

## **Compact to Reduce the Rate of Health Care Spending Growth in New Jersey**

In January 2021, Governor Phil Murphy issued [Executive Order No. 217](#) (E.O. #217), directing the Office of Health Care Affordability and Transparency to identify opportunities across private and public sectors to advance the shared goals of improved health care affordability, accessibility, and transparency. E.O. #217 envisions and enables the development of policy solutions that address affordability challenges facing NJ residents across multiple sectors, including the important areas of health care provider, health insurance and prescription drug cost.

E.O.#217 specifically directs the Department of Banking and Insurance, with partner agencies, (collectively the Interagency Working Group) to develop plans for implementing a health care cost growth benchmark that will promote increased accountability for health care spending and slow the rate of health care spending growth to make it more affordable and sustainable for families, individuals, employers, and the State. To that end, the administration has developed the New Jersey cost growth benchmark program which establishes a target for per capita health care cost growth. The target is not a mandatory cap or index but reflects a shared goal for stakeholders and the State to work toward constraining the growth of health care costs.

A Health Care Affordability Advisory Group, created within E.O. #217, includes health care providers, health plans, employers, consumer advocates, and health care policy leaders who are advising the State on the development of a cost growth benchmark and related activities to ensure access to high-quality, affordable, and equitable health care for all New Jerseyans.

The State is pursuing implementation of a health care cost growth benchmark in parallel with a strategy to rigorously analyze drivers of cost and cost growth, which includes, for example, inflation, labor costs, prescription drugs, medical devices, supply costs, out-of-state health care migration, changes to payer mix, and price variation. Together, the benchmark and cost driver analysis will focus attention on health care costs and cost drivers and spur innovative action to reduce cost growth.

The State acknowledges the tremendous toll that the COVID-19 pandemic has had on families, businesses and health care providers and organizations across the State. The State embarks on the process of implementing a cost growth benchmark in full recognition that recovery from the pandemic is on-going and there continues to be much uncertainty around the impact of COVID-19 on health care demand, overall population health, and wellness of New Jerseyans, and on the various sectors of the health care system. It is more important than ever to ensure New Jerseyans can continuously access high-quality routine, urgent, and emergency care. Establishing this cost growth benchmark now will create opportunities as we emerge from the COVID-19 pandemic for a path forward together that makes high quality health care affordable for all New Jerseyans, including families and businesses.

While the Murphy administration and NJ health care stakeholders have made significant progress over the years in advancing consumer affordability and accessibility, we recognize there is more to be done. The State is committed to the success of this program and to containing the costs of health care throughout the system. The State is continuing related efforts

to expand coverage and reduce the number of people who are uninsured or underinsured. The State will continue to support program development and implementation and recognizes the necessity of ensuring an implementation process that is inclusive and engages broad stakeholder input. The State looks forward to significant stakeholder involvement as data is collected, validated, analyzed, and reported to facilitate better understanding of health care costs to assess the impact on health care quality, access, affordability, and equity.

The State recognizes the critically important role of health care providers, health plans, employers, unions, policy experts, pharmaceutical and technology companies, and consumers in contributing to a strong and vibrant health care infrastructure in the State. New Jersey is fortunate to be home to health care systems and health professionals that strive for excellence and who provide care to all New Jerseyans, including those who are uninsured and underinsured. These institutions invest in robust information technology infrastructure; provide continuing clinical education; support broad access to care; build strong community relationships and partner on payment models that focus on quality improvement.

New Jersey's health care provider institutions are vital members in their communities, and as employers, are committed to providing fair and market wages and benefits to their healthcare workforce. Together with forward-thinking employers, health plans and health care innovators, New Jersey's institutions are contributing to achieving better and more equitable health services for New Jersey residents.

This compact reflects the collective leadership and aspirations of these stakeholders in defining a bold vision of high-quality and more affordable health care for all New Jerseyans.

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Through this compact, and in collaboration with the State as outlined above, we, the undersigned, are committing to working together in good faith to take actions that make health care more affordable and assisting the State in its efforts to do so. The compact is an important demonstration of the commitment of the diverse Advisory Group members, chosen for their expertise and leadership. We recognize the importance of engaging with all health care stakeholders to ensure the success of this effort, and we encourage others to add their support to this compact.

We recognize the importance of affordable health care to families and businesses in New Jersey, and we support the benchmark program as a cost containment strategy that will also promote transparency of health care spending and drivers of spending growth. We recognize that the benchmark program is in its formative stage with many requisite factors impacting costs and the approaches to address them continuing to be examined.

We support the State's cost growth benchmark values and methodology, as updated periodically to reflect new information and methods. We commit to doing our part by continuing to lead and support efforts to promote value in health care and to taking reasonable steps to annually keep health care cost growth below the benchmark target, to the extent such commitment does not compromise health care quality, access, equity, and community investments.

The State established a cost growth benchmark target based on the value of a blend of New Jersey's Projected Gross State Product (PGSP) and forecasted Median Income.

Key understandings reached with the State, include:

- 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\*
  - CY2023: 3.5%
  - CY2024: 3.2%
  - CY2025: 3.0%
  - CY2026; 2.8%
  - CY2027: 2.8%

\* During this transition year, the State will initiate data collection and coordinate with stakeholders on analyzing and understanding the data before reporting health care spending and spending growth in aggregate form to promote transparency and facilitate discussion of strategies to make health care more affordable. The State has calculated initial benchmark targets, which will be further refined based on this process. The stakeholders are committed to working towards the CY2023 target benchmark in this year.

- The target benchmark program will assess health care cost growth for all New Jersey residents with commercial (insured and self-insured), Medicaid, and Medicare coverage. Health care cost growth is measured using total health care expenditures, which includes claims spending; non-claims-based spending; consumer cost sharing; and insurer administrative costs.
- The benchmark program will work toward publicly reporting target benchmark performance at the 1) state, 2) insurance market (e.g., commercial, Medicaid, and Medicare), 3) insurer, and 4) large provider entity\* levels. The State will continue to engage stakeholders in the development of data collection and reporting specifications.

*\* Benchmark performance reporting of total cost of care contract performance at the provider level is limited to those provider entities who are sufficiently large such that performance can be accurately and reliably measured and who engage in total cost of care contracts for a significant proportion of their population served.*

- We will participate in or support the data collection, validation, analysis, and reporting processes, led by the New Jersey Department of Banking and Insurance, that support the measurement, assessment, and reporting of performance relative to the State's target benchmark.
- We will work with the State to support the development and implementation of a strategy to closely track impacts of efforts to address cost growth on quality, affordability (including out of pocket-costs), access and equity.

- We will work with the State to support efforts to identify and understand factors that contribute to health care cost trends, which could include inflationary pressures; out-of-state migration for healthcare; changes in payer mix; price variation; patterns in prescription drug utilization and pricing; the role of pharmaceutical companies and other suppliers, administrative costs, and regulatory compliance cost.
- We are committed to making healthcare affordable to consumers by passing on healthcare savings achieved through this program to consumers.
- We commit to collaborating with the State by participating in future committees and stakeholder engagement opportunities and providing guidance on the methodology, analysis, and reporting of the target benchmark.
- Recognizing that the benchmark targets were created amidst the pandemic and related economic pressures, including inflation, supply chain instability, changes to the delivery of care, and workforce shortages, we also commit to advising the State on conditions that require amending the 2022-2027 benchmark methodology.

This Compact, signed on December 21, 2021, shall remain in effect until December 31, 2027.

**Parties in Compact:**

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