BlueCross BlueShield of Vermont
An Independent Licensee of the Blue Cross and Blue Shield Association.

June 25, 2020

Michael Barber, Esq.,
General Counsel
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Re: Blue Cross Blue Shield of Vermont 2021 Large Group Filing (SERFF Tracking #: BCVT-131835151; GMCB Docket No. GMCB-002-20rr) and The Vermont Health Plan 2021 Large Group Filing (SERFF Tracking #: BCVT-131835292; GMCB Docket No. GMCB-003-20rr).

Dear Mr. Barber,

We are in receipt of your letter to Blue Cross and Blue Shield of Vermont (BCBSVT) asking the following questions in the context of the above noted rate filings. As you note, this inquiry is non-actuarial in nature. As such, BCBSVT is not responding through SERFF and General Counsel is responding to the question, as opposed to our Chief Actuary. Below, we include your questions and our answers beneath each question.

Preliminarily, we note that price variation and the potential complications arising from such anomalies are a product of the fee for service system, a complex payment system with numerous unintended consequences that payers, providers and government stakeholders agree needs to be replaced. One of the starkest lessons from the impact of COVID-19 is the inadequacy of the fee for service payment system. We encourage the Board to focus its resources, attention, and expertise not on reforming the fee for service system, but rather toward facilitating a transition to a new payment system[1] that furthers the Board's statutory objectives.

1. *Affordable and accessible healthcare relies in part on a vibrant array of providers, including providers who are aligned with hospitals and others who are not. Yet, payment variation has been an on-going and contentious issue for a number of years. Certainly COVID-19 has shocked healthcare providers across the spectrum in Vermont and the ability to withstand this shock in part will depend on the financial health of providers prior to the onset of COVID-19.*

   Please provide an assessment of whether or not price variation exists across BCBSVT's and TVHP's Large Group provider networks such that providers of similar services are reimbursed at significantly different rates and, if they are, explain the factors that drive

[1] Sinaiko AD, Kakani P, Rosenthal MB. Marketwide Price Transparency Suggests Significant Opportunity for Value Based Purchasing. Health Affairs 38:9: 1514-1522 (September 2019).

such differential reimbursement(s) (e.g., cost of underlying service, size of practice, hospital affiliation, payer mix, etc.). The assessment should be supported based on claims data from the 2019 Incurred Claims profiled on page 4 of the filing.

As a preliminary matter, we note that your question presumes that a unit cost price for a specific service represents the same financial experience for all providers. In fact, it is the provider's margin (i.e. the difference between the payment rate and the provider's fixed cost to provide the service) that is relevant to ensuring a robust delivery system and adequate payment for services. We caution to the Board against assuming that every provider achieves the same margin. Numerous factors will impact a provider's ability to make margin on a given service – some within the provider's control, and some not. Furthermore, the appropriate level of margin for commercially insured patients will be informed by a provider's payer mix.

Providers must make margin to be sustainable. However, ensuring that providers make an adequate (but not excessive) margin for their services is not the same as—nor is that goal advanced by—ensuring that all unit cost payment rates are the same. To the extent the Board's goal is to guarantee that the health care delivery system remains robust, yet becomes more affordable, we encourage an analysis that runs deeper than the sole goal of variation reduction and a review of unit cost without regard for other factors.[2] And, of course, any increase in specific unit costs in one service line, without a reduction somewhere else, must be funded by policyholders through increased premiums.

Regarding the specific information requested, generally speaking, BCBSVT payment rates are unique to each hospital and the remainder of the health care providers are paid based on one fee schedule.[3] We direct the Board's attention to the multiple studies we have produced at the Board's or Legislature's previous direction.[4] As those reports note, hospitals, particularly our largest academic medical center, command higher payment for certain services than independent providers or smaller hospitals. This is a function of numerous factors, not the least of which includes greater fixed costs for training the next generation of medical professionals, providing critical research, and market power.[5] Nonetheless, regarding professional (physician) services, those unit cost differentials have been reduced because, as directed by the Legislature, the unit cost for professional services at our academic medical center has been reduced, with a corresponding increase in inpatient unit costs to make up the difference in revenue. The claims data from the 2019 Incurred Claims profiled on page 4 of the filing supports this assessment, as the claims data accurately reflect these payment rates.

