Indiana Hospital Association

INDIANA COUNCIL of Community Mental Health Centers, Inc.

Healthcare Costs and the Public Policy Environment

October 10, 2019

Unprecedented State Focus on Healthcare

Indiana Hospital Association

- State legislative summer study committees beginning now
- Joint House and Senate health and insurance committee meetings is very unusual
- Focus on cost is sector-wide (pharma-PBM fight), but will definitely include hospitals
- Multiple committees studying the topic, including impacts on employers but also on Medicaid budget and state government's healthcare benefits

"I think the next session will be known as the *"health care session"* due to the intense focus a lot of health care issues will receive."

State Senator Ed Charbonneau (R-Valparaiso) – ***Senate Health and Provider Services Committee Chairman***

Federal Legislative Activity

General Republican message: *"Unless the industry brings solutions, we will get "Medicare for All" and that would be a disaster."*

Sen. Mike Braun

- Medicare for All
  - Multiple proposals but a divided Congress makes passage unlikely
  - Growing public support for the concept, but confusion about what it really means
  - Likely to be a campaign issue in the 2020 election

Comprehensive Bipartisan Senate Legislation

Indiana Hospital Association

- Sweeping: impacts hospitals, pharmaceutical companies, insurance and public health
- Intervenes in contracts including prevention of "all-or-nothing" clauses and requirement that all bills to be sent to a patient within 30 business days or the patient is not obligated to pay
- Requires providers and health plans to give patients good faith estimates of their expected out-of-expected out-of- pocket costs within 48 hours of a request
- Lays out multiple options to address surprise/balanced billing including reference pricing and arbitration
- Establishes an All-Payer Claims Database (APCD) from self-insured plans, Medicare, and participating states to help stakeholders understand the cost and quality of care, and facilitate state-led initiatives to lower the cost of care, while prohibiting the disclosure of identifying health data or proprietary financial information

"Folks should take this package seriously."

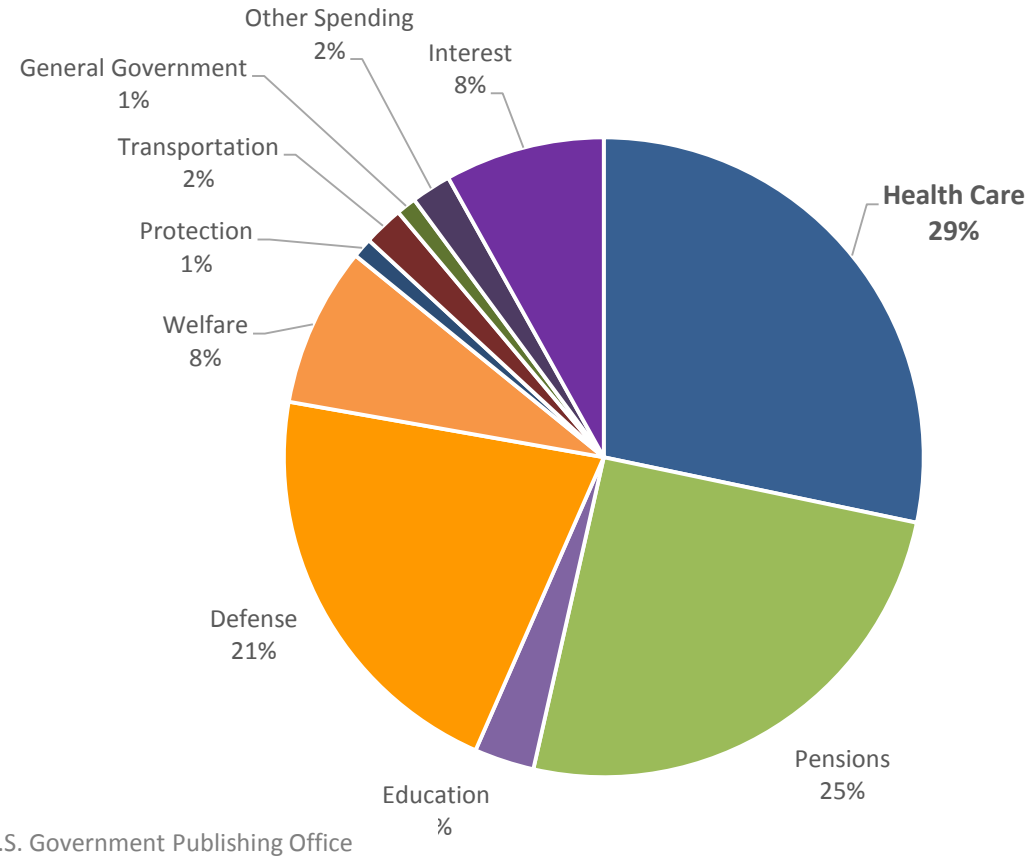
- U.S. Senator Lamar Alexander (R-TN)

