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STATE AUDITOR



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

To: Kevin Mullin, Chair, Green Mountain Care Board
Date: 12 October 2020
Re: Health Care Affordability
Cc: Senator Ginny Lyons, Chair, Senate Committee on Health and Welfare
Representative Bill Lippert, Chair, House Committee on Health Care
Mike Smith, Secretary, Agency of Human Services

As a member of the Legislature when the Green Mountain Care Board (the Board) was created and now as Chair of the Board, I know you're aware of the importance that Vermont's elected officials place on the affordability of health care in Vermont. The State's commitment to affordability is codified in statute ([18 VSA §9371](#)) as Vermont's first and second principles of health care reform. Those principles are:

- (1) The State of Vermont must ensure universal access to and coverage for high-quality, medically necessary health services for all Vermonters. Systemic barriers, such as cost, must not prevent people from accessing necessary health care. All Vermonters must receive affordable and appropriate health care at the appropriate time in the appropriate setting.*
- (2) Overall health care costs must be contained, and growth in health care spending in Vermont must balance the health care needs of the population with the ability to pay for such care.*

The Board is charged with executing its responsibilities in accordance with these principles ([18 VSA §9375](#)). But, as my team and I have reviewed the work of the Board and related health care reform efforts, we've noticed a troubling trend in recent years. **Absent from the Board's regulatory review processes, cost-growth targets, and routine analyses is a clear and direct consideration of Vermonters' ability to pay for health care. The Board has neither defined the criteria for affordability nor developed affordability measures to use in their decision-making processes that are specifically linked to Vermonters' ability to pay for health care.**

We understand that the Board uses cost targets aimed at limiting hospital budget growth and that the All-Payer ACO Model uses targets aimed at controlling health care cost growth. But those targets are consistently higher than the annual increase in Vermont's hourly median wage. Moreover, **there was not a consideration of Vermonters' ability to pay when establishing those targets.**

As we pointed out in a recent [report](#), health care expenditures have increased much faster in Vermont than the U.S. average over the last 20 years. **While recent spending growth has slowed compared to historical trends, the continuing growth and high cost of health care is still a major financial burden for thousands of Vermonters.**

As the Board and the administration move forward in their efforts to provide Vermonters with access to high-quality, affordable health care, I urge you to incorporate measures of affordability into your work in the following ways:

1. Account for Vermonters' ability to pay for health care when establishing cost of care targets for future All-Payer ACO Model Agreements with the federal government;
2. Account for Vermonters' ability to pay for health care when establishing maximum growth limits for hospital budgets and when regulating health insurance rates; and
3. Use affordability metrics in the Board's public-facing analyses.

All-Payer ACO Model Growth Target

A key element of the State's All-Payer ACO Model is an annual growth target for total-cost-of-care per person. The target aims to limit compounded annual growth to no more than 3.5% from 2017 to 2022.¹ The 3.5% figure is intended to bring health care spending into closer alignment with overall state economic growth by roughly mirroring the average annual growth from 1999 to 2013 of Vermont's Gross State Product (GSP) – the state equivalent of Gross Domestic Product.²

But GSP has not historically aligned with peoples' ability to pay for health care, as wages in Vermont have historically lagged behind GSP.³ We compared wage growth to the 3.5% All-Payer target from 2001 to 2019.⁴ Vermont median hourly wages increased 56.9% over this period while the ACO target increased 85.7%. **If health care costs had increased at the rate of the ACO's cost target over this period, it would have created an affordability gap of roughly 50% between wages (buying power) and costs.** While this target represents a lesser rate of cost growth than actually occurred over this period, the target rate would have still exacerbated the unaffordability of health care in Vermont.

Over the next year, the State is poised to begin working on a new All-Payer ACO Model agreement with the Federal government. When working with the administration on this agreement and establishing new cost-of-care targets, I urge you to account for Vermonters' ability to pay for health care costs.

Hospital Budgets & Health Insurance Rate Review

The Board uses an annual target in its hospital budget review process to limit the growth of net patient revenue and fixed prospective payments. For Fiscal Years 2020 (FY20) and 2021 (FY21), this hospital budget target was set at 3.5%.⁵ In the prior three years (when incorporating the Board's health care reform allowances), the target was set at 3.2% and 3.4%.⁶ Similar to the ACO Model, these targets are also based on general economic growth, which the Board considers a measure of affordability.⁷ As already noted, GSP growth does not align with wage growth and Vermonters' ability to pay for care.

¹ [Vermont All-Payer Accountable Care Organization Model Agreement](#), Page 17.

² Email from Ena Backus, AHS Director of Health Care Reform, to Jonathan Kingston, SAO Audit Manager. March 10, 2020.

