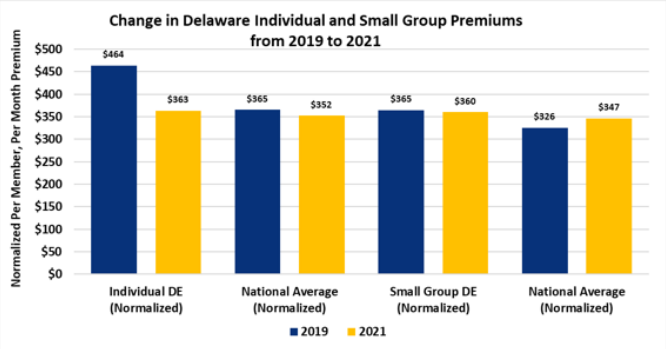
Achieving Value-Based Transformation for Delaware: Three Key Market Forces to Address

June 2023 | A report by the Office of Value-Based Health Care Delivery

For decades, Delaware has been challenged with some of the highest healthcare costs in the nation. In 2019, the General Assembly created the Office of Value-Based Health Care Delivery (the "Office") and charged it with reducing healthcare costs by increasing the availability of high quality, cost-efficient health insurance.

Progress is occurring. Two additional carriers are offering coverage on the individual market this year. Commercial fully-insured premiums are decreasing. Premiums for the individual market decreased 12% from 2019 to 2021, likely due to the introduction of the reinsurance program. Premiums also decreased slightly in the small group market during the same period, as shown in Exhibit 1.[1]

Exhibit 1: Change in Premiums



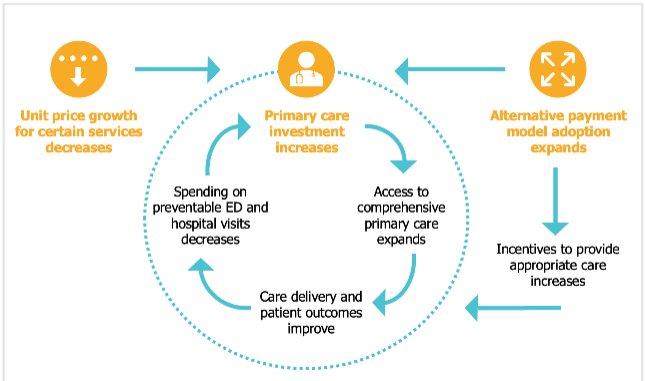
While these trends offer reason for optimism, the work is not complete.

In 2020, the Office identified three barriers to affordability.

1. Limited primary care investment and in turn, primary care access
2. Health systems and health insurance carriers with strong market power, which results in fewer choices and higher prices
3. An older, sicker population

The Office proposed a "theory of change" to show the inter-dependent systemic changes necessary to address the market challenges. Such as, the increased primary care investment would be financed through reductions in price growth for hospitals and other non-professional services. An expansion of meaningful value-based care would motivate health systems to invest in high-value primary care services, improving patient health outcomes and further reducing costs over time.[2]

Exhibit 2: Theory of Change



1. Department of Health & Human Services July 17, 2020; Department of Health and Human Services March 17, 2023.
2. Office of Value-Based Health Care Delivery December 6, 2021.

Freedman HEALTHCARE

With implementation underway, this issue brief will highlight three key market dynamics: *multi-payer alignment, participation in value-based care, and hospital price growth*. Addressing these dynamics improve healthcare value and move Delaware closer to its vision of high-quality, equitable and affordable health care for all residents.

1. MULTI-PAYER ALIGNMENT TO LEVERAGE PRIMARY CARE TRANSFORMATION

PROGRESS: Commercial fully-insured investment in primary care will increase from $23 million in 2018 to a projected $41 million in 2023.

More than half of this increase is occurring through non-fee-for-service investment. These additional non-fee-for-service dollars offer primary care providers ("PCPs") more flexibility to hire care managers, purchase new technology and make other care delivery improvements. The goal is a system of primary care better enabled to identify patients in need of support and assist them in preventing disease and managing chronic illnesses.

CHALLENGE: For most primary care practices, fewer than 10% of patients have coverage through fully-insured commercial insurance.

Therefore, practices receive these additional dollars for only a handful of patients. And, even for those few patients, different insurance carriers may be asking the practice to achieve different performance goals.