A Breakdown of Health Care Costs

Health Care Spending

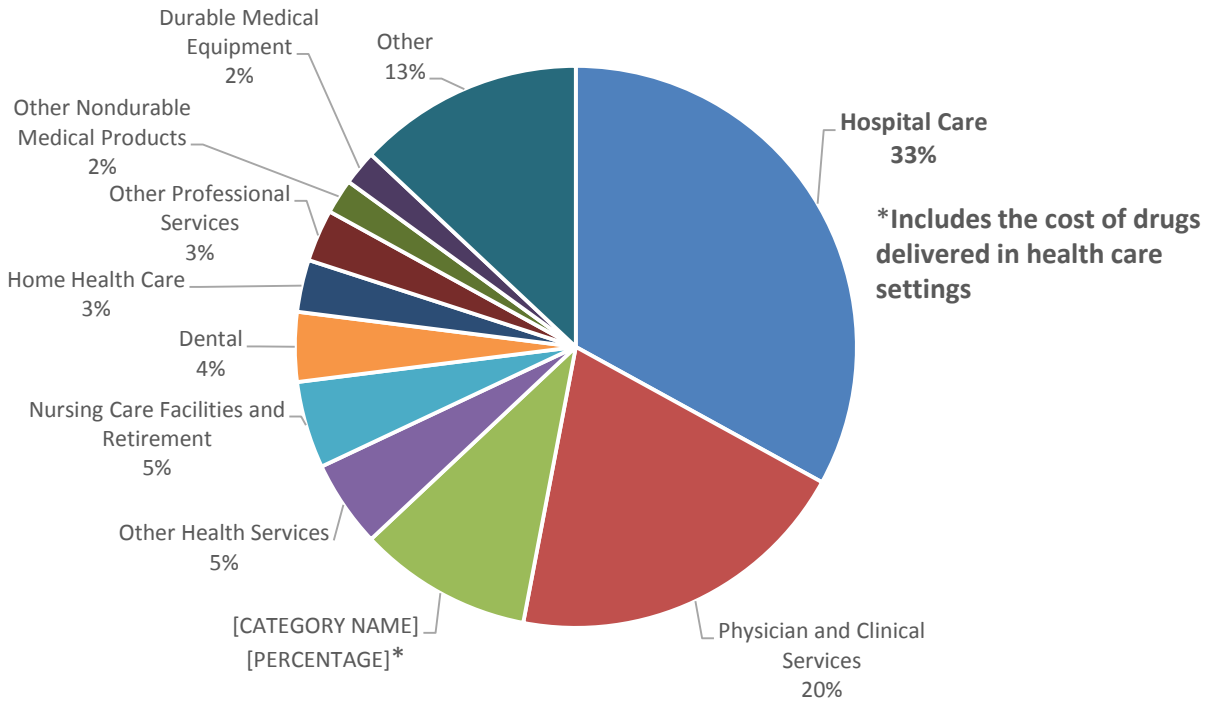
Indiana Hospital Association

Federal Spending for United States - FY 2018



U.S. Government Publishing Office

Federal Health Spending by Type of Service or Product



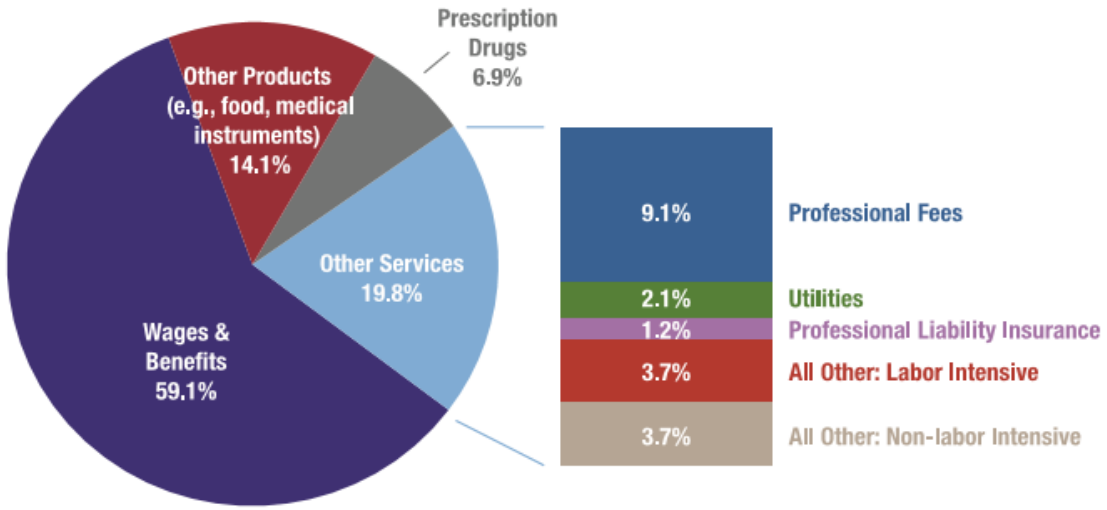
Centers for Medicare & Medicaid Services (2017)

A Breakdown of the Hospital Dollar

Indiana Hospital Association

Nearly 60% goes to wages & benefits

Employee wages and benefits constitute the largest percentage of costs for inpatient hospital services.



