Blue Cross Blue Shield of Massachusetts Public Statement Regarding the June 22, 2011 Examination of Health Care Cost Trends and Cost Drivers Report By Massachusetts Attorney General Martha Coakley

BOSTON — June 22, 2011 — Attorney General Martha Coakley is to be commended for her continued strong interest and sustained attention to the issue of rising health care costs – an issue of the highest priority for our members and employer customers.

We agree with the fundamental conclusion of today's report that to "control cost growth, we must shift how we purchase health care to align payments with 'value,' measured by those factors the health care market should reward, such as better quality."

As Massachusetts leading private health plan, we have already begun implementing strategies that are moving us rapidly in this direction. We're encouraged that the Attorney General's report has affirmed as "showing promise" and a "step in the right direction" two key strategies that we at Blue Cross have underway including innovative new insurance products, such as our Hospital Choice Cost Share plan that has seen rapid market adoption, as well as new payment models that emphasize value-based purchasing.

In its findings, the report states that a "shift of payment methodology by itself is not the panacea to controlling costs." We agree. Also important are the adoption of new value-based benefit plans noted above along with a greater focus on wellness and the chronically ill.

However, we are enthusiastic about our new payment model, the Alternative Quality Contract (AQC) which now includes more than a third of our provider network and slightly less than half of our in-state HMO membership. The early results show the AQC is achieving our twin goals to both improve the quality of patient care and reduce the historical rate of increase in health care costs. In the contract's first year (2009), the AQC groups produced the greatest one-year improvement in quality performance ever seen in our network. At the same time, these groups have moderated the rise in medical spending faster than the rest of the network and are on track to achieve our original 2008 goal to reduce annual medical cost trends by one half over five years. In fact, the Attorney General's report notes that the average annual medical expense trend of the initial AQC groups is roughly half the current trend in the fee-for-service market as noted by the recent study by the Massachusetts Division of Health Care Finance and Policy.

There is near universal agreement among health care policy experts that the path to affordability begins with redesigning care. The AQC is playing a key role in helping these groups redesign care to emphasize value over volume. This redesign of care will reduce health care spending over time and sow the seeds of a sustainable health care system. For the past 50 years, providers have created margins through volume. The AQC represents a significant cognitive shift in that it allows providers to produce a margin by performing on the quality of patient care.

With regard to the report's specific statements about the AQC, we do have some differences of interpretation that are mostly the result of timing. The AG's report focused only on data from 2009, the first year of the AQC. We have been clear that the AQC is a 5-year strategy, not one year. As we have noted before, we did not expect these groups to achieve savings in the first year given all that they had to do to redesign care to place a greater focus on quality and efficiency. However, we are pleased that even in the first year of the contract, the medical claims trends of AQC providers were approximately 1% lower than the medical claims trends of non-AQC providers. That is especially significant considering that these AQC groups simultaneously demonstrated remarkable improvements in the quality of care they deliver to their patients, our members.

Importantly, it's worth noting that at our request, the Harvard Medical School with funding from the respected Commonwealth Fund, is undertaking a comprehensive, longitudinal study of the AQC and we look forward to sharing the findings when the study is completed.

Finally, we are committed to continued engagement with Attorney General Coakley, Governor Patrick, legislators, physicians, hospitals, employers, consumers and other important stakeholders as we work together in a spirit of shared responsibility to achieve our common goal of making quality health care affordable.

Blue Cross Blue Shield of Massachusetts (www.bluecrossma.com) was founded 74 years ago and is now the largest private health plan in the state, providing coverage to nearly 3 million members. BCBSMA believes in working with physicians, hospitals, employers and the broader community to provide quality, affordable health care in Massachusetts. Blue Cross Blue Shield of Massachusetts is an independent licensee of the Blue Cross Blue Shield Association.

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