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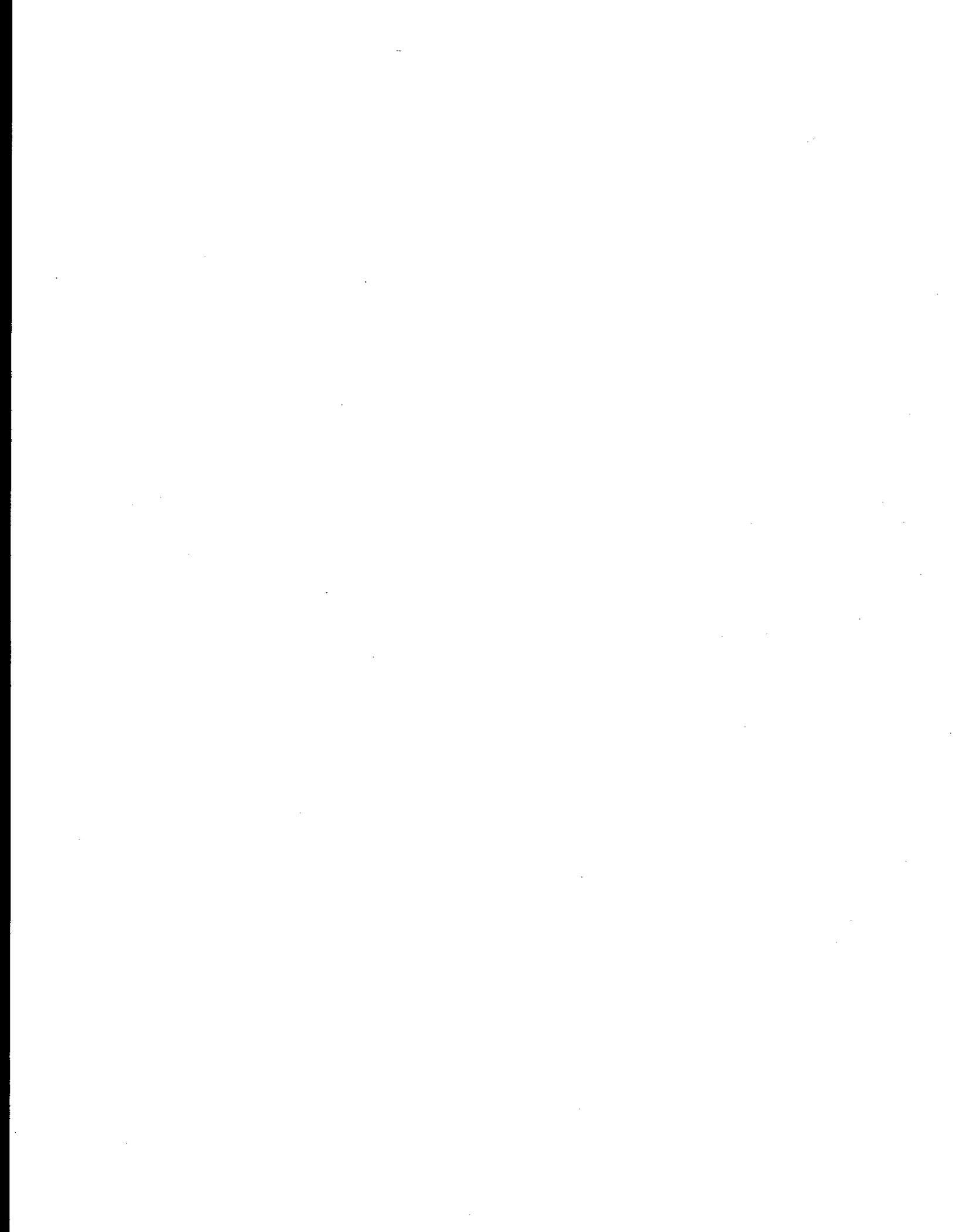


EXHIBIT 1
DATE 4-6-05
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Maine's Dirigo Health Reform Act



***A First-Year Progress Report
September 13, 2003 to September 13,
2004***

Presented by
Governor's Office of Health Policy and Finance

Executive Summary

On June 13, 2003, the Maine legislature overwhelmingly enacted the Dirigo Health Reform Act with 2/3 bipartisan majorities in each chamber. Originally proposed by Governor Baldacci on May 5th, the Legislature worked the bill for several weeks making significant improvements and achieving broad consensus among key stakeholders. Governor Baldacci signed the landmark legislation on June 18th. Dirigo Health became law 90 days later on September 13, 2003. Key accomplishments to date include:

The successful completion of negotiations with Anthem Blue Cross and Blue Shield of Maine as the partner in Dirigo Choice. In keeping with the goal of attracting small business enrollment, the plan is built on the prevailing market PPO offerings but includes three unique innovations: (1) Wellness and prevention coverage at 100%; (2) the Healthy ME Program to provide incentives to enrollees to take individual responsibility for their health and to enhance wellness; (3) Financial Discount Program to offer reduced payments and reduced deductible levels depending on income.