Source: AHA analysis of 2015 Centers for Medicare and Medicaid Services inpatient market basket update projections, using base year 2010 weights (most recent available).

Drug prices increasing faster than medical inflation

Figure 1. **Prescription Drug Spending per Adjusted Admission at U.S. Community Hospitals (FYs 2015 – 2017)**

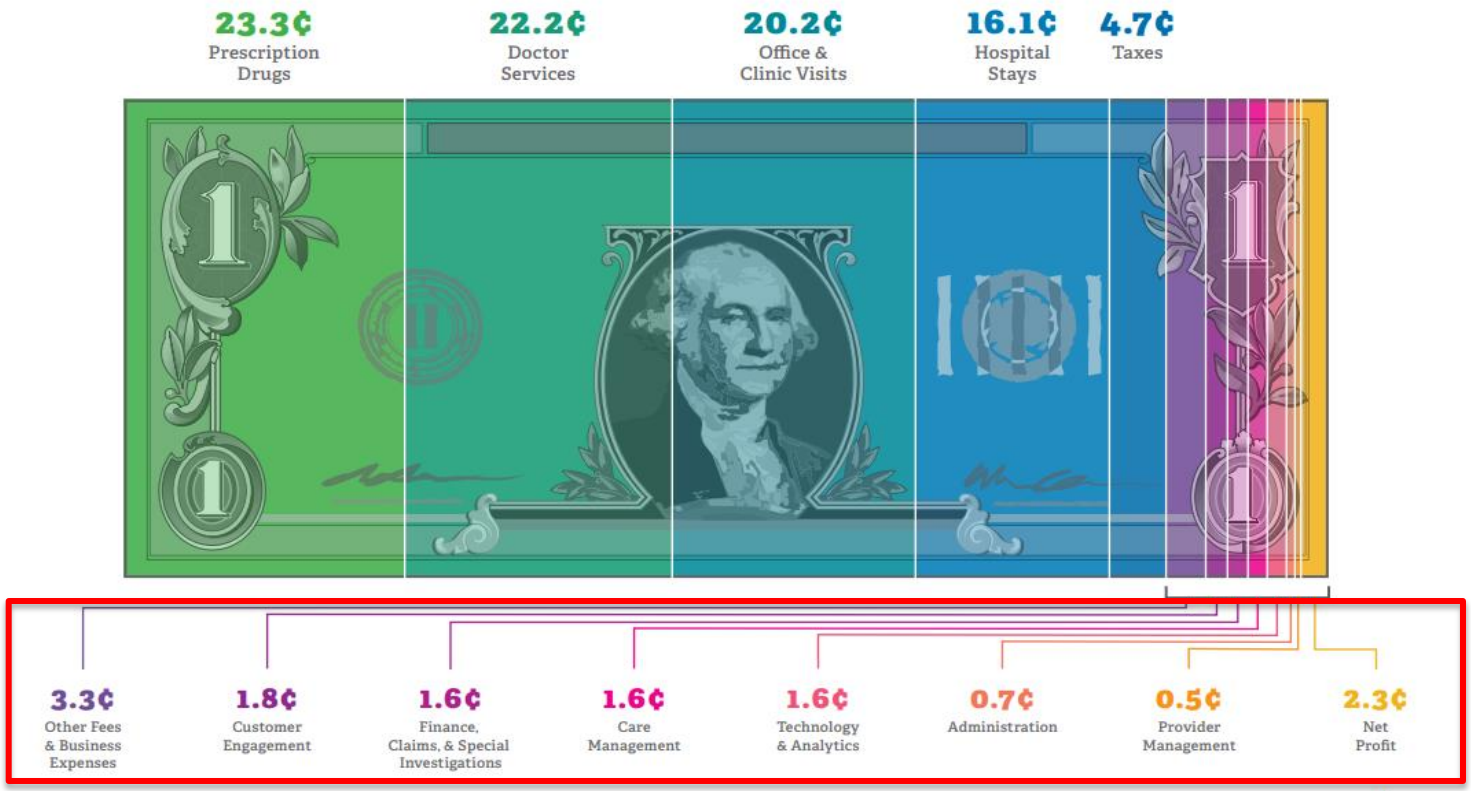
Source: 2018 AHA-FAH-ASHP Drug Survey

Where Premium Dollar Goes

Indiana Hospital Association

Where Does Your Health Care Dollar Go?

Your premium—how much you pay for your health insurance coverage each month—helps cover the costs of the medications and care you receive. It also helps to improve health care quality and affordability for all Americans. Here is where your health care dollar really goes.



