BlueCross BlueShield Association

AFFORDABILITY SOLUTIONS

FOR THE HEALTH OF AMERICA

JANUARY 2023

EXECUTIVE SUMMARY

For more than 90 years, Blue Cross and Blue Shield (BCBS) companies have provided secure and stable health care coverage to people in communities across the country. The 34 independent and locally operated BCBS companies collectively cover 1 in 3 Americans—serving those who purchase coverage on their own as well as those who obtain coverage through an employer, Medicare and Medicaid. Our mission is simple: We want everyone to have access to high-quality, affordable health care.

Over the last 20 years, the United States has made great strides in expanding access to quality health insurance and reducing the number of people without coverage. In 2021, the Census Bureau reported that nearly 92% of Americans now have health insurance coverage—a historic high.[1] However, health care costs continue to grow, threatening accessibility and affordability for American families and businesses. The average premium for an employer-provided family health insurance policy reached $22,221 in 2021 (one-third of the median household income), nearly triple what it was in 2001.[2] And the average employee contribution now accounts for 9% of the median household income.[3]

The reason for this affordability crisis is clear: rising prices for health care services and prescription drugs. According to the Health Care Cost Institute, health care prices increased from 2016-2020 at roughly double the rate of general inflation—with prices being the primary driver of higher health care spending.[4]

HEALTH CARE PRICES INCREASED AT ROUGHLY **DOUBLE THE RATE OF GENERAL INFLATION** FROM 2016-2020

1. Katherine Keisler-Starkey and Lisa N. Bunch, "Health Insurance Coverage in the United States, 2021," U.S. Census Bureau, page 3, https://www.census.gov/content/dam/Census/library/publications/2022/demo/p60-278.pdf.
2. Statistics are calculated from Sarah Flood et al., Integrated Public Use Microdata Series, Current Population Survey: Version 9.0. Minneapolis, MN: IPUMS, 2021, https://doi.org/10.18128/D030.V9.0, and Annual Employer Health Benefits Survey, Kaiser Family Foundation, for years 2001 and 2021, https://www.kff.org/wp-content/uploads/2013/04/6458.pdf and https://www.kff.org/report-section/ehbs-2021-summary-of-findings/.
3. Ibid.
4. "2020 Health Care Cost and Utilization Report," Health Care Cost Institute, May 2022, https://healthcostinstitute.org/images//pdfs/HCCI_2020_Health_Care_Cost_and_Utilization_Report.pdf, and BCBSA calculations based on data from Congressional Budget Office, Consumer Price Index, Historical Data and Economic Projections, May 2022, https://www.cbo.gov/data/budget-economic-data#4.

The consequences of these rising prices are felt by consumers, patients and businesses every day through higher premiums and higher out-of-pocket costs. Real affordability solutions must address the root causes of rising prices by addressing the anti-competitive practices and misaligned incentives that are fueling cost growth.

BCBS companies are working with local and national partners to tackle the affordability crisis and drive real solutions to make health care more affordable for everyone.

We recommend policymakers take action in three areas to address the root causes of rising costs:

1. Improve competition among health care providers
2. Enhance consumer access to lower-cost prescription drugs
3. Ensure patients receive high-quality care delivered at the right place and the right time

The solutions outlined here by the Blue Cross Blue Shield Association (BCBSA) will reduce health care costs for consumers, patients, and taxpayers by **approximately $767 billion** over 10 years.[5]

