



Accountability & Action to Slow Cost Growth



Setting a target, in and of itself, is not sufficient to slow cost growth. States and their partnering stakeholders need to take individual or collective action to implement strategies to slow cost growth and enable the state to meet the target.

Having a target in place fosters stakeholder engagement, data and information transparency, and a commitment to affordability that better positions states to develop and implement meaningful cost containment strategies.

This section describes accountability mechanisms that states can apply to motivate payers and providers to meet the target, considerations for building a structure to hold entities accountable to the target, and cost containment strategies that states have pursued.

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Consider Accountability Mechanisms for Meeting the Target

The goal of measuring entities' cost growth is to ultimately hold them accountable for meeting the target. States have three primary accountability mechanisms: (1) public reporting of performance, (2) performance improvement plans, and (3) application of positive and/or negative incentives for meeting or not meeting the target.

Most states rely on public reporting, but three states – Massachusetts, Oregon, and California – go beyond public reporting to motivate payers and providers to meet the target. These states can require performance improvement plans and impose financial penalties; the approaches are considered a last resort after transparency and collaborative efforts to contain spending have failed.

Public Reporting of Performance

Public reporting has long been used to stimulate improvements in other domains of health care, such as quality. Public reporting of performance against the target draws attention to how health plans and providers contribute to health care cost growth and gives states the chance to engage all stakeholders in the conversation on cost growth drivers and strategies to address them. The assumption is that health plans and providers will undertake efforts to constrain costs when information about their performance is compared against the target and made available to their peers, regulators, legislators, and the public at large.

States typically wait years before public reporting to ensure that the entire process works successfully over time. States publicly report performance at the state,

market, payer, and provider organization levels, sharing the findings in multiple venues and formats to garner attention.

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Performance Improvement Plans

If an entity exceeds the target, a state can require it to develop and implement a performance improvement plan (PIP). A PIP is a formal document that identifies the entity's specific cost growth drivers, contains concrete action steps the entity will undertake to address the cost drivers, sets a clear timeline for implementing action steps, and outlines measurable expected outcomes. Applied appropriately, a PIP can be a powerful accountability tool for states.

Mitigating cost growth takes time, so states need to closely monitor PIP performance and results for multiple years to measure impact. Massachusetts has implemented an [interactive tracker](#) that allows the public to see where entities required to file PIPs are in the process, view the PIPs, and track progress on cost mitigation.

Application of Positive and/or Negative Incentives

Oregon and California can impose financial penalties on entities that exceed the target. Financial incentives can be an effective motivator to improve performance, but a key consideration is how to determine the penalty. A flat penalty amount could overly burden smaller organizations but not be meaningful enough to spur change in large organizations. Oregon is still developing its financial penalties and is considering variable penalty amounts based on the amount by which the entity exceeds the target, the entity's size, and good-faith efforts to address health care spending and collaborate with the state. California's target program has not yet been developed.

