



Peterson-Milbank
Program for Sustainable
Health Care Costs



Understanding the Drivers of Cost Growth



A critical part of the target program is granular analysis of the health care system’s overall performance and the factors driving costs in the state.

These cost growth driver analyses supplement the analyses of target performance (see Exhibit 6). They provide the basis for identifying the greatest opportunities for mitigating cost growth and getting stakeholders to accept and promote these strategies. This section describes key considerations for analyzing health care cost growth drivers in the state and using the results to pinpoint opportunities for individual or coordinated action to mitigate cost growth.

EXHIBIT 6. Description of Analyses Needed

 Health Care Cost Growth Target Analysis	VS.	 Cost Growth Driver Analysis
What: A calculation of health care cost growth over a given period to assess performance against the target		What: An analysis of spending levels and drivers of cost growth to inform policy decisions and identify opportunities for action to reduce health care costs
Data type: Aggregate data that allow for assessment of target achievement at multiple levels		Data type: Granular data (e.g., claims and encounters)
Data source: Insurers and public payers		Data source: Primarily the APCD

Establish a Framework to Guide the Analyses

States should perform two complementary types of analysis to find areas of opportunity to mitigate cost growth:

1. **Routine standardized analyses to inform, track, and monitor the impact of the target.** These regular reports should examine spending patterns, including use, price, service mix, and demographics, and should help draw attention to patterns that call for further investigation via in-depth reports. Initial reports should focus on spending patterns at the state and market levels, followed by analyses at the payer and large provider levels, with special attention to retail and medical pharmacy expenses.

EXHIBIT 7. Peterson-Milbank Framework for Analyzing Drivers of Health Care Spending and Spending Growth

2. **In-depth analyses of the drivers of high spending, spending variation, and spending growth that are identified from the routine analyses.** These in-depth reports shed light on the factors influencing health care costs and inform efforts to identify and implement cost mitigation strategies. They might look at variation in spending across payers, providers, and geographies; provider supply as a driver of spending; market consolidation as a spending driver; and spending on specific procedures by site of care, among other analyses.

Producing these analyses will serve as the foundation for future action to mitigate cost growth.

Having a framework to identify types of analyses states should produce is helpful for prioritizing and focusing attention on analyses that generate the greatest value. The Peterson-Milbank Program for Sustainable Health Care Costs developed an **analytic framework** that states can use to design their cost growth driver analyses.¹ The Peterson-Milbank **brief** also provides suggestions on how to approach certain analyses and examples of analyses that states have undertaken. The framework (Exhibit 7) is organized around three major questions:

1. **Where is spending problematic?** Problematic spending refers to spending that is high and/or growing rapidly, varies significantly within the state, or greatly exceeds certain benchmarks. Identifying these areas of problematic spending helps pinpoint where strategies to mitigate cost growth can have the greatest impact. In all states with target programs, analyses have pointed to pharmacy and hospital services as areas where spending is high and growing fast.
2. **What is causing the problem?** These analyses focus on the primary drivers of health care costs and cost growth, such as price, volume, scope and types of services used for treatment, population characteristics, and provider supply. For example, an analysis of supply could look at the numbers of hospital beds and specialists in a region and how they correlate with utilization. These analyses could point to instances where demand for health care services may exceed a limited supply, driving unnecessary price increases. States could also look at how prices in regions with significant market consolidation might differ from regions without a dominant provider.
3. **Who is accountable for the problem?** In addition to conducting state-level analyses, states should consider stratifying analyses by market, insurer, and provider since addressing cost growth will require purposeful and coordinated effort across all these stakeholders. States could also consider analyzing providers that are not directly accountable for cost performance but may significantly contribute to spending, such as drug manufacturers, hospitals, or imaging centers.



Where

Where is spending problematic?

- High spending
- Growing spending
- Variation in spending



What

What is causing the problem?

- Price
- Volume
- Intensity
- Population characteristics
- Provider supply



Who

Who is accountable?

- State
- Market
- Payer
- Provider

Many of the data sources discussed in the Establishing the Target Methodology and Value section of this playbook – APCD, state employee health benefit claims, MMIS, insurer rate filings – can be used for cost growth driver analyses. States can also use data from the following sources to better understand cost trends:

- **Hospital discharge data:** Almost all states have statewide hospital discharge data, which often include information on inpatient discharges, outpatient procedures and services, and emergency department visits. These typically have de-identified patient-level information to support analyses on issues including hospital utilization patterns, hospital market share, and outcomes.
- **Prescription drug price transparency data:** Some states have drug price transparency laws that require drug manufacturers, pharmacy benefit managers, and health plans to supply information on prescription drug pricing.
- **Data from the No Surprises Act:** The No Surprises Act (2022) requires health plans and health insurers in group and individual markets to annually submit information to the federal government about prescription drug and health care spending. However, CMS delayed enforcement of this requirement, and while some insurers are voluntarily making the data available, the files are too large to analyze. Thus, this may not be a viable near-term option.
- **Hospital and insurer price transparency data:** Federal price transparency rules require hospitals to publish standard charges for items and services online in a machine-readable file. This could be useful for examining how individual hospitals' pricing compares with other hospitals in a state and how geography and market share influence pricing. Unfortunately, compliance with the rule has been poor.²
- **Risk factor data:** Many states have expressed interest in adjusting analyses to account for social risk factors. Until states can gather demographic and social risk data more completely and reliably, states can use the Census Bureau's American Community Survey (ACS), which has race and income data. Such adjustments using the ACS, however, can only be made at the population level and not at the individual level.

