

PEBB/SEBB access and affordability

SB 5083 and HB 1123

The problem: unaffordable health care

High and rising health care costs threaten Washington state and school employees' ability to afford and access care. Health plan bid rates for Washington's Public Employees Benefits Board (PEBB) and School Employees Benefits Board (SEBB) have increased on average approximately 6.5 percent each year since 2021.

Rates for the self-insured Uniform Medical Plan Classic increased by about 20 percent from 2021 to 2024. Washington State has to consider the difficult trade-offs high health care costs pose, including constraining the ability for the state to spend on other critical human services. For individuals and their families, higher premiums have made it more difficult to stay with plans that have lower deductibles and cost-sharing requirements, reducing resources for housing, food, education, and other needs.

The cause: misaligned payment incentives, high prices for hospital services and underinvestment in preventive care

High and rapidly rising hospital prices are a significant contributor to our healthcare affordability problem.

- Spending on hospital services make up nearly half of total healthcare spending in Washington's commercial insurance market.
- Between 2016 and 2019, per-person spending on hospital services grew 11.9 percent, largely due to increases in the price of hospital services.
- The average price for inpatient services grew 16 percent, while prices for outpatient services grew 19 percent.¹

Expert analyses show that many Washington hospitals are paid generously.

- PEBB and SEBB plans pay Washington hospitals an average of 210 to 228 percent of what the federal government has determined is a fair price for Medicare, with some hospitals' pay exceeding 300 percent of Medicare rates.²

These stark differences in hospital pricing don't necessarily reflect differences in the cost of delivering the care, nor does it indicate higher quality.

- Decades of research show that consolidation and market power contribute to high hospital prices.
- In areas where there isn't much competition, some hospitals demand higher prices from commercial insurers in exchange for staying in the insurer's network.³

While spending on hospital services have gone up considerably, we have underinvested in important services, like primary care and behavioral health, that help prevent people from developing complex conditions and needing expensive hospital care.

¹ Onpoint, "Washington State Commercial Trends in Cost, 2016-2019," December 2022.

² Washington Health Care Authority analysis of PEBB and SEBB claims data.

³ Cooper, Zach, et al., "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured," *The Journal of Economics*, Vol. 134, No.1, September 2018.

The solution: bring down prices for hospital care and invest in primary care and behavioral health

Washington could rebalance how Washington’s PEBB and SEBB plans pay providers to lower the cost of hospital care and increase or maintain reimbursement for primary care and behavioral health services. This can be done by:

- Limiting how much PEBB and SEBB plans pay for hospital inpatient and outpatient services to no more than 200 percent of Medicare reimbursement starting January 1, 2027, phased down to 190 percent of Medicare on January 1, 2029.
- Setting a higher payment limit for children’s hospitals, at no more than 350 percent of Medicare in 2027, phasing down to 300 percent of Medicare in 2029, in recognition of the very specialized services they provide.
- Setting minimum payment levels for primary care and behavioral health services delivered in the community to at least 150 percent of Medicare rates, ensuring access to important preventive services.

We can bring down hospital prices while still preserving access and quality for PEBB and SEBB enrollees. A cap on hospital prices should be combined with other provisions designed to safeguard access and quality, including:

- A requirement for hospitals to participate and contract with PEBB and SEBB insurers that put forward a good faith offer on payment for hospital services.
- Maintaining current payments to critical access hospitals and sole community hospitals that serve rural areas, in recognition of the unique challenges that residents in rural areas face. This ensures that these hospitals do not lose money and continue to be paid at least what it costs them to deliver services.

Limiting spending on hospital services could account for over \$400 million in cost-containment between FY25–FY29, decreasing out-of-pocket costs and affording the state the opportunity to invest in other critical priorities.

It’s time for state action to make health care more affordable for state and school employees

In a survey of Washington residents, almost half said that healthcare affordability should be a top priority for policymakers.⁴ Making health care more affordable for *all* Washingtonians remains the goal of HCA, and right-sizing how we pay for services under PEBB and SEBB is a meaningful next step.

Cost-sharing for an intensive emergency department visit for a member enrolled in the Classic Uniform Medical Plan for individual coverage

	Allowed amounts	Cost-sharing after \$250 deductible
Medicare fees	\$613	N/A
Current plan fees	\$1,562	\$272
Fees capped at 200% of Medicare	\$1,226	\$221

Out-of-pocket cost savings for member = \$51 or 23%

Capping hospital prices to 200 percent of Medicare rates would bring down premiums, make it easier for Washington State to maintain its commitment to providing quality affordable healthcare to state and school employees, and result in lower out-of-pocket costs for the individuals and families who enroll in PEBB and SEBB.

⁴ Altarum Health Care Value Hub, “Washington Residents Struggle to Afford High Healthcare Costs; Worry About Affording Healthcare in the Future; Support Government Action Across Party Line,” Data Brief No. 135, November 2022.