Demand, Input Costs, and Inadequate Funding

Presentation to the Cost, Cost Containment and Finance Committee of the HealthFirst Connecticut Authority

July 29, 2008

CHA Connecticut Hospital Association

Key Findings

1. Population is growing
2. Demand for services is up
3. Expenses are tightly controlled
4. Funding from patients inadequate to cover expenses
5. Non-patient dollars routinely diverted to cover current expense
6. Inadequate government funding to cover cost of care delivered in Medicaid and Medicare programs.
7. Investment in technology to improve quality and care delivery is delayed and dampened
8. Health insurance must cover the cost of care being provided and contribute to subsidizing the losses incurred in Medicare and Medicaid.

Population Demand

Over the past decade, Connecticut's population has grown by 5% and more people are covered by Medicaid and Commercial insurance.

	1997	% of Total	2006	% of Total	% Change
Medicare	511,000	15%	525,457	15%	3%
Medicaid	390,246	12%	426,931	12%	9%
Uninsured	410,921	12%	385,528	11%	-4%
Commercial	2,046,181	61%	2,166,893	62%	6%
Population	**3,349,348**		**3,504,809**		5%

Inpatient Demand

Hospital admissions have increased by 17% during the past decade. While most patient stays are shorter, more newborns require intensive care services.

	1997	LOS	2007	LOS	% Change
Admissions:					
Medical/Surgical/ICU	240,416	5.4	296,742	4.9	20%
Maternity	45,209	2.6	44,299	2.9	-4%
Newborn	43,386	3.5	43,010	3.9	-3%
ICU Share	38%		43%		
Pediatric	17,735	4.0	18,307	3.4	3%
Psych	23,526	8.3	30,870	9.1	5%
Rehab	4,229	17.9	4,896	18.6	1%
Total Admissions	**374,501**	5.1	**438,124**	5.0	17%

Outpatient Demand

Hospitals have seen substantial increases in outpatient services. Today, outpatient services exceed inpatient by more than 10 to 1.

Outpatient	**1997**	**2007**	**% Change**
ED Visits	1,111,992	1,522,330	37%
Ambulatory Surgery	156,323	183,189	17%
Rehabilitation (Physical Therapy, Occupational Therapy/Speech)	654,686	844,477	29%
	1,923,001	2,549,996	33%

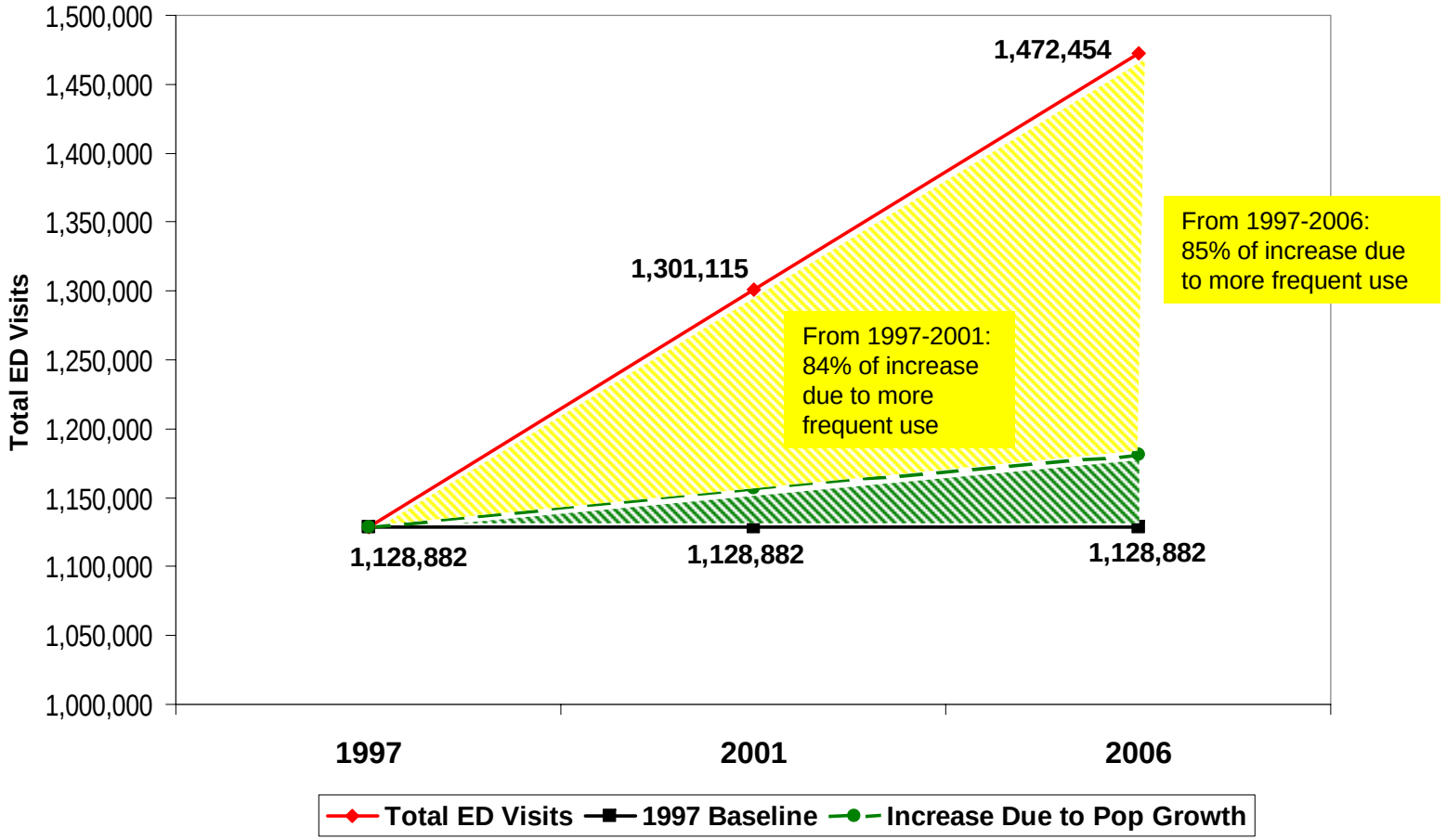
Outpatient Demand (Cont'd)

