Leveraging Hospital Cost Data to Identify State Policy Options

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About NASHP

• A national, nonpartisan organization committed to developing and advancing state health policy innovations and solutions to improve the health and well-being of all people.

• NASHP provides a unique forum for the productive exchange of strategies across state government, including the executive and legislative branches.

• To accomplish our mission, we:
  • **Advance** innovation in developing new policies and programs
  • **Surface** and support implementation and spread of best practices
  • **Ensure** availability of info, data, tools
  • **Encourage** sustainable cross sector solutions by strengthening partnerships
  • **Elevate** the state perspective
The U.S. spent $4,255.1 billion on health care in 2021.

Where did it go?

- Hospital care: $1,323.9 billion (31.1%)
- Physician services: $633.4 billion (14.9%)
- Clinical services: $231.2 billion (5.4%)
- Home health care: $125.2 billion (2.9%)
- Nursing care facilities: $181.3 billion (4.3%)
- Other personal health care: $680.4 billion (16.0%)
- Net cost of health insurance: $255.7 billion (6.0%)
- Government public health activities: $187.6 billion (4.4%)
- Investment: $207.0 billion (4.9%)
- Government administration: $51.5 billion (1.2%)

Source: Trends in Health Care Spending, AMA, March 2023 from the National Health Expenditure Data
What is NASHP’s Hospital Cost Tool?

- An online tool that purchasers and regulators can use to better understand and address hospital costs
  - For example, the tool can help inform hospital rate negotiations or demonstrate hospital finances pre- and post- merger/ acquisition

- Identifies costs using data that hospitals report annually to the federal government
  - Each hospital that serves Medicare patients must annually submit, and verify the accuracy of, a Medicare Cost Report (MCR) to the Centers for Medicare & Medicaid Services (CMS)
  - MCRs provide hospital level data and are the only national, public source of hospital costs

- Developed by the NASHP, alongside Rice University and Mathematica, with support from Arnold Ventures

Key Data Metrics Include:

- Costs vs Charges (aka “sticker prices”)
- Commercial Breakeven vs Commercial Price – the reimbursement rate needed to cover expenses vs the reimbursement rate received by the hospital
- Operating Profit Margin – earnings on hospital patient services
- Net Profit Margin – earnings retained by hospital, includes non-patient related income and costs
- Charity Care and Uninsured/ Bad Debt Costs
- Payer Mix Metrics, including payer-mix adjusted profit on each payer
- Labor Costs, Patient Volume, and more
Operating Margin: New Hampshire and National

Median operating profit margin for the selected geographies over time

- National
- New Hampshire
Operating Margin by Bed Size: National and New Hampshire

Median operating profit margin for the selected geographies by bed size

- National
- New Hampshire

https://www.nashp.org/hospital-cost-tool/
Large Hospital Level View: Revenue vs Operating Costs

Mary Hitchcock Memorial Hospital

Compare net revenue and operating costs associated with patient care services over time

- Hospital Operating Costs per Adjusted Discharge
- Net Patient Revenue per Adjusted Discharge

https://www.nashp.org/hospital-cost-tool/
Medium Hospital Level View: Revenue vs Operating Costs

Concord Hospital

Compare net revenue and operating costs associated with patient care services over time

- Hospital Operating Costs per Adjusted Discharge
- Net Patient Revenue per Adjusted Discharge

https://www.nashp.org/hospital-cost-tool/
Small Hospital Level View: Revenue vs Operating Costs

Speare Memorial Hospital

Compare net revenue and operating costs associated with patient care services over time

- Hospital Operating Costs per Adjusted Discharge
- Net Patient Revenue per Adjusted Discharge

https://www.nashp.org/hospital-cost-tool/
Breakeven Analysis

- NASHP’s Hospital Cost Tool calculates a hospital’s breakeven point: Revenue = Expenses
  - Revenue includes payments from all sources. Expenses include hospital operations, administration, ancillary services, & non-operating expenses.

- NASHP Commercial Breakeven – how much a hospital needs to be reimbursed by commercial payers in order to cover its expenses
  - Factors that impact breakeven: Medicare payment rate, hospital other income, reimbursement from other payers, reporting error

- RAND 4.0 Commercial Price – how much a hospital was reimbursed by commercial payers in aggregate from 2018 to 2020
  - Includes claims from participating self-insured employers, health plans, and APCDs (AR, CO, CT, DE, ME, NH, OR, RI, UT, WA) at over 4,000 hospitals

- Breakeven and Price expressed as multiples of the individual hospital’s Medicare rates for comparability purchases

Example: Hospital A could cover its expenses if reimbursed by commercial payers at 155 percent of Medicare rates. However, it was paid 334 percent of Medicare (in aggregate from 2018 to 2020).
Breakeven: New Hampshire Median compared to National Median

