

STATE AUDITOR DOUG HOFFER

Press Release

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Release Date: 12 November 2021

Auditor Doug Hoffer Evaluates Options to Control the Rising Cost of State Employee Health Care

MONTPELIER, VT –State Auditor Doug Hoffer released a new investigative report examining strategies to save money on State employees’ health care by reducing the frequency that the State pays different health care providers different amounts for the exact same service.

“The difference in prices paid for the exact same health care procedures under the State employee health plan is startling, especially since higher prices do not necessarily mean higher quality. Our research finds that the highest priced provider for a given service was paid an average of 3.5 times more than the lowest priced provider for the exact same service. For an echocardiogram, the gap was an astonishing 9.3 times,” said Hoffer. “When State employees and their families receive care from the most expensive health care providers, often without knowing it, it increases the cost of health care for patients, the State, and taxpayers.”

From 2010 to 2019, annual medical claims for Vermont State employees, retirees, and their families increased by 51%, from \$94 million to \$142 million. “These costs, which are mostly paid for by taxpayers, are significant and growing. In response, we explored two strategies – reference-based pricing and an incentive program – that the State could use to lower health care costs,” continued Auditor Hoffer. “These are strategies that have been successfully implemented in other states, resulting in notable savings without negatively impacting employees in any way.”

Using a sample of price data from the Vermont State health plan, the State Auditor’s Office estimated potential savings under reference-based pricing and an incentive program:

- **Reference-based pricing:** Reference-based pricing occurs when a health care purchaser, in this case a state, sets a maximum price for what they are willing to pay for a service rather than merely taking the price negotiated by insurance companies and hospitals. Montana implemented reference-based pricing for their state workforce and saved \$47.8 million in three years. The State Auditor’s Office estimates that if reference-based pricing was implemented for just the 39 services we reviewed, savings could reach \$2.3 million annually, with an average savings of 13% per service. If this level of savings was achieved across all services, total savings could reach \$16.3 million annually.
- **Incentives to select cost-effective care:** Under this model, employees are provided comparative price information and paid a cash incentive for selecting a lower priced provider. The Auditor estimates that if the State implemented this type of program for just

the seven types of shoppable services highlighted in the report, savings could reach approximately \$202,000 annually; with each added service (there are hundreds), the State would enjoy additional savings.

“Too often, it feels like patients and employers have no control over the prices they pay for health care,” said Hoffer. “Other states, facing the same pressures as Vermont, have decided to do something about it. I strongly encourage the Scott Administration, the Legislature, and representatives of the State employees to build off our research and implement a strategy that will benefit State employees, the State budget, and taxpayers.”

To view the report, please click [here](#).