

New Jersey Health Care Cost Growth Benchmark Program FAQs

Why is it important for the State to implement a benchmark program?

From 2010 to 2016 in New Jersey, health care premiums and deductibles have grown roughly three times faster than residents' incomes, and, in 2016, premiums equaled almost a third of median household income.¹ Further, a survey of New Jersey adults conducted in May of 2020 found that more than three-quarters (77%) are worried about affording health care in the future.² This growth trend is unsustainable.

Recognizing the unsustainability of these trends and the economic hardship on residents and businesses because of the COVID-19 pandemic, on January 28, 2021, Governor Murphy signed Executive Order 217 directing the development of a health care cost growth benchmark to mitigate the rate of health care cost growth in the State. With Executive Order 277, the Governor formally establishes the New Jersey Health Care Cost Growth Benchmark Program and takes another important step toward curbing health care cost growth. The benchmark program offers an important opportunity for the implementation of market-based strategies rooted in broad stakeholder commitment and industry- wide collaboration.

How will this program benefit NJ residents and businesses?

In the short-term, the benchmark program will provide everyone in the state with a shared understanding of how much health care costs are growing and factors contributing to high costs and cost growth. Over time, the benchmark program aims to decrease how much health care costs grow each year and to contribute to making health care more affordable. In a successful benchmark program, we see health care providers and payers working together to develop innovative and sustainable cost mitigation strategies that also promote quality outcomes. Success translates to consumers and businesses being relieved of some of the burden of rising health care costs.

What is a benchmark and what does it apply to?

A health care cost growth benchmark is an expected rate of annual per capita growth of total health care spending in a state. Health care spending is defined as "total health care expenditures," which includes claims and non-claims-based payments made by carriers or payers on behalf of their covered populations, as well as patient cost sharing and the net cost of private health insurance.

The benchmark establishes a goal for overall spending growth and forms the basis for transparency for health care spending at the state, market, insurer, and provider entity levels. Cost growth benchmark programs have been implemented in Massachusetts, Oregon, Rhode Island, Connecticut, Delaware, and Washington; Nevada is currently implementing its program. The longest experience with health care cost growth targets comes from Massachusetts' program. 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, falling below

¹ Penn LDI, The Burden of Healthcare Costs for Working Families, 2019, available at: <https://ldi.upenn.edu/our-work/research-updates/the-burden-of-health-care-costs-for-working-families-2/>

² Altarum Healthcare Value Hub, New Jersey Consumer Health Experience Survey, 2020, available at: <https://www.healthcarevaluehub.org/advocate-resources/new-jersey-consumer-healthcare-experience-state-survey>

the national average, and staying there from 2013 to 2018. This decrease translated to an estimated \$7.2 billion saved for employers and consumers.³

Starting January 1, 2022, the Department of Banking and Insurance will work with the major carriers serving the State to initiate the data collection and reporting processes so that total health care cost growth can begin to be measured at the state, market, insurer, and large provider entity levels.

What is the Benchmark Plan to be Implemented on January 1, 2022?

The cost growth benchmark will be implemented on January 1, 2022 for a duration of six years. The benchmark targets are as follows:

- Calendar Year (CY) 2022: **Transition year** - Initiate carrier reporting, analysis and publication of the data but not against a specific benchmark value
- CY2023: **3.5%**
- CY 2024: **3.2%**
- CY 2025: **3.0%**
- CY 2026: **2.8%**
- CY 2027 **2.8%**

What data is used to develop the proposed benchmark values? How are the benchmark values determined?

The benchmark program model seeks to mitigate the unsustainable rate of health care cost growth to better align with economic indicators such as rate of growth in the economy, inflation, wages, or family income.

In establishing the proposed benchmark values, the Administration considered long-term historical and projected national data for per capita growth in health care expenditures, which anticipates continued health care spending growth of 4.75% per person per year, from 2019-2028.⁴ It is this expected trend that the benchmark program seeks to modulate, to bring in line with economic growth.

Based on recommendations from the Interagency Working Group and feedback from the external Advisory Group, NJ's proposed benchmarks are based on a blend of the potential gross state product (PGSP), which is a measure of the smoothed long-run average growth rate of a state economy, and median income. In setting the proposed benchmarks over the next six years, the Administration sought to balance the need to achieve meaningful reductions in cost growth that would help families and businesses, while ensuring a sufficiently gradual trajectory to avoid disruptions to the health care market.

³ Commonwealth Fund, How the Massachusetts Health Policy Commission is Fostering a Statewide Commitment to Contain Health Care Spending Growth, Mar. 2020, available at: <https://doi.org/10.26099/myt4-2630>.

⁴ Centers for Medicare & Medicaid Services, NHE Projections 2019-2028, Calculated from per capita national health expenditures, Table 1, available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected>

What data will be collected and how?