BCBSA'S AFFORDABILITY SOLUTIONS WOULD REDUCE HEALTH CARE COSTS BY

$767 BILLION OVER TEN YEARS

FOR CONSUMERS, PATIENTS, AND HARDWORKING TAXPAYERS

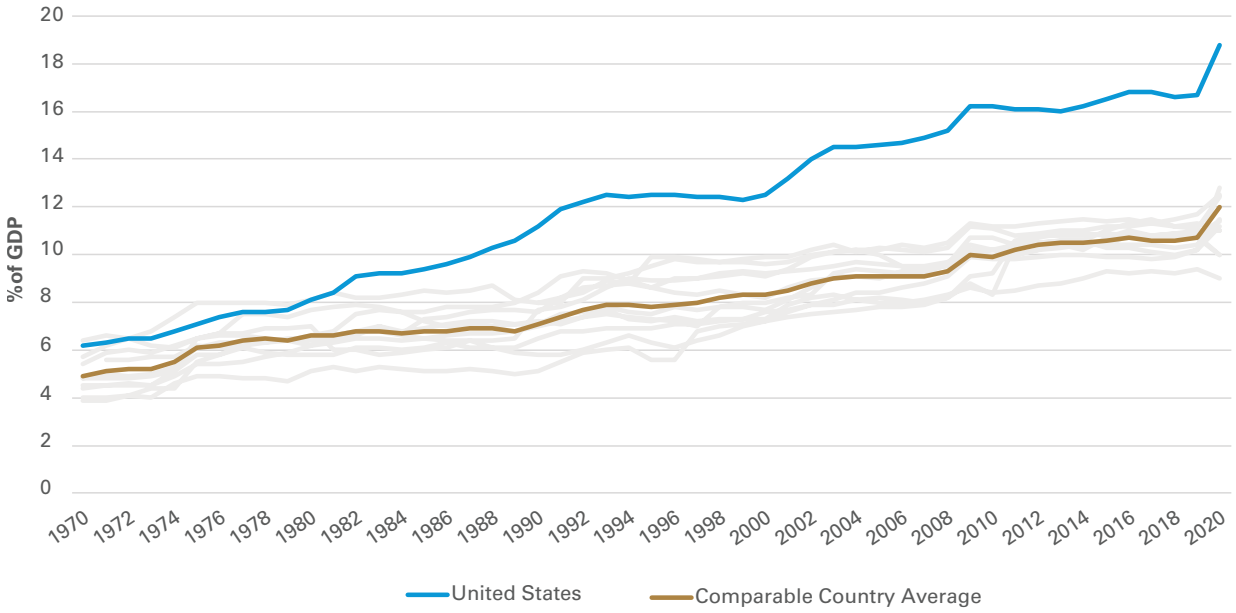
5. Philip Ellis, "Savings Estimates for Options to Reduce Spending on Health Care and Private Insurance Premiums," Ellis Health Policy, January 2023. Private health insurance premiums will be roughly 2% lower, https://www.bcbs.com/sites/default/files/file-attachments/affordability/EHP_Savings_Estimates_BCBSA_01.18.2023_Final.pdf.

BACKGROUND

WHAT'S BEHIND HIGH COSTS: RISING PRICES FOR HEALTH CARE AND PRESCRIPTION DRUGS

Health care costs have risen at a faster rate than inflation for decades, driving up health insurance premiums and outpacing growth in all other sectors of the economy. While this is a global problem, the United States pays far more for health care than any other high-income country.

Health Consumption Expenditures as Percent of GDP, 1970-2020



Notes: U.S. values obtained from National Health Expenditure data. Health consumption does not include investments, structures, equipment, or research. 2020 data not yet available for Australia, Belgium, Canada, Japan or Switzerland. Provisional 2020 data for Austria, Germany, Netherlands, Sweden and the United Kingdom. Provisional 2019 data for Canada. Data for Australia and Japan in 2019 and France in 2020 is estimated. France data before 1990 is not shown.
Source: Kaiser Family Foundation analysis of OECD and National Health Expenditure (NHE) data.

