

Final report on health care affordability

Office of the Insurance Commissioner | August 2024 | [Link to full report](#)

Key takeaways:

- We studied **how five policy options could improve health care affordability for Washingtonians**:
 1. Creating a **reinsurance program**;
 2. Increasing health **insurer minimum medical loss ratio requirements**;
 3. **Using reference based pricing** for health care facility and provider payments;
 4. Using **hospital global budgeting**; and
 5. Meeting the Health Care Cost Transparency Board's **cost growth benchmarks**.
- Our analysis shows that **these policy options can meaningfully improve health care affordability**, benefiting individuals, families, employers and state revenues. This report is designed to inform policymakers as they consider approaches to improve affordability.

How the policies we studied could improve health care affordability*

	Reinsurance	Medical loss ratio	Reference based pricing	Hospital global budgeting	Cost growth benchmark
Health care cost savings	10% premium reduction	0.9% to 2.5% premium reduction	3% to 19% annual reduction in health care spending	0% to 7.1% reduction in hospital costs	\$1.4 to \$1.9 billion annual savings
Washingtonians affected	292,000 to 344,700	1.5 to 1.6 million	Up to 4.3 million	Entire state	Entire state
Cost to state	\$42 to \$84 million (individual market); \$147 to \$294 million (small group market)	No direct costs; minimal operational costs	No direct costs; substantial operational costs	No direct costs; substantial operational costs	Currently funded; additional cost if targets enforced.
Advantages	Lowers premiums for some consumers	Low operational cost	Lowers underlying price of health care for consumers and employers	Lowers hospital cost growth for entire state	Lowers health care cost growth for entire state
Disadvantages	Significant state funding needed	Small reduction in premiums	Complex to implement & operate	Significant implementation costs	Unlikely to work without enforcement

Why we did this study

Rising health care costs are a persistent and growing challenge for Washingtonians and businesses. In response, the Washington state Legislature directed the Office of the Insurance Commissioner (OIC) and the Office of the Attorney General (AGO) to analyze policy approaches to improve health care affordability.

Our [preliminary report](#) described the current state of Washington's health care system, provided an overview of policy options, and presented an economic model to evaluate those policies. We found that Washington's health care landscape has changed significantly due to horizontal consolidation and vertical integration across health care providers, facilities, pharmacy benefit managers, and insurers. The [AGO's report](#) gave a detailed analysis of antitrust law and policy options on the oversight of health care mergers and acquisitions. This [final report](#) provides Washington-specific information and analysis not previously available and is intended to provide options on how to improve health care affordability.

How we did the study

After we published the preliminary report, we consulted with state legislators and other key organizations to identify which policies to study in more detail. The options we selected could impact different parts of the health care system and health insurance markets.

We used actuarial analysis to estimate these policies' potential impact on health care spending in Washington, either through reductions in health insurance premiums or in the prices paid for health care services. We used economic analysis to show how those health care savings could translate into increased employment, wages, or other effects on the economy. We used Washington-specific health care claims and spending data to do this analysis. The full report describes the data, methodology, and assumptions used. OIC contracted with Health Management Associates to develop the preliminary and final report and conduct the analysis.

About the policy approaches we studied

- **Reinsurance** helps reduce uncertainty for insurers by paying some or all high-cost claims, based upon either specific costly health conditions or individual or total claim costs.
- **Medical loss ratios** require health insurers in certain insurance markets to spend a minimum amount of the premium dollars they collect on medical care or quality improvement activities.
- **Reference-based pricing** ties the prices for a set of health care services, such as hospital care, to defined pricing levels, such as a percentage of Medicare reimbursement rates. Reference-based pricing directly affects the prices paid for health care services.
- **Hospital global budgeting** gives hospitals a prospectively determined, fixed amount for all inpatient and outpatient services provided to a patient population each year.
- **Health Care Cost Transparency Board cost growth benchmarks** involve voluntary measures taken by health insurers, health care providers and facilities to reduce the growth in health care costs to meet the benchmarks. This report examines policies that could increase the likelihood that the benchmarks will be met.

Considerations for policymakers

This report discusses important considerations for policymakers related to these policy options – including new laws and regulations that would be needed, costs to the state, the complexity of operating new programs, the importance of monitoring and enforcement, and the advantages and disadvantages of each option.

**The figures in this analysis are estimates based on actuarial and economic analysis.*