In October of this year, small businesses and the self-employed will be able to enroll. Coverage of benefits will begin on January 1, 2005. Individuals will be able to enroll in March 2005. The Dirigo Health Agency expects to enroll 31,000 people in the first year.

The Issuance of the Interim State Health Plan. The Dirigo Health Reform Act requires a biennial State Health Plan to set forth a comprehensive, coordinated approach to the development of health care facilities and health resources in the State based on statewide cost, quality and access goals and strategies to ensure access to affordable health care.

Following extensive input from the Advisory Council on Health System Development, a public hearing, and incorporation of written public comment, GOHPF issued a one-year, interim Plan in July 2004. The State Health Plan's goal is to strategically improve the allocation and coordination of Maine's health care resources to help Mainers become the healthiest people in the United States. The first biennial State Health Plan will be issued on July 1, 2005.

Issuance of the Capital Investment Fund Rule and Strengthening of Certificate of Need (CON) Program. To ensure wise and coordinated health care investments, the Dirigo Health Reform Act requires the Governor's Office to establish an annual limit, called the Capital Investment Fund, on the dollar amount of third year costs of capital expenditures and new technology investments approved under the CON program. Following input from the Advisory Council on Health System Development, two public hearings, and incorporation of written public comment, GOHPF issued an Emergency Rule on July 26, 2004 to establish the CIF, as a stop gap measure until the Legislature can act on the proposal next session.

Further, the Act requires the State Health Plan to establish criteria to be used in evaluating Certificate of Need applications within the context of the Capital

Investment Fund. Those criteria are included in the interim State Health Plan. In addition,

Rate Regulation in the Small Group Market. As authorized by the Act, the Bureau of Insurance has implemented regulations limiting how premium increases can be imposed in Maine's small group market. At least 78 cents of every premium dollar must be spent on medical claims.

Posting of Average Prices. Providers are required to make available upon request their charges for their most common in-patient and out-patient procedures. This enables consumers, businesses and other payers to compare provider costs.

Maine Quality Forum. One of the first of its kind among the states, the Maine Quality Forum is established and working to improve the quality of care statewide. It will pursue many initiatives to improve quality, such as promoting evidence based medicine and best practices, assistance to payers on choosing a quality provider and offering tools for healthier living. The Forum is nearing completion of a consumer friendly website, which will be a primary portal for providing quality of care information to the people of Maine. The Forum is advised by a 17 member advisory council consisting of providers, insurers, consumers and business representatives.

A Collaborative Process. As with its enactment, successful implementation of the Dirigo Health Reform Act requires a collaborative approach. That is why 6 boards and commissions, consisting of diverse stakeholders from across the state, were created to either direct or advise certain initiatives. These are: the Dirigo Health Board of Directors, the Maine Quality Forum Advisory Council, the Commission to Study Maine's Hospitals, the Advisory Council on Health Systems Development, the Public Purchasers' Steering Group, and the Task Force on Veterans Health Services.

Dirigo Health Reform Website. The Dirigo Health Reform Act and all its initiatives can be found at www.dirigohealth.maine.gov. This new website includes details on all of the *cost*, *quality* and *access* provisions of the Act. The website will be continually updated to provide the latest news and information.

Introduction

On June 13, 2003, the Maine legislature overwhelmingly enacted the Dirigo Health Reform Act with 2/3 bipartisan majorities. Originally proposed by Governor Baldacci on May 5th, the Legislature worked the bill for several weeks making significant improvements and achieving broad consensus among key stakeholders. Governor Baldacci signed the landmark legislation on June 18th. Dirigo Health became law 90 days later on September 13, 2003.

Dirigo Health once again garnered Maine *first in the nation* status as the first state to pursue comprehensive reform: *cost, quality and access* for every Mainer is the Dirigo Health's mission. The law includes measures to contain health care costs, ensure the best possible *quality* of care, and increase *access* to coverage.

Goals and Priorities. Dirigo Health seeks to create a sustainable health care system; a system where all Maine people have access to quality and affordable health care.

Underlying Premise. Dirigo Health was built on the premise that real reform could not be done piecemeal; increased access relies on cost containment, successful cost containment is contingent upon increasing access, and quality improvement must be pursued as costs are reigned in.

Need for Reform. The ability of Maine people to afford coverage and access required care is being jeopardized. In fact, over 130,000 Maine people go without health insurance, and most of them work in small businesses or are self-employed.

- Between 1996 and 2002, the cost of a family health care policy increased 77% while median household income rose only 6%.
- In the past 10 years, Maine's health care costs have more than doubled, from \$3.7 billion in 1994 to an estimated \$7.7 billion in 2004.
- We now pay a higher percentage of our income for health care than 45 other states.

Despite our high spending, we have high rates of chronic illness, suggesting we need to focus more on prevention and ensure access to quality services statewide.