³ Gross State Product figures come from the U.S. Bureau of Economic Analysis and median wage figures come from the Bureau of Labor Statistics Occupational Employment Statistics. From 2001 to 2019, the annual average growth for hourly median wages lagged that of GSP by roughly 25%. Median hourly wages grew over this period by 56.9% cumulatively, compared to 80.5% for GSP.

⁴ This period represented the earliest and latest years data was available through BLS OES for median wages.

⁵ See: The [FY20 Hospital Budget Guidance](#) and the [FY21 Hospital Budget Guidance](#). Actual budgets and revenues often end up varying from the targets in the guidance.

⁶ See: Hospital Budget Guidance for [FY17](#), [FY18](#), and [FY19](#).

⁷ Letter from Susan Barrett, Executive Director of the Board, to Doug Hoffer, Vermont State Auditor, concerning Health Care Affordability. October 6, 2020.

When we review the recent results of the Board’s work in regulating hospital budgets, we see that:

1. Hospital revenue targets established by the Board and actual revenues increased at a rate greater than Vermont’s median hourly wage in most of these years, with growth in wages and revenues nearing each other in recent years.
2. While actual hospital revenues increased at much lesser rates in recent years (4% on average since 2013), that revenue growth comes on the heels of significantly higher increases (7.3% on average from 2005 - 2013).⁸ This large growth in previous years built up the hospitals’ revenue base. The base that this growth rate is applied to is important because a smaller percentage when applied to a larger number still has an outsized impact on the affordability of health care.
3. Both the recent annual growth and the prior annual growth of hospital patient revenues represent a trajectory that is significantly out of line with the average Vermonter’s ability to pay for health care (See Figure 1).⁹

