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Mr. Chairman, Senator Grassley, Senator Kerry and Members of the Committee, I am Andrew Dreyfus, Executive Vice President at Blue Cross Blue Shield of Massachusetts. I am pleased to be here to discuss our experience with health care reform in Massachusetts and how changes in the regulation of the insurance market contributed to that reform.

I would like to thank the Committee for convening the many hearings and roundtables over the past year to gain a deeper understanding of the issues surrounding health care access, quality and cost as it prepares for congressional action on health care reform next year. I hope my testimony about the Massachusetts experience and our lessons learned helps inform state and national efforts to expand coverage.

Blue Cross Blue Shield of Massachusetts is a not-for-profit organization that was founded 70 years ago by a group of community-minded business leaders. Our history – and our future – is one of collaboration with the community to improve the health of our members and the quality of care in the Commonwealth. At BCBSMA, our vision is a transformed health care system that provides safe, timely, effective, affordable, patient-centered care for all.

Our world-class member service, comprehensive product portfolio, care management programs and web-based tools help our three million members lead healthy lives and access the health care services they need allowing us – for the third year in a row – to be ranked as the best Blue Cross plan in the nation by NCQA.

Where is Massachusetts health care reform now?

Almost two and a half years ago, Massachusetts health care reform was signed into law and I am pleased to say that while challenges certainly remain, the law has been successful in expanding access to coverage for hundreds of thousands of Massachusetts residents.

- Recent state reports document that 439,000 previously uninsured residents now have health insurance.
- Care for the state's remaining uninsured financed by the Health Safety Net – formerly known as the Uncompensated Care Pool – has decreased markedly as insurance enrollment has increased. The state reports a nearly 40% decrease in the number of patients using the Health Safety Net in community health centers and hospitals, compared to the same time period last year.
- The latest US Census numbers reveal that Massachusetts has the lowest rate of uninsured in the nation and Massachusetts is responsible for 24% of the overall national decline in the number of uninsured. I believe our rate of uninsured has dropped further since the Census data was collected.

As a Company, we are proud of the contributions we made to help health care reform become a reality. The Blue Cross Blue Shield of Massachusetts Foundation, through extensive analysis, research and convening of leaders, played a major role in setting the stage for reform. I was the President of the Foundation at that time and appreciated the leadership of the Company and the Foundation Board of Directors on this important issue. Independently, as a

leading health plan in the state, Blue Cross Blue Shield of Massachusetts was also called upon many times to lend our expertise on subjects ranging from plan design to market reform as public officials contemplated the final design of health care reform. Under the leadership of our Chairman, President and CEO, Cleve Killingsworth, Blue Cross Blue Shield of Massachusetts remains committed to the success of our health care reform law.

And while we are proud of how far we have come in Massachusetts over the past two years, we are learning that coverage reforms cannot be sustained without a concurrent focus on cost and quality. While the state has made great strides in extending health coverage to hundreds of thousands of people -- a number we hope and expect to increase -- we have seen those gains threatened by continued increases in health care costs, which strain state, federal and employer budgets. Without durable solutions that slow the growth of health care costs, our historic coverage expansions will be placed at risk.

With this challenge lies an opportunity. We believe that by taking real, concrete steps to improve the quality of health care – by making it safer, more effective and more efficient – we will be able to slow the growth in medical trend. In so doing, we will address the greatest threat to health care reform at the state or national level – skyrocketing cost.

But before we outline our thoughts in this area, I want to speak to what you have asked us to testify about today.

What allowed Massachusetts to enact health care reform?

To understand why Massachusetts seized this historic opportunity, it is important to understand the climate in the Commonwealth that allowed health reform to take place. In Massachusetts:

- We had a relatively low number of uninsured – as compared with other states.

- Employer coverage in the state was already high (over 65%) as compared to the rest of the nation (56%).
- We were spending approximately $1 billion annually on services for the uninsured and underinsured.
- We already operated in what some may consider a highly regulated insurance market with requirements such as guaranteed issue, prohibitions on medical underwriting, and modified community rating.
- There is a strong not-for-profit tradition shared by health plans, hospitals and physicians.
- There was also the looming threat of losing over $385 million in federal funding if our Medicaid waiver was not renewed.