Hospitals today are Inpatient, Outpatient Specialty Care, and Primary Care Providers

Visits	**2007**
Primary Care Visits	623,578
Cardiac	
Rehab	98,693
Cancer Care	
Chemotherapy	42,729
Radiation Therapy	203,596
Psychiatric Care	
Visits	358,875
Partial	18,698
Intensive Outpatient	58,701
	1,404,870

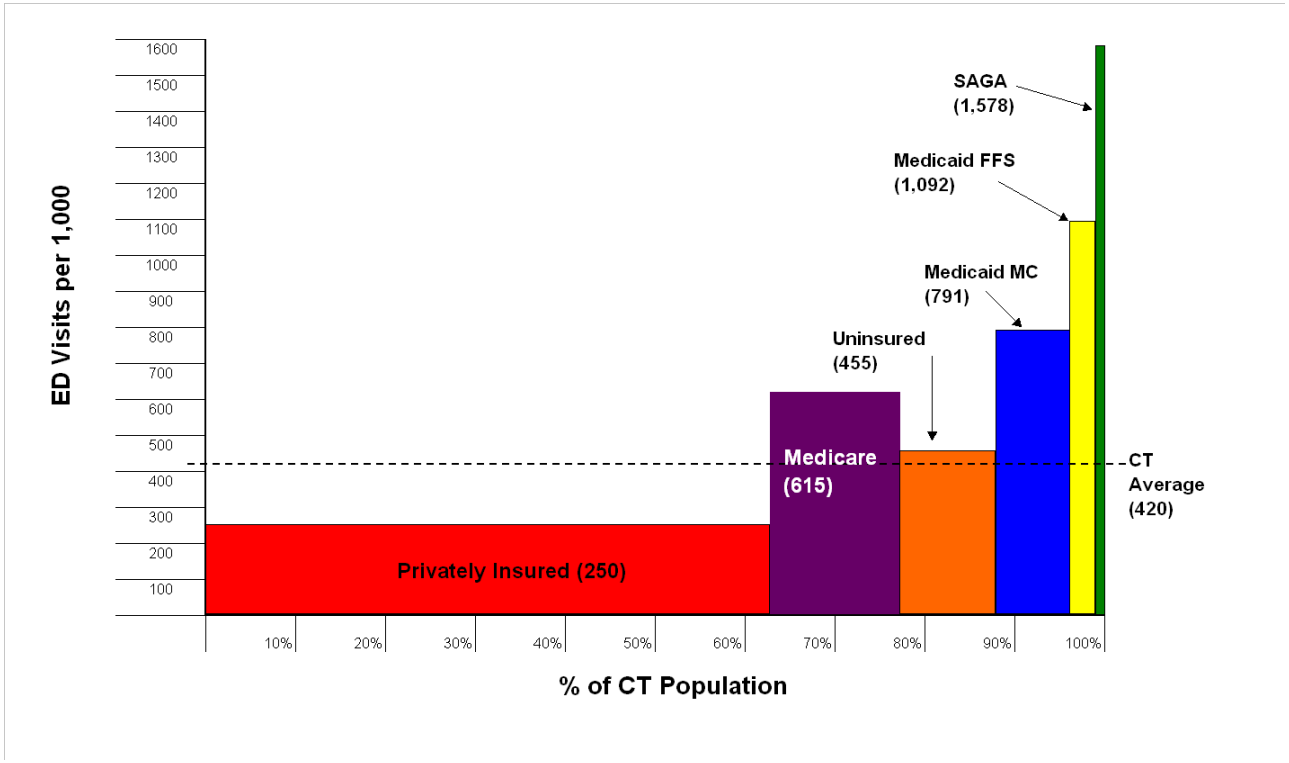
ED Demand Detailed

- 85% of the increase in ED visits is due to more frequent use and the remaining 15% is due to population growth.



