State Strategies for Addressing the Affordability Crisis in the Commercial Market

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Alaska Senate Health and Social Services Committee

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bailit health

Setting the Stage

THE PROBLEM OF HIGH AND RISING COMMERCIAL HEALTH CARE COSTS

High Health Care Costs Can Have Dire Consequences

- Roughly 36% of adults in the U.S. say they have skipped or postponed needed health care due to cost in the last year; one in five have not filled a prescription.
- Four in ten adults report having debt resulting from medical or dental bills.
- About half of U.S. adults says they would not be able to pay an unexpected medical bill of $500 in full without accumulating some form of debt.
- Medical bills are the leading cause of personal bankruptcy in the U.S., contributing to roughly two-thirds of all filings.

Other sources: https://www.kff.org/health-costs/americans-challenges-with-health-care-costs
https://pmc.ncbi.nlm.nih.gov/articles/PMC6366487/

The Impact on Consumers is Terrible

Americans skip meals to afford health care

Life forced to be put on hold as premiums rise

By Daniel Wu
WASHINGTON POST

Americans are driving less, skipping meals, and putting off big life moves, like buying homes or having children, to keep up with health care costs, according to two Gallup polls released Thursday.

Roughly one-third of Americans are cutting back on daily spending to cover medical costs, and about half of middle-income

to climb and destabilizes stock markets.

"People are making sacrifices, and they're angry," said Tim Lash, president of the health care nonprofit group West Health, which conducted the research in partnership with Gallup.

The second Gallup poll found that nearly 1 in 10 Americans reported postponing retirement in the past four years due to health care costs, and 6 percent said they postponed having or adopting a child.

"Seeing that health care is now impacting those decisions and the ability to kind of attain

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Local News

Wisconsin couple sues Walgreens, Optum Rx, saying son died after sudden $500 price spike for asthma meds

Updated on: February 6, 2025 / 6:15 PM CST / AP

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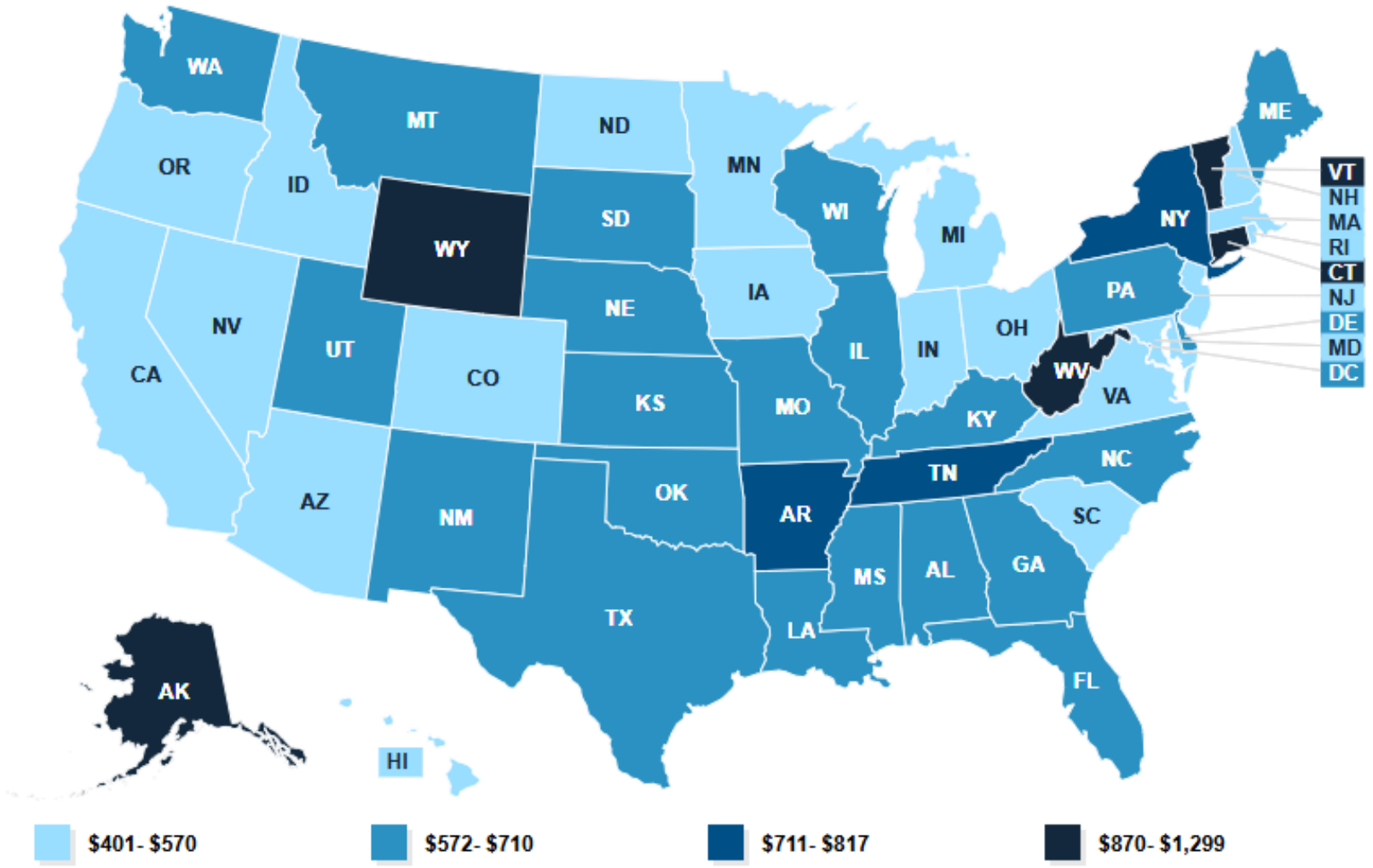
A Wisconsin couple is suing Walgreens and a pharmacy benefits management company, alleging that their son died because he couldn't afford a sudden $500 spike in his asthma medication.