These factors, along with a strong community and political commitment to shared responsibility – from the business community to organized labor to hospitals and health plans to health advocacy and faith-based organizations as well as elected officials – created the dynamic that allowed health reform to become a reality. All shared the vision that through health care reform, the uninsured would have access to affordable health insurance and with that access – better health. Health reform also created an opportunity to reduce the cost of care while improving quality.

What did Massachusetts do?

While there are many important provisions to the 146 page law, I am going to focus on areas in which I believe you are most interested.

<u>Massachusetts Covered the Uninsured.</u>

In order to cover those residents that lacked health insurance, the law had several key provisions aimed at reaching those individuals.

1) Expanded Medicaid eligibility to reach those children in families earning up to 300% FPL (vs. 200%). To date, approximately 27,000 children have been added;

2) Expanded Insurance Partnership eligibility to reach those employees participating in our existing employer-based subsidy program to 300% FPL (vs. 200%); and

3) Created a new subsidy program ("Commonwealth Care") to be sold through the Commonwealth Health Insurance Connector that provides subsidies to low-income individuals with incomes up to 300% FPL to assist with the purchase of health insurance. To date, approximately 176,000 have enrolled in Commonwealth Care.

In addition to these public programs, many previously uninsured became insured either by enrolling directly with private carriers (173,000) or via Commonwealth Choice, the products available through the Connector (18,000). Currently six health plans sell products on this Connector platform, including Blue Cross Blue Shield of Massachusetts.

<u>Massachusetts Implemented Private Insurance Market Reforms.</u>

The law also contained several industry market reforms to allow private insurers to develop more affordable insurance products.

1) Merged the non- and small group markets as of July 2007 to create one risk pool leading to a decrease in non-group rates.

The effect of the merger was a decrease in non-group rates of approximately 15%. However, the small group experienced an increase of up to 2%, which we believe could have been moderated by a reinsurance funded outside of the health insurance system. A legislatively appointed commission that studied the issue concluded that $33 million would have been needed to offset each 1% increase to small groups in the merged market.

2) Allowed HMOs to offer high deductible health plans that are linked to Health Savings Accounts;

3) Allowed young adults to remain dependents for two years past the loss of their dependent status (or until their 26th birthday – whichever comes first);

4) Created special lower-cost products offered through the Connector designed for 19-26 year olds without access to employer-sponsored coverage;

5) Allowed insurers to rate individuals and small groups based on their smoking status and participation in wellness programs; and

6) Imposed a moratorium on the creation of new health insurance mandated benefits through most of 2008.

Massachusetts Imposed an Individual Mandate.

Massachusetts residents were required to have creditable health insurance coverage beginning in July 2007. The initial penalty for not doing so (and not obtaining a waiver) was the loss of the personal tax exemption on state income tax in the first year. Now and in the future, the requirement will result in a penalty of up to 50% of the monthly minimum insurance premium for creditable coverage for each month without coverage, currently up to a maximum of $912 annually.

For the 2007 tax year, preliminary data reflects that 95% of tax filers had coverage. Of the 5% (168,000) uninsured tax filers, 69,000 are exempt from penalties; 6,000 of the remaining 86,000 subject to penalties have appealed.

Massachusetts Required Employer Shared Responsibility.

Employers with 11 or more employees who do not make a “fair and reasonable” premium contribution to a health plan for their employees will be charged up to $295 per employee. Employers are also required to offer Section 125 “premium only” cafeteria plans to their employees – either under their own group health plans or through the Connector – so that employees may purchase health insurance products on a pre-tax basis. Failure to do so, when coupled with an

employee who utilizes free care services, could result in a surcharge from 10%-100% of the state's cost of services provided to the employees and their dependents.

Massachusetts Created a Connector.