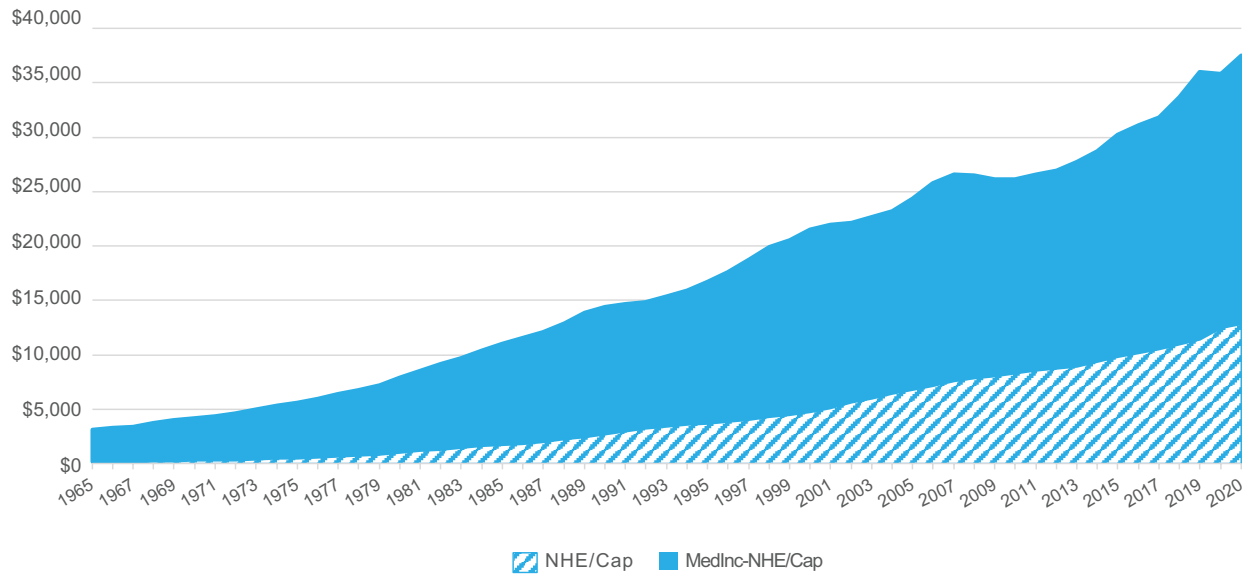
IN 2020, NHE PER CAPITA ACCOUNTED FOR

35% OF MEDIAN PERSONAL INCOME

—A FIVE-FOLD INCREASE

Health care is increasingly unaffordable for many Americans. Figure 1 displays national health expenditures (NHE) per capita from 1965 according to its share of median personal income. In 1965, NHE per capita accounted for only 7% of median income. In 2020, NHE per capita accounted for 35% of median personal income—a five-fold increase.[6] And even though the uninsured rate is at a historic low, many consumers find it difficult to pay for their portion of health care premiums and cost-sharing.[7]

Figure 1. NHE Per Capita as Share of Median Income, 1965 to 2020



WHAT DRIVES HEALTH CARE COST GROWTH?

Some of the increases are reasonable given the tremendous improvements and innovation in health care delivery compared to the standard of care from decades ago. Even though costs were much lower, no one would want to go back to the care of the past. However, according to the Health Care Cost Institute, the primary driver of this growth is prices.

From 2016 to 2019, overall utilization of health care services (the number of people using services and the mix of those services) grew only 2.2% and has remained relatively flat for many years.[8] (Utilization actually fell in 2020 due to the pandemic.[9]) However, prices for services increased at twice the rate of inflation.[10] There are several contributing factors:

6. BCBSA analysis of data from the U.S. Census Bureau and the Centers for Medicare and Medicaid Services National Health Expenditure.
7. Collins, S, et al, "U.S. Health Insurance Coverage in 2020: A Looming Crisis in Affordability," Commonwealth Fund, August 2020, https://www.commonwealthfund.org/sites/default/files/2020-08/Collins_looming_crisis_affordability_biennial_2020_sb.pdf.
8. BCBSA analysis of data in "2020 Health Care Cost and Utilization Report," Health Care Cost Institute, May 2022, https://healthcostinstitute.org/images//pdfs/HCCI_2020_Health_Care_Cost_and_Utilization_Report.pdf.
9. Ibid.
10. Ibid.

- **The trend of big hospitals and health systems acquiring physician practices often results in gaming reimbursement to maximize revenue.** In 2021, nearly 70%[11] of physician practices were owned by hospitals, health systems, private-equity firms, and other corporate entities—a 12% increase in just two years. When big hospitals and health systems acquire these practices, the prices they charge grow by an average of 14%.[12] This is often a result of how hospitals bill for their services; specifically, they bill hospital outpatient rates for the same services that were previously billed at the rate for a physician office—rates that are two to three times higher.[13] These actions result in higher insurance premiums and higher cost-sharing for consumers.
- **Under our nation's fee-for-service system, physicians, hospitals and other health care providers** are paid for each service they provide and are often not incentivized to avoid unnecessary care. That financial incentive, combined with possible concerns about the reputational and malpractice risks of not providing a service, can lead to low-value, inappropriate care.
- **Drug manufacturers exploit regulatory and patent loopholes to avoid competition and continue to charge high prices** for drugs that have been on the market for years. This behavior is well documented in a 2022 report citing manufacturer gaming of the patent system for the 10 top selling drugs in the United States.[14] These strategies block more affordable generics and biosimilars from coming to the market by building "patent thickets," often comprised of hundreds of patents that are filed late in a drug's exclusivity period—keeping prices high and driving soaring manufacturer profits.
- **The increase in government regulation of health insurance** can limit or restrict cost containment tools, provider network management and benefit designs that make it harder for insurers to encourage the best care at a lower cost.