Shanon and William Schmidtknecht, of Poynette, filed their lawsuit in federal court in Milwaukee on Jan. 21, a year to the day that their son Cole died at age 22.

What about Alaska?



Alaska has the **fourth highest premiums in the country** for a second-lowest-cost Silver (benchmark) plan.

Source: KFF State Health Facts.

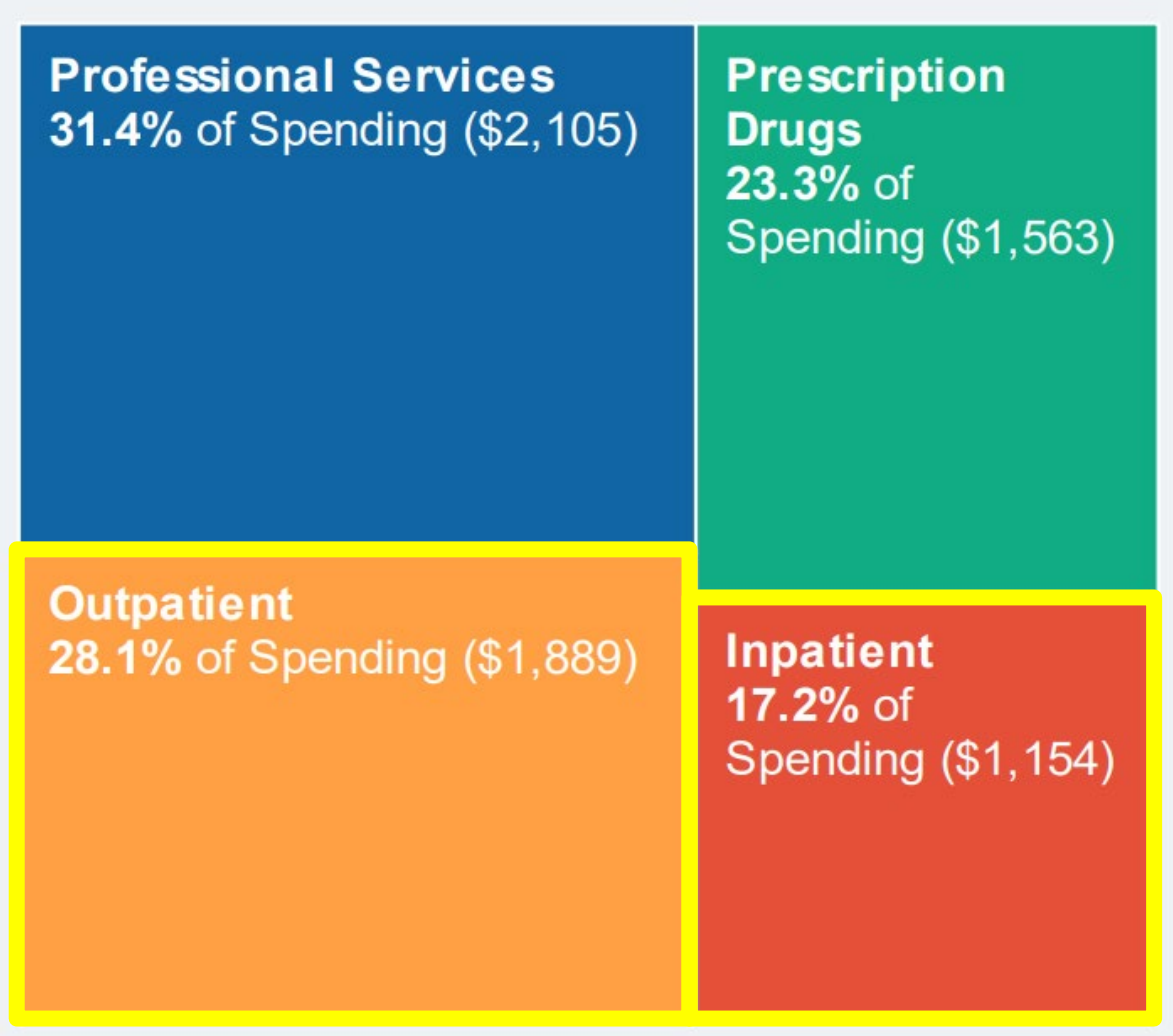
Setting the Stage

HEALTH CARE COST DRIVERS

Commercial Health Care Spending by Service Type

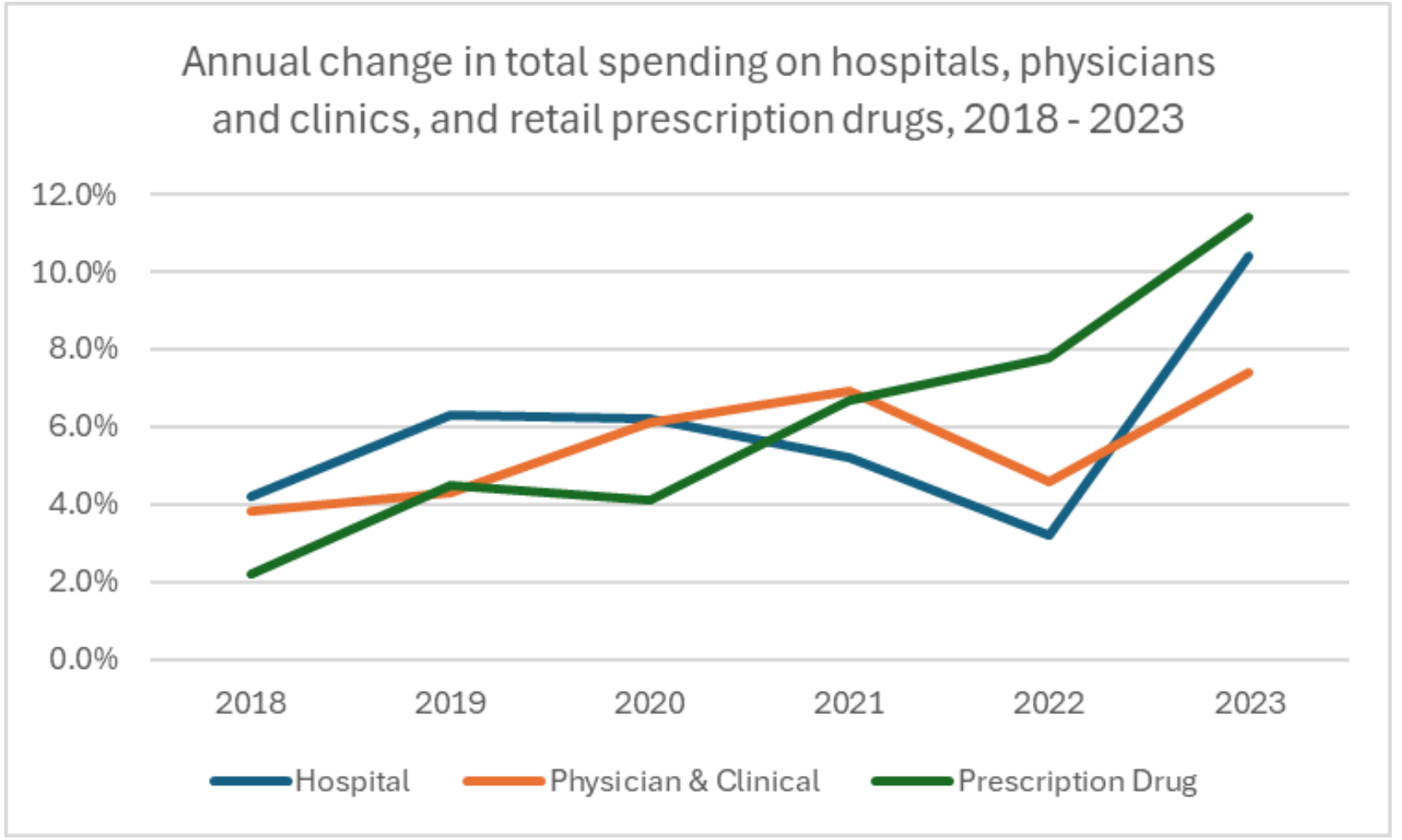
- Nationally, **hospital spending makes up nearly half of total health care spending**.
- For this reason, states are focusing much of their attention on hospitals.

Share of Per Capita Spending in 2022



Source: Health Care Cost Institute. 2022 Health Care Cost and Utilization Report. April 2024.

High Health Care Spending Growth in Recent Years



Source: KFF analysis of National Health Expenditure (NHE) data

STATE STRATEGIES FOR MANAGING HEALTH CARE COST GROWTH

State Options for Addressing Cost Growth

States have been considering and pursuing many different options to address the problem of commercial market affordability. Just some include…