Insurance = 13.4¢

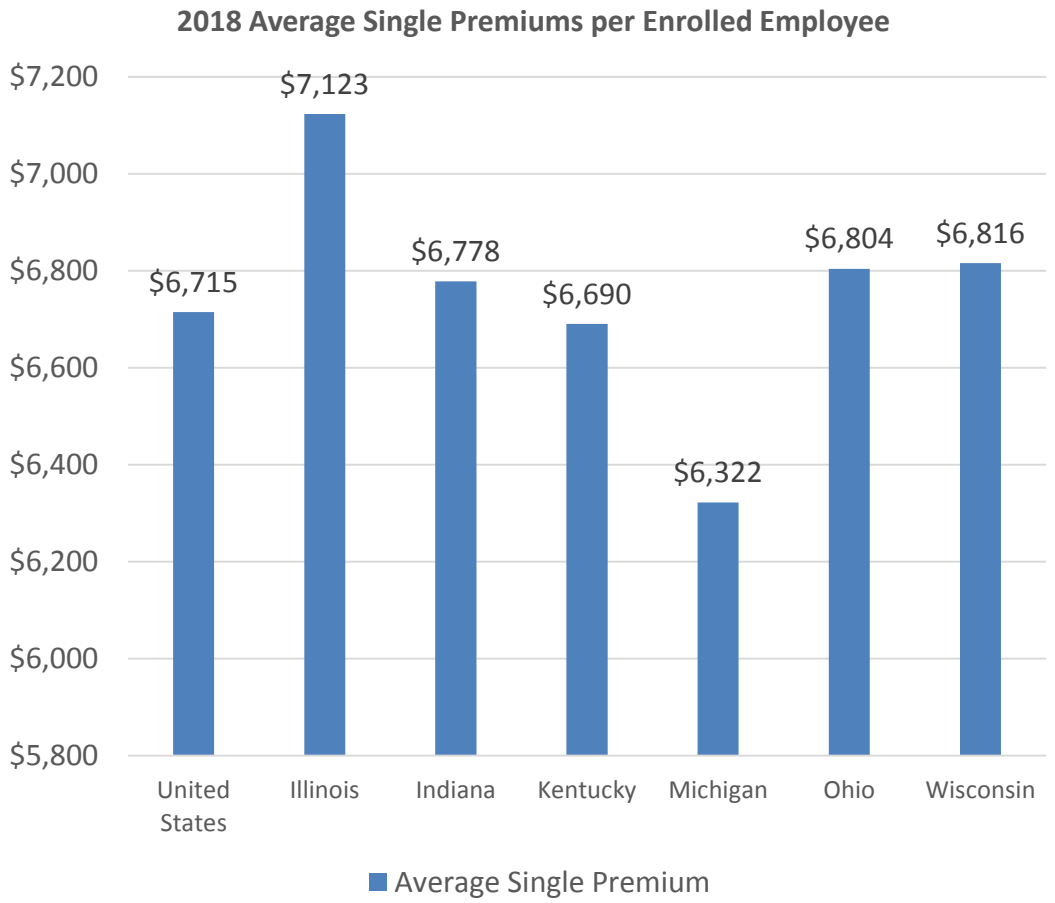
Expenditure estimates above produced by AHIP. Distribution of spending among administrative categories and taxes. based on analysis by Milliman, Inc. Milliman's analysis is available upon request.