BCBSA SOLUTIONS

The primary cause of our nation's health care affordability crisis is clear—*unsustainable price increases for health care services and prescription drugs.* It is time for all parties to work together on real solutions to address affordability.

BCBSA's recommendations target specific practices and incentives within the health care sector that contribute to these unsustainable prices. **If enacted, these solutions would reduce health care costs by approximately $767 billion over 10 years while ensuring that high-quality health care is accessible and affordable for all Americans.**[15] BCBSA encourages health care leaders to work together to adopt these approaches to provide more affordable coverage for every American.

11. Avalere, "COVID-19's Impact On Acquisitions of Physician Practices and Physician Employment 2019-2020," Prepared for Physicians Advocacy Institute, June 2021, http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/PAI-Research/PAI%20Avalere%20Physician%20Employment%20Trends%20Study%202019-21%20Final.pdf?ver=ksWkgjKXB_yZfImFdXIvGg%3d%3d.
12. Capps, Dranove and Ody, "The Effect of Hospital Acquisitions of Physician Practices on Prices and Spending," Journal of Health Economics, vol. 59, May 2018, https://pubmed.ncbi.nlm.nih.gov/29727744/.
13. Higgins et al., "National Estimates of Price Variation by Site of Care," American Journal of Managed Care, 22(3), 2016, http://ajmc.s3.amazonaws.com/_media/_pdf/AJMC_03_2016_Higgins%20(final).pdf.
14. Initiative for Medicines, Access, and Knowledge, "Overpatented, Overpriced," September 2022, https://www.i-mak.org/wp-content/uploads/2022/09/Overpatented-Overpriced-2022-FINAL.pdf.
15. Philip Ellis, "Savings Estimates for Options to Reduce Spending on Health Care and Private Insurance Premiums," Ellis Health Policy, January 2023, https://www.bcbs.com/sites/default/files/file-attachments/affordability/EHP_Savings_Estimates_BCBSA_01.18.2023_Final.pdf.

1. IMPROVE COMPETITION AMONG HEALTH CARE PROVIDERS

Expand Existing Site-Neutral Policies to Drive Care Toward Lower Cost Settings. BCBSA encourages policymakers to expand site-neutral payment policies for Medicare—generally at the lower total payment rate that would apply for care provided in a stand-alone physician office. One such policy would be to enact federal legislation to eliminate the grandfathering provision of the Balanced Budget Act of 2015, which exempts certain hospital outpatient departments (HOPDs)—except emergency departments—from billing limits established under the 2015 law.

Strengthen Antitrust Law Enforcement to Improve Provider Competition: BCBSA encourages policymakers to enact federal legislation that would:

- Increase the Federal Trade Commission's (FTC's) budget to enable stronger enforcement of antitrust laws pertaining to health care providers to prevent unreasonable increases in provider prices.
- Encourage the FTC to review and enforce antitrust laws regarding physician practice consolidation, including physician practice mergers and hospital acquisitions of physician practices. This FTC effort could include an in-depth study examining ways to improve the tracking and review of smaller mergers, as is often the case with physician practice mergers.
- Ban anti-competitive terms in hospital contracts, including provisions such as all-or-nothing, anti-tiering and other take-it-or-leave-it contract terms.
- Extend the FTC's jurisdiction to review and regulate anti-competitive behavior among nonprofit health care providers by amending the Federal Trade Commission Act. Currently, the FTC has authority to sue to block mergers of nonprofit entities, but it cannot investigate nonprofits for other anti-competitive practices.

Require Appropriate Billing for Professional Health Care Services. BCBSA encourages policymakers to enact federal legislation to require hospitals to bill accurately on professional billing forms and in claims standards so that insurers can apply the correct professional reimbursement rate. Introduced in the 117th Congress, the Transparency of Hospital Billing Act (H.R. 8133) is legislation that would:

- Require off-campus hospital sites to obtain a different national provider identifier than the main campus.
- Require professional services rendered in an office, professional building, medical office building, clinic or a space owned by a hospital or an institutional provider other than the primary structure on the campus of the hospital or institutional provider or rented by a professional from the hospital or an institutional provider, to be billed on the appropriate form (a CMS-1500 claim form).

