



October 18, 2023

The Honorable Saud Anwar  
Co-Chair  
Public Health Committee

The Honorable Jorge Cabrera  
Co-Chair  
Insurance and Real Estate Committee

The Honorable Tony Hwang  
Ranking Member  
Insurance and Real Estate Committee

The Honorable Nicole Klarides-Ditria  
Ranking Member  
Public Health Committee

The Honorable Cristin McCarthy Vahey  
Co-Chair  
Public Health Committee

The Honorable Cara Pavalock-D'Amato  
Ranking Member  
Insurance and Real Estate Committee

The Honorable Heather Somers  
Ranking Member  
Public Health Committee

The Honorable Kerry Wood  
Co-Chair  
Insurance and Real Estate Committee

Dear Leadership of the Public Health and Insurance and Real Estate Committees,

We are writing related to the recently transmitted Office of Health Strategy (OHS) Healthcare Cost Growth Benchmark and Primary Care Spending Target Recommendations to the General Assembly [report](#) and more generally related to the weaknesses in OHS's implementation of the cost growth benchmarking program in Connecticut.

**OHS's report, its conclusions, and its recommendations uniquely capture both the weaknesses in the agency's approach to implementing the benchmark and its continued out-of-step approach to building a healthcare delivery system in Connecticut that benefits both patients and the state's economy.**

While the cost growth benchmarking process was created by executive order in 2020, the legislature codified the program in 2022. This action put the legislature's stamp on the program and it is important that legislative guidance continue to be provided to help shape the program and the conclusions that drive policy proposals.

Improving affordability, sustaining exceptional patient care and improving access to healthcare services are at the center of our collective work and there is a better way to achieve it. We hope to continue our partnership with the state legislature to take a holistic approach to supporting exceptional care delivery, comprehensively addressing payment for healthcare services, reducing administrative burdens that increase costs, and pursuing innovations, particularly in Medicaid, that support community health.

## Weaknesses in Cost Growth Benchmark Implementation

Hospitals and health systems have been willing partners since the inception of the cost growth benchmark process in early 2020. Representatives from the sector have participated in the Stakeholder Advisory Board, the Healthcare Benchmark Initiative Steering Committee, the Healthcare Benchmark Initiative Data Analytics Work Group, and a number of forums and hearings. The Connecticut Hospital Association (CHA) has also commented to the agency in writing, offering views on the how the spending targets are calculated and the impact of COVID-19 ([October 2020](#)), the flaws in the data process ([March 2021](#)), and how to address historic levels of inflation ([November 2022](#)).

**The advice of hospitals and health systems has been consistent and, unfortunately, ignored.** OHS should take a broader view than its current, narrow focus on commercial healthcare spending. A successful process must include the role of Medicaid underpayment (according to OHS, Medicaid currently pays healthcare providers 62 cents for every dollar of care provided) in driving commercial payment rates, how historic levels of inflation have driven historic increases in expenses, and how transparent and accurate data must be a cornerstone of the program's implementation.

### *A Broken Data Process*

OHS has yet to implement a transparent data process for accurately accessing performance against the benchmark. The best evidence of this deficiency was provided by OHS itself at the June 28 Cost Growth Benchmark Public Hearing where the OHS Executive Director [acknowledged](#) that, related to the data used to assess advanced network performance against the benchmark, "we learned that we've got some more work to do."

This is corroborated by what we have heard from hospital systems with affiliated advanced networks. As described, the data provided to OHS by the health insurance companies does not match the experience of the advanced networks. There is no transparency with how patient spending is attributed to individual advanced networks and little assistance by OHS to adjudicate the significant data discrepancies. Data provided to the advanced networks in order to verify its accuracy are not detailed enough for that purpose.

OHS seems to acknowledge these shortcomings in its report, stating, "OHS believes that agreement on the validity and accuracy of the benchmark data is critical and will continue to work with stakeholders to achieve consensus on the measures used to establish performance against the benchmark."

**If the intent is for the cost growth benchmarking process to help guide healthcare policy in the state, then the bare minimum standard for that process is the use of accurate data.**

### OHS's Recommendations Will Harm Healthcare Delivery in Connecticut

Despite the weaknesses in OHS's implementation process and the challenging economics of the healthcare industry, OHS has recommended implementing penalties for non-attainment of the annual benchmark and government-imposed price controls on healthcare providers.

It is important to note that the Healthcare Benchmark Initiative Steering Committee, the entity that OHS refers to as taking advice from for these proposals, ranked both near the bottom of a list of surveyed options by OHS:

## Cost Growth Mitigation Strategies Survey Results

Cost Growth Mitigation Strategy	Average Priority Ranking (On 1-5 scale)
Contain growth in prescription drug prices	4.2
Improve oversight of provider consolidation	3.9
Improve behavioral health crisis systems	3.7
Promote adoption of population-based provider payment	3.4
Adapt advanced benefit designs	3.2
Reduce administrative waste	3.2
Develop enforcement policies for entities who do not meet the benchmark	3.0
Promote use of community paramedicine	3.0
Strengthen health insurance rate review	3.0
Cap provider payment rates or rate increases	2.4

CONNECTICUT  
Office of Health Strategy

*OHS Recommendation: Institute Enforcement Mechanisms for the Cost Growth Benchmark – Adopt a Requirement for Performance Improvement Plans for Entities Exceeding the Cost Growth Benchmark*

As described earlier and as OHS acknowledges, there is “more work to do” when it comes to the data process used to assess benchmark performance. **It is thus entirely premature to provide OHS with the authority to impose performance improvement plans (PIP) on entities that don’t meet the benchmark,** and inappropriate to provide OHS with authority to impose a civil penalty on entities that do not file a PIP when required.