- Measurement and transparency
- Hospital and prescription drug price caps
- Site-neutral payments and facility fee bans
- Hospital and prescription drug price growth caps
- Enhancing market competition
- Reinsurance programs
- Limiting consolidation, vertical integration and/or private equity
- Investments in primary care, prevention and non-medical drivers of health

A Key Strategic Question

- Many believe that the lack of a functioning market for health care is part of the problem.

"*This is not a free market. There is no competition, there is no transparency*."

- Rep. Julie McGuire, Indiana (R)

- Why has this happened?
  - Provider market consolidation
  - Lack of transparent information on cost and quality
  - Patients don't act like rational consumers
- Can health care work as a market? Some think yes, others believe no.

Reviewing State Strategies

- On the following slides I will describe strategies that have been adopted by a wide array of states.
- Most address **hospital and pharmacy** prices, as data analysis has shown these to have been the primary forces driving up health care spending – and commercial premiums – for the past decade or more.

MEASUREMENT, TRANSPARENCY AND COLLABORATION

Measuring Drivers and Identifying Opportunities

- Several states have initiatives to measure annual cost growth across markets, identify cost drivers and collaboratively develop strategies for improving affordability. Examples include:
  - Rhode Island Spending Accountability and Transparency Program: a program managed by the Office of the Health Insurance Commissioner, operating since 2018
  - Minnesota Center for Health Care Affordability: a program within the Department of Health, created in 2023
  - One Utah Health Collaborative: a public/private initiative to address health care quality and affordability, launched in 2025

PRICE CAPS

Overview of Hospital Price Cap

- A price cap, also referred to as a *payment limit*, *payment cap,* and *provider-based reference pricing*, limits the payment amounts for hospital or other services.
  - These limits are established in reference to an external payment benchmark, usually a percentage of Medicare.
  - They typically apply to inpatient and outpatient hospital services, although the scope of services could vary.

