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For Immediate Release

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## **New Hampshire Insurance Commissioner Releases Three Reports on Hospital Costs**

**CONCORD, NH – June 6, 2012** - Today New Hampshire Insurance Commissioner Roger Sevigny released three reports examining the influence of hospital costs and market dynamics on health insurance premiums in New Hampshire. The reports were funded by a grant aimed at improving the Department's health insurance premium review process. By better understanding the way health care and health insurance markets operate in New Hampshire, the Department hopes to provide the foundation for well-informed public policy solutions to the problem of rising health insurance costs.

1. The first report, authored by Susan Palmer Terry (SPT Consulting), included the following key findings:
  - Personnel costs represent the largest single category of hospital costs. At 57 percent of the total expenses, personnel-related costs are nearly ten times greater than capital costs (six percent).
  - There are few economies of scale for hospitals. Rather than going down, personnel costs increase by a percentage point or two as the size of the hospital increases.
  - Cost savings can be achieved without affecting patient care through reductions in indirect costs. For example, through sharing or consolidation of back office functions between hospitals.
  - Hospitals face increasing competition for profitable services from non-hospital (niche) providers with lower overhead costs. Ambulatory surgery, radiology and laboratory are examples of these services. As a result, hospitals are increasingly challenged to finance less profitable services that only hospitals provide and to provide services to those who have no ability to pay.
  - Overall, the market for hospital services in New Hampshire fails to meet many of the standards of a competitive market under economic theory. Few New Hampshire hospitals have direct competitors within their geographic service areas. Even where there is competition, its effect may be to increase, not lower costs, because hospitals compete not on price, but on their capacity to attract well-insured patients by improving amenities, acquiring physician practices, or acquiring the most up-to-date equipment.

2. One often articulated theory is that commercial health insurance premiums are high, in part, because of “cost shifting” from public payers such as Medicaid and Medicare (whose payment levels do not fully compensate health care providers for the cost of health care services), to the privately insured (who are charged rates higher than the services’ actual cost). To test this theory, the University of Massachusetts Medical School Center for Health Law and Economics investigated the association between the average price paid to New Hampshire hospitals by commercial carriers and a number of factors, including each hospital’s percentage of public and private payers (payer mix). This study found only a limited relationship between a hospital’s public payer mix and its level of commercial prices, which varied considerably from one hospital to another:
  - Hospitals with higher proportions of Medicare charges were more likely to have higher commercial prices for both inpatient and outpatient services.
  - Hospitals with higher proportions of Medicaid patient days and Medicaid discharges tended to receive *lower* commercial prices for outpatient services.
  - No relationship was found between Medicaid payer mix and inpatient service commercial prices.
  - No relationships were found between the proportion of uninsured charges and commercial prices for either inpatient or outpatient services.

These empirical findings were consistent with other research reviewed as part of the study and suggest a much more complex relationship between public payer mix and commercial prices than can be explained by the cost shifting theory alone. The study concludes that commercial prices are more heavily influenced by the cost of care and the relative acuity of the patients being treated than they are by public payer shortfalls, and that hospitals with a higher public payer mix likely utilize a variety of strategies to compensate for public payer shortfalls, including accepting reduced margins or reducing their costs.

3. The New Hampshire Center for Public Policy Studies also looked at the relationship between the price paid by health insurance companies to New Hampshire hospitals and a number of factors, including quality of care, the level of competition between hospitals, and the payer mix (Medicare and Medicaid’s share of the overall business). It found:
  - The prices paid by commercial insurers to hospitals have little to do with quality. If the data are grouped, there is even a slight negative correlation, suggesting that as costs rise, hospital quality declines.
  - There is a small but positive correlation between commercial price and the level of competition in hospital market areas. Less competitive areas tend to have higher prices.
  - The prices paid by insurance companies to New Hampshire hospitals are slightly correlated with the overall level of Medicare, Medicaid and uninsured payment shortfalls per private payer.

These results are consistent with the University of Massachusetts Medical School study.

“Taken together, the three reports raise as many questions as they answer,” said Commissioner Sevigny. “From an economic perspective, the health care market is extremely complex and unlike other markets. The findings do not present a complete picture of factors that affect health costs, but from the analyses so far, it appears unlikely that eliminating all public payer shortfalls to New Hampshire hospitals would, without other changes, result in substantially lower commercial payments for hospital care.” Work is now underway on further research to help understand what public policy choices could bring down health care and health insurance costs most effectively.

Copies of all three reports are available on the New Hampshire Insurance Department website at [http://www.nh.gov/insurance/lah/lah\\_reports.htm](http://www.nh.gov/insurance/lah/lah_reports.htm)