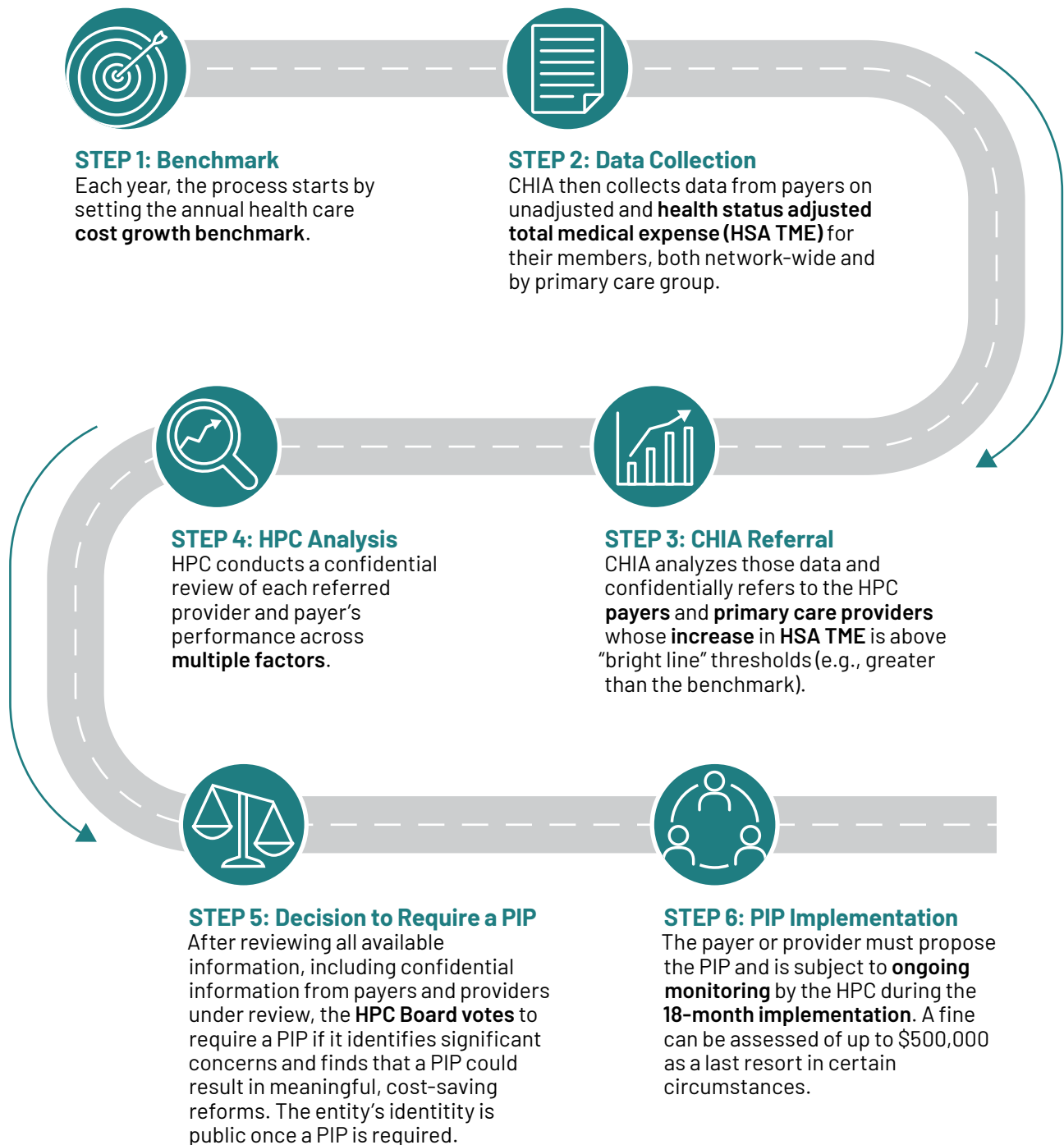
States could also consider positive incentives, which are not currently in use. For example, states could give special recognition to entities that meet the target.

Build the Structure to Hold Entities Accountable

Whether using public reporting, PIPs, financial penalties, or positive incentives, states need to have a well-established process for holding entities accountable to the target and enforcing compliance.

Massachusetts takes several steps before it requires a PIP (Exhibit 8). First, its data collection agency, the Center for Health Information and Analysis (CHIA), confidentially shares findings with the HPC about any payer or primary care provider whose spending exceeded the target. The HPC then conducts a confidential review of public and private information about the payer's or provider's spending. If the HPC determines the performance was within the organization's control and the organization could take reasonable action to institute meaningful cost reforms, the HPC Board can vote to require a PIP. If the Board votes for a PIP, the organization must develop an action plan to reduce costs. The HPC then evaluates the PIP to assess whether the action steps are likely to successfully address the underlying cause(s) of the entity's cost growth and whether the entity has the capability to successfully implement the PIP.¹

EXHIBIT 8. Massachusetts' Accountability Process



Source: Adapted from David Seltz, presentation on the benchmark modification process, March 25, 2021, available at <https://www.mass.gov/doc/presentation-benchmark-hearing-march-25-2021/download>.

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Determining when to impose a PIP or financial penalty is a key consideration for states. More specifically, how should states determine whether an entity had a reasonable or justifiable basis for exceeding the target? An evaluation of Massachusetts' program found that the level of discretion the HPC had in determining whether to issue a PIP weakened this accountability mechanism. The evaluation suggested that using more prescriptive and objective criteria to trigger a PIP would have made it more effective.² States should consider parameters to guide this assessment — such as the entity's spending level, the extent to which its cost growth exceeded the target, the entity's market share, and how much its excess cost growth contributed to the state's overall cost growth.

Pursue Strategies to Mitigate Cost Growth and Help Meet the Target

Real change can only come about when states and their stakeholder partners engage in and implement cost growth mitigation strategies. States can pursue broad-based strategies that can affect overall cost growth without focusing on particular contributors, or specific strategies to address cost growth drivers identified through analyses. The Commonwealth Fund identified [10 cost containment strategies](#), one of which is setting a cost growth target, and developed profiles of each strategy including design and implementation considerations, evidence of the strategy's potential to reduce cost growth, the strategy's potential impact on health equity, contextual features that influence the feasibility of implementing the strategy, and potential limitations. Among the 10 strategies, states with target programs have tended to focus on the four strategies described in this section.

Increasing Adoption of Advanced Value-Based Payments (VBPs)

By using financial incentives that reward providers for meeting certain quality or cost-saving benchmarks, VBPs aim to change the delivery system to focus on improving outcomes and providing care more efficiently.