2. ENHANCE CONSUMER ACCESS TO LOWER COST PRESCRIPTION DRUGS

Bring Generic and Biosimilar Competitors to Market More Quickly. BCBSA encourages policymakers to enact legislative solutions aimed at timely market entry of generics and biosimilars by closing loopholes and reducing unnecessary barriers that delay market entry and improve incentives to prescribe lower cost biosimilars. Examples of legislation introduced in the 117th Congress that would achieve several of these goals include:

- **H.R. 153: Protecting Consumer Access to Generic Drugs Act of 2021.** This bill would ban pay-for-delay arrangements, prohibiting prescription drug companies from compensating other prescription drug companies to delay the entry of a generic drug, biosimilar biological product or interchangeable biological product into the market.
- **S. 1425 & H.R. 2883: Stop STALLING Act.** This would allow the Food and Drug Administration (FDA) to deny a citizen petition if the intent is to delay market entry of a lower-cost drug or biosimilar.
- **H.R. 2853: Bringing Low-cost Options and Competition while Keeping Incentives for New Generics Act of 2021.** The BLOCKING Act would allow the FDA to approve generic drug applications that are ready for full approval if no first generic applicant has received final approval and other conditions are satisfied.
- **S. 1435: Affordable Prescriptions for Patients Act.** This bill would curb major drug companies' anti-competitive use of patents that prevents generic and biosimilar competitors from coming to market. This is achieved by prohibiting "product hopping" and limiting the number of patents that may be included in infringement claims against applicants for a biosimilar product license.
- **Limit the Exclusivity Period for Biological Drugs.** Since creation of the biosimilar pathway there have been several proposals to reexamine the 12 years of exclusivity granted to biologic products. Reducing exclusivity to seven years would more closely align with biologic development costs and speed to market lower cost biosimilar options for consumers.

Preserve Plans' Ability to Improve Quality and Manage Costs. BCBSA encourages state and federal policymakers to avoid policies that restrict health plans' use of cost-management and quality-improvement tools. This includes efforts to limit the use of step therapy and prior authorization (PA), impose mandates on benefit design (e.g., copay caps) and limit the use of copay accumulator programs. Health insurance providers employ these solutions due to the complex nature of prescription medicines, the potential for abuse and the potential for adverse side effects. A health plan's role is to work with the treating physician and pharmacist to ensure that patients have access to safe and effective medicines, while providing consumers with the best value for their premium dollars. Restricting or severely limiting such tools will lead to higher premiums.

Limit Drug Manufacturer Direct-to-Consumer (DTC) Marketing. The United States is one of just two countries in the world—the other is New Zealand—that allows prescription drug advertising aimed directly at the general public. This advertising may lead to the overuse of high-cost prescription medicines, even when highly effective, lower-cost alternatives are available. One study found that the "expansions in broadcast [DTC advertising] account for 19% of the overall growth in drug expenditures, two-thirds of this impact being driven by higher demand and the remainder due to higher prices."[16] BCBSA encourages policymakers to enact federal legislation to limit DTC advertising including:

19% OF OVERALL GROWTH IN DRUG EXPENDITURES
ARE DUE TO DIRECT-TO-CONSUMER ADVERTISING

- **S. 2304: Drug-price Transparency for Competition (DTC) Act.** This bill would require drug companies to disclose the Wholesale Acquisition Cost (WAC) of a prescription medication in direct-to-consumer advertising.

Expand Comparative Effectiveness Research (CER). Providing patients, medical professionals and payers with information on a prescription drug's safety, efficacy and therapeutic value in comparison to other treatment options is critical. BCBSA encourages policymakers to support the development of CER research to allow for better decision-making so patients understand the benefits and risks of treatment options by:

- Requiring a federal entity, such as the Patient-Centered Outcomes Research Institute (PCORI) or a nonprofit to conduct CER.
- Supporting PCORI to focus more CER on prescription drugs and provide additional federal funds to conduct drug-to-drug comparative effectiveness studies. To support these studies, require drug manufacturers to provide medications to PCORI at cost.
- Requiring manufacturers, during the FDA approval process, to provide more comprehensive information on drug pricing and effectiveness relative to other treatments to ensure safe and effective prescribing practices.

