Agency of Human Services Office of Health Care Reform

Health Care Spending Reduction Report

REPORT DATE:	SENT TO:	SENT FROM:	STAFF HOURS SPENT PREPARING THIS REPORT:
7/1/2025	Health Reform Oversight Committee, Joint Fiscal Committee	Brendan Krause, Director of Health Care Reform	45

KEY TAKEAWAYS

- **Act 68 of 2025** directs the Agency of Human Services (AHS) to reduce statewide hospital spending by at least 2.5% (approximately $106 million) for hospital fiscal year 2026.
- **Short-term (implementation within one year or less) cost-reduction strategies** include:
  - Workgroups tasked with identifying $200+ million in potential short-term, system-wide health care savings, targeting areas such as:
    - Payer-provider contracting
    - Use of hospital reserve
    - Shifting care to non-hospital providers
    - Shared services and consolidation of hospital administration
    - Reduction of discretionary hospital spending
  - A $135 million savings estimate from a new cap on provider-administered drug prices (Act 55 of 2025).
- **Medium- (implementation within one-to-three years) and long-term (implementation in three or more years) transformation efforts** focus on:
  - Hospital-specific transformation planning and technical assistance
  - Strengthening primary care financial sustainability and access
  - Developing regional service delivery models to reduce duplication and preserve access
- **Statewide coordination** is supported through collaboration with the Rural Health Redesign Center (RHRC), the Blueprint for Health, and regional stakeholder meetings focused on designing tiered systems of care.
- **Near-term next steps:**
  - State assessment and prioritization of short-term cost reduction strategies that will be submitted on June 30th, 2025.
  - Establishing five regional taskforces in summer 2025 to lead system redesign and planning efforts.
  - Development of hospital transformation plans in summer and finalization by late fall 2025.

- AHS remains committed to building a sustainable, affordable, and coordinated health care system that meets the needs of Vermonters now and in the future.

HEALTH CARE SPENDING REDUCTION CURRENT STATUS

Current Health Care Spending Reduction Efforts				
Context	**Specific Intervention**	**Estimated Associated Impact on Health Care Spending**	**Estimated Implementation Timing**	**Status**
Short-term Transformation Focus Groups	*Focus groups are presenting ideas for specific interventions back to the State on June 30th. For more information on the interventions under consideration, please see the "Short-term Focus Groups" subsection below.*	Target: $200M	July-December 2025	Focus groups are identifying specific strategies and cost savings opportunities and reporting back to the State on 6/30/25
Act 55 of 2025	Caps on provider-administered drug prices	$135M	April 1, 2025	In progress, implemented retroactively to April 1, 2025

BACKGROUND

Act 68 of 2025, an act relating to health care payment and delivery system reform, charged the Agency of Human Services (AHS) with identifying "opportunities to increase efficiency, improve the quality of health care services, reduce spending on prescription drugs, and increase access to essential services, including primary care, emergency departments, mental health and substance use disorder treatment services, prenatal care, and emergency medical services and transportation, while reducing hospital spending for hospital fiscal year 2026 by not less than 2.5 percent..." The Act requires AHS to report on "the proposed reductions that it has approved pursuant to" the reductions in spending and on the "progress in implementing and achieving the hospital spending reductions identified…".

The Green Mountain Care Board's (GMCB) fiscal year (FY) 2026 hospital budget guidance indicates that FY26 (October 2025 – September 2026) operating expenses across Vermont's 14 hospitals total $4,234,700,000. Two-and-a-half percent of these total operating expenses equals approximately $105.87 million.

UPDATES ON HEALTH CARE SPENDING REDUCTION EFFORTS

Short-term Transformation Activities (Implementation within one year or less)

In March of 2025, AHS, GMCB, DFR and the Office of the Health Care Advocate convened a workgroup to identify short-term solutions to address affordability and access challenges in Vermont. The group meets weekly to share information across the organizations and identify opportunities to align and collaborate.

Provider Actions to Identify Short-term Savings

In anticipation of another year of double-digit commercial premium rate increases and reductions in federal financial support for health care, the workgroup convened two meetings in May 2025 with representatives from hospitals, payers, an FQHC, a home health agency, a Designated Agency and other stakeholders to discuss the acute financial crisis in our health care system. The goal of these meetings was to identify strategies to 1) optimize essential services in our communities, and 2) protect Vermonters from another unaffordable increase in health insurance premiums by reducing health care expenditures by ~$200-300 million. This amount reflects the estimated reduction in commercial spending required to limit premium rate increases to 5%.

Representatives were asked to prepare to discuss implementable and scalable strategies to address system-wide affordability by July 1, 2025. The group identified five topics with the potential for short-term impact: 1) payer/provider contracting opportunities, 2) use of hospital reserves, 3) shifting care to non-hospital providers, 4) shared services and consolidation of hospital administration, and 5) minimization of discretionary spending.

Short-term Workgroups

Attendees of the provider convenings were then assigned to workgroups, each dedicated to one of the five topics outlined above. These groups were tasked with identifying specific changes, cost-saving opportunities, timelines, and actionable steps needed to reduce health care costs without compromising essential services. In advance of the workgroup meetings, attendees were encouraged to brainstorm with each other and with other stakeholders and community partners. The workgroups convened the week of June 16th.