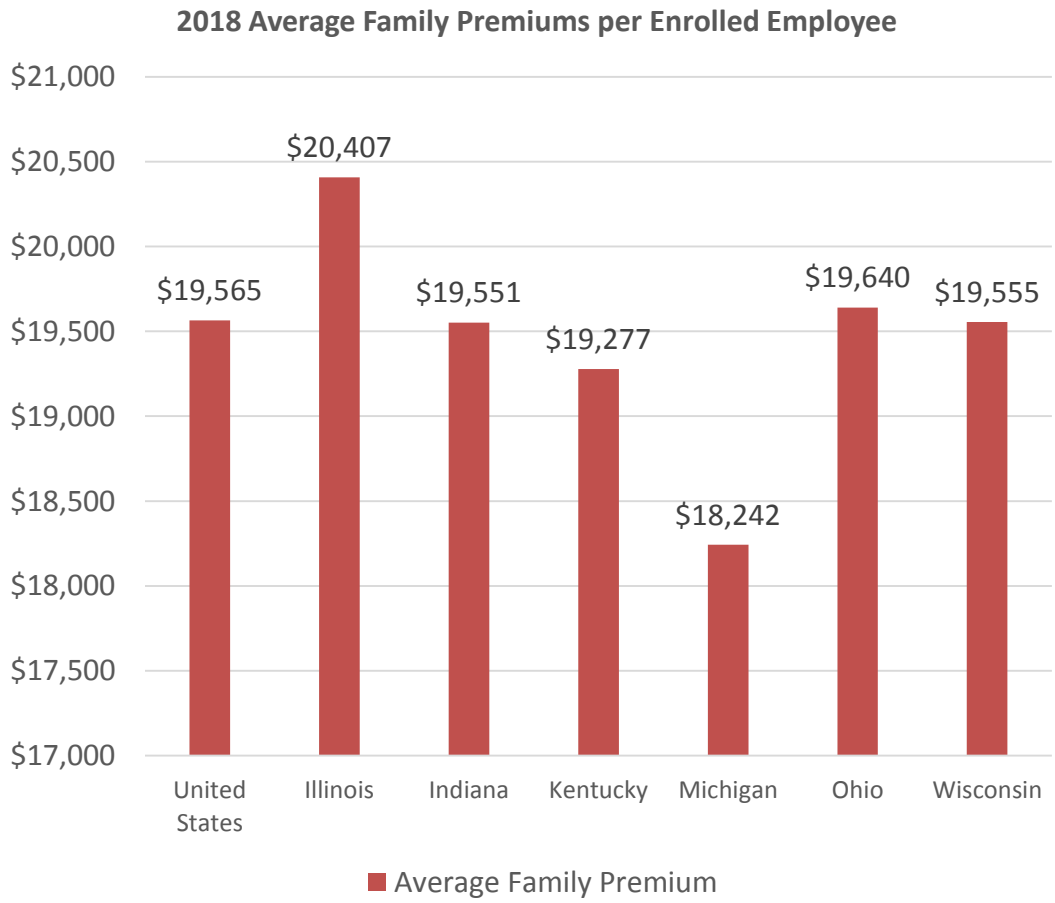
AHIP

RAND Study 2.0

- Hospitals and the Employers' Forum of Indiana agree on the need to reduce health care costs
- Hospitals are large employers and are committed to reducing the cost of health care
- Hospital prices alone don't necessarily translate into total employer spend
- RAND does not take utilization – the amount of services people are using – into account , which impacts **total cost of care**
  - Choice, quality, and convenience also are important factors

Indiana Premiums Comparable to Other Midwest States



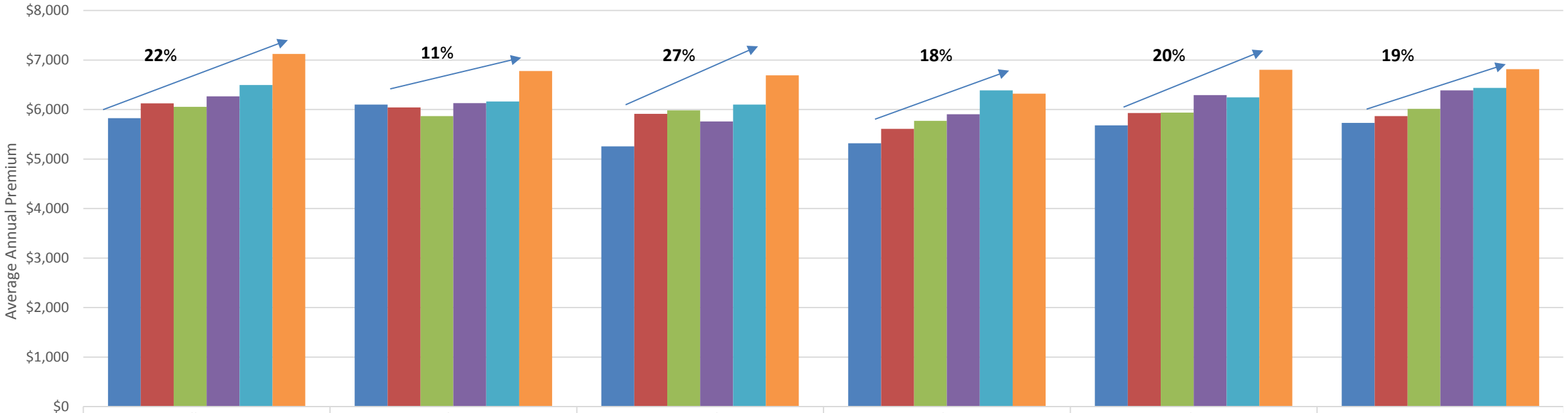


Source: Kaiser Family Foundation

Indiana's Employer Premiums - - Not an Outlier

Indiana Hospital Association

Total Average Annual Premium per Enrolled Employee for Employer-Based Health Insurance, 2013-2018 by Midwest State



	Illinois	Indiana	Kentucky	Michigan	Ohio	Wisconsin
2013	$5,824	$6,099	$5,257	$5,319	$5,679	$5,730
2014	$6,126	$6,041	$5,914	$5,610	$5,930	$5,868
2015	$6,055	$5,868	$5,984	$5,771	$5,939	$6,011
2016	$6,268	$6,130	$5,758	$5,906	$6,291	$6,386
2017	$6,493	$6,162	$6,101	$6,388	$6,247	$6,437
2018	$7,123	$6,778	$6,690	$6,322	$6,804	$6,816

Source: Kaiser Family Foundation

Focus on Total Cost of Care and Value

- As we look to reduce health care costs it's critical that we understand the total cost of care
  - Hospital prices alone do not determine the total cost of care
  - Important to understand utilization of services – how frequently people are using services
  - Quality is a key component of value
  - Hospitals are committed to working with other key stakeholders including insurers, employers and drug companies

- Hospitals support price transparency
  - IHA embraced transparency in 2015 with launch of MyCareINsight
  - Transparency requires data that is accurate, fair, and complete
  - Several states have adopted All-Payer Claims Data (APCD) bases

Economic Impact and Hospital Challenges

Economic Impact of Indiana's Hospitals

Indiana Hospital Association

- Significant contributors to Indiana's economic health
- Major employers and purchasers of goods and services

