



Massachusetts Investigating Wide Disparities in Hospital, Provider Reimbursements

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Health insurers told a Massachusetts agency examining rising healthcare costs that a state trend toward "providing care in more expensive settings" is the primary driver of increasing health costs.

Eric H. Schultz, president and CEO of Harvard Pilgrim Health Care, submitted testimony before the Massachusetts Division of Health Care Finance and Policy hearing on Tuesday that stated some physicians and hospitals are paid upward of 300% to 400% higher for some services compared to others.

"The variations in overall reimbursement to hospitals can also be as high as 300%, but the difference when comparing facility inpatient rates or outpatient rates can be as much as 300% to 400%," Schultz said in a written statement. "The difference in rates between the lowest reimbursed physicians and the highest can be as much as 300% for the same services. Some physician and hospital networks are paid well in excess of 200% of Medicare."

"As has been highlighted in the reports issued by the division and the Attorney General's Office in preparation for these hearings," Schultz stated, "increasing reimbursement rates demanded by providers for medical services, and the trend toward providing care in more expensive settings are the primary drivers of increasing healthcare costs, increases that are reflected in higher premiums."

In written testimony, the Tufts Associated Health Maintenance Organization also spoke of disparities in costs. "Our efforts to contain unit cost increases have been constrained by provider market leverage driven by system size, reputation, service uniqueness, and geographic location," the company stated. "Our efforts also have been constrained by market preferences dictating that we maintain as broad a provider network as possible."

The insurers said in testimony their findings mirrored a Massachusetts' Attorney General's Office investigation that focused on how higher reimbursement rates were generated by the most powerful hospitals, not necessarily those providing the best care. The division is continuing hearings Thursday and Friday.

"The division's findings generally are consistent with Tufts Health Plan's experience, particularly with regard to the impact of unit cost inflation on health insurance premium increases," Tufts Associated Health Maintenance Organization stated.

Attorney General Martha Coakley, who has conducted a yearlong investigation into the healthcare cost increases, presented her findings to the division, reiterating statements she made in a preliminary report in January.

"We found that healthcare costs most closely correlated the market leverage of hospitals and physician groups, rather than other issues that we would expect—like quality of care or patient population," Coakley said in a statement.

"Prices paid by health insurance companies to hospitals and physician groups vary significantly within the same geographic area and among providers offering similar levels of service, and price variations for hospitals and physicians are not explained by quality of care and similar factors," the attorney general said in a statement.

John J. Curley, senior vice-president of Blue Cross Blue Shield of Massachusetts, also said in a written statement that the company believes the state health reform played a role in increases and that medical expenses drove the costs.

"The increase in unit costs before considering shifts in sites of service and provider mix, contributes approximately 50% to medical cost trend," Curley stated. "Healthcare costs and trends are also impacted by shifts in the sites where members receive medical services."

Curley mentioned the effects of the state's health reform, which merger the individual and small group segments in July 2007.

"The individual segment has claims experience and trends that are significantly higher than the group business, due to higher morbidity and unfavorable selection in this segment. This has resulted in increasing per member per month annual trends across all services for the merged small group an individual segment by 4-5% and for the entire commercial group business by approximately 1-2%."

Schultz's testimony noted a difference in the company's experience compared to the Attorney General's findings.

"One specific area of the reports in which the findings are materially different than our experience is the analysis of retention, the portion of the premium that covers administrative expenses and contributes to surplus," Schultz said. "The report concludes that in 2009, small group business had the highest retention, followed by mid-sized business, with large group having the lowest retention. That was not the experience for Harvard Pilgrim, which saw the highest retention in the midsize segment, followed by large group, with small group having the lowest retention.

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