Why It Matters:

- Provider practices must focus efforts on patient care, not managing multiple payer programs
- Making large-scale changes in care delivery for a few patients does not make good business sense for providers or payers; the dollars are too few and the administrative burden is too high

2. PARTICIPATION IN MEANINGFUL VALUE-BASED CARE

PROGRESS: Delaware accountable care organizations (ACOs) bring a strong foundation of value-based care.

Delaware ACOs have posted strong results in Medicare value-based care programs. This success is beginning to translate to the commercial and Medicaid markets. At least one health insurance carrier now offers a program with meaningful provider accountability for its patients' healthcare costs. And, as discussed above, more dollars are flowing through flexible, non-fee-for-service payments. Commercial non-fee-for-service spending is projected to reach nearly $15 million in 2023 or about 2% of total spending. Medicaid also has launched an ACO program with its managed care organizations.

CHALLENGE: Only a few provider organizations participate in programs with accountability for cost.

Providers must have a minimum number of patients covered by a health insurance carrier to reliably predict costs. At least three of the five health insurance carriers in Delaware have too few fully-insured members to develop programs with accountability for cost. Carriers and providers also have faced difficulty agreeing on contract terms.

Why It Matters:

- Meaningful provider accountability for cost can motivate health systems to improve care delivery, focus on those at risk for costly chronic health complications and identify opportunities for efficiency.

  However, health systems only make this paradigm shift when a sufficient portion of their patient population is covered under a contract with significant accountability for cost.

- Without accountability for cost, health systems have less financial motivation to use dollars intended for primary care to transform primary care.

  If improvements in primary care delivery result in healthier patients that need fewer services, hospitals lose operating revenue unless they are accountable for patient costs and outcomes.

3. LIMITED HOSPITAL PRICE GROWTH

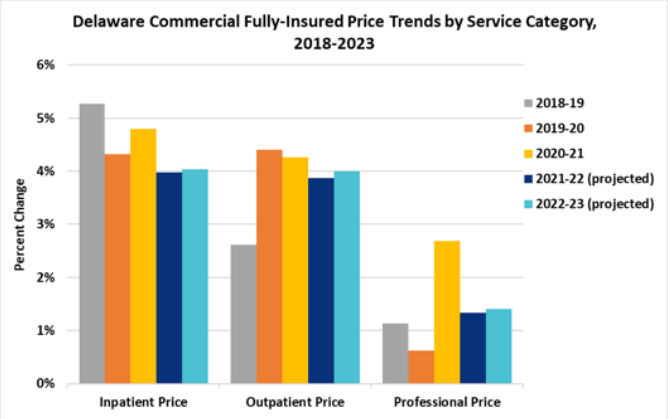
PROGRESS: Hospital price trends are projected to remain stable for the fully-insured commercial market through 2023 for Hospital and Other Non-Professional services, as shown in Exhibit 3.

Recent statutory changes prohibit fully-insured commercial carriers from filing rates with price increases for these services that exceed pre-defined limits (e.g., 7% in 2022, 8.5% in 2023). Utilization trends across service categories decreased significantly in 2020 due to Covid and then rebounded in 2021. Carriers project more moderate utilization growth in 2022 and 2023.[3]

CHALLENGE: Price growth limits exist for the fully-insured commercial market but fewer than 10% of residents are covered by these plans.

The health system market in Delaware is highly concentrated, with two health systems (ChristianaCare Health and Tidal Health) each receiving over 80% of patients discharges in their respective service areas. Carriers reported that hospitals will honor the price growth limit for the fully-insured, leaving the majority of the commercial market (self-funded) with no price growth limits.

Exhibit 3: Price Trends



Source: Delaware carrier template submissions to the Office. Data reflects commercial fully insured.