Hospital Price Cap: State Options

States have three options for implementing a price cap:

1. **State purchasing authority:** The state caps prices for care purchased through public programs (e.g., the state employee health plan).
2. **Insurance regulation:** The state regulates maximum reimbursement rates for services covered by fully insured private plans.
3. **Provider price regulation:** The state limits prices providers can charge.

Hospital Price Cap Examples: Indiana and New Mexico

- **Indiana** – Uses state nonprofit status as a lever to push prices toward the state average, with a focus on the largest hospital systems in the state.
  - Hospitals whose prices remain above the state average by mid-2029 forfeit their non-profit status for at least one year.
  - Threshold of $2 billion in net patient revenue results in a focus on the state's five largest not-for-profit hospital systems.
  - See House Enrolled Act No. 1004. 2025 Session.
- **New Mexico** – Capped hospital prices in the state employee health plan, effective July 2025
  - In-network capped at 200% of Medicare; out-of-network capped at 175% of Medicare
  - Limited to urban hospitals
  - See Senate Bill 376

State Model: Oregon's Hospital Price Cap (1 of 2)

- Oregon implemented a price cap for its state and school-based employee health in 2019. The price cap was mandated through legislation, giving it durability.
  - Cap level: 200% of Medicare.
  - Oregon exempted small, rural, critical access, and certain sole community hospitals to protect the financial stability of vulnerable facilities and maintain network participation. As a result, the cap applies to 24 of 62 hospitals.

State Model: Oregon's Hospital Price Cap (2 of 2)

- Oregon's price cap requirements are included in contracts with public employee health plan carriers; the State monitors and audits compliance.
- The State's requirements include a cap on payments for out-of-network services to discourage providers from leaving plan networks.
  - The out-of-network cap is 185% of Medicare, compared to 200% of Medicare for in-network providers.

Evidence: Oregon's Hospital Price Cap

In the first 27 months, this policy resulted in an estimated **$107.5 million in savings** for the state, amounting to 4% of plan spending.

- Researchers found no evidence of hospitals leaving state employee health plan networks or increasing prices to other commercial health plans.

Source: Murray RC, Brown ZY, Miller S, Norton EC, Ryan AM. Hospital Facility Prices Declined as a Result of Oregon's Hospital Payment Cap. Health Affairs. 2024;43(3):424–32.

Pharmacy Price Cap Example : Colorado

- **Colorado** was the first state to set an upper payment limit on a high-cost drug.
  - Colorado's Prescription Drug Affordability Board created by the legislature in 2021 capped the price of Enbrel at $31,000 per year (the average insurance prices exceeded $50,000).
  - The cap will be effective in 2027.
  - See Senate Bill 21-175

SITE-NEUTRAL PAYMENTS AND FACILITY FEE BANS

Overview of Site-Neutral Payments

- Site-neutral payment policies reduce the prices for certain services delivered within a hospital-owned or affiliated setting and those that can be safely provided in a lower-cost setting.
  - NASHP 2025 model law, Establishing Site-Neutral Commercial Payment for Select Outpatient Health Care Services, applies across fully-insured and self-insured markets by prohibiting providers from charging amounts that exceed the applicable payment cap defined as a percentage of Medicare's non-hospital rates
  - States can exempt certain hospitals based on financial or other factors
- **New York** has proposed prohibiting payers from charging more than the lesser of 150% of the Medicare non-hospital rate or the existing rate for certain outpatient hospital services
  - Savings expected to exceed $1 billion
  - See Fair Pricing Act S705

Overview of Facility Fee Bans

- Facility fee bans limit higher prices charged when hospitals acquire physician practices and shift services that were billed at office-based rates to outpatient hospital rates
  - Limits authorized through legislation are typically applied to providers, creating savings across fully-insured and self-insured markets
  - State laws may limit facility fees in all outpatient settings, or may apply to offsite from a hospital's main campus
  - States could exempt certain hospitals based on financial or other factors
- **Indiana** prohibits facility fees for care provided in an off-campus office setting owned in whole or in part by a nonprofit hospital system with annual patient service revenue exceeding $2 billion
  - Effective July 2025
  - See House Bill 1004 (2023)

