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2002 Campaign Initiative Co-Directors

Gloria Cordes Larson
Foley Hoag

Charles A. Baker
Hill & Barlow



ASSOCIATED INDUSTRIES
OF MASSACHUSETTS



18 Tremont Street, Suite 930
Boston, MA 02108
617-722-4160
fax 617-722-4151
www.massinsight.com

POLICY BRIEF: HEALTH CARE

One in a series of policy briefs outlining the critical challenges facing Massachusetts's next governor — and ways to effectively address them.

Policy Brief Series:

- INFRASTRUCTURE:
 - ENERGY
 - TRANSPORTATION
 - WATER
 - TELECOM
- HIGHER ED/SCIENCE
- K-12 EDUCATION
- HEALTH CARE

"The rapid rate of increase in aggregate health care costs in recent years is a significant problem for the continued viability of the Massachusetts health care system".

---- Massachusetts Health Care Task Force, 2002

Why is this important?

Massachusetts is a world-class health care leader well known for its hospitals and medical research centers. The state - also a leader in access - has a relatively low rate of uninsured, about 6% compared to a national average of 16%, and only 3% of the state's children are uninsured -- one of the lowest levels in the entire country. Despite these accomplishments, high costs and low provider financial margins continue to plague Massachusetts' health care system causing financial distress for some HMOs and many hospitals. Per capita health care spending in Massachusetts has consistently outpaced the national average and Boston area employers in particular face higher employee health care costs than employers in most other major metropolitan areas. As employers, this is a problem for state and local government, universities, and schools, as well as private employers. 25% of the state budget is tied up in health care, including Medicaid and state employee health benefit costs.

Local and national forces are impacting health care costs. Locally, Massachusetts has lower hospital operating margins than many other states, and at the same time has more teaching hospitals (which tend to be more costly). Changes in provider payment systems - most notably cuts in Medicare payments - have had pronounced financial effects. The skyrocketing cost of prescription drugs, expensive research and technology and labor shortages have exacerbated cost increases.

What are the challenges?

- **Inadequate reimbursements to health care providers:** Health care providers are experiencing financial pressures in part because revenue growth has not kept pace with cost increases and reimbursements from payers. State Medicaid payments are particularly low relative to cost - only 71 cents on the dollar, resulting in annual hospital losses of over \$200 million, according to the Massachusetts Hospital Association.
- **Caring for the Uninsured:** The Uncompensated Care Pool is an important safety net for uninsured citizens. However, as demands for "free care" increase as a result of changes in the economic cycle, hospitals will bear a greater burden for financing uncompensated care.
- **Increases in Health Care Premiums:** Due to increasing health care costs, Massachusetts employers will pay on average 15% more for health insurance premiums in 2002, according to the Associated Industries of Massachusetts. This will force some companies to shift more costs to workers or to offer less coverage. Many seniors are also facing premium and co-payment increases from HMOs.

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- **Maintaining Medicaid Program Funding:** MassHealth - the Massachusetts Medicaid Program - spent \$4.8 billion in FY2001 of which \$2.4 billion was state funded. There is pressure to find ways to curb MassHealth expenditures without jeopardizing the program's success in expanding coverage and access.
- **Trends Toward Expensive Health Care:** A shift towards using more expensive hospitals, hospital outpatient departments and emergency rooms for routine care is contributing to financial distress and the closing of some community hospitals.
- **Caregiver Shortages:** According to the Massachusetts Hospital Association, Massachusetts RN vacancy rates increased from 4.7% in 1999 to 8.7% in 2001. Vacancy rates above 10% were reported for technicians.
- **Costly Administrative Inefficiencies:** Medical record errors and paperwork burdens continue to contribute to health care cost increases.

What are the next governor's options?

The Governor should work with all stakeholders to develop a plan to drive down health care costs. As Mass Insight's 2000 Report "Beyond Harvard Pilgrim" recommended, the Governor should convene a body of experts to establish "agreed-to facts" about the health care industry. Those facts can then be used as a baseline to develop a strategy, which at a minimum should address the following:

- **Better Data Collection, Monitoring and Analysis:** Statewide data is needed to identify trends, detect needed changes and quantify marketplace improvements.
- **Financing of Uncompensated Care Pool:** A legislatively-mandated pool commission should ensure uncompensated care is being equitably financed and costs are minimized.
- **Adequate Medicaid Funding and Payment:** At a minimum, maintain current levels of access and close the gap on Medicaid payments by finding ways to increase the state's reimbursement of Medicaid patients beyond its current 71 cents on the dollar.
- **Greater Utilization of Lower Cost Services:** Encourage greater utilization of lower cost hospitals for routine health care services.
- **Efficient administrative systems:** Promote new tools such as electronic medical records systems to eliminate costly paperwork and errors.
- **Health Plan Choices:** Encourage HMOs and other insurers to offer plans with tiered payments or higher out-of-pocket co-payments to increase affordability.
- **Adequate Health Care Workforce:** Work collaboratively with industry to meet the challenges of a changing workforce.

Mass Insight convened several experts in the field of health care to prepare this policy brief.

Mass Insight's 2002 Campaign Initiative is a unique briefing series for the media and statewide candidates and later the transition teams, focusing on critical competitive issues facing the Commonwealth. The issues that are the focus of the Initiative - Controlling Costs, Infrastructure (Transportation, Water, Energy, Telecommunications), Higher Education/Science, Health Care, and K-12 Education - have all been identified by business leaders as essential to creating new jobs and maintaining a positive business environment.