The Connector was a new, independent, quasi-public entity created under the law and is overseen by a board of private and public representatives to "connect" individuals and small businesses (fewer than 50 employees) with affordable health insurance products developed by insurers.

- The Connector is empowered to certify products of high value and good quality and make them available to individuals and small groups ("Connector Seal of Approval").
- The Connector collects premium payments from those seeking coverage and remits payments to the appropriate insurer.
- The Connector is charged with determining the minimum creditable coverage (MCC) standard for the individual mandate, below which someone is considered "uninsured" and for establishing the schedule of affordability for enforcing the individual mandate and with granting waivers thereto.
- The Connector administers the Commonwealth Care Health Insurance Program.
- The Connector sets broker commission rates ($10 per subscriber/per month for groups).

The Connector is not yet open to small groups: Extending coverage to this population has proven more administratively complicated than originally anticipated. The Connector will begin implementing a pilot program for 100 firms (up to 1,000 members) on January 1, 2009. Measuring the success of this program in the small employer market will therefore take some time and there are currently no plans to expand the program to all small employers in the

state. This necessary first step must be taken to determine whether an expansion makes economic sense or serves a public policy interest.

Our experience with the Connector is that it does indeed provide a service by helping to increase awareness of insurance products and eases the ability of an individual to compare products from different plans. The Connector has also been very successful in reaching and enrolling the subsidized population – for whom health care reform has been a resounding success.

Massachusetts Recognized the Importance of Quality and Cost.

Recognizing the need to ensure that evidence-based guidelines and best practice safety measures are key elements of high-quality heath care, Chapter 58:

- Established a Quality and Cost Council with the authority to establish and coordinate implementation of those health care quality improvement and cost containment goals aimed at promoting high quality, safe, effective, timely, efficient, equitable and patient-centered care;
- Created a Consumer Health Information Website to assist consumers in making more informed decisions about the quality and cost of care with information on specific services and procedures;
- Provided for Pay-for-Performance in Medicaid.

Where is Massachusetts health reform headed?

Fiscal Challenges

As mentioned at the outset of my testimony, while Massachusetts is certainly making unprecedented strides in terms of access, the state has become the victim of its own success and is currently experiencing a shortfall in paying for reform efforts. Much of the reason for the shortfall can be linked to higher than anticipated enrollment in the subsidized plan. In addition, because of the noteworthy increased enrollment of individuals in employer-sponsored insurance (159,000), Massachusetts has not raised as much revenue as anticipated

through employer assessments. Finally, the state's current Medicaid waiver has not yet been approved. With the pressures on the state budget and health care reform funding, Massachusetts may find it difficult to sustain its success.

Health Care Reform, Part II

Beyond the short term budget challenges, the current, underlying growth in medical trend poses an unsustainable burden on consumers, employers, and the government. Failure to develop enduring solutions to slowing the growth in health care costs will put our historic coverage expansions at risk. We view this as Health Care Reform, Part II.

Health Care cost growth must be slowed.

Laudably, our State Legislature passed a cost containment bill in July. With its focus on hospital acquired infections, serious reportable events, health information technology and primary care expansion, the law attempts to improve quality and decrease costs. We are particularly pleased that the law includes a commission on health payment reform.

The most promising route to slowing costs is by changing our payment system to reward high quality, efficient care.

We believe that by changing the way health care is purchased, and eliminating the incentives that are working against high-quality, affordable care, we can liberate physicians to select treatments based on effectiveness, efficiency, and patient preference. If we can change the way we pay for care, we can change the care itself, paving the way for a high quality, high value health care system.

At Blue Cross Blue Shield of Massachusetts we have developed an innovative payment model to do just that. It rewards providers for high quality, effective care and positive outcomes.

The plan combines two forms of payment: a global or fixed payment per patient adjusted for the health of patients, with annual increases in line with inflation, and

substantial performance incentives tied to nationally accepted measures of quality, effectiveness, and patient experience of care.