PRICE GROWTH CAPS

Overview of Hospital Price Growth Cap

- A price growth cap limits how much provider payments can grow each year; the cap can be linked to an economic indicator such as Consumer Price Index (CPI) or gross state product (GSP) growth.
  - It can be applied to all hospitals, or to certain classes of hospitals where price growth has been problematic.
  - It can be applied differentially based on relative baseline prices.
  - It can be applied to each provider contract individually or across all of a given payer's contracted providers.
  - It is usually implemented and enforced through insurance regulation.

State Model: Rhode Island's Hospital Price Growth Cap (1 of 3)

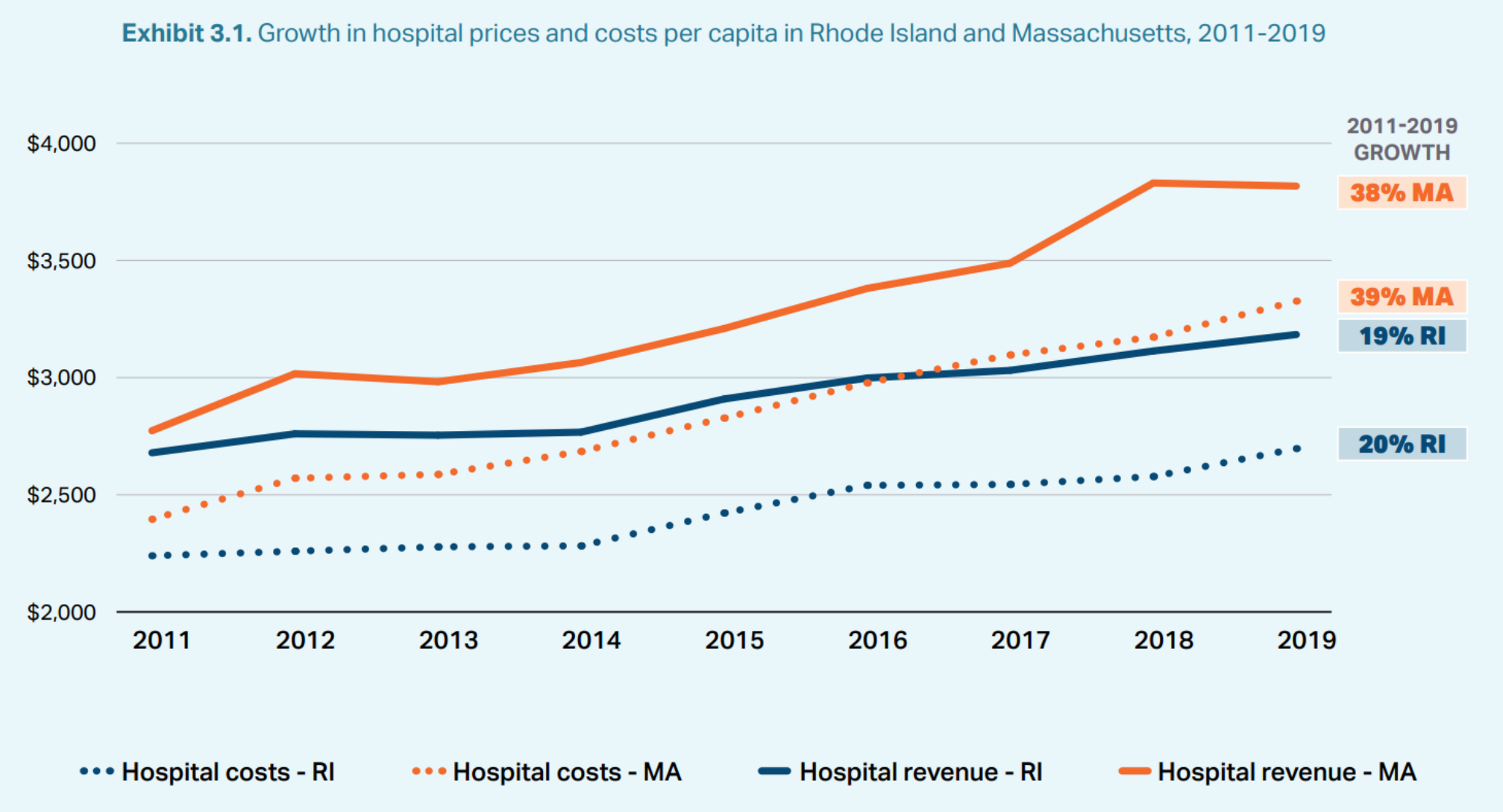
- In 2010, Rhode Island's Office of the Health Insurance Commissioner implemented "Affordability Standards" for all commercial insurers in the state.
- Among other requirements, the standards limit the average annual payment increases for both inpatient and outpatient hospital services within each insurer-provider contract.
  - Current hospital price growth cap level: CPI +1%
  - Enforcement is through health insurer rate review and periodic market conduct exams.