Why It Matters:

- Lack of competition makes it difficult for carriers to negotiate reasonable price increases as each of the Delaware hospitals has become a "must-have" for every network.
- Delawareans covered by self-insured plans may experience higher price growth for hospital services.
- Unchecked levels of hospital price growth are unsustainable:

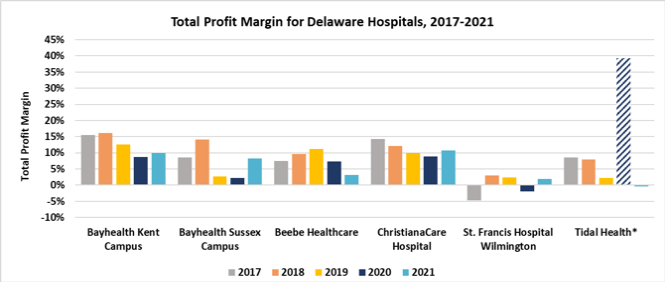
> Most Delaware hospitals have reported strong financial results in recent years – often double-digit total profit margins.

> Additionally, Delaware hospitals are among the highest paid in the nation as a percent of Medicare, while Delaware's physicians are among the lowest.

> These gains accumulate over time, increasing health systems' net assets and compounding their market power.

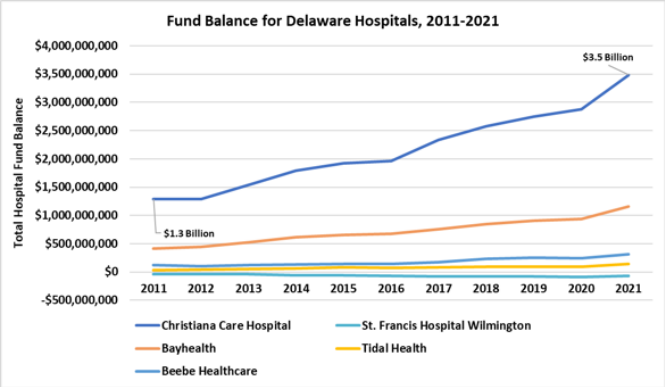
3. Actuarial analysis adjusted the premium for average allowable rating factor (age factor), the average actuarial value and the average induced demand to compare premiums by state on a more consistent basis. This adjusts for age differences based on CMS Plan Liability Risk Score, cost sharing differences due to plan design, and utilization differences due to plan design. Please note that adjustments for age do not reflect differences in risk pool across states and normalized premiums do not account for differences in benefit design.

Exhibit 4: Hospital Profit Margins



Source: American Hospital Directory (Accessed November 2022).

Exhibit 5: Hospital Fund Balances



Source: NASHP Hospital Cost Tool (Accessed November 2022).

ACTIONABLE NEXT STEPS:

The Theory of Change requires all components to occur simultaneously. Evolving to a sustainable, accountable care delivery and payment system will take time. The recommendations below could catalyze this movement and accelerate progress.

1. Convene an intra-agency working group (Medicaid, OVBHCD, State Employee Benefits Committee) to identify and implement strategies to increase multi-payer alignment.

2. Explore opportunities to coordinate the existing population-based payment efforts (Medicaid ACO, Affordability Standards requirements, Medicare MSSP) and expand to more providers.

3. Review Centers for Medicare and Medicaid Services Innovation Center payment model program opportunities and consider how the Delaware model could bring coordination to these efforts.

BIBLIOGRAPHY

1. American Hospital Directory. 2022. *Individual Hospital Statistics for Delaware*. November. https://www.ahd.com/states/hospital_DE.html.

2. Department of Health & Human Services. July 17, 2020. *Summary Report on Permanent Risk Adjustment Transfers for the 2019 Benefit Year*. Washington, DC: Centers for Medicare & Medicaid Services Center for Consumer Information & Insurance Oversight. https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RA-Report-BY2019.pdf.

3. Department of Health and Human Services. March 17, 2023. *Interim Summary Report on Permanent Risk Adjustment for the 2022 Benefit Year.* Washington, DC: Centers for Medicare & Medicaid Services, Center for Consumer Information & Insurance Oversight. https://www.cms.gov/cciio/programs-and-initiatives/premium-stabilization-programs/downloads/interim-ra-report-by2022.pdf.

4. National Association for State Health Policy. 2022. *Hospital Cost Tool: Explore by State. November.* https://tool.nashp.org/.

5. Office of Value Based Health Care Delivery. December 6, 2021. *Annual Review of Carrier Progress Towards Meeting Affordability Standards.* Delaware Department of Insurance. https://insurance.delaware.gov/wp-content/uploads/sites/15/2023/02/Delaware-Annual-Review-of-Progress-Towards-12062021.pdf.