



# **Why Assumptions Matter**

**Framework Material for Vermont  
Partners for Health Care Reform**

# Summary

This document is illustrative. It is intended to show the potential impact that assumptions can have on the cost of Green Mountain Care as projected by the financing plan

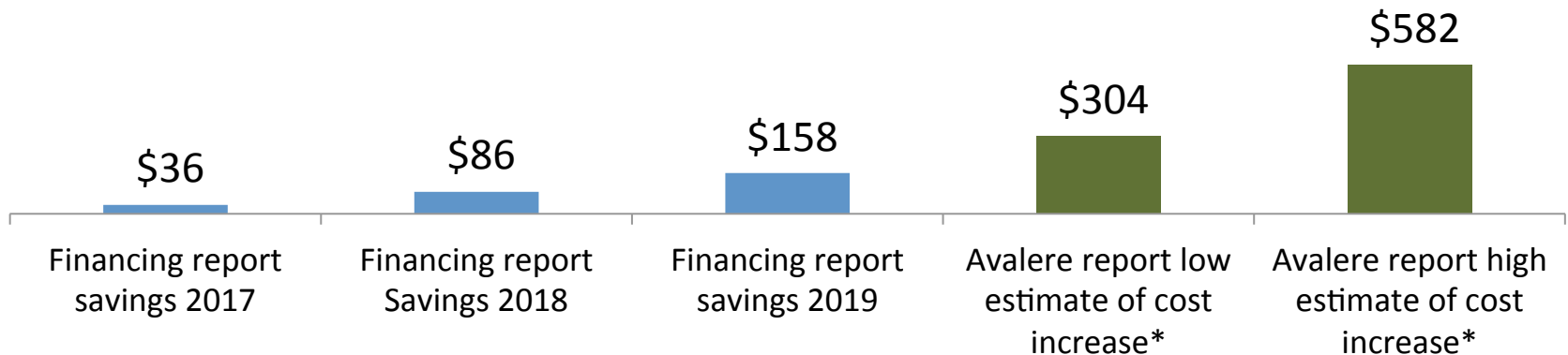
- The State's single payer savings estimates are lower than the cost increases estimated by Avalere. The Avalere estimates indicate a total system cost of between \$6.2 and \$6.5 billion versus the State's \$5.9 billion.
- These cost differences are driven by differences in assumptions between Avalere and the State, specifically differences in payments to providers and administrative savings.
- If the true system cost is somewhere between \$6.2 billion and \$6.5 billion, the State will need to change (lower) assumptions about provider payment and/or actuarial value in order to maintain its projected total cost of \$5.9 billion.
- Provider payments will need to be lowered to between 100 and 105% of Medicare and/or the actuarial value of will need to be reduced from 87% to something closer to 78%\* in order for the cost of GMC to be equal to or less costly than the current system.

\* Act 48 requires an 80% actuarial value. This calculation is for illustrative purposes only.

# The state's single payer savings estimates are lower than the cost increases estimated by Avalere

## Financing and Avalere Estimates \$ millions.

Even Avalere's low estimate of year one cost increases eliminates the Financing report long-term savings.

