmark target. The current benchmark target represents an important goal for consumers and the overall health of Washington State’s economy.


\(^3\) Median wage was selected to link the measure to consumer affordability, and PGSP as a reflection of business cost and inflation.

\(^4\) The Board also determined mechanisms for review, if necessary, assessing the benchmark and strategies for improving the reliability and validity of the measurement.
Cost driver analysis (what is driving up the cost of claims?)
While the benchmark uses payer-collected aggregate data to identify trends, the cost driver analysis examines granular claims and encounter data to analyze cost. However, there is a relationship between the cost growth benchmark and the cost driver analysis. The benchmark identifies trends, while the cost driver analysis helps determine the cost drivers of those trends. The cost driver analysis also helps identify opportunities for reducing cost growth and informs policy decisions.5

The board selected the WA-APCD as the primary data source for the cost driver analysis, after assessing the limitations and benefits of available data sources. The board examined other states’ areas of focus, such as Connecticut, which focused on trends in price and utilization. This approach allowed Connecticut to decipher whether increasing costs were due to increased utilization or increased payment per unit of service (price).

In addition to utilization and price, the board focused on the importance of better understanding how Washington’s geographic environment impacts cost and access to care. The board also received feedback from their Advisory Committee for Health Care Providers and Carriers on possible consequences of transparency and cost reduction efforts and recommended areas for monitoring.

The board decided on the following areas of focus for the analysis:

- Spend and trend by geography
- Trends in price and utilization
- Spend and trend by health condition
- Spend and trend by demographics
- Monitoring of potential unintended adverse consequences

These metrics will best position the board to develop robust data and reporting on cost drivers, which will create a solid foundation for future areas of focus and recommendations to the Legislature.

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5 Phase 1 consists of standard analytic reports produced annually at the state and market levels. Phase 2 will contain supplemental in-depth analyses developed based on results from standard reports and Board discussion.
Cost driver areas of focus
To prepare for the cost driver analysis in December 2022, research demonstrates that Washington’s health care cost trends—particularly hospital and pharmacy costs—outpace other states and the national average (see Table 2).

The board identified hospital costs, pharmacy costs, and value-based payment (as a cost containment tool) as priority areas in their work to develop cost growth mitigation strategies, including those that reduce the total cost of care.

Tables 3 & 4: Washington’s commercial health care spending compared to the U.S.

<table>
<thead>
<tr>
<th>Per-person spending (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
</tr>
<tr>
<td>$5,772</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Cumulative growth (2014-2018)</th>
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</thead>
<tbody>
<tr>
<td>Washington</td>
</tr>
<tr>
<td>Spending</td>
</tr>
<tr>
<td>Utilization</td>
</tr>
<tr>
<td>Price</td>
</tr>
</tbody>
</table>

Hospital costs
In June 2022, Bartholomew-Nash & Associates presented Washington hospital costs, price, and profit analysis to the board. Their research was based entirely on Medicare Cost Reports, submitted annually to the federal government by hospitals as a condition of participation in Medicare. The reports contain information about facilities and cost data, including utilization, charges by cost center in total and for Medicare, and financial statement data.

Table 3 shows that the price of services versus total costs of patient care in Washington hospitals is above the national average. Additionally, hospital-only operating expense per patient is much higher in Washington compared to the national average (see Table 4). The board will continue to review additional analysis and findings from this study as they continue to better understand the trends.

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6 Analysis was conducted by the Colorado Department of Health Care Policy and Financing and presented by John Bartholomew, former Chief Financing Officer of Medicaid, Colorado.
Table 5: price vs. total costs per patient

![Price vs. Total Costs Per Patient](chart1.png)


Table 6: cost per patient

![Cost per Patient](chart2.png)

Pharmacy costs

Another area of concern for cost growth is pharmacy costs. In March 2022, Onpoint presented the WA-APCD tool, which captured service category trends in the state for the commercially insured.7

Pharmacy costs for this population continue to increase in Washington. However, cost growth is not always driven by increased utilization. For instance, Table 4 illustrates a decrease in pharmacy utilization between 2018 and 2019, yet price and per member per month (PMPM) cost continued to increase.