Implementing Reform. The Dirigo Health Reform Act relies on existing state agencies and creates several new entities to implement, oversee, and advise certain reform initiatives. Importantly, it engages all stakeholders through several boards and commissions to ensure a collaborative and inclusive implementation of the Reform Act.

The Governor's Office of Health Policy and Finance (GOHPF) is responsible for overseeing the entire Reform Act and implementing certain cost containment provisions and broad health initiatives, notably the State Health Plan and the Capital Investment Fund. The Reform Act also created the Dirigo Health Agency to implement DirigoChoice, the new name for the Dirigo Health Plan, and the Maine Quality Forum (MQF). The Department of Health and Human Services (DHHS) and the Bureau of Insurance (BoI) are partners in implementation, sharing responsibilities for certain provisions as well.

The boards and commissions, consisting of stakeholders across the state, consist of: the Dirigo Health Board of Directors, the Maine Quality Forum Advisory Council, the

Commission to Study Maine's Hospitals, the Advisory Council on Health Systems Development, the Public Purchasers' Steering Group, and the Task Force on Veterans Health Services.

First-Year Progress Report. This report will provide details concerning the *cost, quality and access* issues we are facing as a state and summarize and provide a progress report on the reform initiatives authorized to address these conditions by the Dirigo Health Reform Act. The Dirigo Health Agency issued its annual report to the legislature earlier this month.

The progress we report today could not have been made without both:

- those individuals who have been appointed to the Dirigo boards and commissions and who have so generously devoted their time, hard work, and commitment; and
- the financial support of a number of organizations whose grants have supported research, analysis, and implementation for Dirigo Reform.

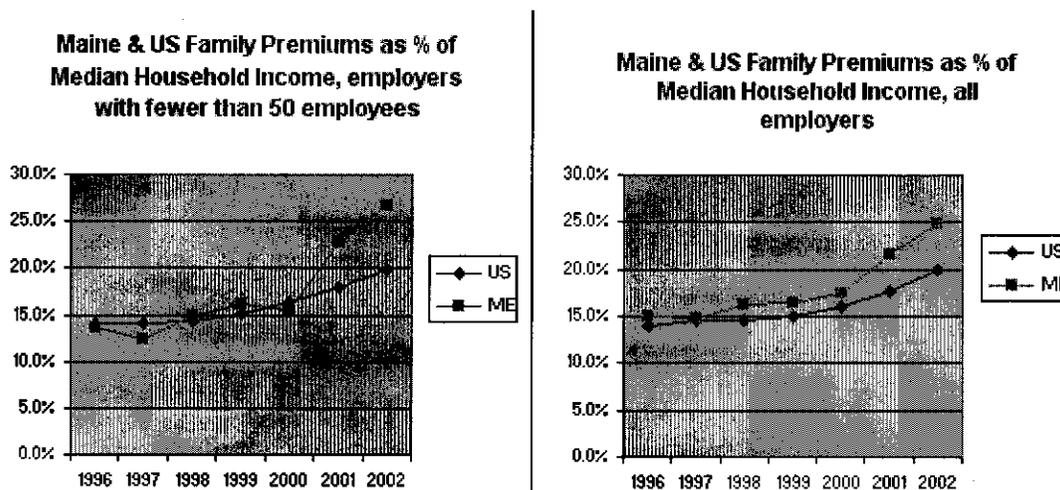
I. Containing Health Care Costs

A. The Situation

Health Care and the Economy. Total health care spending in Maine is estimated to increase from \$5 billion, 15.5% of the gross state product (GSP), in 1998 to over \$7 billion, nearly 18% of GSP, in 2004.

Health Care and Income. Health care spending – and therefore premiums – has increased faster than income, which results in health care becoming increasingly unaffordable. Between 1996 and 2002, the cost of a family policy for Maine businesses and employees increased by 77%, while median household income increased by only 6%; increases for small businesses have been even steeper (Figure 1).

Figure 1. Maine & US Premiums as % of Median Household Income



Cost Drivers

Inappropriate Utilization and High Costs of Services

- **Hospitals** are the single largest area of healthcare spending, accounting for over 1/3 of all spending. Our inpatient and outpatient costs are higher than our neighbors.
 - **Inpatient Costs.** Maine had the 6th highest cost per adjusted discharge in the US in 2002, at \$6,917 per discharge. This is 19% higher than the national average and 45% higher than the Northeast region average.
 - **Outpatient Costs.** Maine hospitals' median cost of providing outpatient services to Medicare patients in 2001 was on par with the national median, higher than our New England neighbors, and lower than a peer group of states with similar income and demographic profiles. In 2002, however, Maine hospitals exceeded all of these benchmarks (figure 2).
 - **Utilization.** Maine's inpatient utilization patterns are substantial drivers of our health care costs. Our hospital utilization rates are higher than the rest of New England, and only Massachusetts exceeds our rate of admissions.