243K

Jobs

Generated by Indiana hospitals

115K

Employees

Directly employed by Indiana hospitals

Direct and Indirect Impact on Indiana	
Economic Impact	
• Payroll	$21.9B
• Supply Purchases	$14.5B
• Capital Spending	$2.7B
Total Impact	**$39.1B**

Community Benefit for Indiana's Not-for-Profit Hospitals

Indiana Hospital Association

Financial Assistance/Charity	$387,766,585
Medicaid Losses	$785,738,188
Other Means Tested	$19,148,495
Community Health Improvement	$104,873,561
Health Professions Education	$159,681,574
Subsidized Health Services	$53,197,601
Research	$35,030,821
Cash and In-Kind Contributions	$36,007,692
Community Building Activities	$11,795,222
Bad Debt Attributable to Patients Eligible for Financial Assistance	$39,188,127
Medicare Losses	$777,962,560
Total	**$2,410,391,426**

*Latest Publicly Available Data

Hospital Challenges: Government Underpayment

Indiana Hospital Association

Medicaid only pays **23¢ on the dollar** *to hospitals based on the cost of care.*

Medicare only pays **87¢ on the dollar** *to hospitals based on the cost of care.*

***Hospitals pay $800 million dollars to increase this low rate.**

***Approximately 50% of all Indiana births are to Medicaid beneficiaries.**

Heavy Reliance on Government Payors

Payment Source for Indiana Hospitals	Urban	Suburban	Rural
Government Payors including Medicare, Medicaid	86%	43%	76%
Commercial Insurance	8%	51%	19%
Self Pay/Other	6%	6%	5%

Data source: Analysis of Inpatient/Outpatient Discharge Study, 2018, Indiana Hospital Association

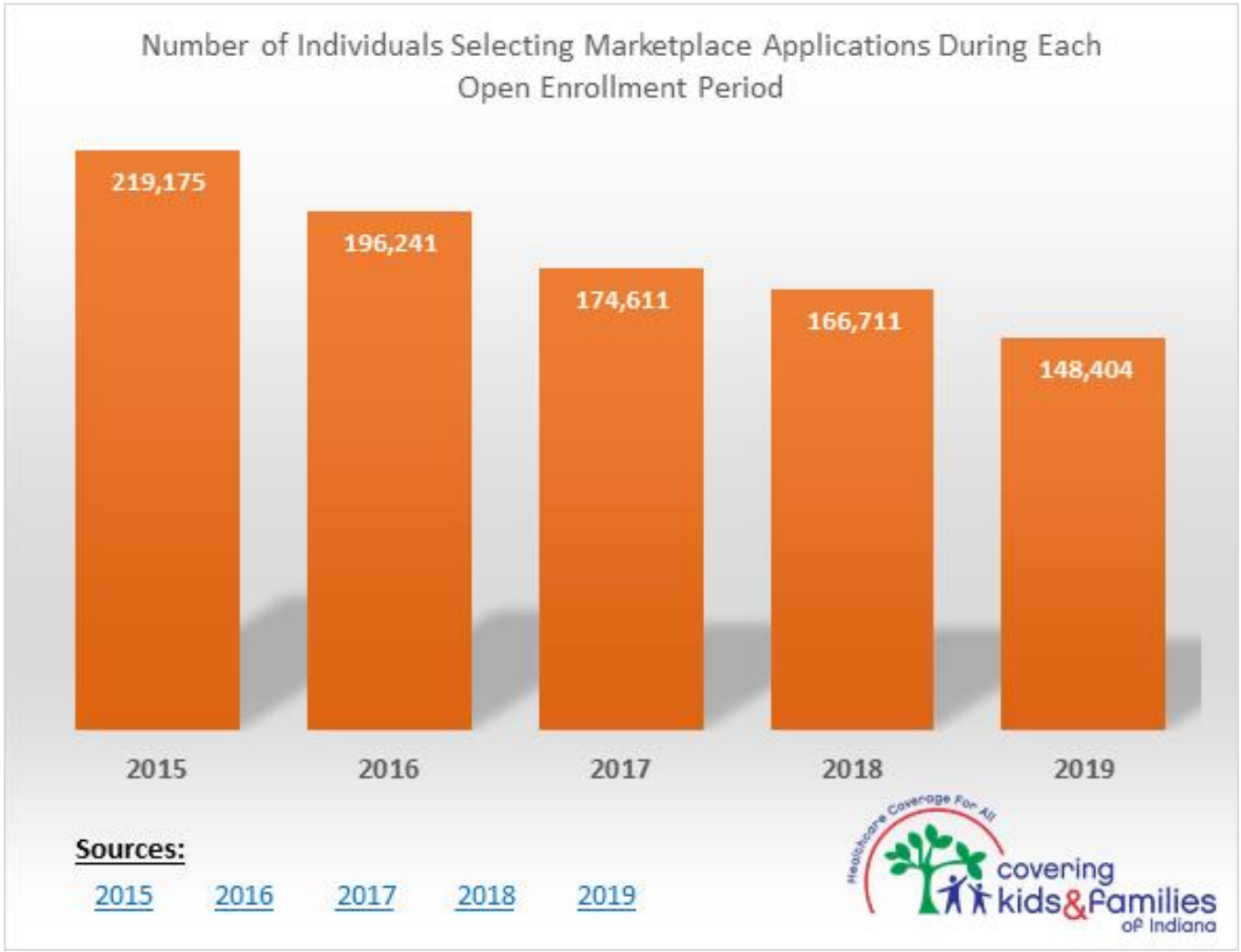
Hospitals Support the Healthy Indiana Plan (HIP)