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[2] See Chernaw ME, Hicks AL, Shivani AS. Wide State-Level Variation in Commercial Health Care Prices Suggest Uneven Impact of Price Regulation, Health Affairs 39:5: 791 (May 2020).

[3] This statement has numerous exceptions, but generally this is true. We also note that BCBSVT and TVHP have three network contracts between the two entities.

[4] For example, see BCBSVT's Implementation Plan for Providing Fair and Equitable Reimbursement Amounts for Professional Services Provided by Academic Medical Centers and Other Professionals, submitted to the Board on July 1, 2017.

[5] The Board has numerous times suggested that BCBSVT should simply pay certain providers less and such providers would be unable to turn BCBSVT away due to market power. However, if such providers were out of network, consumer protections applicable to insured business would require that some providers, including the academic medical center, be paid at charge. See Rule 9-03 § 5.1.

2. What efforts does BCBSVT take, if any, to reduce price variation?

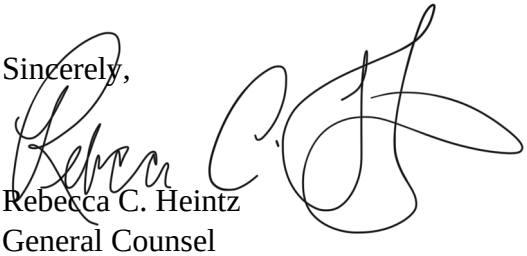
BCBSVT does not see price variation as an end in itself, but rather as a symptom of the larger problems of the fee for service payment system. Regarding variation among hospitals, each institution employs its own strategy for managing unit cost that is informed by a variety of factors. After a hospital has negotiated an overall increase with BCBSVT,[6] it then strategically applies this overall increase at varying levels across the unit costs of its different service lines. Presumably, these varying increases are strategically informed by a hospital's internal decision-making involving factors such as anticipated margin and volume. If a hospital is required to stay within its GMCB-approved budget level, the overall impact would be irrelevant. To the extent that these entities benefit from budget "overages," there may be incentive to target certain services, exaggerating the price differentials. Thus, with some exceptions, BCBSVT does not attempt to influence hospitals' unit-cost strategies but simply monitors total spending within each hospital's overall budget.

As it relates to the independent community providers, the fee schedule is also informed by history, but payment rate increases are largely uniform across specific services. However, BCBSVT does monitor payment rates in the context of utilization and value and, where appropriate, BCBSVT attempts to increase payment for higher value services, while not increasing payments for low value services. This approach is not popular in the provider community and often meets with resistance from state policymakers. Many of the concerns are expressed in relation to a particular type of provider or medical service, without examining the larger context, and in direct conflict with the goal of affordability of health insurance costs.

Ideally, each provider would make sufficient, but not excessive, margin. BCBSVT does not have the authority or the resources to assess provider margin in the context of each provider's unique cost structure and payer mix. BCBSVT has been an active participant in the state's all-payer model and promoting a move toward a capitated payment structure, and remains eager to work with stakeholders to help design and implement a payment system that is more predictable, reduces waste, incentivizes higher quality cost-effective care, bends the cost curve, and sustains a robust delivery system in all parts of the state, including our rural and less populated communities. To effectively build a more fair and sustainable payment system, we need accurate and transparent cost accounting and an understanding of the impact of lower Medicare and Medicaid reimbursements. We encourage the Board to help lead such an initiative.

Please feel free to contact me with any comments or questions.

Sincerely,



Rebecca C. Heintz
General Counsel

[6] As noted numerous times, each hospital considers the GMCB allowed commercial rate increase to be the minimum amount to which the hospital is entitled pursuant to the Board's order.