

Rhode Island Business Group on Health



Promoting a better
Healthcare delivery system
for all Rhode Islanders

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John J. Hynes, Esq.
President and Chief Executive Officer
Care New England
45 Willard Avenue
Providence, RI 02905

RE: Negotiations between Care New England and United Healthcare of New England, Inc.

Dear John:

On behalf of the Rhode Island Business Group on Health (RIBGH), a coalition of more than 60 small and large employers in Rhode Island, we are providing you with our perspective on the negotiations between Care New England (CNE) and United Healthcare of New England (UHCNE). RIBGH members and their thousands of employees will ultimately be paying any agreed contract increase between CNE and UHCNE.

With the continuing recession in Rhode Island, small and large companies are struggling to survive and sustain their businesses. The cost of providing health insurance to their employees continues to be one of their top business expenses. Many businesses are no longer able to sustain the double digit increases in premiums being passed on by commercial insurers. Recent data provided to the Office of the Health Insurance Commissioner (OHIC) by the commercial insurers in Rhode Island reflected that about 40-45% of health insurer medical costs are spent on hospitals, and in most cases inpatient and outpatient hospital expenses are inflating faster than any other medical service category.

In focusing on the concerns raised by RIBGH and other stakeholders related to escalating costs and the need for state-wide health planning to address health care delivery and payment system issues, the OHIC recently set forth six additional conditions to be factored into negotiations of health plan contracts with hospitals licensed in Rhode Island that expire between July 7, 2010 and June 1, 2011. These six conditions attempt to promote and facilitate provider payment reform in accordance with the OHIC's Affordability Standards while also attempting to improve efficiency, quality of care, and transparency of the payment structure. While one of these conditions would limit average annual effective rates of price increases for both inpatient and outpatient services, using the Hospital Input Price Index adopted by the Centers for Medicare and Medicaid as an appropriate measure of fair price increases for medical services, rate filings with the OHIC by the commercial insurers consistently reflect price increases to hospitals at several multiples of this index. These increases are passed on directly from the commercial insurers to purchasers like the members of RIBGH through increases in premium costs.

It is RIBGH's understanding that CNE is essentially seeking a 12% contract increase from UHCNE's commercial customers, which again is in large part seeking to address higher levels of uncompensated care and any supposed underpayments from Medicare and Medicaid through cost shifting. While UHCNE has indicated it has made an effort in contract negotiations with CNE to address the additional conditions set out by the OHIC, RIBGH understands that CNE has not reflected a willingness to take responsibility for being part of the solution for addressing quality, efficiency and the goal of payment reform but rather to continue

its practice of cost shifting to the commercial insurers. From RIBGH's perspective, if the CMS price trend for inpatient services is estimated to be 1.8% and 3.4% for outpatient services, these negotiations and the 12% increase apparently being sought by CNE is another example of excessive medical cost escalation for Rhode Island businesses. The cost shifting practice of hospital systems like CNE that uses its negotiating leverage to seek higher-than-trend contract increases with the commercial insurers is no longer acceptable. RIBGH does not support nor can employers live with such increases, which are ultimately passed on to employers and their employees to subsidize.

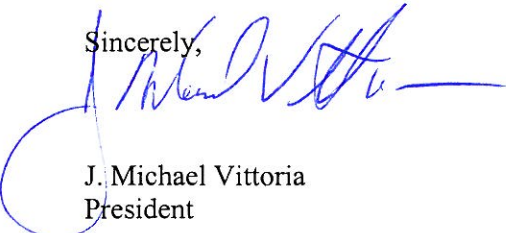
RIBGH believes that provider systems like CNE take a significant role in the responsibility for improving the quality of care and patient outcomes, which a pay-for-performance model of payment for services has been proven to achieve. Increased payments that are unaccompanied by any commitment to improve quality, efficiency and patient outcomes is unacceptable.

RIBGH recognizes that payment reform and improving the health care delivery system in Rhode Island cannot be accomplished by the health insurers alone. All the key stakeholders will need to support changes.

- Employers will need to promote new benefit plans to encourage or require employees to manage their own health and utilize the most effective services.
- Health insurers will need to reduce administrative costs, improve use of information technology, and develop new relationships with hospitals, physicians, and other healthcare providers to align the healthcare system.
- Hospitals will need to eliminate excess capacity, duplicate services, and reduce administrative costs, while aligning with insurers, physicians and other providers.
- Physicians and other health care providers will need to change their practice models and, in some cases, income expectations while they align with insurers, hospitals, and other providers.
- Employees and unions that represent them as well as health plan members will need to accept changes to the health care system that may limit their options and require individuals to take an active role in managing their own health.

We hope that your understanding of our position on this matter will be useful in reaching agreement with UHCNE on appropriate payment reform mechanisms that will promote better care coordination and that will begin to reduce overall healthcare costs. Specifically, we encourage you to promote payment reform as defined by the OHIC; we cannot afford to pay whatever CNE defines as a shortfall from other payers. If I am able to assist in this process on behalf of our members and their employees in any way, I am happy to do so. I can be reached at 401-757-2111 if you would like to discuss RIBGH's position in more detail.

Sincerely,



J. Michael Vittoria
President

CC: Stephen Farrell, CEO, United Healthcare of New England
Christopher Koller, Health Insurance Commissioner
Laurie White, President, Greater Providence Chamber of Commerce
John Gregory, President, Northern RI Chamber of Commerce