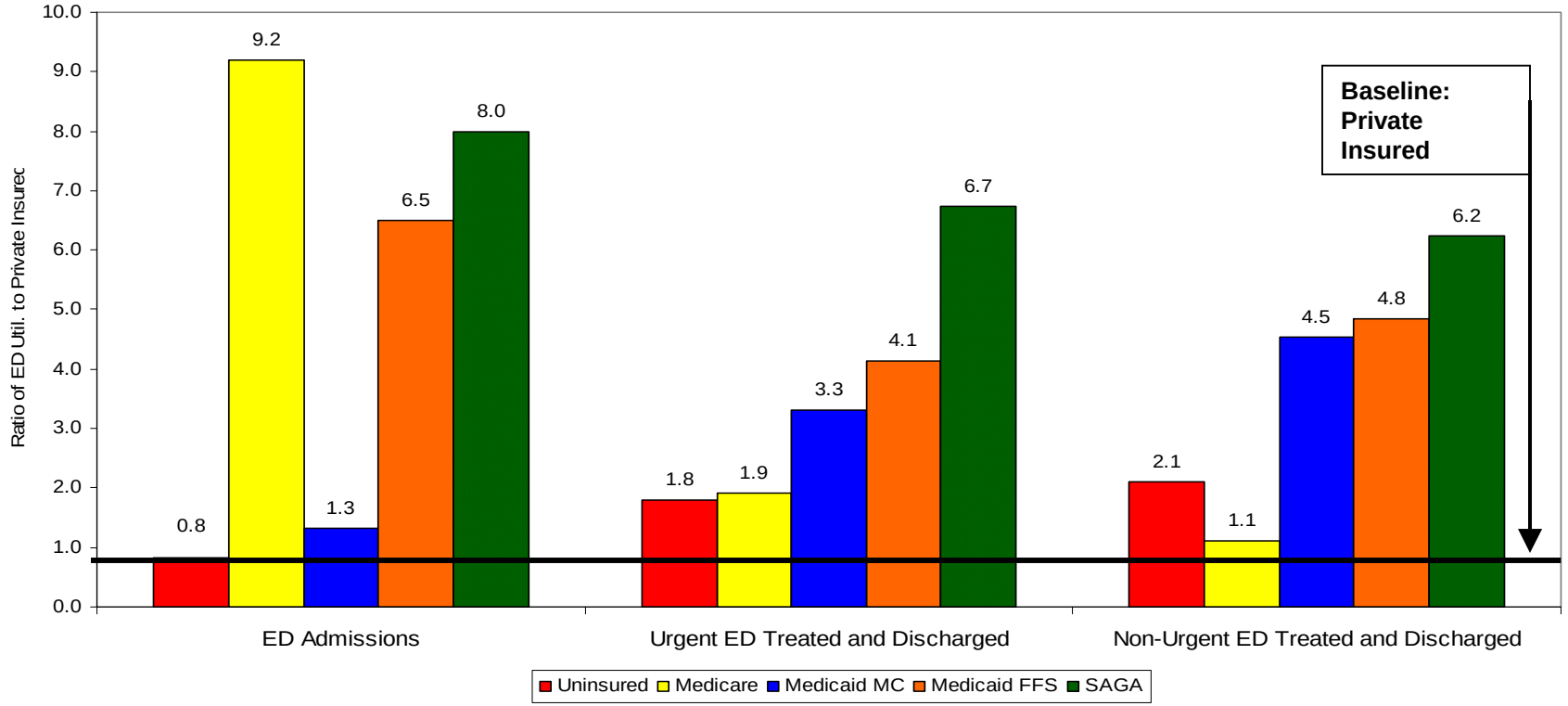
ED Demand by Payor

- Abysmally low Medicaid physician rates fail to produce adequate access to physician offices. The result, overuse of the Hospital ED.
- Residents enrolled in Medicaid used the ED three times more often than the privately insured.
- Residents enrolled in SAGA used the ED six times more than the privately insured.



ED Demand for Non Emergencies

- For non-urgent care, Medicaid enrollees had nearly five times more ED visits than the privately insured.
- For non-urgent care, SAGA enrollees had over six times more ED visits than the privately insured.



Overall Input Costs

76% of the cost of care are the people employed, pharmaceuticals given, and medical supplies used. While hospitals have held the overall expense increase to 6.3%, some expenses are going up at a much higher rate, for example, malpractice, medical supplies and rapidly escalating pharmaceutical costs.

	1997 (ooo's)	% of Total	2006 (ooo's)	% of Total	Annual Increase
Salaries & Benefits	2,267,356	61%	3,744,733	58%	5.7%
Physician Fees	126,965	3%	210,698	3%	5.8%
Supplies & Drugs	460,884	12%	963,116	15%	8.5%
Other than Supplies & Drugs	734,915	20%	1,299,276	20%	6.5%
Malpractice	38,973	1%	130,204	2%	14.3%
Depreciation	224,524	6%	355,141	5%	5.2%
Interest	58,313	2%	64,361	1%	1.1%
Expense Recoveries	(186,480)	-5%	(286,687)	-4%	4.9%
Total Expenses	**3,725,455**	**100%**	**6,480,844**	**100%**	**6.3%**
Price					4.0%
Volume					2.3%

Data source: OHCA Financial Reports
Note: OHCA and Audited Statements Differ due to Treatment of Bad Debt and Expense Recoveries

Input Costs (Cont'd)

Today, the cost of providing for hospital employee pensions and health insurance is $280 million more per year than it was ten years ago.

	1997 (ooo's)	% of Total	2006 (ooo's)	% of Total	Annual Increase
FTEs					
Salary	**1,842,265**	**80%**	**2,917,634**	**78%**	**5.2%**
Benefits					
Health Insurance	183,463	9%	311,263	8%	6%
Workers' Comp	19,627	1%	37,068	1%	7.3%
Social Security Taxes	131,718	6%	201,138	5%	4.8%
Pension	70,095	3%	222,420	6%	13.7%
Disability	7,367	0%	12,877	0%	6.4%
Group Life	4,344	0%	7,166	0%	5.7%
Other	8,473	0%	35,164	1%	17.1%
Total Benefits	**425,087**	**20%**	**827,096**	**22%**	**7.7%**
Total Salary & Benefits	**2,267,352**		**3,744,730**		**5.7%**
Price					4.0%
Volume FTEs	40,701		47,512		1.7%

Overall Financial Performance

Despite holding expense growth to a modest level, hospitals have been unable to cover the cost of patient care from patients. Losses are growing at twice the rate of expenses.