16. Dave, Dhaval and Henry Saffer, "Impact of Direct-to-Consumer Advertising on Pharmaceutical Prices and Demand," Southern Economic Journal, July 2012, https://www.jstor.org/stable/41638864.

3. ENSURE PATIENTS RECEIVE HIGH-QUALITY HEALTH CARE DELIVERED AT THE RIGHT PLACE AND THE RIGHT TIME

Remove Barriers to Appropriate Use of Telehealth Services. Telehealth has been broadly used during the pandemic to enhance access to medical care. It also can be used to expand access in underserved areas and for underserved medical specialties. BCBSA encourages policymakers to adopt policies to reduce costs and improve patient convenience by:

- Enhancing flexibility by working to prevent federal and state mandates related to reimbursement and/or payment parity, site-specific use, prior visit requirements or specific technology use
- Removing administrative barriers to consumer access
- Permitting coverage before the deductible of telehealth services in Health Savings Account (HSA)-eligible health plans

Preserve Prior Authorization and Improve the Experience. Health insurance providers work with patients and clinicians to ensure that patients have access to safe and effective treatments, while providing consumers with the best value for their premium dollars. PA helps plans evaluate the medical necessity and safety of health care services. The cost of not having prior authorization for medical services would be significant both for patients and health care spending.[17]

HEALTH INSURANCE PROVIDERS WORK WITH PATIENTS AND CLINICIANS TO ENSURE THAT PATIENTS HAVE ACCESS TO SAFE AND EFFECTIVE TREATMENTS

BCBSA encourages policymakers to promote solutions that limit variations in clinical practice, helping ensure both patient safety and the efficient use of financial resources, while avoiding unnecessary restrictive requirements that limit the ability for health insurance providers to promote the best care for members. Policymakers can support this work by:

- Streamlining PA by incentivizing providers to incorporate PA into their electronic medical records (EMRs) and transmit electronically using Fast Healthcare Interoperability Resource (FHIR)-based Application Programming Interfaces (APIs) across all benefits.
- Providing additional government funding to the Office of the National Coordinator for Health IT (ONC) to support efforts around development and implementation of FHIR APIs that can be used to support electronic PA and other interoperability needs.

These solutions include plan-led efforts such as:

- Driving implementation of electronic PA and shaping the work being led by the ONC to establish data standards over the next three years.
- Promoting industry-led tools to make provider use of PA more seamless (e.g., PA look-up tools) and other cross-stakeholder efforts to modernize PA.

17. Philip Ellis, "Savings Estimates for Options to Reduce Spending on Health Care and Private Insurance Premiums," Ellis Health Policy, January 2023, https://www.bcbs.com/sites/default/files/file-attachments/affordability/EHP_Savings_Estimates_BCBSA_01.18.2023_Final.pdf.

Strengthen Enforcement of Rules to Promote Interoperability of Health Care Data Among All Stakeholders. BCBSA encourages policymakers to enable greater interoperability and efficiency of data exchange by supporting ONC enforcement of information-blocking rules that require sharing of patient information captured in EMRs by EMR vendors and providers and prohibits business practices that block sharing of information.

Increase Adoption of Value-Based Programs for Providers to Move the Health Care System Away from Incentives Inherent to Fee-for-Service (FFS). BCBSA encourages policymakers to take federal administrative or legislative action to encourage more nationwide adoption of the Center for Medicare & Medicaid Innovation's (CMMI) models when the initial model demonstrates improved patient outcomes at either the same or lower costs. We support CMMI evaluating how future models are structured to incentivize providers and private payers to participate to ensure sustainability of models and broader systemic change.

Increase Use of Value-Based Payment Models in Medicaid. BCBSA recommends that the Centers for Medicare & Medicaid (CMS) and CMMI consider value-based payment models for Medicaid providers to transition away from fee-for-service provider reimbursement. BCBSA encourages policymakers to adopt Medicaid value-based payment models that are tailored to the unique characteristics of the Medicaid program and population and that maintain the central role of Medicaid managed care plans in delivering Medicaid services.

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