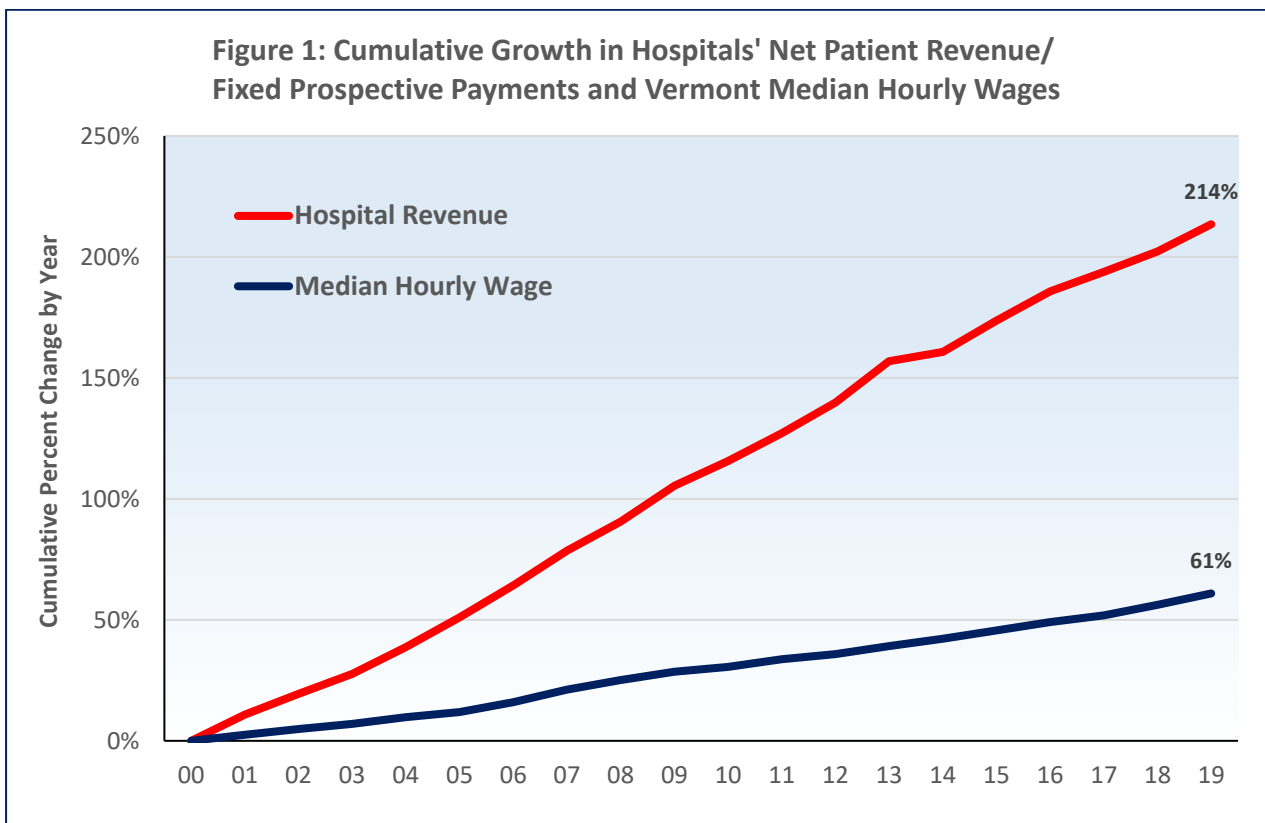


Figure 1 Sources: Revenue Data Comes from the Green Mountain Care Board and Median Hourly Wage data comes from the U.S. Bureau of Labor Statistics Occupational Employment Statistics.

Another area where we see an alarming divergence between wages and costs is private health insurance premium increases. While Vermont offers expanded Medicaid coverage and is one of only two states in the country that offers premium and cost-sharing subsidies to individuals (in addition to federal

⁸ See: [Fiscal Year 2021 Hospital Budget Summary](#), Page 2.

⁹ Since BLS data for Vermont hourly median wages was unavailable for 2000, we used the average growth rate to calculate 2000. The growth trend was very consistent over this period.

subsidies),¹⁰ insurance premium increases still impact many Vermonters.¹¹ Vermont's Health Care Advocate has pointed to specific examples of these affordability issues and has repeatedly raised concerns to the Board about health care affordability in recent years.¹²

Recent premium increases have added to the financial burden of Vermonters and Vermont businesses. Rising health insurance rates also impact state and local budgets funded by taxpayers. Increasing health insurance premiums, for example, place upward pressure on municipal and education property taxes.

We looked at health insurance premium rates for the State's largest private health insurer, BlueCross BlueShield of Vermont (BCBSVT). BCBSVT premiums for individuals, families, and small businesses increased an average of 65.6% between 2013 and 2020. This compares to an increase in the median hourly wage of 18.6% over this period (see Figure 2).¹³ Similarly, large group BCBSVT rates grew 60.3% from 2014 - 2020.