Workgroup	Key Questions Being Explored
Payer/provider contracting opportunities	• How can risk be effectively shared between payers and providers for the 15% of the population that accounts for 50% of healthcare spending? • What would be the potential structure and impact of implementing a commercial hospital cap? • How might a reinsurance model work where the state, payers, and providers jointly share healthcare risk? How would this be financed?
Use of hospital reserves	• What do we mean by hospital reserves? What is our working definition? • Why do hospitals need reserves? Is there such a thing as “too much” reserves? • Is there a hospital-specific metric that serves a similar purpose to risk-based capital for insurers in assessing financial risk and stability?

Workgroup	Key Questions Being Explored
Shifting care to non-hospital providers	• What are the receptor sites for patients who could be served outside the hospital? • What are the interventions for rerouting patients from the hospital to other more appropriate/lower cost sites of care? • What are the savings associated with such interventions? What are the non-financial risks/benefits of such interventions?
Shared services and consolidation of hospital administration	• What are the opportunities and challenges of implementing shared staffing arrangements and shared leadership models across organizations? • How can a shared IT or EMR system improve care coordination and reduce administrative costs? • What benefits could group purchasing offer in terms of cost savings and supply chain efficiency? • Which administrative services could be centralized to reduce duplication and improve operational efficiency?
Minimization of discretionary spending	• How do we define discretionary spending or non-essential spending? • What are examples of ways that hospitals are currently minimizing discretionary spending? How could these be scaled? • Could there be tiers of how to manage non-essential spending in a crisis?

Next Steps for Short-term Transformation Activities

Each focus group will submit a proposal to the State outlining the specific strategies and associated estimated cost savings. The larger group reconvened on June 30th to share key ideas, identify savings (or what information is needed to quantify savings), and discuss how to implement and scale priority approaches. Initial findings from the group report-outs can be found here.

We anticipate that some focus groups may identify more immediate opportunities for savings, particularly related to payer/provider contracting opportunities, use of hospital reserves, and minimization of discretionary spending. The other groups, shifting care to non-hospital providers and shared services and consolidation of hospital administration, may identify a combination of short and medium or long-term solutions. AHS will connect the work of these short-term focus groups to the medium and long-term transformation efforts outlined below.

Medium- and Long-term Transformation Activities (Implementation within one-to-three years and three or more years, respectively)

Building on Act 167 and the Community Engagement Report issued by the GMCB, AHS, as directed by Act 51 of 2022, commissioned the Rural Health Redesign Center (RHRC) to support hospital and primary care transformation with the goal to ensure Vermonters receive timely, accessible, and affordable care. Achieving this goal depends on coordinated efforts to transform the delivery system at the local, regional, and statewide levels—aligning organization-specific improvements within a broader, system-wide strategy. Success will also require a combination of short-, medium-, and long-term strategies. The short-term savings opportunities identified by focus groups and hospitals and other providers are critical for addressing the acute affordability and insolvency crises we face today. At the

same time, we must also build on these efforts and plan for the medium- and long-term changes necessary to meet the evolving needs of Vermonters.

Hospital Transformation Planning and Implementation

Health Care Reform staff, in collaboration with RHRC, launched a comprehensive technical assistance program for Vermont hospitals with a focus on reducing costs while improving affordability, access, and quality. In May and June of 2025, RHRC met with the 14 Vermont hospitals to review hospital-specific data and identify priority areas for transformation at each site. AHS and RHRC will support each hospital in developing a transformation plan that identifies specific action steps, associated costs, and timelines. The plans will address hospital sustainability and cost through analysis of service lines, staffing models, and opportunities for shared services, including administrative operations. Draft transformation plans will be developed this summer, with final plans anticipated in late fall 2025. The plans will align with regional and statewide planning, while addressing the specific needs of each organization and community.

Primary Care Strategic Planning and Implementation

Primary care plays an essential role in improving the health of Vermonters through care in lower cost settings. In collaboration with the Blueprint for Health, RHRC will provide technical support to up to 20 primary care sites. Technical assistance will focus on improving financial health, population health and access models, team-based care staffing plans, and digital transformation strategy. To date, more than 20 applications for Primary Care technical assistance have been received and RHRC has conducted introductory calls to assess opportunities and alignment with transformation goals. The technical assistance provided through this effort is intended to ensure greater financial sustainability for primary care providers, supporting access to a critical foundation of Vermont's health care system.

Regional and Statewide Planning

While efforts to improve financial solvency at individual hospitals and primary care clinics are critical, ensuring long-term affordability and access will also require a broader, system-level perspective. We must consider the needs of regions and the state as a whole, recognizing that it may not be financially feasible nor clinically necessary to offer every health care service at every hospital. Regionalizing certain services can help preserve access while avoiding costly duplication, allowing limited resources to be used more effectively.