Identify Opportunities to Slow Cost Growth and Set the Stage for Future Policy Action

States need to share results of the cost driver analyses in ways that are easy to understand. States will need to balance supplying enough detail to demonstrate credibility of the analyses and keeping the key takeaways simple. In identifying the key takeaways from cost driver analyses, it is useful to ask the following questions:

- What information does the analysis demonstrate that is already known?
- What new information can be gleaned from the analysis?
- How can the state use the information gained to meet its affordability goals?

In presenting results, states should consider visualization tools that clearly show patterns and trends affecting high and rising health care costs. These data dashboards will help build confidence and buy-in among stakeholders. The Public-Private Stakeholder Engagement section of this playbook provides ideas on where and how to communicate this information.

Developing Data Analytics Capacity to Support Cost Growth Target Programs

Establishing the processes and staff to collect, manage, and analyze data requires significant investments in time and resources. States need to consider how to build this data analytics capacity. States that use advanced analytics, such as Massachusetts and Oregon, have dedicated staff while also leveraging existing state agency health analytics infrastructure. Another option is to procure the required expertise. Using a vendor is typically more costly for states but may ensure that the work will be completed with the necessary technical skill and in a timely fashion.

States can take steps to translate data from cost driver analyses into policy action. States can directly pursue state policies, such as through legislative or regulatory pathways that address drivers of cost growth. A broad group of supporters, like a steering committee or board consisting of multiple stakeholders, could make recommendations to the governor or legislature. States could also facilitate market-based solutions, for example, by gathering competing stakeholders together to show support for and reach agreement on private market solutions.

Resources

National and State-Level Comparative Data on Health Care Costs, and Resources for Conducting Cost Driver Analyses

- A Peterson-Milbank brief describes a [framework for conducting cost driver analyses](#) and provides examples of analyses conducted by states.
- The [RAND Hospital Price Transparency Study](#) is a three-part study examining hospital prices across the 50 states.
- The [Health Care Cost Institute's Health Marketplace index](#) tracks metrics of health care spending across more than 150 U.S. cities (focusing on metropolitan areas), hospital market concentration, and prices versus utilization.

Connecticut's Use of Analyses of Cost and Cost Growth to Elevate the Issue of Hospital Costs

Even before collecting data to measure target performance data, Connecticut analyzed its APCD to understand the primary drivers of cost growth in the state. Initial analyses showed year-over-year hospital cost growth was particularly high relative to professional services. More detailed analysis pointed to prices as the primary driver of increases in hospital spending. Further analysis showed that hospital discharges were concentrated in a few systems, and that spending on hospitals with the highest inpatient costs grew fastest while spending on those with the lowest costs grew slowest.

Connecticut shared and disseminated this information widely. This process led to engagement of all stakeholders, including the hospitals, and elevated discussions on the impact of hospital prices on the state's ability to meet the target.

While Connecticut has increased awareness of hospitals as the leading contributors to commercial cost growth, how the state will take corrective action remains to be seen. Nevertheless, by raising awareness of the issue, Connecticut has "primed the pump" for future policy action.

Examples of Cost Driver Analyses

- Connecticut [2015–2019 Commercial Spending Driver Analysis, 2015–2019 Commercial Spending Driver Analysis with Retail Pharmacy Added, 2017–2019 Commercial Pharmacy Spending Driver Analysis](#)
- Massachusetts [2022 Health Care Cost Trends Report and Policy Recommendations](#)
- Nevada [Medicaid Cost Driver Analysis](#)
- Nevada [Public Employees’ Benefits Program Cost Driver Analysis](#)
- Oregon [2013–2019 State and Market-Level Cost Growth](#) and accompanying [Chart Pack](#)
- Rhode Island [Analysis of 2016–2018 Commercial and Medicaid Pharmacy Spending and Tableau analyses](#) of cost trends
- Washington State [Commercial Trends in Cost for 2016–2019](#)

To read the complete playbook, visit <https://www.milbank.org/publications/making-health-care-more-affordable-a-playbook-for-implementing-a-state-cost-growth-target>.

- 1 Sayles JN, Kanneganti D, Bailit M. A Data Use Strategy for State Action to Address Health Care Cost Growth. Peterson-Milbank Program for Sustainable Health Care Costs, June 2021. <https://www.milbank.org/publications/a-data-use-strategy-for-state-action-to-address-health-care-cost-growth/>
- 2 Ario J, McAvey K, Zhan A. Assessing Implementation of Hospital Price Transparency. Manatt Health, January 2022. https://www.manatt.com/Manatt/media/Documents/Articles/NYSHF-Hospital-Price-Transparency-Report-January-2022_c.pdf