Developed by a team of physicians, finance experts and measurement scientists, this approach rewards providers for quality and appropriateness rather than volume and complexity. By freeing providers to make care decisions independent of reimbursement levels, the model encourages integration, prevention, and innovation, and discourages inefficient, redundant, or unproven care.

We are beginning to use this innovative payment model with some pioneering Massachusetts providers, and we believe it will have benefits for patients, providers, and payers alike. Patients will receive higher quality, more effective, more affordable care. Providers will gain a competitive advantage by delivering high quality care with demonstrated improvement in patient health. Employers will see more affordable premiums and a healthy, productive workforce. We believe this alternative payment model can – over several years – cut in half current medical cost trend, which has been rising at 12% per year.

We are optimistic about the results we will see in Massachusetts, and the potential for this model to be replicated in other communities. We believe, however, the lasting payment reform will require a significant role by the federal government, especially in Medicare. A consistent and comprehensive federal approach toward health care quality and cost will provide essential guidance to states, employers, and provider systems to redirect resources and make other needed changes.

Quality = Affordability

Payment reform, while likely to have the greatest impact on overuse, misuse and underuse, is just one aspect of our overall vision to transform the health care system into one that provides safe, timely, effective, affordable, patient-centered care for all.

We summarize our work on health system change with a simple equation – *Quality = Affordability*. If we improve the quality of health care – make it safer, more effective, and more efficient, we'll make care more affordable by slowing the rise in the cost of care.

There are four major elements to our Quality = Affordability plan. We need to:

1) Change the way we pay for care – as I have already outlined;
2) Improve the quality and effectiveness of care using measures that are nationally accepted;
3) Educate and inform patients – our members - so that they are more involved in their care, make healthier choices, and help change the system; and
4) Make investments in community based initiatives that lead to safer more effective care.

Working with providers we are:

- Sharing data with that will help them reduce the overuse, underuse and misuse of health care services;
- Asking that all hospitals make their Board of Trustees leaders in the campaign for safety and quality;
- Requiring all hospitals to use computerized systems for ordering drugs and tests by 2012 to participate in our incentive program. A recent study reveals that these systems could prevent 55,000 preventable medical errors and save $170-million a year here in Massachusetts alone; and
- Organizing our provider network around doctors and hospitals who provide the safest, most effective and efficient care.

Working with our members, we are:

- Developing easy-to-use web tools that provide information about the quality and effectiveness of the care provided by doctors and hospitals;

- Using the web to help our members and the public understand what's driving health care costs;
- Expanding the disease prevention, disease management, and wellness programs we offer our members - rewarding them for making better choices, following their doctor's advice, and sticking with treatment plans; and
- Encouraging both doctors and patients to use generic drugs – when appropriate. The result – the use of generics by our members has grown to more than 73 percent. It is worth noting that for every one percent increase in the use of generic drugs results in a one percent decrease in the cost of prescription drugs and saves our members co-pays of $10 to $35 per prescription.

Working with the health care and business community, we are making investments to build a safer, more effective, more efficient system by:

- Creating a groundbreaking program with the Massachusetts Hospital Association that gives hospital trustees the knowledge they need to become effective advocates for quality and safety and have linked participation in this program to specific incentive payments to hospitals;
- Implementing, through the Massachusetts eHealth Collaborative ("MAeHC"), a cutting-edge electronic health records program in three Massachusetts communities that is proving technology can make care better and safer;
- Promoting electronic prescribing through our work with the e-Rx Collaborative where last year, some 4.8 million prescriptions were ordered through the eRx Collaborative. Nearly 104,000 or about 8,600 per month were changed as a result of drug-drug or drug-allergy alerts triggered by the Collaborative's technology; and
- Educating all of us about how to be better patients who are actively involved in the making sure we receive the highest quality, safest, and

most effective care through or funding and launch of The Partnership for Health Care Excellence.

On behalf of my colleagues at Blue Cross Blue Shield of Massachusetts, we look forward to working with the Finance Committee as it addresses the important issues of improving access to quality health care. Thank you again for the opportunity to testify. I look forward to any questions you may have.