	1997 (ooo's)	2007 (ooo's)	Annual Increase
Total Expense	4,068,214	7,573,483	6.2%
Patient Gain/Loss	(108,515)	(341,844)	**11.5%**
Patient Margin	-2.74%	-4.73%	
Operating Gain/Loss	85,060	90,357	
Operating Margin	2.05%	1.18%	

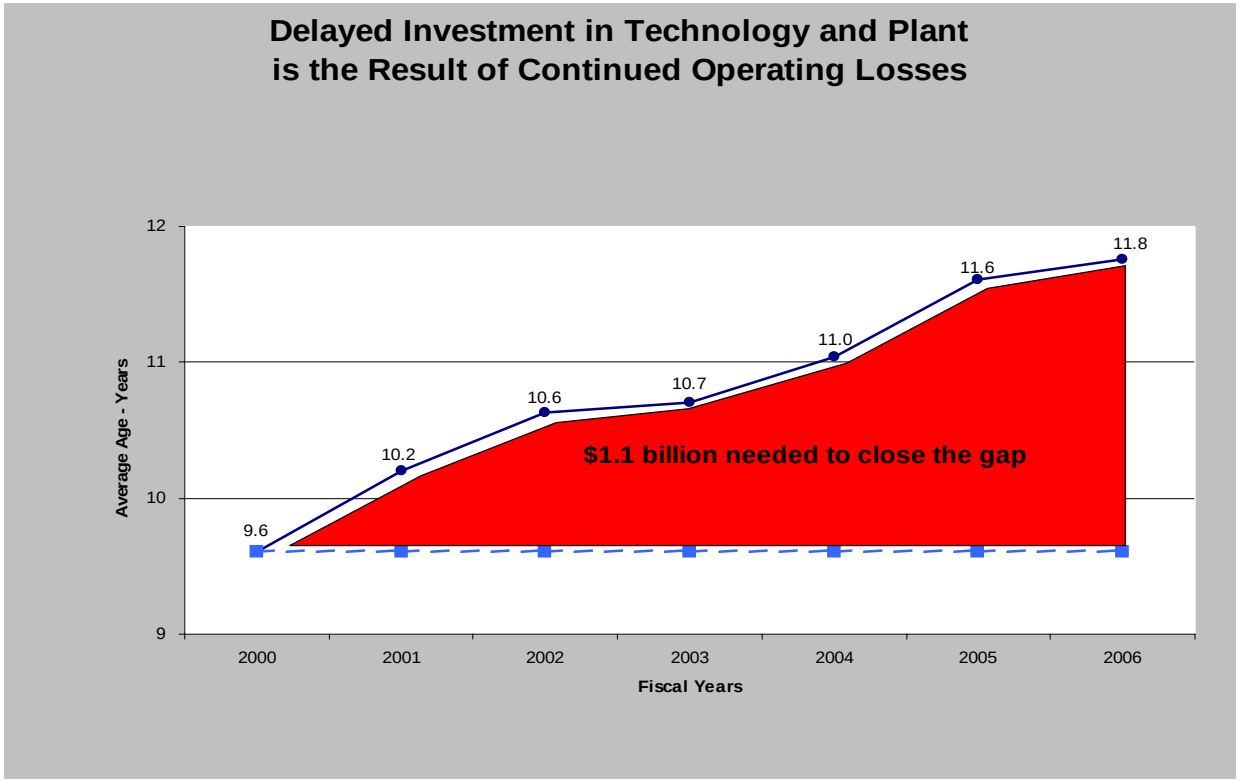
Overall Financial Performance

Over the last decade, cumulative losses on patient care services top $2.5 billion.

	1997-2007 (ooo's)
Cumulative Patient Gain/(Loss) $	(2,530,287)
Cumulative Patient Gain/(Loss) %	-4.33%
Cumulative Operating Gain/(Loss) $	451,286
Cumulative Operating Gain/(Loss) %	.74%
Minimum Operating Gain Needed	4%
Cumulative Operating Gain Deficit	(1,842,190)

Why Does That Matter?

We have underfunded investment in our hospital facilities and technology by $1.1 billion over the last decade. Our ability to provide the contemporary high quality care that patients need and expect is deteriorating relative to the rest of the U.S., making us less competitive.



The projected $1.1 billion in needed capital expenditures is based on a spending program of 80% on equipment and other movable items with a useful life of 7 years and 20% of major renovations or new buildings with a useful life of 40 years.