Median commercial breakeven for the selected geographies over time

National  New Hampshire

% of Medicare Rates

0%  20%  40%  60%  80%  100%  120%  140%  160%  180%

https://www.nashp.org/hospital-cost-tool/
# A Large Hospital View: Breakeven

Mary Hitchcock Memorial Hospital

## Quick Stats

Breakeven
- 2018: 156% of Medicare
- 2019: 161% of Medicare
- 2020: 185% of Medicare
- 2021: 118% of Medicare

*Compared to*

RAND Analysis = What Commercial Payers Paid
- 2018-2020: 177% of Medicare

[https://www.nashp.org/hospital-cost-tool/](https://www.nashp.org/hospital-cost-tool/)
A Medium Hospital View: Breakeven

Concord Hospital

Quick Stats

Breakeven
2018: 188% of Medicare
2019: 210% of Medicare
2020: 186% of Medicare
2021: 153% of Medicare

Compared to

RAND Analysis = What Commercial Payers Paid
2018-2020: 275% of Medicare

https://www.nashp.org/hospital-cost-tool/
A Small Hospital View: Breakeven

Speare Memorial Hospital

Quick Stats

Breakeven
2018: 102% of Medicare
2019: 117% of Medicare
2020: 92% of Medicare
2021: 55% of Medicare

Compared to

RAND Analysis = What Commercial Payers Paid
2018-2020: 184% of Medicare

https://www.nashp.org/hospital-cost-tool/
No correlation nationally between a hospital’s public insurance reliance and its private insurance prices

- If the cost-shifting argument were true, one would expect a positive correlation between these two variables.

- “The share of providers’ patients who are covered by Medicare and Medicaid is not related to higher prices paid by commercial insurers. That finding suggests that providers do not raise the prices they negotiate with commercial insurers to offset lower prices paid by government programs (a concept known as cost shifting).” – Congressional Budget Office, 2022

- Additionally, The National Bureau of Economic Research found that when hospitals received an unexpected 10 percent increase in Medicare payment rates, they did not reduce their private prices.

- Instead, they:
  - Added new technology;
  - Increased nursing staff;
  - Increased payroll by one-third

2. Skinner et al., National Bureau of Economic Research, JAMA, 2018
Policy Options to Address High and Rising Health Care Costs
Policy Tools

Lack of Transparency
- All payer claims databases
- Enhanced hospital financial reporting
- NASHP’s Hospital Cost Tool

Consolidation
- Pre-transaction review and approval of proposed transactions
- Banning anticompetitive contract terms between providers and physicians

Rising Spending
- Health care cost growth benchmarks
- Health insurance rate review – affordability standards

High Prices
- Reference-based pricing state employee health plans
- Limit outpatient facility fees
- Public option
- Establish maximum payment limits for out-of-network services
- All-payer model, global budgets

https://www.nashp.org/policy/health-system-costs/model-legislation-and-resources/
Role of consolidation

The drivers of high and variable prices:

It all comes down to market power

Market power is amassed through consolidation (mergers, vertical consolidation, joint ventures)

The vast majority of hospital markets and specialty physician markets are highly concentrated
What State Can Do To Address High Provider Costs
Prohibiting anti-competitive contracting terms

NASHP’s model act is designed to help address high-cost drivers within a consolidated health market by prohibiting common anti-competitive contracting practices.

<table>
<thead>
<tr>
<th>Resources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model Act to Address Anticompetitive Terms in Health Insurance Contracts</td>
</tr>
<tr>
<td>Policy Brief: A Tool for States to Address Health Care Consolidation</td>
</tr>
<tr>
<td>Policy Brief: Weighing Policy Trade-offs: Overview of NASHP’s Model Prohibiting Anticompetitive Contracting</td>
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</tbody>
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Health systems leverage the status of their “must-have” providers and require plans to contract with all providers in the system or none of them. This forces insurers to face a difficult choice — include all of the systems’ providers (even if they are low-value or high-cost) or lose them all.

Dominant systems may require a health plan to place all physicians, hospitals, and other facilities associated with a hospital system in the most favorable tier of providers (i.e., anti-tiering) or at the lowest cost-sharing rate to avoid steering patients away from that network (i.e., anti-steering). These clauses undercut a plan’s ability to direct patients to high-value providers.

Typically used by a dominant insurer in combination with a dominant health system, MFN clauses are contractual agreements in which a health system agrees not to offer lower prices to any other insurer. For a dominant insurer, this ensures they are getting the best price and that no rival insurer can negotiate to offer a novel product at lower rates. MFNs may also allow insurers and providers to collude to raise prices.

Gag clauses may prevent either party in a contract from disclosing terms of that agreement, including prices, to a third party. The lack of transparency from gag clauses and the mistaken notion that prices are trade secrets undermines price transparency tools for consumers and decreases plan sponsors’ ability to push back on rising prices.
Thank you!

NASHP’s Health System Costs Resources:

- Written research and analysis & state legislative tracking
- Model legislation & regulation to address consolidation and more
- Hospital Cost Calculator & hospital financial transparency reporting template
- Available Now! Interactive Hospital Cost Tool
- https://www.nashp.org/policy/health-system-costs/

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