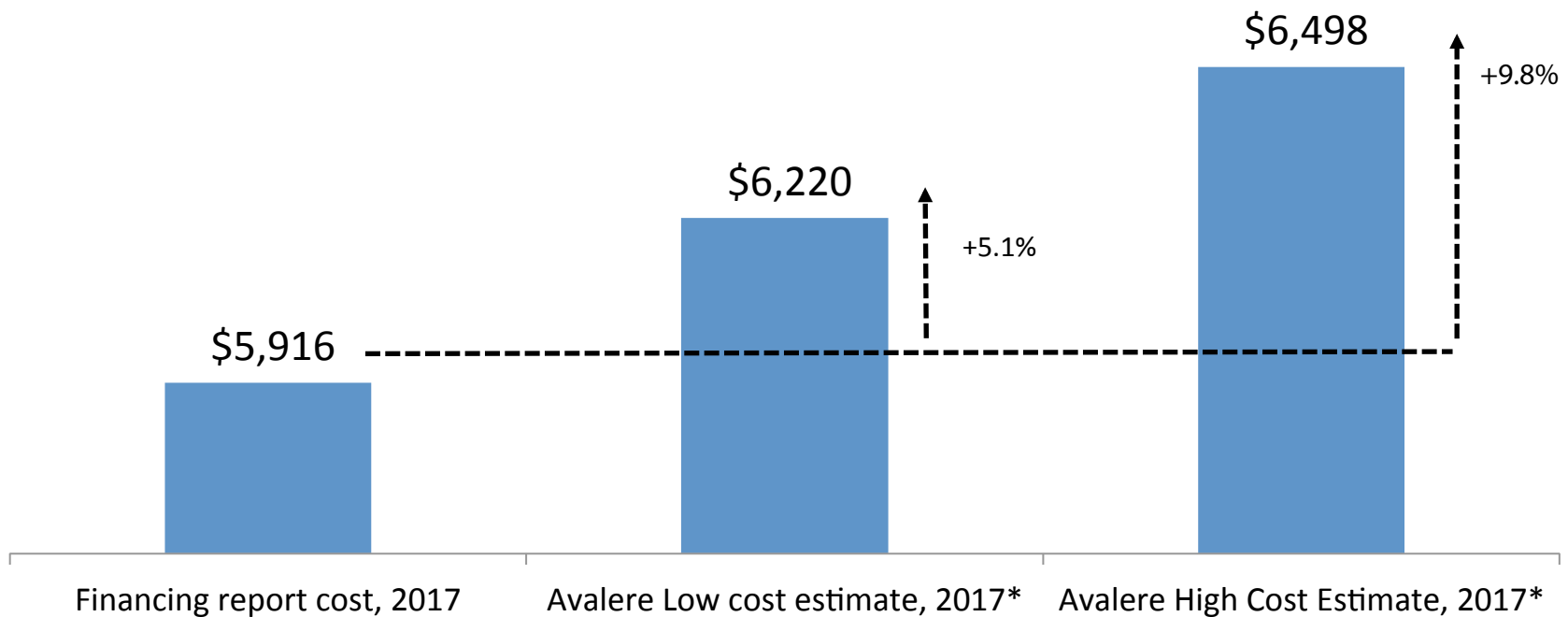


\* The Avalere report contained an error in their administrative cost calculation. This error is not believed to be material, but it will impact their cost increase estimates, making them slightly lower.

Source: Financing plan - Table 43, Avalere Report

The Avalere data translates to an estimated total cost for single payer of between \$6.2 and \$6.5 billion versus the state's estimate of \$5.9 billion

### Single Payer Costs, State and Avalere Estimates \$ millions



\* The Avalere report contained an error in their administrative cost calculation. This error is not believed to be material, but it will impact their cost increase estimates, making them somewhat lower.

