

# The Massachusetts Health Care Cost Growth Benchmark and Accountability Mechanisms: Implications for State Policymakers

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## Background

In 2012, Massachusetts became the first state in the country to adopt legislation establishing a statewide benchmark for health care cost growth. This benchmark sets a target for the annual rate of increase in health care spending and ties it to expected growth in the state’s overall economy. Known as Chapter 224, the law applies the benchmark to public and private expenditures and most types of health spending. The law also established the Health Policy Commission (HPC) and gave it the authority to monitor and promote payers’ and providers’ compliance with the benchmark through a set of accountability mechanisms described below.

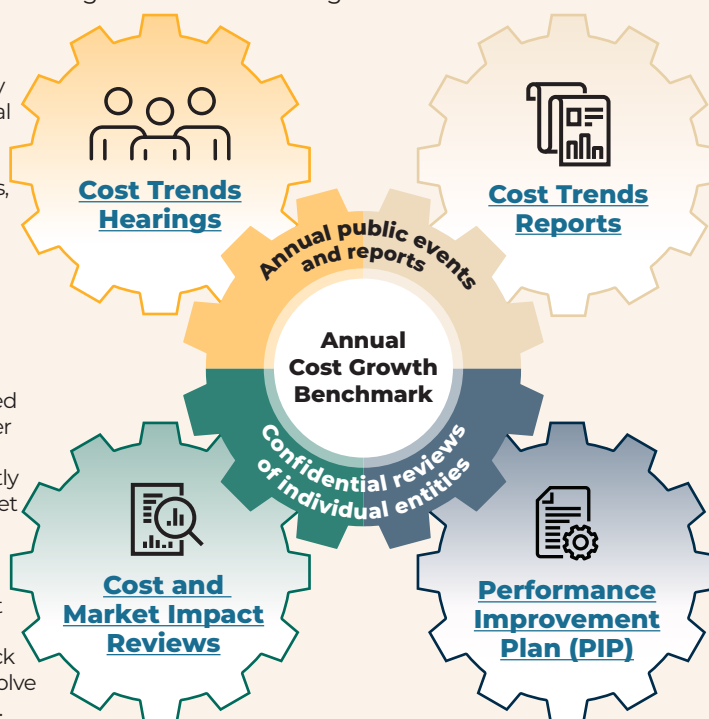
Following Massachusetts’ lead, policymakers in eight other states have adopted similar initiatives to establish benchmarks for cost growth. To support these states, the Peterson Center on Healthcare and Gates Ventures commissioned Mathematica to conduct a study of Massachusetts’ stakeholders’ experiences with, and perceptions of, the HPC’s accountability mechanisms and to identify lessons and considerations for other states that are setting cost growth benchmarks. **This issue brief summarizes key study findings and raises lessons and considerations for state policymakers about the design and use of accountability mechanisms to meet a health care cost growth benchmark.** The full report is available [here](#).

### Massachusetts accountability mechanisms

The Health Policy Commission used four primary accountability mechanisms to encourage payers and providers to comply with the benchmark by holding their rate of annual spending growth at or below the state target. Factsheets with more information can be found by clicking on the links in the figure below.

The HPC convenes leading policymakers, state officials, payers, providers, and other key stakeholders to examine annual cost growth trends relative to the benchmark and the key drivers of cost growth. Panelists, called witnesses, testify under oath about their efforts to control spending growth.

The HPC assesses the cost and market implications of proposed mergers, acquisitions, and other transactions by health care providers that could significantly impact the state’s ability to meet the cost growth benchmark. The HPC must refer to the Attorney General’s Office proposed market changes that meet certain criteria, and the office may investigate and block proposed transactions that involve unfair methods of competition.



The HPC assesses the rate of growth in statewide total health care expenditures in Massachusetts relative to the benchmark and to national trends, and analyzes key drivers of cost growth. The reports also include policy recommendations to restrain cost growth and improve quality, access, and equity.

The Center for Health Information and Analysis refers individual health care entities whose annual growth in spending exceeds the cost growth benchmark to the HPC. After a detailed confidential examination, the HPC Board can require entities to submit a formal PIP, which must describe the key drivers of spending growth and propose strategies to lower it.