Oregon's governing body developed a set of principles to increase the use of VBPs in the state. Oregon established a VBP compact with 47 organizational signatories that set targets for the percentage of provider payments to be made through an advanced VBP model. To support implementation, the state set up a VBP workgroup that is charged with identifying ways to accelerate all-payer VBP adoption, recommending policies to address barriers to adopting VBPs, coordinating VBP efforts across the state, and monitoring progress on VBPs.

Similarly, Rhode Island's governing body identified VBPs as the primary strategy for meeting the target. Health care leaders in the state signed a compact to accelerate adoption of advanced VBP models, and the state is working on the development of recommendations for key parameters of an all-payer hospital global budget model.

Capping Commercial Provider Rate Increases

States can place upper limits on how much an insurer can annually increase the price paid for a service. These caps allow for increased spending, but within certain limits. In Rhode Island, the Office of the Health Insurance Commissioner established

affordability standards that commercial insurers must follow to have their premium rates approved. These standards include a comprehensive payment reform provision that requires insurers to limit price increases for hospital services to the Medicare price index plus one percentage point. In 2021, Delaware implemented similar affordability standards for commercial insurers.

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Containing Growth in Prescription Drug Prices

Some states try to control drug costs, either by imposing fines on drug manufacturers whose prices or price growth exceeds certain thresholds, or by establishing drug review boards that help set upper payment limits for drugs deemed unaffordable for purchasers and consumers in the state. In 2021, the governors of Connecticut and Massachusetts introduced legislative proposals to fine drug manufacturers whose price increases were considered excessive. In Rhode Island, the steering committee recommended that the governor pursue similar legislation.

Enhancing Oversight of Market Consolidation

Market consolidation occurs when two or more health care entities combine. These transactions can involve entities that supply different services, such as a hospital acquiring a physician practice, or entities that provide similar services, such as two hospitals. Studies show that consolidation in health care leads to higher costs without improving quality or patient outcomes.³ In 2021, Oregon passed a bill directing the Oregon Health Authority (OHA), which administers the state's target program, to also oversee "material change transactions," which include mergers, affiliations, and acquisitions of a certain size. The framework for OHA's review includes the impact of such transactions on the state's ability to achieve its target.

Tips for Prioritizing Cost Mitigation Strategies to Pursue

To ensure that states focus on the most important cost mitigation efforts, it is helpful to have a framework for systematically evaluating what strategies to pursue. Having a framework also helps with stakeholder buy-in, particularly if the process incorporates the best available evidence and reflects the realities of the stakeholders that will need to implement the strategies. The decision-making process should also consider whether there could be unintended consequences such as diminished quality, equity, or access. Criteria that states can use to prioritize cost mitigation strategies include:

- Analysis of the strategy shows **significant opportunity**, such that its implementation would have a substantive impact on target performance. This means that there is evidence for the strategy or a compelling logic model that supports the strategy.
- The strategy is **actionable** at the state, payer, and/or provider levels.
- There is **capacity to execute** the strategy in a way that will be effective.

Resources

- Mathematica [evaluation report](#) and [issue brief](#) on Massachusetts' accountability mechanisms
- Mathematica fact sheets on Massachusetts' health care cost growth benchmark:
 - [Annual health care cost trends reports](#)
 - [Annual health care cost trend hearings](#)
 - [Cost and market impact reviews](#)
 - [Performance improvement plans](#)
- Milbank Memorial Fund issue briefs on cost containment strategies:
 - [Mitigating the Price Impacts of Health Care Provider Consolidation](#)
 - [State Action to Oversee Consolidation of Health Care Providers](#)
 - [Who Can Rein in Health Care Prices? State and Federal Efforts to Address Health Care Provider Consolidation](#)
 - [Bipartisan Approaches to Tackling Health Care Costs at the State Level](#)
 - [Uniquely Similar: New Results from Maryland's All-Payer Model and Paths Forward for Value-Based Care](#)
- Oregon's [compact](#) to accelerate adoption of advanced VBP models
- Rhode Island's [compact](#) to accelerate adoption of advanced VBP models

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 Massachusetts Health Policy Commission. Performance Improvement Plan Process Overview. January 2022. <https://www.mass.gov/doc/performance-improvement-plan-process-overview/download>
- 2 Lipson D, Orfield C, Machta R, Kenney O, Ruane K, Wrobel M, Gerovich S. The Massachusetts Health Care Cost Growth Benchmark and Accountability Mechanism: Stakeholder Perspectives. Mathematica, October 2022. https://www.milbank.org/wp-content/uploads/2022/10/MassCostGrowthBenchmarkEvaluation_Mathematica_Oct2022.pdf
- 3 Gaynor M, Town R. The Impact of Hospital Consolidation. Robert Wood Johnson Foundation, June 1, 2012. <https://www.rwjf.org/en/library/research/2012/06/the-impact-of-hospital-consolidation.html>