

September 4, 2013

Representative George Keiser  
Chair, Interim Health Care Reform Review Committee

**MEDICA®**

Dear Mr. Chairman and Committee Members:

Thank you for the invitation to discuss health care cost drivers in the state of North Dakota. I appreciate the opportunity to offer comments on this topic for consideration by the Interim Health Care Reform Review Committee.

North Dakota's experience with health care costs is not atypical compared to other areas of the country. According to data available from the Centers for Medicare and Medicaid Services (CMS), North Dakota has the 10<sup>th</sup> highest per-capita spending on health care in 2009, at \$7749 per year. In terms of the cost of private health insurance, employer-sponsored coverage in North Dakota is in the middle of the pack nationally (24<sup>th</sup> least expensive), according to the federal Agency for Healthcare Research and Quality (AHRQ).

Although health care costs are comparable to other states, North Dakota is set apart by its overall population health, a relatively low incidence of specific chronic disease, and the quality of health care delivered to North Dakotans. For example, according to data from the Centers for Disease Control and Prevention, North Dakota ranks in the top 10 for low incidence of diabetes, positive perception of one's own mental and physical health, and high incidence of young children who are up-to-date on their immunizations. According to AHRQ, North Dakota delivers the fourth-highest quality of care for patients with chronic disease and ranks in the top quartile of states in several other categories, including overall health care quality, the quality of care delivered in clinic settings, and the quality of preventive care.

### Health Care Cost Drivers

The health care cost drivers present across Medica's service area are consistent with cost drivers reported nationally and in other regions of the country. The following cost-drivers contribute to the higher health insurance premiums witnessed by North Dakota employers and individuals:

- **Chronic Disease:** The epidemic of chronic disease continues to spread across the country and North Dakota is not immune from this phenomenon. Rates of the population that have one or more chronic conditions continue to increase and it is particularly acute among those eligible for Medicare. According to the Robert Wood Johnson foundation, nearly 84% of all health care spending in the United States is related to chronic disease. While North Dakota has a relatively lower incidence of chronic conditions, particularly diabetes, the overall rate of growth in the incidence of chronic disease continues to grow, along with the allocation of resources to manage and treat these conditions.
- **Medical Inflation** – The cost of businesses for health care providers and the health care system overall continues to increase. Advancements in medical technology, construction costs, energy costs, labor costs, uncompensated care, and the demand for specific medical professionals continues to increase costs throughout the health care system. The overall cost impact of medical inflation is compounded by higher utilization of health care services by patients with chronic disease, reported incidence of "defensive medicine," and incidents of fraud, waste, and abuse.



- **Delivery System Consolidation** – The number of small, independent clinics and hospitals continues to decrease across North Dakota and across Medica’s regional service area. This offers patients access to a broader network of integrated health care practitioners and possibly greater care coordination across this broad spectrum of practitioners. At the same time, the facility is able to leverage higher payments from private health insurance customers by being part of the larger regional care system.
- **PPACA taxes, fees, and coverage requirements** – PPACA will impact health insurance premiums for individuals and small businesses in different ways, depending on their overall health status, location, eligibility for new programs, and current health insurance policy. However, PPACA applies several new taxes and fees to health insurance coverage in 2014 that will result in nearly all Medica customers paying more for health care coverage. This includes a tax of approximately 1.9% for businesses and individuals purchasing health insurance, as well as a 1.1% tax on small and large businesses in order to stabilize costs for individuals and families purchasing their own health insurance coverage.
- **Aging Population** – According to the U.S. Census Bureau, the percentage of North Dakotans who are over the age of 65 is 14.4%, which is higher than the national average of 13.7% and expected to increase in the coming decade. While there are exceptions, Americans and North Dakotans tend to consume a higher amount of health care services and expenditures as they age. The imminent retirement of the Baby Boom generation is expected to accompany a higher consumption of health care services in North Dakota and across the country.

#### **Mitigating Health Care Cost Drivers**

The factors that drive up health care costs are multifaceted, just as the solutions to address them. Many of the tools or solutions involve the leverage of existing tools and resources many consumers do not utilize today. Others involve large, fundamental change in how health care services are paid for and delivered across the medical system. Several options include:

- **Consumer Engagement and Price Transparency** – Medica has been a pioneer in offering consumers information on the relative cost of health care services across our network through MainStreetMedica.com. Medica also offers our members access to a star measurement system by which they may evaluate the value of health care services of individual physicians across our network. Medica offers the tools necessary for consumers to shop for high-value health care services. If more Medica members utilized these tools, our customers would collectively save millions of dollars in their out-of-pocket costs and future premiums.
- **Roll Back the Trend of Unhealthy Habits and Lifestyles** – One of the largest areas of opportunity for innovative, unique, and groundbreaking reform is in reversing the trend of unhealthy lifestyles and the chronic diseases that accompany it. Public policymakers, insurers, medical professionals, public health experts, employers, and others across the country have attempted to achieve significant and meaningful reform in this area with limited or marginal results in improving overall population health.
- **Movement away from the fee-for-service payment model and towards an outcomes-based payment model** – Financial incentives must be present in the health care marketplace to deliver high-value, cost-effective health care that improves the consumer experience and patient outcomes. Many of the incentives in the health care marketplace reward a high volume of health care services with little correlation to improvements in health outcomes or patient experience. Instead, the health care system must transition to a payment model where the reward for providing high-value health care tied to superior quality, patient health outcomes, and patient experience is greater than the status quo.

- **Allow Health Care Professionals to Serve Patients at the Top of their License** – Physicians are highly-trained, highly-educated limited resources in our health care system. Rewards and incentives should be in place to advance primary care physicians’ status in our health care system. Primary care physicians need flexibility to spend more time serving and coordinating management of patients with chronic, complex, and costly medical conditions. If this is to be accomplished, other practitioners must have the opportunity to serve patients with more routine medical needs.

Thank you for focusing on this important and timely topic in today’s committee hearing. Medica appreciates your and your committee members’ interest in this topic. Please do not hesitate to contact me if you have any questions.

Sincerely,



Jay McLaren  
Director of Government Relations