## The influence of Massachusetts' accountability mechanisms: Key Findings



Setting a cost growth benchmark was an important step toward curbing health care spending increases by **establishing a shared goal** and giving the state and health care entities a **concrete target around which they could measure cost growth**, make spending patterns more transparent, and attach accountability mechanisms.



The HPC achieved early success shortly after it began operating in 2012 by using its accountability tools and authority effectively. During its initial years, study respondents said that **the benchmark influenced contract negotiations between payers and providers and increased providers' willingness to participate in accountable care organizations**, both of which constrained spending growth.



Ten years after the state legislature enacted Chapter 224, **all parties involved in its implementation continue to support its cost control framework** because it makes cost and spending data more transparent, promotes public dialogue, prospectively assesses the impact of health market transactions on costs, and holds individual health care payers and providers accountable for their performance on cost growth.



Although most stakeholders still support the goal of cost containment and commended the HPC's work, **the benchmark's influence on payers and providers has diminished over time** as the sentinel effect of the HPC's accountability mechanisms has become less powerful and the limits of the scope and authority of these tools have become clear. For example, neither the HPC nor other state agencies have the authority or tools to restrain provider price growth or reduce unwarranted variation in provider prices, which are major drivers of cost growth.



Despite their waning influence, **the collective impact of the benchmark and the HPC's accountability mechanisms remains strong**. Expectations for payers, providers, and state agencies to control cost growth have become embedded in the cultural values of the state's health care system. Individual health care entities know they can and will be held up for inspection if cost growth becomes excessive, as the HPC's decision to require the first PIP demonstrated (see next page).



**Massachusetts' experience illustrates the strengths of a cost control framework** that relies on public oversight, transparency of health care spending, and voluntary cooperation by payers and provider health care entities to keep annual cost growth below the target (Table 1, first column).







Still, stakeholders identified several **limitations of Massachusetts' approach to accountability, which granted the HPC few (or weak) enforcement tools** (Table 1, second column). To address the limitations of Chapter 224, most respondents recommend giving state agencies "more teeth" to apply stronger enforcement tools going forward.



Other states can learn from Massachusetts' design and use of accountability mechanisms in their own health cost growth target initiatives. Its experience indicates that **state policymakers must continually monitor market trends and refine or enact new measures to address emerging drivers of health care cost growth** and respond to changes in the health care market.

**Table 1. Strengths and limitations of the accountability mechanisms**

Strengths		Limitations
<ul style="list-style-type: none"> <li>Nearly all respondents agreed that the annual Cost Trends Hearings are an important venue for making health care costs and spending trends transparent and shining a spotlight on how major payers and providers are trying to address key cost drivers.</li> </ul>	 <p><b>Annual Cost Trends Hearings</b></p>	<ul style="list-style-type: none"> <li>Over time, public attention to the hearings, and their sentinel effect, has waned. Many respondents were skeptical that the hearings represented a strong form of public accountability because they do not have a lasting influence on organizations' behavior.</li> </ul>
<ul style="list-style-type: none"> <li>Most respondents believe the reports provide valuable insight into cost trends and cost growth drivers and present complex data and information about health system performance in a digestible way.</li> <li>Most providers thought the policy recommendations were helpful for addressing the drivers of cost growth that hospitals and physicians do not control, such as pharmaceutical costs.</li> </ul>	 <p><b>Annual Cost Trends Reports</b></p>	<ul style="list-style-type: none"> <li>Although the governor and some state legislators use recommendations from the Cost Trends Reports to develop policy proposals, few respondents thought the Health Policy Commission's recommendations were influential because relatively few of these recommendations have been adopted, and some respondents thought the HPC Board and staff should do more to promote their recommendations.</li> </ul>
<ul style="list-style-type: none"> <li>Stakeholders say that CMIRs are the HPC's most important tool for curbing consolidation in the health care market.</li> <li>Some providers indicated that knowing that certain types of transactions might be subject to a CMIR influences their decisions about how to structure a merger, acquisition, or affiliation and with whom they should partner.</li> </ul>	 <p><b>Cost and Market Impact Reviews</b></p>	<ul style="list-style-type: none"> <li>Although the CMIR process has affected some individual transactions, respondents do not believe that it has stopped the overall trend toward market consolidation.</li> <li>Some payer respondents thought that providers view CMIRs as just another "step they have to go through" and continue to assert that mergers will produce greater efficiencies.</li> </ul>
<ul style="list-style-type: none"> <li>Providers familiar with the PIP process said, "there is rigor to every element," which strengthens the credibility of the HPC's findings.</li> <li>Many respondents applauded the confidential nature of the PIP review process because it allows the HPC to examine a wide range of factors that contribute to spending growth and decide whether the performance of individual payers and providers referred for a PIP can achieve significant cost savings.</li> </ul>	 <p><b>Performance Improvement Plans</b></p>	<ul style="list-style-type: none"> <li>The HPC did not find that excessive spending growth by any entity rose to the level of significant concern until 2022, leading some respondents to question whether the PIP process is an effective accountability mechanism.</li> <li>Many respondents believe that the health care entities subject to the PIP review process exclude some that contribute to major cost growth, such as pharmaceutical companies and hospital spending that is not attributable to affiliated physician groups.</li> </ul>