State Model: Rhode Island's Hospital Price Growth Cap (2 of 3)

- A 2025 study found that the Affordability Standards resulted in an average of $87.7M in *annual* savings; $64.1M of this accrued to employers, while $23.7M accrued to plan members in the form of premium and out-of-pocket cost savings.
  - The study found that hospital prices decreased by 9.1% on average from 2012-2022 (vs. comparison states).
  - After two years of implementation, Rhode Island hospital prices were above the national average (106% in 2012); by the end of the study period, they were below the national average (84% in 2022).

Source: Ryan AM, Whaley CM, Fuse Brown EC, Radhakrishnan N, and Murray RC. Rhode Island's Affordability Standards Led To Hospital Price Reductions And Lower Insurance Premiums. *Health Affairs* 2025 44:5, 597-605.

State Model: Rhode Island's Hospital Price Growth Cap (3 of 3)



Notes: Hospital costs shown are the portion of operating expenses related only to hospital patient care and eligible for reimbursement per Medicare federal regulations, sometimes referred to as Medicare Allowed Costs.

Sources: HPC analysis of hospital costs and revenues from NASHP hospital cost tool for the 2011-2019 period. Population data from the U.S. Census Bureau for 2011-2019 period.

Source: 2023 Health Care Cost Trends Report and Policy Recommendations, Massachusetts Health Policy Commission, September 2023.