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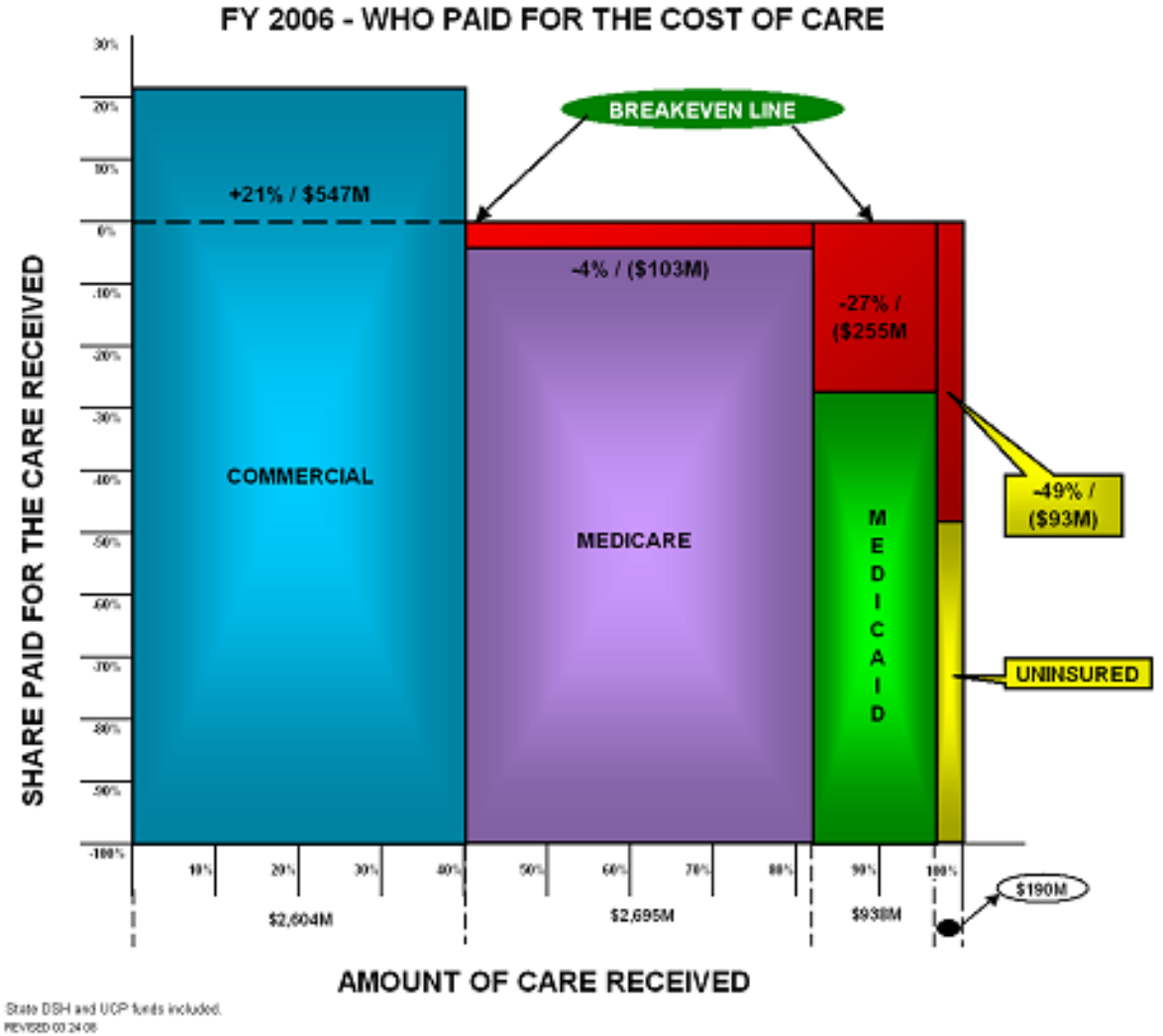
Inadequate Funding

The largest drag on hospital financial health is Medicaid underfunding. Losses caring for Medicaid are nearly three times the loss caring for the uninsured, and two and a half times the loss caring for Medicare. Hospitals annually have virtually no funds to use for maintaining, replenishing, upgrading, or expanding services. Communities are short changed as funds are diverted from investment in facilities, technology, and improvements in patient care – to just make ends meet.

	Medicare (ooo's)	**Commercial (ooo's)**	**Medicaid (ooo's)**	**Uninsured (ooo's)**	**Total (ooo's)**
Population Served	515	2,217	433	381	3,546
Gross Charges	6,396,732	6,141,545	2,202,769	453,112	15,194,158
Operating Cost for Patient Care	2,695,426	2,603,929	938,288	189,709	6,427,352
Payments	2,592,798	3,150,771	616,330	72,940	6,432,840
DSH Funds			66,527	23,898	90,425
Operating Gain/(Loss)	**(102,628)**	**546,843**	**(255,431)**	**(92,871)**	**95,913**

Inadequate Funding (Cont'd)

CT employers and employees are shouldering the full weight of Government underfunding.