### The first Performance Improvement Plan

- In 2016, the Health Policy Commission began reviewing the performance of entities whose annual spending growth exceeded the benchmark.
- Although the HPC reviewed dozens of entities over the next six years, the HPC did not require any of them to prepare a PIP, leading many payers and providers to believe that a PIP referral did not have serious consequences.
- After the HPC Board voted to require Mass General Brigham to prepare a PIP in January 2022—the first one in its history—the prospect of preparing a PIP might regain its influence on payer and provider spending.
- All stakeholders are watching closely to see how the Mass General Brigham PIP process plays out to shed light on the strength of this accountability mechanism.
- For more details, check the [Interactive Tracker](#) on the HPC's website to learn about the PIP's progress.

## Implications for policymakers on the design and implementation of accountability mechanisms for cost growth benchmark initiatives

As of 2022, eight states have followed Massachusetts' lead and adopted programs setting targets for health care cost growth; several other states adopted elements of the initiative. Massachusetts' experience highlighted important lessons and raises considerations for policymakers in other states about the design and use of mechanisms to hold payers and providers accountable for keeping health care spending growth below the benchmark (Table 2). Policymakers must decide which options are best suited to their state, based on the health care market structure, the capacity and resources of state agencies to implement benchmarking initiatives, and political consensus. For more discussion of these lessons and considerations, [read the full report](#).

**Table 2. Lessons and considerations for state policymakers**

 <b>Accountability for meeting the benchmark</b>	
 <b>Massachusetts' experience</b>	 <b>Considerations for other states</b>
<p>Massachusetts' law allows the HPC to hold some payers and certain types of providers accountable for excessive spending growth, but it excludes some entities and types of spending that contribute to spending growth, such as pharmacy spending and hospital spending not attributable to affiliated physicians.</p>	<p><b>State policymakers should consider which entities to hold accountable for keeping spending growth below the benchmark based on the major drivers of cost growth in the state.</b></p>
<p>Massachusetts' cost growth benchmark holds entities accountable for annual spending growth; it does not account for the baseline level of spending per member or patient—a product of price and utilization. By limiting accountability to cost growth alone, Massachusetts could not address the variation in prices across providers or the high prices some of them charged, which are among the primary drivers of cost growth.</p>	<p><b>State policymakers should consider whether to hold entities accountable for level of spending as well as annual spending growth.</b></p>
<p>Although the definition of health insurers' total medical expenses includes member cost sharing for deductibles, copayments, and co-insurance, Massachusetts' cost growth benchmark does not consider how consumers' out-of-pocket health spending, including premiums and cost sharing, affects households with varying income levels.</p>	<p><b>State policymakers should consider whether to establish separate standards for consumer affordability that take into account growing out-of-pocket costs to accompany the total statewide growth benchmark.</b></p>
<p>Massachusetts' law lists the criteria that can be considered in deciding whether to require an entity that exceeded the cost growth benchmark to prepare a PIP. The HPC has the flexibility to decide which factors to consider, whether an entity has made a good faith effort to control spending growth, and whether all factors taken as a whole “raise significant concerns.”</p>	<p><b>State policymakers should consider how much flexibility state agencies should have to determine whether spending growth above the benchmark is justified and whether to define the circumstances under which a PIP is required.</b></p>