AHS and RHRC held two regional meetings on June 9th and 10th to achieve alignment on the necessity for system-wide change, develop a shared vision, and generate consensus on the essential health care services that Vermonters need at local, regional, and statewide levels. These meetings gathered 165 stakeholders, including representatives from hospitals, primary care, mental health, home health agencies, aging agencies, payers, and State officials, to discuss the future of Vermont's health care system. Based on the robust dialogue and feedback shared at these meetings, RHRC is working to develop regional models by service line. Findings from the June 9th and 10th meetings and the regional modeling will inform the work of five regional taskforce groups intended to carry forward the planning and implementation of regional health care strategies.

For more information on the meetings, their outcomes, and next steps, please see the "Update on Care Transformation Stakeholder Engagement Meetings" memo and the "System Transformation Updates" presentation available on AHS's website.

Next Steps for Medium- and Long-term Transformation Activities: Transformation Plans & Regionalization

Immediate actions include developing draft transformation plans this summer, with final plans anticipated in late fall 2025, and forming regional taskforces to drive collaboration and strategic planning by summer 2025. Five regional teams will be established, each led by AHS and supported by the capabilities of the Agency's Field Services and the Blueprint for Health teams. These taskforces will ensure accessible, high-quality services tailored to regional needs, supported by AHS and RHRC through facilitation and detailed analyses. For more information on regional activities, please see the "Update on Care Transformation Stakeholder Engagement Meetings" memo and the "System Transformation Updates" presentation available on AHS's website.

The Medium and Long-term Transformation activities outlined in this subsection will also inform the development of the Statewide Health Care Delivery Strategic Plan required by Act 68. Insights from the focus groups, hospital and primary care transformation planning, and regional system design efforts will shape a comprehensive, long-term vision for an accessible, affordable, and sustainable health care system across Vermont.

Act 55 of 2025

Act 55 of 2025, an act relating to the 340B prescription drug pricing program, implements a cap on hospital charges to insurers and patients for outpatient prescription drugs. All independent, non-critical access hospitals in the state, cannot charge an amount that exceeds 120 percent of the average sales price (ASP), as calculated by the Centers for Medicare and Medicaid Services, for any outpatient drug as of April 1, 2025. The Act specifically notes the purpose of this provision is to reduce health care costs. The Vermont Association of Hospitals and Health Systems (VAHHS) estimates the total year 1 savings estimate associated with this legislation to be $135 million. The Short-term Transformation Workgroup considers this $135 million to be a part of the ~$200-300 million in reduced commercial spending required to limit premium rate increases to 5%.

CHALLENGES & POTENTIAL LIMITATIONS

While AHS does not have legislative or regulatory authority to "approve" hospital budgets or spending, the Agency understands the intent of this provision in Act 68 is to transparently communicate initiatives across the health care system that will reduce spending and improve affordability for Vermonters. Given AHS's established role in health care system transformation per Act 51 of 2022, and the Agency's ongoing partnership with the Green Mountain Care Board (GMCB), the Department of Financial Regulation (DFR), the Health Care Advocate, and other stakeholders in the state in reducing health care costs, the Agency is well-positioned to provide an update on this topic.

Achieving health care savings and associated improvements in affordability are central goals of many health care reform activities across the state right now. While this Report aims to identify initiatives

likely to generate savings in the coming year, it is important to acknowledge that not all cost impacts are equally easy to capture or quantify. Some changes—such as price caps or administrative efficiencies—can be tracked more directly. Others, like shifts in care delivery models or investments in population health, may produce savings over a longer time horizon or through indirect mechanisms that are harder to isolate and require time and expertise to model.

We look forward to working with our legislative partners on the House Reform Oversight and Joint Fiscal Committees to ensure the structure and content of this Report meets the intent of Act 68 as well as input on potential strategies to better quantify spending reductions that are in progress and/or outside AHS's area of expertise. AHS is scheduling monthly check-ins with legislators to facilitate this discussion.

CLOSING

AHS remains committed to the short-, medium- and long-term strategies necessary to build a coordinated statewide care system that ensures Vermonters have access to affordable medical and health-related services at local, regional, and statewide levels, while collecting the data needed to evaluate progress and keep ahead of an evolving health care landscape. We look forward to working closely with you and other legislative partners to translate these initiatives into tangible savings and affordability improvements for Vermonters across the state.

APPENDIX: TIMELINE OF ANTICIPATED HEALTH CARE SPENDING REDUCTION EFFORTS

		2025									Hospital FY 2026			2026								
Activity		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept
Finalize contract with RHRC	●																					
Initial RHRC engagement with hospitals, including data review and on-site visits	●																					
Convene Short-term Transformation Workgroup	●																					
Retroactive implementation of caps on hospital outpatient drug charges	●																					
Convene Provider Short-term Group	●																					
Convene Short-term Workgroups	●																					
Convene 2 Health Care Regional Planning Meetings	●																					
Implement Short-term Transformation Workgroup ideas	●																					
Implement hospitals technical assistance projects	●																					
Implement primary care technical assistance projects	●																					
Draft Transformation Plans for each hospital	●																					
Convene Regional Taskforces	●																					
Finalize Transformation Plans for each hospital	●																					
Implement hospital Transformation Plans	●																					

● Medium- and Long-term Transformation Activities
● Act 55 of 2025
● Short-term Transformation Activities