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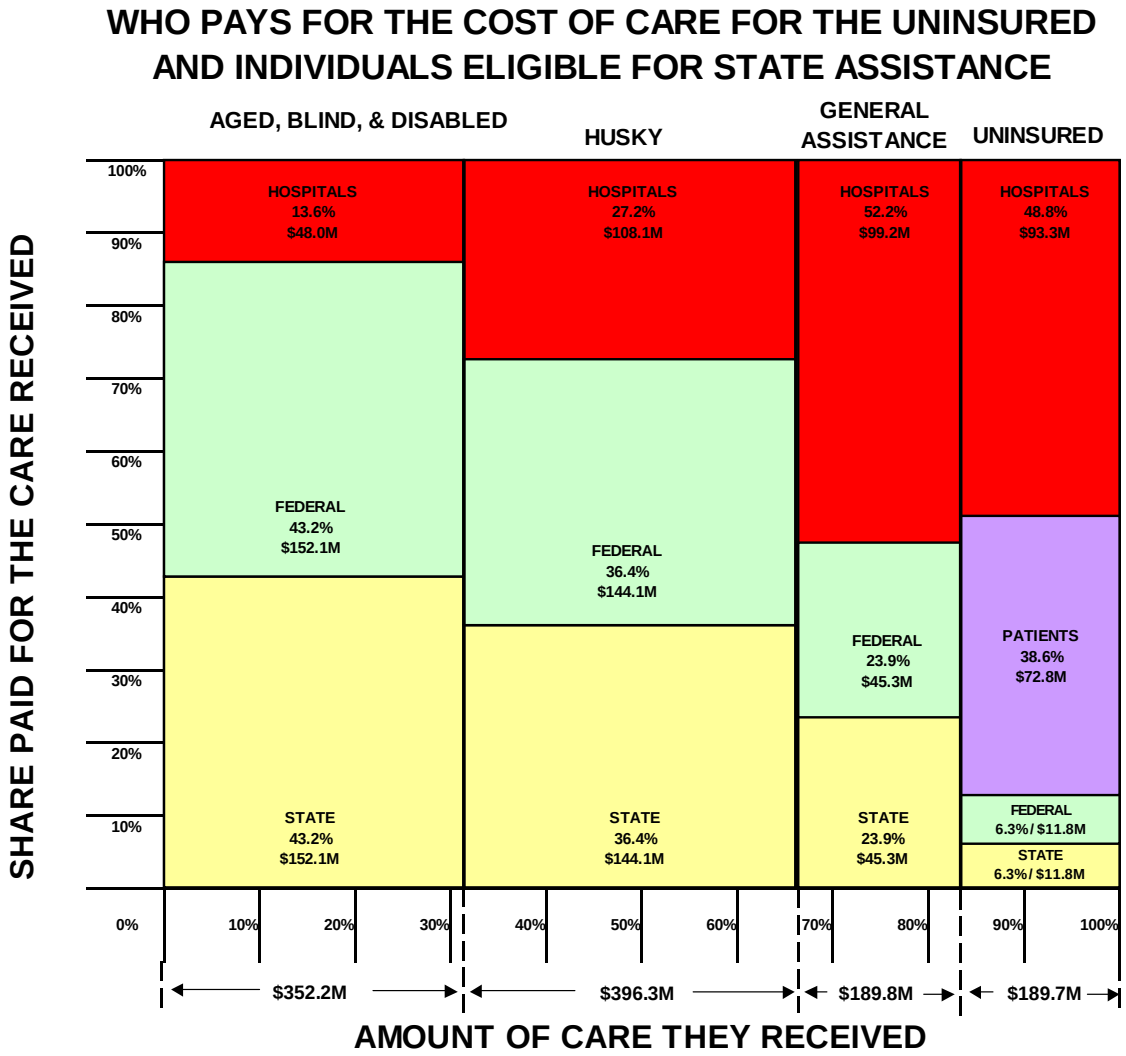
Inadequate Funding, State



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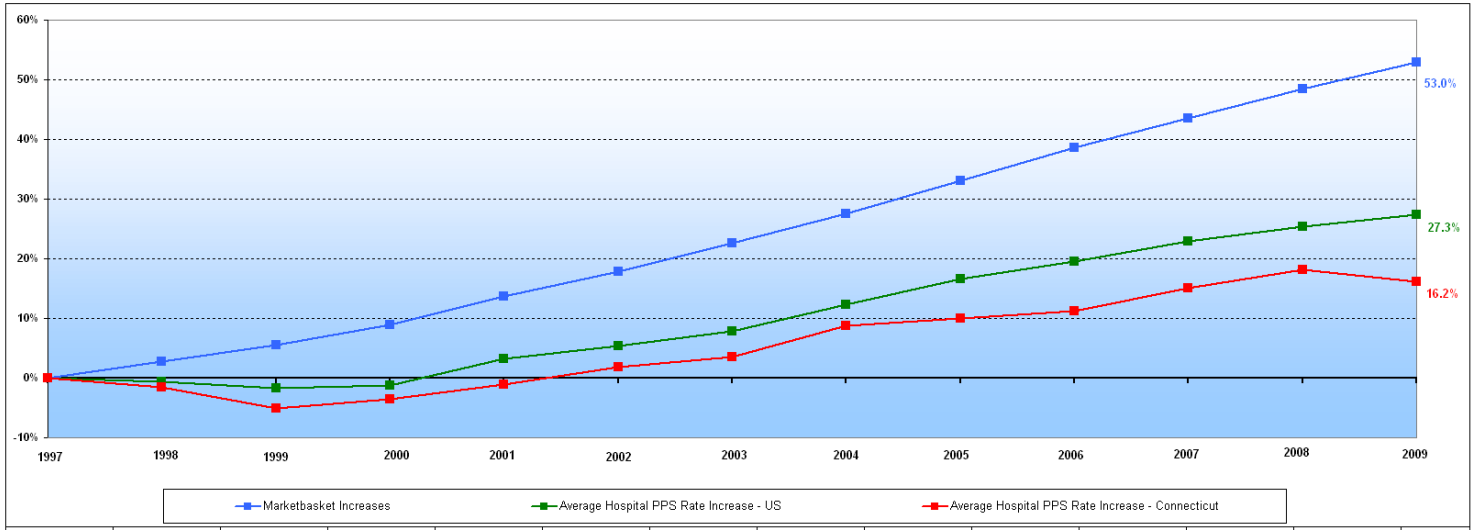
Inadequate Funding, Federal

Connecticut

1997 - 2008 Actual & 2009 Proposed - Cumulative Medicare Hospital Rate Increases vs Marketbasket Cost Increases