Source: Financing plan - Table 43, Avalere Report

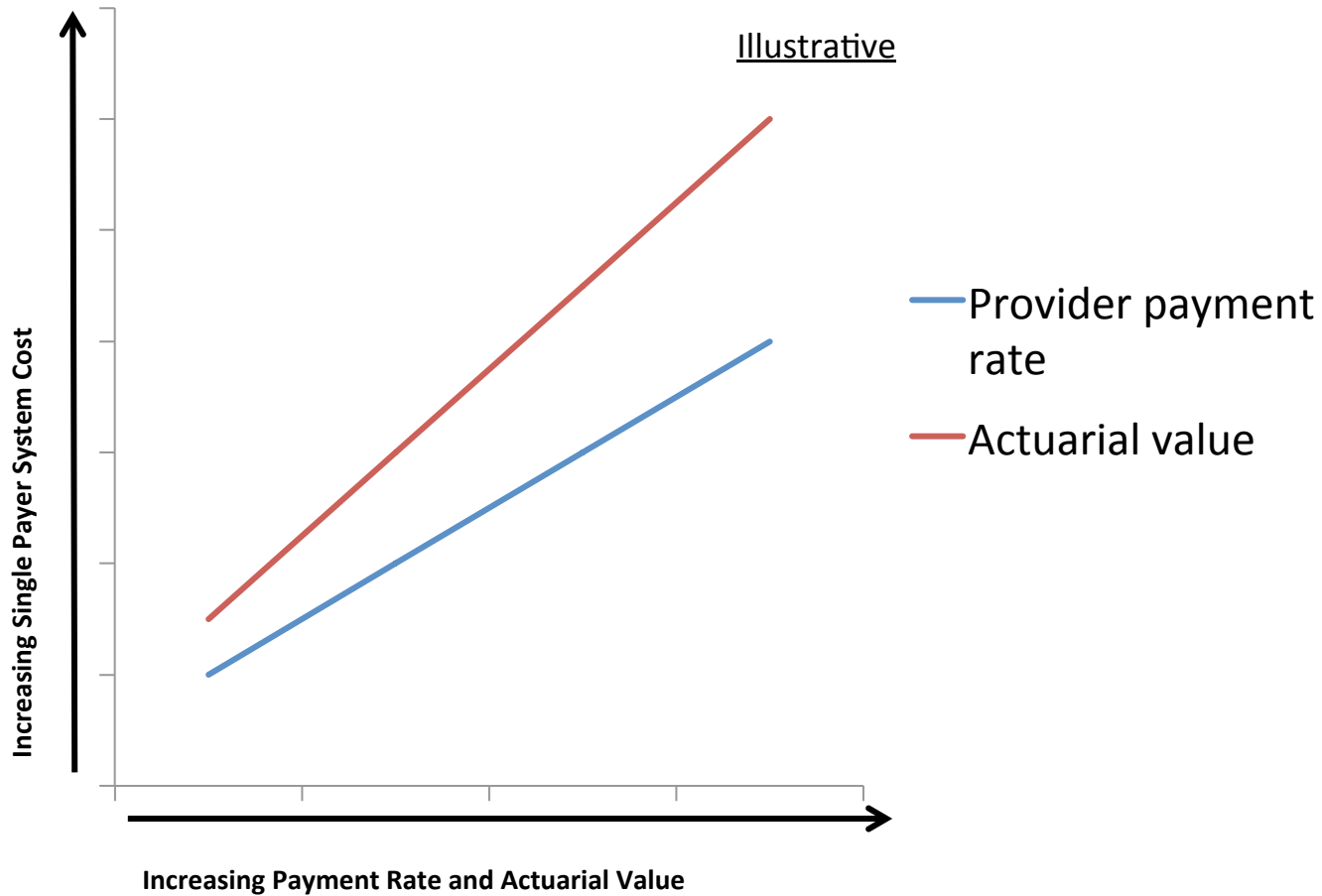
## These cost differences are driven by changes in key assumptions

| Assumption                   | State  | Avalere  | Impact to cost (\$mm) |
|------------------------------|--|--|-----------------------|
| Provider payment rate        | 105% of Medicare   | 115% to 125% of Medicare   | +\$228 to +\$456      |
| Administrative cost savings* | Payer admin at 7%<br>Provider admin savings of 13.9% of revenue will accrue to providers | Payers already at 7%<br>Providers will not achieve all savings due to multiple payers and OOS care | +\$76 to +\$126       |
| AV of GMC insurance          | 87% actuarial value  | No assumption made   | -                     |

\*The Avalere report contained an error in their administrative cost calculation. This error is not believed to be material, but it will impact their cost increase estimates, making them somewhat lower.

Source: Financing plan – Tables 32, 33, page 42; Avalere Report

Two key assumptions, the payment rate to providers and the benefit package for Vermonters (Actuarial value) significantly impact the cost of a single payer system.