Indiana Hospital Association

- HIP is a partnership between hospitals and the State to provide health care to 250,000 Hoosiers.
- Hospitals will pay over **$1,000,000,000** in fees in State Fiscal Year (SFY) 2020. The fastest growing portion, $271M, supports Healthy Indiana Plan HIP*
- Hospitals' share is increasing at a rapid rate - 62% in the past three years (388% increase for the HIP portion)
- Many rural hospitals saw an increase of as much as 45-55% from SFY 2018 to 2019

*$800M is used to make low hospital reimbursement rates sustainable

Lower Marketplace Enrollment



Impact of Scheduled DSH Cuts

Indiana Hospital Association

Looming cuts in Medicaid DSH will slash the amount of support to Indiana's safety net hospitals by almost half by 2021.

$4B → **$84M**

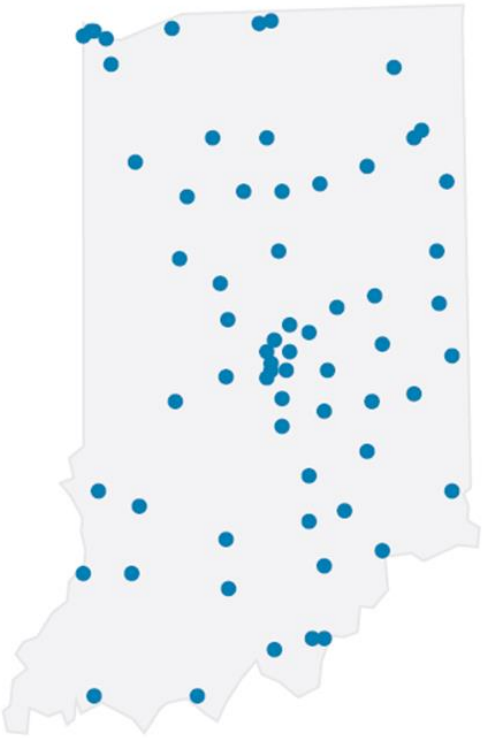
Cuts to Medicaid DSH payments on October 1, 2019

Projected loss to Indiana's safety net hospitals in State Fiscal Year 2020

$8B → **$168M**

Cuts to DSH next year for FFY 2021 and beyond

Projected loss to Indiana's safety net hospitals in State Fiscal Year 2021



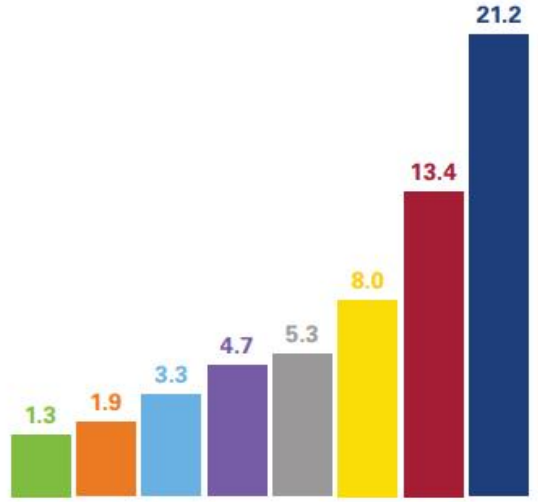
Hospital Challenges: Regulatory Burden

- Hospitals have to comply with 341 mandatory regulatory requirements.

Regulatory burden costs
$1,200
every time a patient is admitted to a hospital

15 doctors & nurses per hospital for compliance

- 59 full-time equivalent staff are required in each hospital to meet the demands of regulations.
- Over one-quarter of these FTEs are doctors and nurses, who could otherwise be caring for patients.



FTEs Dedicated to Regulatory Burden per Hospital

- Legal
- Physician (MD, DO)
- Compliance
- Other Staff
- Health IT Professional
- Management
- Nursing Allied Health
- Other Administrative

Source: Data from the American Hospital Association Report: Regulatory Overload - Accessing Regulatory Burden on Health Systems, Hospitals and Post-acute Care Providers.