	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006	FFY 2007	FFY 2008	FFY 2009	Avg. Annual Change
Marketbasket Increases														
Annual Change:		2.7%	2.7%	3.3%	4.3%	3.7%	4.1%	4.0%	4.3%	4.2%	3.5%	3.5%	3.0%	
Cumulative Change:		**2.7%**	**5.5%**	**9.0%**	**13.6%**	**17.8%**	**22.7%**	**27.6%**	**33.1%**	**38.7%**	**43.5%**	**48.5%**	**53.0%**	**3.6%**
Average Hospital PPS Rate Increase - US														
Medicare Payment Rate:	$4,623	$4,594	$4,549	$4,567	$4,776	$4,872	$4,983	$5,195	$5,392	$5,524	$5,681	$5,795	$5,888	
Annual Change:		-0.6%	-1.0%	0.4%	4.6%	2.0%	2.3%	4.2%	3.8%	2.4%	2.8%	2.0%	1.6%	
Cumulative Change:		**-0.6%**	**-1.6%**	**-1.2%**	**3.3%**	**5.4%**	**7.8%**	**12.4%**	**16.6%**	**19.5%**	**22.9%**	**25.3%**	**27.3%**	**2.0%**
Average Hospital PPS Rate Increase - Connecticut														
Medicare Payment Rate:	$5,677	$5,592	$5,391	$5,479	$5,613	$5,779	$5,881	$6,177	$6,245	$6,313	$6,537	$6,711	$6,597	
Annual Change:		-1.5%	-3.6%	1.6%	2.4%	3.0%	1.8%	5.0%	1.1%	1.1%	3.5%	2.7%	-1.7%	
Cumulative Change:		**-1.5%**	**-5.0%**	**-3.5%**	**-1.1%**	**1.8%**	**3.6%**	**8.8%**	**10.0%**	**11.2%**	**15.1%**	**18.2%**	**16.2%**	**1.3%**

Impact Due to Hospital PPS Rate Increases Less Than Marketbasket:	($53,405,000)	($134,012,000)	($158,697,000)	($188,503,000)	($204,825,000)	($243,505,000)	($239,646,000)	($294,387,000)	($350,335,000)	($361,970,000)	($386,888,000)	($469,413,034)	
							Twelve-Year Cumulative Impact:			($3,085,586,034)		

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Summary

- Population is growing – 5% in the last decade
- Demand for services is up – Total admissions up 1% and outpatient services even higher
- Expenses are tightly controlled – 6.3% annual rate of growth
- Funding from operations barely covers expense
- Non-patient dollars routinely diverted to cover current expense – a $451 million shortfall caused by Government underfunding and providing care to the Uninsured; covered by forced cost shift of $547 million to employers and commercial payers
- Inadequate government funding to cover cost of care in Medicaid and Medicare programs - $357 million shortfall in 2006
- Investment in technology to improve quality and care delivery is delayed and dampened – underfunded investments by $1.1 billion
- Reliance on Medicare or Medicaid, in their current forms, as the cornerstone upon which to build expanded access to coverage for the uninsured would be disastrous for providers.

Synopsis of 27 Years of Medicaid Hospital Reimbursement Cuts and Freezes

Year	Change	Comment
1982	**Paid actual cost for inpatient and emergency room care.**	**No loss providing services**
	Clinic care was paid at actual cost capped at 150% of the cost for a physician office visit.	**No loss providing services**
1984	PA 84-367: Changed payment from actual to reasonable cost of an efficient provider.	Cut
	Added payments for Inpatient Administrative days (AND)	Increase not implemented
1985	PA 85-482: Reduced the amount allowable for clinic from reasonable cost capped at 150% of the physician fee schedule to 116% of the physician fee schedule.	Cut
1987	PA 87-27: Removed from allowable cost expenses related to supporting or opposing unionization.	Cut
	PA 87-516: Permitted the Commissioner to pay more for clinic to DSH hospitals up to 175% of physician fee.	Increase not implemented
1988	PA 88-156: Permitted the Commissioner to pay more than reasonable cost for DSH hospitals.	Increase not implemented
1989	PA 89-297: Reduced Emergency room payment for non-emergency use of the emergency room to the clinic rate.	Cut
1991	PA 91-8: Capped the increase in the clinic rate to no more than CPI changes, froze current ED rates except those that decreased.	Cut and Freeze
	Reduced by the most recent Medical CPI payments for those outpatient services paid on a cost basis.	Cut
1992	PA 92-16: Froze the ED rates for another year except those that decreased.	Freeze

Synopsis of 27 Years of Medicaid Hospital Reimbursement Cuts and Freezes (Cont'd)

Year	Change	Comment
1994	PA 94-5: Reduced by the most recent Medical CPI payments for those outpatient services paid on a cost basis.	Cut
	Froze the ED rates for another year except those that decreased.	Freeze
	Required a fee schedule to be developed for all outpatient services effective 1/1/1995, froze the fee schedule for 18 months, then required it to be increased to reflect the cost of services.	Cut and Freeze
1995	PA 95-306: Limited the application of AND enhanced payments to instances when the patient is not eligible for Medicare.	Cut
1998	PA 98-131: Beginning 10/1/1998, stopped pegging the annual inpatient inflation increase to Medicare and set it at 3% per annum thereafter.	Cut
1999	PA 99-279: Repealed the 3% inpatient adjustment for all years after 10/1/1998 - granting no increase thereafter.	Cut
	Repealed outpatient fee schedule updates for 1999 and 2000.	Cut
2001	Repealed taxes	Increase
	PA 01-3: Increased outpatient fees by 10.5%.	No new dollars funded by reduction to Uncompensated Care Pool
	Increased inpatient to a minimum of 62.5% of cost. If above the minimum no increase. Froze the rates for 2002 and 2003.	No new dollars funded by reduction to Uncompensated Care Pool
2003	PA 03-3: Extended outpatient rate freeze through 2005.	Freeze
	Extended inpatient rate freeze to 2004 and 2005.	Freeze

