

Implement a Health Care Cost Growth Target

Cost Driver Targeted: Global spending

OVERVIEW

A health care cost growth target or benchmark establishes a shared expectation for a state's per capita health care cost growth each year. Several states — starting with Massachusetts in 2012, followed by Delaware, Connecticut, Nevada, New Jersey, Oregon, Rhode Island, and Washington — have established programs to slow health care spending growth based on a cost growth target. These programs aim to slow the rate of health care cost growth through public engagement, measurement, transparency, cost growth mitigation strategies, and accountability.

KEY STEPS IN DESIGN AND IMPLEMENTATION

Establish authority for the program. States have used executive orders or legislation to establish their cost growth targets. Executive orders can enable a nimbler response but are more limited in scope and sustainability. In contrast, legislation can create more permanent programs with a broader scope but can take longer to develop. Legislation is also vulnerable to opposition from stakeholders and may be less flexible.

Establish a governance body. States employ different approaches to govern their programs. Massachusetts created a new, quasi-independent agency, the [Health Policy Commission](#), to administer its health care cost growth target program. Other states have situated their target program within existing executive branch agencies; in states like Nevada and New Jersey, these programs were initially housed in the governor's office. In some cases, the governance bodies are “protected,” meaning they exclude industry stakeholders, while in others they do not. States also have sought public input through formal advisory bodies and informational presentations and meetings.



Set a benchmark. States have defined a health care cost growth target that brings health care cost growth in line with economic indicators, such as gross state product and wage growth. In most states, state agencies or stakeholder bodies define the target value. At present, annual health care cost growth targets range from 2.4 percent to 3.8 percent per capita and have been set for a minimum of four years. In conjunction with setting the target, it is important for states to decide exactly how to define health care costs and how and when to collect and report data.

Measure statewide health care cost growth and report performance against the target. Once policies governing the benchmark and data collection processes are established, states collect aggregate spending data from payers and then analyze the data to determine per capita health care cost growth. States publicly report performance against the health care cost growth target. Current policies call for performance reporting at the state, market (e.g., commercial, Medicare, and Medicaid), payer, and large provider entity levels, with some states also reporting by geographic region.

Conduct analyses to identify cost drivers. States supplement their performance measurement and reporting against the target with additional [data analyses](#) that focus on the factors driving cost growth. The analyses focus on three organizing questions:

- Where is spending problematic?
- What is causing the problem?
- Who is accountable for the problem?

To answer these questions, many states use data from all-payer claims databases (APCDs). States without APCDs use available claims data from public programs (e.g., Medicaid and state employee health benefit programs). Other data sources can be used to supplement the claims data to look at spend and trend by market, geography, health condition, and demographics. Analyses also can drill down into key cost drivers in a given state, such as pharmacy, market consolidation, or change in site of care. These analyses require significant analytics capacity, which may be available in-house and/or through the support of vendors, including university partners.

Implement strategies to achieve the target. Performance measurement and public reporting on their own may not be sufficient to slow cost growth over the long term. Data analysis and stakeholder engagement can identify cost growth mitigation strategies for implementation. In Rhode Island, the governance body recommended action on prescription drug prices after data analysis revealed pharmaceutical price growth was a significant contributor to spending growth. Oregon has a statewide effort underway to speed adoption of advanced value-based payment models.

Ensure accountability. States have various tools available to hold payers and providers accountable for meeting the cost growth target. All states emphasize public transparency as a key strategy for accountability. Massachusetts' law also gives the Health Policy Commission authority to require performance improvement plans from entities exceeding the cost growth target, while Oregon's law goes a step further and allows financial penalties for repeated unjustified growth above the target.

EVIDENCE OF IMPACT

The most data come from Massachusetts' program, which sets the cost growth target at or below the predicted growth rate of the state's overall economy.

- From 2013 to 2019, Massachusetts' health spending growth stayed below the target rate for three years and exceeded the target for four years. On average, this resulted in a growth of [3.6 percent over seven years](#).
- Before Massachusetts implemented its health care cost growth target, annual per capita cost growth in the commercial market consistently exceeded the national trend. Post-implementation, commercial spending growth dropped significantly, remaining below the national average from 2013 to 2018. This decrease translated to an estimated [\\$7.2 billion saved for employers and consumers](#). This evidence is observational and does not isolate the impact of the cost growth target from that of other policies.

Experience with cost growth target programs suggests that influencing payer-provider negotiations is a key mechanism for reducing health care cost growth.

IS THIS STRATEGY A GOOD CHOICE FOR YOUR STATE?

A health care cost growth target program is a collaborative, multistakeholder approach that primarily uses data and transparency to drive change. The strategy's impact will likely be greatest in the commercial market where there are few meaningful constraints on the primary cause of rising costs: price growth.

The strategy is best suited for states that:

- have resolute state leadership to create and implement the program
- have or are interested in building strong health care data analytic capacity
- are willing to engage stakeholders to build support and buy-in
- have one or more strong partners in the payer, provider, and/or employer communities.

Fairly significant resources are needed to stand up the engagement, data collection, and data analytic infrastructure required to launch a program. This strategy could be applied in both rural and urban areas, and several states pursuing this strategy have large rural regions.

Thus far, this strategy has been pursued in states with more progressive politics. However, the central concept behind it is not aligned with a particular political ideology.

EQUITY CONSIDERATIONS

An inherent challenge of health care cost growth target programs is that they apply a growth target to all entities, even though some payer and provider organizations are more costly at the outset. Unless targets are adjusted to allow for greater growth for providers that have historically been paid less (e.g., community hospitals serving lower-income communities) and lower growth for providers that have traditionally been paid more, these programs risk perpetuating payment inequities.

Additionally, it is important to make sure that a focus on health care cost containment does not have unintended consequences for people of color and other populations

that have historically had worse outcomes because of systemic racism, discrimination, and other factors. Some states, like [Connecticut](#), have built a strong focus on health equity into the design and implementation of their health care cost growth target programs. Stratified analyses to assess specific — and disparate — impacts of the target on groups that have been economically and socially marginalized (including people with disabilities, Black people, Indigenous people, and people of color) are important components of an equity strategy.

OTHER POTENTIAL UNINTENDED CONSEQUENCES OR LIMITATIONS

Although there is no evidence yet to support the concern, there is a risk that provider actions taken in response to a state's cost growth target could restrict patients from receiving medically necessary services. Such actions could exacerbate existing disparities in health care access and quality.

To help prevent such unintended adverse consequences, states should provide oversight of their cost growth target programs, using such strategies as assessing utilization of preventive and chronic illness care, measuring patient experience, and monitoring for risk selection among payers or providers.

Another limitation of this approach is that it does not directly compel or result in cost savings. Some states have exceeded their targets, and enforcement of targets has been very limited to date.

RESOURCES

Joel S. Ario, Kevin Casey McAvey, and Amy Zhan, [State Benchmarking Models: Promising Practices to Understand and Address Health Care Cost Growth](#) (Manatt Health Strategies, June 2021).

Elsa Pearson and Austin Frakt, "[Health Care Cost Growth Benchmarks in 5 States](#)," *JAMA* 324, no. 6 (Aug. 11, 2020): 537–38.

Erin Taylor et al., [Rhode Island's Cost Trends Project. A Case Study on State Cost Growth Targets](#) (Milbank Memorial Fund, Jan. 2021).