The health care cost growth benchmark program measures total health care expenditures in the state. To calculate total health care expenditures, the state anticipates collecting aggregated data from commercial carriers, Medicare, and Medicaid. The data reported by commercial carriers will include aggregated claims-based and non-claims-based payments, patient cost-sharing, and administrative costs (the net cost of private health insurance). The requested data are aggregated amounts only and do not include any identifiable data. Two-year data will be collected for each annual benchmarking period to enable calculation of cost growth from one year to the next. New Jersey is currently developing a technical implementation manual with data specifications, including a standard reporting template, to facilitate carrier reporting.⁵ In addition, the State will be hosting ongoing informational webinars to update interested stakeholders.

What public reports will be released about the Benchmark program?

The state proposes to release two related reports in 2022. The first is the “**pre-benchmark**” analysis, which will be based on aggregated data from prior to the COVID-19 pandemic (2018-2019). This report will show the per capita growth in total health care expenditures from 2018-2019, for the state overall, and separately for the commercial, Medicare and Medicaid markets. In future years, the State aims to also report on total health care expenditures by payer and by large provider entity.

The second standard report is the **cost driver analysis** which is based on claims data and will shed light on specific areas of costs that may be amenable to reduction. In 2022, this analysis will also use data from prior to the COVID-19 pandemic. The cost driver analysis is expected to include information about spending and trend by market, geographic area, service category, health condition, and demographic group. The cost driver analysis provides an opportunity to examine the impact of a range of factors on health care delivery and costs, such as workforce issues, price variation, migration out of the state for care, prescription drug utilization and pricing, inflationary pressures, changes in payer mix, and administrative costs. The cost driver analysis will include measures related to quality, affordability, access, and equity, to be determined with stakeholder input.

How will the State enforce the benchmark?

Our goal is to implement the program as collaboratively as possible and use transparency as our chief strategy to support market-based, innovative solutions to mitigate the rate of growth. The primary accountability measure will be through transparent public reporting.

What was the role of stakeholders in the development of the benchmark?

In the nine months leading up to January 1, 2022, an Advisory Group with broad stakeholder representation met monthly to provide expertise and consultative guidance on the development of the health care cost growth benchmark to the State’s Interagency Working Group. Stakeholders will

⁵ Please see examples of materials from other states. Connecticut: <https://portal.ct.gov/OHS/Pages/Guidance-for-Payer-and-Provider-Groups/Implementation-Manual>; Delaware <https://dhss.delaware.gov/dhcc/global.html>, and technical webinar slides: https://dhss.delaware.gov/dhss/files/insurertechbriefng_06262020.pdf; Oregon: <https://www.oregon.gov/oha/HPA/HP/Pages/cost-growth-target-data.aspx>; Rhode Island: <http://www.ohic.ri.gov/ohic-reformandpolicy-costtrends.php>

continue to be engaged during program implementation both to advise on overall program direction as well as on technical policy decisions regarding data collection, validation, analysis, and reporting.

What is the purpose of this compact?

The compact is a voluntary agreement memorializing the collective commitment of the State, hospitals, providers, carriers, employers, advocates and other stakeholders to work toward implementing the benchmark program. The compact sets the year-over-year targets for health care cost growth and establishes a commitment to take actions to make health care more affordable and to participate in the data collection, validation, analysis and reporting processes. Insights from the Advisory Group discussions and expertise played a central role in compact development. These insights are reflected, for example, in the compact's recognition of the continued pressures and impact of COVID-19 on the health care system and the need to monitor health care access, equity, and quality as they relate to the benchmark program. Overall, the process of developing and building collective commitment to the compact speaks to the State's priority of making the benchmark program a collaborative effort, driven by leaders in the health care industry as well as policy experts, employers, and consumer advocates.

How has the impact of COVID-19 been factored into the design of the benchmark program?

The Administration recognizes that there are significant challenges hospitals and providers are facing across the landscape, because of the pandemic. The pandemic has also underscored how critical it is that New Jerseyans have access to more affordable, high quality health care. This initiative is focused on bending the cost growth curve over the long term and is a cornerstone priority in the State's COVID-19 recovery.

Balancing both our consumer affordability goals with the public health challenges before us, the benchmark program plan sets the first program year as a transition period, with data collection, reporting and analysis. The transition year will allow us to make progress toward the first benchmark year, which will be set for 2023, while allowing additional time and space to understand the impact of COVID-19 on the landscape. With the understanding that the benchmark program is a long-term strategy that relies on long-term trend data, it is important to note that benchmarks are set prospectively, and performance data is reviewed and analyzed retrospectively (for example, performance for 2023 would not be measured and reported until late 2024 or early 2025). Setting the benchmark value in advance gives committed stakeholders an opportunity to determine and implement long-term strategies to meet the benchmarks.

What is the State's role in establishing and implementing the benchmark program?

The State is working with stakeholders to develop and implement the program. The NJ Department of Banking and Insurance will oversee the annual data collection and reporting processes and be responsible for the annual benchmark and cost driver analysis reports. When appropriate, the State will facilitate policy and strategic discussions to advance specific innovations and best practices that will support benchmark attainment.