**“For the benchmark to be effective, it needs to connect with what consumers pay for and how their costs are rising.”**

**Interview respondent**



## Oversight authority and resources



### Massachusetts' experience

Massachusetts' law granted power to the HPC, an independent agency that operates with support from a data collection agency (Center for Health Information and Analysis), to monitor and assess performance relative to the benchmark. It also separated the HPC's authority from other agencies with established regulatory authority, such as the Division of Insurance, which regulates insurance companies; the Department of Public Health, which regulates health providers and facilities; and the Attorney General's Office, which enforces anti-trust law. Separating powers across agencies according to their existing authority takes advantage of their expertise, but this approach can leave gaps in authority to hold certain types of health care entities accountable.

Massachusetts' law did not grant authority to the HPC or other state agencies to adopt new policies or regulations if their accountability tools were insufficient to address changes in the health care market that led to high cost growth. But if annual statewide spending trends did not fall below the cost growth benchmark, the law created a framework for stronger enforcement tools by directing the HPC to recommend new legislation.

The Massachusetts agencies charged with implementing the cost growth benchmark initiative—the HPC and Center for Health Information and Analysis—employ staff with expertise in a range of areas, including data collection, policy analysis and law, and they have relatively ample budgets. As a result, they have earned respect from all parties, and their analyses are regarded as objective and rigorous.



### Considerations for other states

**State policymakers should consider which agencies will have the power to enforce compliance with the benchmark by leveraging existing agencies' regulatory authority, or if needed, granting new authority to an existing or new agency which can hold specific entities accountable for excessive spending growth.**

**State policymakers should consider the circumstances and criteria that warrant the use of greater enforcement powers or regulatory levers by state agencies without having to pass new legislation. Such criteria could include several years of excessive spending increases, the degree to which spending growth exceeds the benchmark, the number of entities exceeding the cost growth benchmark, or other factors indicating that transparency and current accountability tools are insufficient to control cost growth.**

**State policymakers should ensure that the agencies entrusted to monitor and enforce compliance with the cost growth benchmark have sufficient funding and resources to effectively monitor cost growth, identify key cost drivers, and implement their accountability tools.**

**“I think that what really makes [the cost growth benchmark] so powerful is the credibility that the Health Policy Commission and Center for Health Information and Analysis bring to the table. We know that very thoughtful and thorough data analysis underlies their work. They are highly respected, both the staff and the commission. They command a place that they've been given by the statute, and I think that is really what has made them as successful as they have been.”**

**Interview respondent**



## Incentives for compliance



### Massachusetts' experience

Massachusetts' law authorizes the Health Policy Commission to levy a maximum financial penalty of \$500,000 on entities that fail to meet the cost growth benchmark, but only in very limited circumstances, such as when an entity willfully fails to submit a Performance Improvement Plan. In 2021, the HPC recommended increasing financial penalties for above-benchmark spending or non-compliance.

Because of the importance of high quality data to the success of the cost growth target initiative, the Center for Health Information and Analysis has taken steps to continually improve the completeness and accuracy of spending data submitted by payers, providers, and other reporting entities.



### Considerations for other states

**State policymakers should consider the types and amounts of financial penalties needed to motivate payers and providers to meet the cost growth benchmark.**

**State policymakers should consider the incentives needed to ensure submission of timely, complete, and accurate health spending data by all reporting entities, including potential penalties for failing to do so.**

“One of the things we've learned is you need to give [the HPC] more enforcement authority, more teeth. In certain situations, they should be required to apply penalties for lack of compliance as opposed to letting them decide.”

Interview respondent

## Methodology

This study used qualitative research methods to examine how the HPC implemented the four accountability mechanisms. From November 2021 to March 2022, we interviewed nearly 50 key stakeholders involved in or affected by the Massachusetts cost growth benchmark initiative. These included state officials (including the HPC and other state agencies), payers, providers, and consumer representatives and other stakeholders. We also collected and catalogued extensive documentation about the HPC's use of each accountability mechanism through a systematic search of publicly available documents.

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