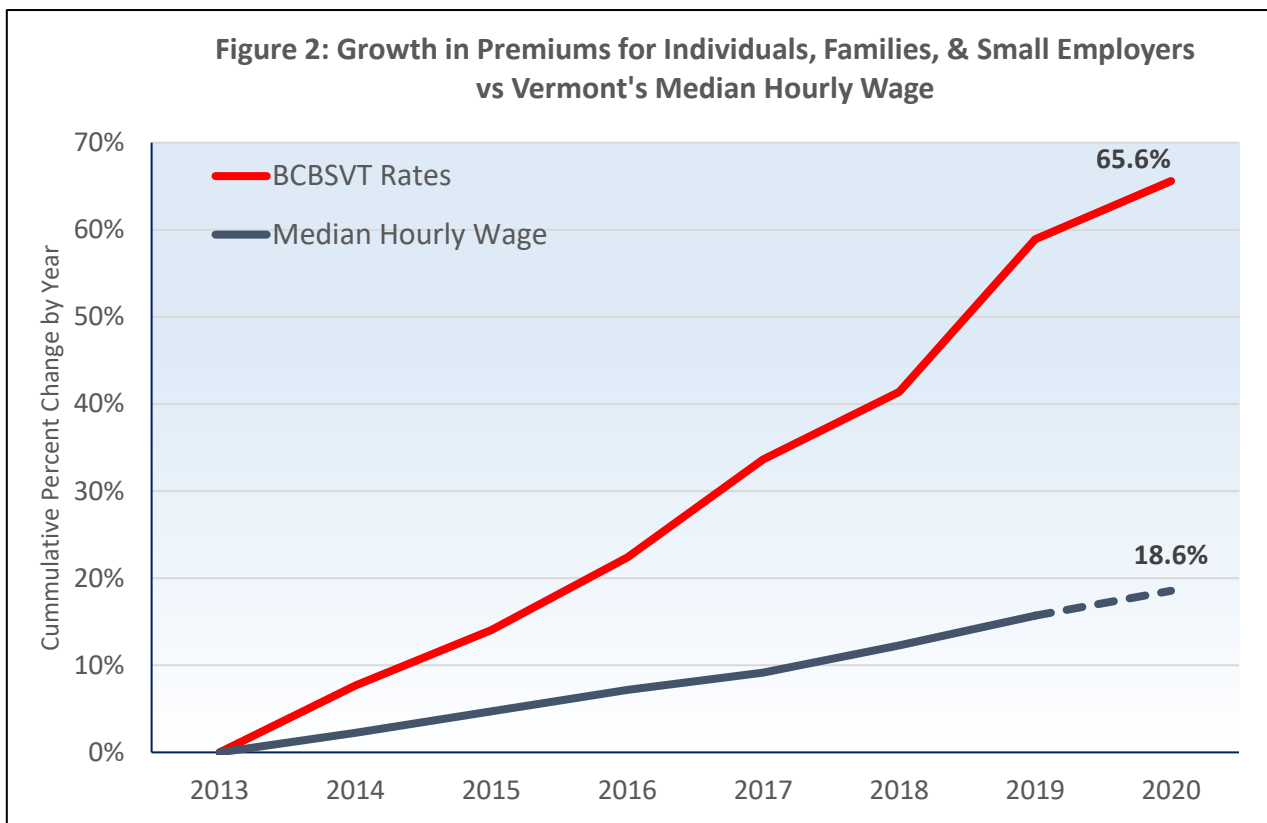


Figure 2 Sources: BCBSVT Rate data comes from the Green Mountain Care Board and Median Hourly Wage data comes from the U.S. Bureau of Labor Statistics Occupational Employment Statistics.

¹⁰ The other state is Massachusetts. See Kaiser Family Foundation's "[State Actions to Improve the Affordability of Health Insurance in the Individual Market](#)," July 17, 2019.

¹¹ Roughly one-third of Vermonters who purchased health insurance in Vermont's individual market in 2018 and 2019 were ineligible for health insurance subsidies. See: [Vermont's 2019 Individual Enrollment in Five Graphs](#).

¹² For examples, see: The Health Care Advocate's [2020 Insurance Rate Review Memorandum](#) and [2018 Budget Memorandum concerning OneCare Vermont](#).

¹³ 2020 is not yet complete for final median wage numbers. This figure was derived by taking the average growth rate over these years and applying it 2020.

As the Board mentioned in a 2020 BCBSVT premium decision, it is required to determine whether a proposed rate is affordable.¹⁴ Unfortunately, the Board has not developed specific measures that define affordability.

As noted above, the Board has an obligation to account for Vermonters' ability to pay for health care and therefore define the concept of affordability as it pertains to health insurance rates and hospital budgets. There are many helpful wage and income metrics that can be used as ratios and as growth rates to assess Vermonters' ability to pay for health care over time, and I urge you to adopt this practice in your regulatory process.¹⁵

Incorporating Health Care Affordability into Board Analyses

Vermont statute ([18 VSA §9383](#)) requires the Board to conduct the annual Vermont Health Care Expenditure Analysis to quantify the total spent on health care at different facilities and providers in Vermont and for services provided to Vermont residents.¹⁶ It includes an overview of expenditures by health care payer and a range of other health care expenditure facts and figures.

Noticeably absent from the Board's annual expenditure analysis is any mention or consideration of health care affordability. In the future, I urge you to incorporate considerations and measurements of health care affordability into the Vermont Health Care Expenditure Analysis and other analyses that pertain to the cost of health care. I also urge you to show cumulative growth of health care spending and costs over time. Simply providing annual percentage changes does not provide Vermonters with a complete picture of how health care spending and costs have grown.

For examples of how to account for affordability in your analyses, look no further than Vermont's next-door neighbor Massachusetts. The Massachusetts Health Policy Commission's Annual Health Care Cost Trends Report is replete with references and metrics concerning health care affordability.¹⁷

The report begins with the overarching statement, "While Massachusetts has a long history as a leading state for health care access and innovation, the affordability of the state's overall high-quality health care continues to be a challenge." The commission also addresses the equitability of access to health care and contextualizes the amounts individuals and families pay in premiums and out-of-pocket costs.

The second chapter of the report, "Trends in Spending and Care Delivery," highlights: "Health care spending growth in Massachusetts between 2016 and 2018 absorbed almost 40 cents of every additional dollar earned for families with coverage through employers, more than they took home in pay after taxes." The range of graphs and figures in this report that concern residents' capacity to pay for health care is very helpful.

Vermonters need this level of candor and evaluation from the Board. If the Board doesn't assess the extremely important issue of health care affordability during its critical work, the State won't be able to effectively define and solve the issue of health care affordability that is central to the well-being of Vermont's families and economy.

¹⁴ See "Standard of Review" of [Green Mountain Care Board Order GMCB-005-20rr](#).

¹⁵ Bailit Health presented some examples of using affordability measurements as ratios and growth percentages to the Board on May 13, 2020. That presentation is [available here](#).

¹⁶ Past Vermont Health Care Expenditure Analyses are [available here](#).

¹⁷ Massachusetts Health Policy Commission, "[2019 Annual Health Care Cost Trends Report](#)," February 2020.