Rural Health Care

Rural Healthcare Challenges

Indiana Hospital Association

- Rural hospitals are essential to the health of 60 million Americans who live in rural communities
- 113 hospitals across 30 states have closed since 2010
- In Indiana, rural hospitals are fragile
  - 23.1% of Indiana rural hospitals are at high risk of closing unless their financial situations improve.
  - Fayette Regional Health System closed in July after filing for bankruptcy in October of 2018
- Hoosiers losing Access – OB and ER are especially vulnerable

113 Rural Hospital Closures: Jan 2010 - Present

Indiana's Poor Public Health Metrics

Indiana's Poor Health Metrics

- Indiana ranks 44th among states, **down 3 places** from 41st in 2017, in the percentage of people who smoke
- In the past two years, smoking in Indiana **rose 6%** while decreasing in many other states

The Bottom 10	
41	Alabama
42	Alaska
43	Ohio
44	**Indiana**
45	Mississippi
46	Arkansas
47	Tennessee
48	Louisiana
49	Kentucky
50	West Virginia

Indiana Business vs. Health Rankings

Indiana Hospital Association

BUSINESS

- **#1 COST OF DOING BUSINESS**
  CNBC, America's Top States for Business
- **#1 STATE INFRASTRUCTURE**
  CNBC, State of State Infrastructure Ranking
- **#1 STATE REGULATORY ENVIRONMENT**
  Pacific Research Institute
- **#5 PROPERTY TAX INDEX**
  The Tax Foundation
- **#8 STATE TAX CLIMATE**
  Tax Foundation 2017 State Business Tax Climate Index

HEALTH

All ratings from America's Health Rankings 2018 Report

- **#48 PUBLIC HEALTH FUNDING**
- **#44 PERCENTAGE OF SMOKERS**
- **#43 INFANT MORTALITY**
- **#42 CANCER DEATHS**
- **#41 OVERALL HEALTH**

Smoking is a primary factor for the low ranking.

The Cost of Poor Health to Employers

- An employee who smokes costs their employer **$6,000 more per year*** than an employee who has never smoked
- Tobacco users spend **175% more per person** in inpatient, outpatient, and pharmacy costs and have 66% more medical/Rx claims
- Tobacco users spend **149% more per person** in emergency room visits and are 320% more likely to have an emergency room visit

**Analysis conducted by: Stanley Jackson, Hayden Skirvin, and Kristen Campbell of Apex Benefits*

Policy and Market Solutions

Policy and Market Solutions

Indiana Hospital Association

- Support efforts to highlight price and quality transparency
  - Many states are developing/have implemented All Payer Claims Data Bases (APCD)
  - Allows consumers to see benchmarks, by geography, for negotiated prices
- Pass consumer protection legislation to protect Hoosiers from surprise bills
- Invest in public health initiatives
  - Increasing cigarette tax by $2/pack
  - Taxing all e-cigarette products
  - Continue support for efforts to improve infant mortality
- **Change the payment model**
  - Focus on value (quality + price) not on volume of procedures
  - Engage employers to accelerate new models

New Care Models

Shift From Fee-for-Service to Value

Indiana Hospital Association

Value-Based Care

Indiana Hospital Association

A shift from volume-based care to value-based care incentivizes healthcare providers to offer the best care at the lowest cost

	VOLUME-BASED CARE	VALUE-BASED CARE
Basis for Payment	Fee for service	Value for health outcomes
Also called	Disease-based care	Population health management
Focus	Quantity of procedures	Quality, health outcomes, total cost of care
Payments	One payment for all services a patient needs, regardless of the outcome	One payment divided among providers based on achieving quality and cost metrics
Incentives	The volume and cost of care provided	Keep patients healthy, manage chronic conditions
Keys to Success	Efficiency, throughput	Interconnectivity between providers to coordinate patient care, access to patient's complete dataset, predictive analytics

POPULATION HEALTH MANAGEMENT TAKES MANY FORMS

Accountable Care Organizations (ACOs)

Groups of doctors, hospitals, and other healthcare providers, who come together and assume financial risk for managing the health of a population.

Direct-to-Employer Contracting

Companies bypass insurance companies and negotiate directly with hospitals, healthcare providers to reduce costs and improve health outcomes for employees.

Bundled Payments Models

Healthcare providers are paid a single payment for all services performed to treat a patient for a certain condition (e.g. knee replacement) or care for a period of time.

Quality measures are essential to ensure the value-based system works properly.

Significant investment by hospitals to put the systems into place to identify at-risk patients and manage care

Establishing an organizational structure in which effective processes, training and incentives are aligned

Physician adoption of best practice guidelines

Providers and payers agree to quality metrics up front

A healthier Indiana is a more competitive Indiana

Franciscan Health ACO: Challenges

Indiana Hospital Association

- Patient-Directed Care
  - ACOs are about managing chronic conditions and ensuring patients receive care in an appropriate setting
  - 20-30% of patients drive 60-80% of the cost: these are frequently people with at least one chronic condition such as diabetes, heart disease, and pulmonary conditions
  - Engaging patients to work with physicians and other clinicians to manage chronic conditions can be challenging
  - When patients can seek care wherever they want, it is difficult to manage chronic conditions, achieve quality metrics, and ensure care is being delivered in the appropriate setting
- Benefit Design
  - For the best outcomes, benefits need to be designed to align financial incentives around prevention and wellness for all parties
  - Employers need to be willing to invest in prevention/wellness, which is a longer-term goal
- Turnover rates in insurance coverage are challenging
  - ACOs are about managing a stable population and high turnover rates make this problematic

Questions?

Indiana Hospital Association

Thank you for your partnership!

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