Synopsis of 27 Years of Medicaid Hospital Reimbursement Cuts and Freezes (Cont'd)

Year	Change	Comment
2004	PA 04-258: Set minimum inpatient target for 4/1/05 at 3750, 4/1/06 at 4000, 4/1/07 at 4250; inpatient rates remain frozen if above minimum.	Increase
	Cut SAGA by $20 million per year.	Cut
2005	PA 05-280: Delayed increasing the 2006 and 2007 minimum inpatient target for six months.	Freeze
	Cut DSH by $10 million per year.	Cut
2006	PA 06-188: Repealed the 2007 4250 minimum inpatient target.	Cut
	Permitted an inpatient increase for 2006 for institutions not eligible for minimum.	Increase not implemented
	Permitted an increase for outpatient clinic rates.	Increase
	Permitted an increase for outpatient MRI rates.	Increase not implemented
	Permitted an increase for outpatient CT SCAN rates.	Increase not implemented
	Permitted an increase for outpatient ED rates.	Increase
	Rates frozen in perpetuity.	Loss providing service $250 Million Loss grows by more than $30 Million per year
2007	PA 07-1, June Special Session: Legislation makes significant first step to close the gap adding $82.6.6 million for rate increases	
2009		Loss providing service $320 million per year.

Appendix 2

US Summary
Twelve Year Medicare Inpatient Average Rate Change

	1997 Average Hospital PPS Rate	2009 Average Hospital PPS Rate	Twelve-Year Rate Change	Average Annual Change	Twelve-Year Reimbursement Gap Hospital PPS Rates Compared to Marketbasket Increase of **53.0%**
US	$4,623	$5,887	27.3%	2.0%	-25.7%
Connecticut	$5,677	$6,597	16.2%	1.3%	-36.8%
New York	$6,288	$7,398	17.7%	1.4%	-35.3%
Massachusetts	$5,641	$6,715	19.0%	1.5%	-33.9%
New Hampshire	$4,884	$5,867	20.1%	1.5%	-32.9%
Rhode Island	$5,372	$6,475	20.5%	1.6%	-32.5%
Michigan	$4,987	$6,025	20.8%	1.6%	-32.2%
Pennsylvania	$4,527	$5,515	21.8%	1.7%	-31.2%
Ohio	$4,484	$5,489	22.4%	1.7%	-30.6%
Delaware	$4,978	$6,099	22.5%	1.7%	-30.5%
Utah	$4,395	$5,425	23.4%	1.8%	-29.6%
Illinois	$4,687	$5,827	24.3%	1.8%	-28.7%
Alaska	$5,952	$7,451	25.2%	1.9%	-27.8%
Vermont	$5,066	$6,353	25.4%	1.9%	-27.6%
North Dakota	$3,839	$4,853	26.4%	2.0%	-26.6%
Kansas	$4,133	$5,227	26.5%	2.0%	-26.5%
Nevada	$4,722	$6,023	27.6%	2.0%	-25.4%
New Jersey	$5,122	$6,550	27.9%	2.1%	-25.1%
Florida	$4,193	$5,366	28.0%	2.1%	-25.0%
Indiana	$4,186	$5,360	28.0%	2.1%	-25.0%
California	$5,729	$7,383	28.9%	2.1%	-24.1%
Washington	$4,833	$6,244	29.2%	2.2%	-23.8%
Nebraska	$4,123	$5,343	29.6%	2.2%	-23.4%
West Virginia	$4,041	$5,237	29.6%	2.2%	-23.4%
Louisiana	$4,076	$5,299	30.0%	2.2%	-23.0%
Minnesota	$4,578	$5,951	30.0%	2.2%	-23.0%
Texas	$4,355	$5,666	30.1%	2.2%	-22.9%
Colorado	$4,304	$5,602	30.1%	2.2%	-22.8%
Oregon	$4,538	$5,914	30.3%	2.2%	-22.7%
Wyoming	$4,450	$5,802	30.4%	2.2%	-22.6%
Arizona	$4,485	$5,864	30.7%	2.3%	-22.3%
North Carolina	$4,358	$5,706	30.9%	2.3%	-22.1%
New Mexico	$4,528	$5,954	31.5%	2.3%	-21.5%
Missouri	$4,145	$5,455	31.6%	2.3%	-21.4%
Virginia	$4,085	$5,412	32.5%	2.4%	-20.5%
Georgia	$4,267	$5,673	32.9%	2.4%	-20.0%
Wisconsin	$4,207	$5,606	33.2%	2.4%	-19.7%
Tennessee	$4,007	$5,345	33.4%	2.4%	-19.6%
Idaho	$3,930	$5,290	34.6%	2.5%	-18.4%
South Dakota	$3,826	$5,159	34.8%	2.5%	-18.2%
Alabama	$3,736	$5,043	35.0%	2.5%	-18.0%
Oklahoma	$3,880	$5,251	35.3%	2.6%	-17.7%
Iowa	$3,840	$5,217	35.9%	2.6%	-17.1%
South Carolina	$4,047	$5,511	36.2%	2.6%	-16.8%
Montana	$3,764	$5,129	36.3%	2.6%	-16.7%
Maine	$4,253	$5,812	36.7%	2.6%	-16.3%
Hawaii	$4,877	$6,762	38.6%	2.8%	-14.4%
Kentucky	$3,922	$5,444	38.8%	2.8%	-14.2%
Arkansas	$3,646	$5,084	39.4%	2.8%	-13.6%
Mississippi	$3,600	$5,282	46.7%	3.2%	-6.3%