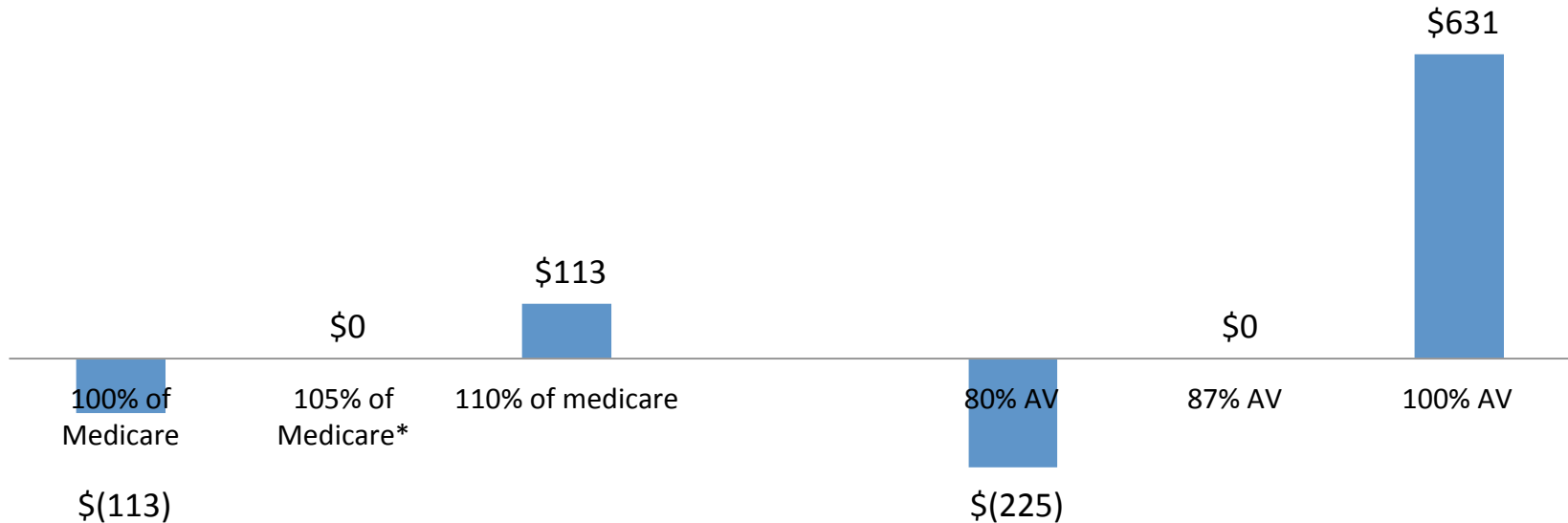


# The financing plan itself acknowledges that varying assumptions have impacts on the cost of GMC

**Financing Plan Cost Change from Base Case case cost) (\$5,916 base case cost)**  
**\$millions**

**Change in provider payment assumptions**

**Change in actuarial value assumptions**



\*Financing plan base case assumption

Source: Financing plan - Table 31,43

Therefore, it will be necessary to change (reduce) key assumptions to keep the cost of GMC constant with today's cost and affordable to Vermonters.

| Scenario 1<br>Illustrative Assumption Changes (\$ millions) |         | Scenario 2<br>Illustrative Assumption Changes (\$ millions) |         | Scenario 3<br>Illustrative Assumption Changes (\$ millions) |         |
|---|---------|---|---------|---|---------|
| Base Case Cost  | \$5,916 | Base Case Cost  | \$5,916 | Base Case Cost  | \$5,916 |
| Avalere Low Cost Increase Estimate**                        | \$304   | Avalere Low Cost Increase Estimate**                        | \$304   | Avalere High Cost Increase Estimate**                       | \$582   |
| Reduce AV to 77.5%*   | (\$304) | Revert to 105% payment rate                                 | (\$228) | Reduce payment to 100%                                      | (\$341) |
|   |         | Reduce AV to 84.6%*   | (\$64)  | Reduce AV to 79.5%*   | (\$241) |
| Maintained Base Case Cost                                   | \$5,916 | Maintained Base Case Cost                                   | \$5,916 | Maintained Base Case Cost                                   | \$5,916 |

\*AV changes between 77 and 87% are assumed to be directly proportional for purposes of this illustration. (i.e. each point of AV reduction yields \$32.1 million in cost savings). This simplification is for illustration purposes only. Act 48 requires an actuarial value of 80%. This calculation is illustrative only

•\*\* The Avalere report contained an error in their administrative cost calculation. This error is not believed to be material, but it will impact their cost increase estimates, making them somewhat lower.

Source: Financing plan - Table 31,43; Avalere Report