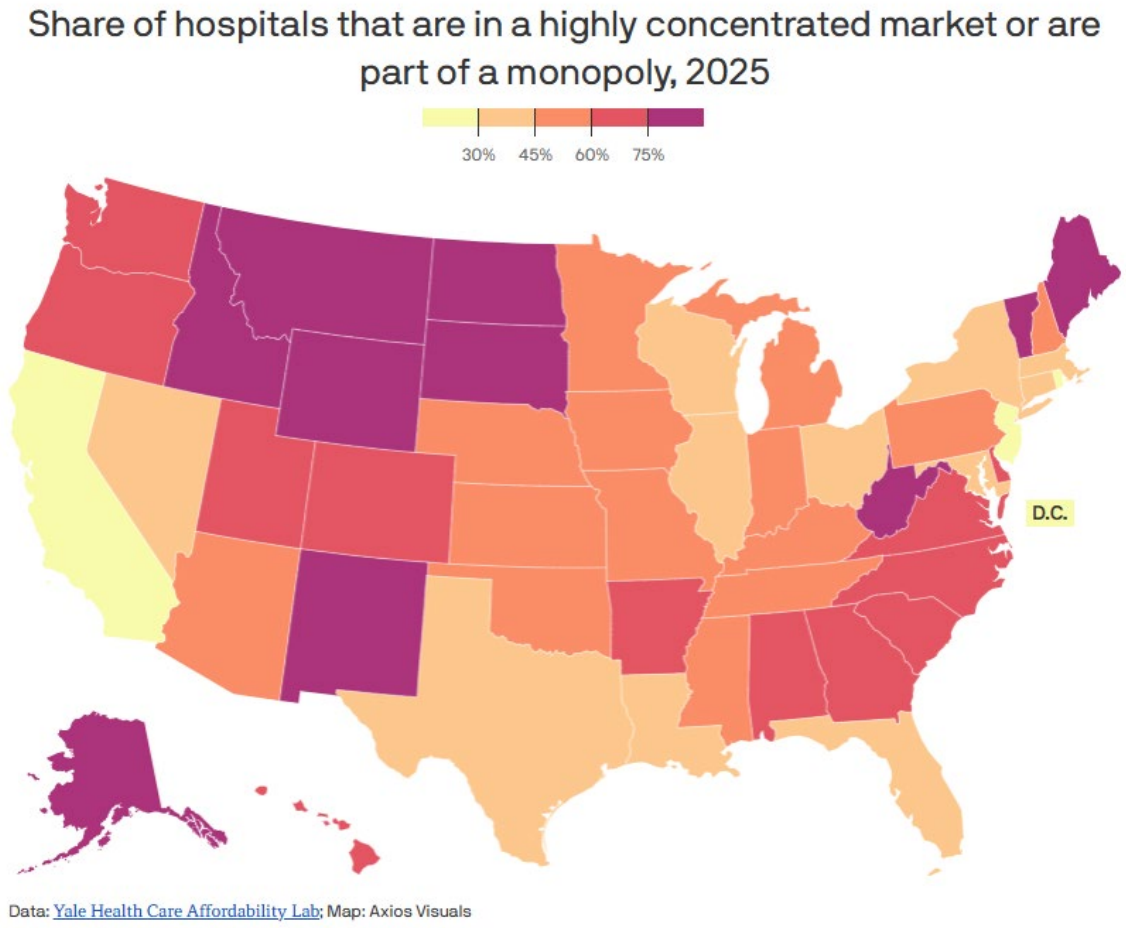
Pharmacy Price Growth Cap: Connecticut

- **Connecticut's** 2025 biennial state budget bill prohibits any pharmaceutical manufacturer or wholesale distributor from selling a generic prescription drug at a price above the wholesale acquisition cost after adjusting for any increase in the Consumer Price Index.

STRATEGIES TO INCREASE COMPETITION AND ADDRESS MARKET CHANGES

Market Changes are Driving Health Care Cost Increases

- Health care ownership changes are driving up health care costs
  - Hospital consolidations reduce competition on cost and quality of care
  - Private equity focus on volume and profit
  - Vertical integration of payers and providers disincentivizes cost containment



Source: https://www.axios.com/2026/03/09/hospital-concentration-states-health-costs

State Strategies to Address Market Changes

Strategy	State Examples
Broadening reviews of transactions across health care entities to mitigate potential harm to patients or providers, with the ability to prevent or condition certain behaviors	• California • Massachusetts • Oregon
Increasing transparency through ownership reporting requirements and expanded financial disclosures	• Indiana • Massachusetts • Washington
Preserving professional autonomy by strengthening Corporate Practice of Medicine protections	• Arkansas • California • Montana • Oregon
Address anticompetitive contracting practices of dominant insurers with providers, such as all-or-nothing and anti-steering provisions in contracts	• Connecticut • Indiana • Massachusetts • Nevada

Source: State Strategies to Improve Health Care Market Oversight (Peterson-Milbank)

Increasing Health Plan Competition

- **Nevada:** Launched a public option on their health insurance exchange in January 2026
  - Premium growth is limited to the Medicare Economic Index
  - Premiums must be at least five percent lower than reference premium tied to second lowest cost silver plan
  - Provider reimbursement cannot be lower than Medicare in aggregate
  - Legislation created a Public Option Trust Fund administered by the state treasurer with funds to help lower premiums.
  - See Senate Bill 420.

Source: https://nashp.org/nevada-enacts-a-public-option/

Additional Resources

- State Hub for Hospital Pricing Strategies - Supported by The Commonwealth Fund
- Peterson-Milbank Program for Sustainable Health Care Costs
- Health Care Affordability Lab at Yale

THANK YOU

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