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Milliman Report Projects Significant Insurance Premium Increases Associated with Restricting or Eliminating Prior Authorization

Report Commissioned by MAHP Confirms Substantial Role Utilization Management Plays in Containing Consumer and Employer Health Care Costs

Boston, MA – A new study has found that commercial premiums and Medicaid capitation rates could increase significantly if lawmakers restrict or eliminate prior authorization, with commercial premiums increasing by between approximately \$600 and \$1,500 per member annually and Medicaid capitation rates increasing by between \$270 and \$1,100 per beneficiary annually.

Milliman, an independent actuarial and consulting firm, released a report commissioned by the Massachusetts Association of Health Plans on the potential impacts on health care costs, consumer out of pocket costs and insurance premiums in Massachusetts if prior authorization is eliminated or restricted. The premium increases estimated in Milliman’s report are on top of other factors that affect health insurance premiums including provider reimbursement and pharmaceutical spending.

Although Milliman did not study particular legislation, legislative proposals seeking to eliminate prior authorization, concurrent review, and retrospective review have been filed at the state and federal level which restrict health plans’ ability to use these tools to ensure cost-effective care.

The study also considers the impact of eliminating prior authorization on the “sentinel effect.” As it relates to prior authorization, the sentinel effect refers to the tendency of providers to refrain from ordering tests, procedures, or treatments when approval for those services is subject to external review. Milliman reviewed over a dozen separate academic studies about the sentinel effect and prior authorization and concluded that it is likely the impact of the sentinel effect would be reversed if the requirement for external review of these services is removed. In other words, prior authorization prevents ordering of some unnecessary services and removal of prior authorization will lead to some services being otherwise ordered despite being unnecessary or inappropriate. Milliman estimates eliminating the sentinel effect by restricting prior authorization could increase premiums an additional 5.6% to 16.7%.

The report notes that efforts to eliminate or restrict prior authorization could also have an impact on the state’s ability to meet the Health Care Cost Growth Benchmark established in Chapter 224 of the Acts of 2012 by increasing patient utilization or shifting utilization to medications, services, and treatments with higher costs.

The study, which was funded by the Massachusetts Association of Health Plans, models the impact of reducing or eliminating prior authorization, analyzing 2022 claims experience trended to 2023 cost levels including the member cost sharing portion for a Massachusetts sample of commercial enrollees that purchased or were provided a typical major medical policy in 2022, and the 2020 Massachusetts Medicaid data from the Transformed Medicaid Statistical Information System (T-MSIS) monthly claims file, a CMS dataset.

For more information about Milliman or to read the full report, please visit: [insert link]

Statements regarding Milliman Report and Proposed Restrictions or Elimination of Prior Authorization

“Employers expect that the health insurance products they purchase will ensure that their employees receive the right care at the right time and in the right setting. Prior authorization is an essential tool to meet those goals. Massachusetts has among the highest health care premiums in the country – we should be finding ways to control costs instead of eroding important tools that ensure evidence-based, safe care. Even if you take the lower estimates provided by Milliman, this impact would be devastating to small businesses and their employees, who are already struggling to pay health insurance premiums,” said **Jon Hurst, President of the Retailers Association of Massachusetts.**

“Health care is consistently a top priority concern for the employer community when it comes to the cost of staying and doing business in Massachusetts. Employers rely on plan carriers to identify and provide affordable, accessible health care coverage to their teams. As such, we support plans’ ability to retain tools such as prior authorization to regulate overall system utilization, which was recently highlighted as a major cost growth driver in the Health Policy Commission’s 2023 Cost Trends Report. We’re grateful to MAHP for commissioning this study by Milliman to illustrate the importance of prior authorization as a tool to manage utilization and ultimately contain health system costs,” said **Vasundhra Sangar, Vice President of Government Affairs at AIM.**

“Prior authorization is a vital tool for ensuring safe and cost-effective care. Prior authorization ensures patients are receiving care consistent with nationally and locally recognized evidence-based standards and that employer and consumer health care dollars are not spent on inappropriate, unsafe, or harmful care,” said **Dr. Jan Cook, MD, MPH, Medical Director at the Massachusetts Association of Health Plans.** “The Betsy Lehman Center reports that, in a single year, medical errors accounted for \$617 million in excess costs in Massachusetts. Restricting or eliminating the very tools used to guard against this will remove vital checks and balances in our healthcare system. Since eliminating prior authorization does not eliminate health plan requirements to manage cost and quality, it is likely that any administrative resources devoted to prior authorization would be redirected to other administrative areas like audits, fraud, waste, and abuse controls, and payment integrity efforts.”

“This is the first time the impact of prior authorization guardrails on total health care spending in Massachusetts has been quantified, and the results are staggering. Lifting prior authorization will eliminate the sentinel effect, increasing costs for employers and consumers of care that may be avoidable. This is especially troubling given the Health Policy Commission’s recent findings that Massachusetts ranks 7th worst in the nation for avoidable health care cost and use and has the third highest health care spend in the country,” said **Eric Gulko, President of the National Association of Benefits and Insurance Professionals in Massachusetts.**

“Small employers offering health insurance are already concerned that the costs of providing coverage to their employees will become unsustainable in the coming years. Projected premium increases between \$600 and \$1500 per employee will cripple small businesses’ ability to provide health insurance benefits, making Massachusetts significantly less appealing, and less competitive, for job seekers,” said **Christopher Carlozzi, NFIB State Director**.

“Massachusetts residents are already grappling with the burdens of high health care costs and a strained delivery system. These findings raise serious concerns about a health plan’s ability to meet the cost growth benchmark without the use of utilization management tools, as well as our health care system’s ability to absorb spikes in inappropriate utilization and treatment,” said **Lora Pellegrini, President & CEO of the Massachusetts Association of Health Plans**. “While prior authorization is a critical tool, MAHP and our member plans are committed to working with providers to make the process simpler. Working in conjunction with hospitals and physicians, we have successfully standardized prior authorization requirements across the fully insured market relating to behavioral health, prescription drugs, imaging and radiology. With the support of hospitals and physicians, we can move quickly away from antiquated technologies like fax machines towards automated processes that will provide physicians with approvals in seconds. Today, approximately 50% of prior authorization requests initiated by providers are not required. Automation will address these mistakes immediately. Automation efforts will also complement work being done at the federal level to support prior authorization automation and support recently endorsed policy recommendations by the Health Policy Commission.”

About MAHP

The Massachusetts Association of Health Plans represents 15 health plans and 2 behavioral health organizations covering more than 3 million Massachusetts residents. It is dedicated to improving health for all in Massachusetts by promoting high-quality, affordable, and equitable health care.

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