Value-based payment as a cost containment tool

In examining areas that may impact cost growth, the board is looking at other efforts under way in Washington. HCA is a leader in value-based purchasing (VBP) to achieve better quality, experience, and equity in care, while at the same time reducing the total costs of care.8 VBP cost savings are not as easily quantifiable as many other changes to system cost (such as reduction of a Rx price) since VBP savings may show up as broader societal savings resulting from improved access, quality, and overall public health. The board is interested in exploring and researching with VBP staff to see if potential objective evidence can demonstrate whether and/or how VBP reduces costs.

Data call

Historically, Washington State’s individual health care purchasers (employers or agencies) have kept their own health care spending data. It was necessary for the Health Care Cost Transparency Board to collect and centralize these separate spending data from all coverage markets (e.g., commercial, individual, employer-sponsored coverage).9

To obtain necessary data to calculate Washington’s total health care expenditures and observe growth trends, HCA issued a benchmark data call on July 1, 2022. The board requested data from 11 insurance carriers and two state agencies (Department of Corrections and Labor & Industries). The data collected should include about 90 percent of aggregate health care spending in Washington. The board requested data for 2017-2019 to set a baseline for tracking spending growth in future years.

9 Coverage markets collected for the data call include Medicaid, Medicare, commercial (both self- and fully insured), Department of Corrections, and Labor & Industries.
To prepare for the data call, the board decided that analysis of health care spending will, to the extent practical, be inclusive of all populations and all categories of spending. The board also determined how the total health cost expenditures for each qualified health care provider and payer would be measured against the benchmark. In March and April of this year, carriers participated in a survey about total cost of care contracts, which helped identify the providers who, in future years, will be the subject of public reporting on the benchmark.

The board also worked closely with its Advisory Committee on Data Issues on the data call technical manual.¹⁰ The technical manual defines the following parameters of the data call:

- Which insurers are required to submit data
- Large provider entities for which insurers will submit spending data
- Data specifications¹¹
- Data submission processes
- Data submission template

HCA anticipates that results from the first data call will be available to the board in January 2023. Data collected next year and beyond will be measured against the benchmark.

¹⁰ In developing the technical manual and at the request of the Advisory Committee on Data Issues, the Board conducted a survey about truncation in Washington to understand risk adjustment.

¹¹ Data specifications include population inclusion/exclusion criteria, categories of claims and non-claims spending (including code-level definition for primary care) to report, adjustments needed (including high-cost outlier truncation and estimates for partial claims data), and attribution methodology.
Next steps

Primary care report

Senate Bill (SB) 5589 requires the board to submit a preliminary report on primary care by December 1, 2022. HCA will include this report with the Health Care Cost Transparency Board Annual Report next August (2023).

The primary care report will include:

- The definition of primary care
- How to achieve Washington’s target to increase primary care expenditures to 12 percent of total health care expenditures
- How to effectively measure primary care, including identifying any barriers to access and use of data, and how to overcome them

The board began the planning work for this primary care report, including a future discussion with the Advisory Committee for Health Carriers and Providers. The board is also set to approve a new ad-hoc committee devoted to forming recommendations in support of this work.

HCA and the board are currently identifying these new committee members and scheduling meetings where existing advisory committees can provide recommendations.

Comprehensive data deliverables

The board expects to review reports from the cost driver analysis in December 2022 and results from the benchmark data call in March 2023. These reports will be updated annually and will provide information on cost trend and performance at the state, market, carrier, and provider levels. The initial cost driver analysis will help the board identify additional specific areas of focus beyond larger market segments, that are driving cost, such as particular conditions or treatments. The cost driver analysis will also support the development of cost mitigation strategies and other recommendations by the board.

Now that the board has completed a full year of developmental work, the work will continue to mature and evolve. This includes:

- Refining the planning processes of the two advisory committees.
- Continuing to engage with the stakeholders who are interested in the board’s work. This includes partnerships with the Association of Washington Healthcare Plans (AWHP), Washington State Hospital Association (WSHA), Washington State Medical Association (WSMA), and consumers and advocacy groups
- Synthesizing additional data sources (e.g., public health data, insurance data, and other public sources) to provide better and clearer insight into health care spending.

These activities will support more robust reporting and effective recommendations for the Legislature. If we are serious about controlling rising health cost in our state, we must understand it. The work of the board will provide a data-based and common understanding, preparing a solid foundation for the work of reducing future cost.
Additional information

For additional information on the board and committees, including membership rosters, meeting materials and schedules, and the benchmark data call specifications, visit the website.