While OHS will likely point to its proposal being “phased in,” given its inability over the last three years to develop a data process that is transparent and can be relied on, action by the legislature on this recommendation would have to rely on the *hope* that OHS is able to develop the capability to accurately assess performance against the benchmark. **From the perspective of hospitals and health systems that have been close to this process, such hope would be misplaced and this proposal should be rejected.**

*OHS Recommendation: Address Provider Price Growth – Out-of-Network Price Caps*

As you know, during the last legislative session, the Governor proposed and the legislature did not act on a cap on out-of-network commercial rates for hospital services. At the time, CHA noted that the proposal would result in billions of dollars in reductions to local hospitals, and place significant strain on the local healthcare delivery system. In addition, the proposal would not increase patient protections, which are already ensured through state and new federal laws, but rather would give large insurance companies more power over community hospitals in negotiations.

At the time, CHA issued a report, [The Pandemic’s Impact on the Financial Health of Connecticut’s Hospitals](#), which showed 2022 as the worst year financially for Connecticut hospitals since the start of the pandemic, with expenses growing \$3.5 billion higher than pre-pandemic levels and total hospital operating margins going negative.

More recently, OHS issued its Annual Report on the [Financial Status of Connecticut's Short Term Acute Care Hospitals for Fiscal Year 2022](#), confirming the findings of CHA's report. According to OHS's report:

- Hospital expenses outweigh revenues, resulting in negative operating margins
  - Hospital expenses grew by \$3.3 billion from pre-pandemic levels. Expenses increased from \$12.5 billion in FY 2019 to \$15.8 billion in FY 2022
  - Operating expenses grew by \$1.24 billion in one year alone, an 8.5% increase in FY 2022 compared to the previous fiscal year
  - The increases are primarily due to rising costs for contract labor (29%), salaries and wages (26%), and supplies and drugs (17%)
  - Statewide hospital operating margin fell to -1.3%
  - An increasing number of hospitals are facing negative total margins
  - Operating losses totaled \$206.6 million "due to operating expenses rising faster than revenues"
  - Non-operating losses totaled \$309 million in FY 2022
  - Health system operating margins fell further than individual hospital margins, dropping to -3.82%
- Hospitals are spending more to provide uncompensated care for patients
  - Uncompensated care costs – the expense of providing charity care (free care) and bad debt (unpaid costs) – totaled \$285.4 million, an increase of 9.6% from FY 2021
- Payments have not kept pace
  - While expenses have risen dramatically, payments for the rising cost of care have not kept pace
  - OHS reports that Medicare reimbursements average only 74 cents on the dollar and Medicaid reimburses only 62 cents on the dollar on average

Given these circumstances, it is perplexing that OHS would recommend the legislature act on a policy that would further financially harm Connecticut's hospitals and health systems, putting the delivery of care in jeopardy. **As we advised in early 2023, this proposal should be rejected.**

*OHS Recommendation: Address Provider Price Growth – Improve the Utility of Cost and Market Impact Review*

Changes to the state's Certificate of Need (CON) program, of which the cost and market impact reviews are a part, are desperately needed. There are deficiencies within the current process that create excessive administrative burden and bureaucracy and are barriers to the delivery of cutting edge healthcare in the state. Substantial delays in the state's review of CON applications has increasingly obstructed hospital efforts to provide services and preserve access. Beyond delays that inhibit access to care, the CON process often does not recognize the financial impact of decisions, which ultimately drive up healthcare costs.

Connecticut legislators have demonstrated a strong and continuous commitment to reviewing the program. Legislative attention should be focused on efforts to improve and speed up the process, remove unnecessary costs, ensure existing rules are being complied with and are equally applied across all entities, and reduce the regulatory burdens that make it more challenging to deliver care to patients. The CON process should enhance, not diminish, healthcare affordability. Hospitals and health systems remain ready partners to achieve this shared goal together.

We appreciate your ongoing leadership and partnership in work to improve healthcare delivery in Connecticut. We would be happy to answer any questions or meet on our views related to the benchmarking process, OHS's legislative recommendations, or our vision for how to improve healthcare in Connecticut.

Sincerely,



Paul Kidwell  
Senior Vice President, Policy

PK:ljs

cc: The Honorable Martin Looney, President, Connecticut State Senate  
The Honorable Kevin Kelly, Republican Leader, Connecticut State Senate  
The Honorable Matthew Ritter, Speaker of the House, Connecticut House of Representatives  
The Honorable Vincent Candelora, Republican Leader, Connecticut House of Representatives  
The Honorable Bob Duff, Majority Leader, Connecticut State Senate  
The Honorable Jason Rojas, House Majority Leader, Connecticut House of Representatives  
Members of the Public Health and Insurance and Real Estate Committees  
Jim Iacobellis, Senior Vice President of Government and Regulatory Affairs, CHA