Cost Shifting in Wisconsin and “Unintended” Consequences

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Health Care Cost is Systemic

Consumers
- Health Status
- Care Coordination
- Self Accountability

Providers
- Quality Improvement
- Total Cost of Care
- Patient Experience

Employers
- Plan Design
- On-site Clinics
- High Value Network

Payer
- Pay for Health
- Care Management
- Bundled Payment
Key $$$ Definitions

Need Clarity on Terms

- Price, Charge, Cost, Rate, Reimbursement, Billed, Allowed, Paid, Premium
- Price ≠ Cost or Rate
- Rate ≠ Revenue
- Premium ≠ Price or Cost
- Price Shifting, not Cost Shifting
- Reimbursement = Revenue
- Margin is driven by “Revenue – Cost”

Margin drives quality, sustainable health care
Health Care Economics Issues

Traditional Market
- Supply and demand drive price
- Company sets price
- Consumer has “direct” choice
- If consumer cannot afford the price, they do not get the product

Health Care Market
- Much of price is regulated
- Consumer has limited “direct” choice
- Provider determines and drives demand for the consumer
- If consumer cannot afford the price, hospital still provides the product
Health Care Market Conditions

- Decelerating Price Growth
- Continuing Cost Pressure
- Shifting Payer Mix
- Deteriorating Case Mix

Attempts to Fix U.S. Health Care

We created a cost shift “Gordian Knot”
Price Does Not Predict Cost or Improve Quality

Care System Price vs. Total Cost
(Adjusted for Risk & Catastrophic Claims)

Care Systems

Variance from Av

Total Cost
Price Only

Source: PatientChoice
Cost Shifting and Unintended Consequences

Every Step In a Process Has the Potential for Failure

Physiologist James T. Reason’s 1990 Swiss cheese model is a famous threat/error chain illustration.

If the issue is allowed to get through all the barriers the outcome is usually not good.

The idea is to place more barriers, and with fewer holes, in front of the problem.

Source: Duke University Medical Center
Lower Reimbursements Can Mean Fewer Providers (but not always better quality)

Blue Shield of CA is not selling in certain areas of California. It could not find enough providers willing to accept a level of payment that would keep premiums low. The company also is not selling where there is no contracted hospital within 15 miles.

Consequences of the lack of hospital and physician networks:

- 30,000 Individuals affected
- Anthem is now the only marketplace option
- Off-marketplace coverage available through two other carriers, but no subsidies for non-marketplace coverage
Market Basket Adjustments

Source: Centers for Medicare and Medicaid Services FY 2015 final market basket update
Cost Shifting at Work

Rate Needed to Achieve 4.6% Revenue Increase

Cost Shift (1.7 Percentage Points)

Inflation (Market Basket)

2.9% 2.9% 2.9% 0.0% 1.1%
Anatomy of a 5% Rate Increase

Revenue Increase Lost to Negotiated Discounts: 0.7%
Revenue Increase Lost to Bad Debt and Charity Care: 0.2%

Actual Revenue Increase Realized by Hospital: 1.1%

Source: HCTrends analysis of 2013 hospital fiscal surveys
Wisconsin and Cost Shifting

• Dynamic and complex health care environment

• Multiple integrated health care systems
  • Examples: Aurora, UW, Gundersen, ThedaCare, Froedtert/MCW, SSM/Dean

• Multiple health insurance companies
  • Examples: Anthem, Humana, UHC, Unity, Dean, Security, Network HP
  • Medicare and Medicaid – 42% of net revenue at WI hospitals
Drivers of Cost Shifting

- Medicare: 48%
- Medicaid: 16%
- Charity Care: 8%
- Bad Debt: 28%

Source: Report to the Greater Milwaukee Business Foundation on Health: Key Factors Influencing 2003-2012 Southeast Wisconsin Commercial Payer Hospital Payment Levels (July 23, 2014)
## WI Revenue and IP Discharge Changes

<table>
<thead>
<tr>
<th>Item</th>
<th>1995</th>
<th>2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Inpatient Revenue</td>
<td>$2,340,277,808</td>
<td>$9,121,075,145</td>
<td>290%</td>
</tr>
<tr>
<td>Medicare Inpatient as % of Medicare Revenue</td>
<td>74.1%</td>
<td>51.8%</td>
<td>-30%</td>
</tr>
<tr>
<td>Medicaid Inpatient Revenue</td>
<td>$481,017,990</td>
<td>$2,562,560,833</td>
<td>433%</td>
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<tr>
<td>Medicaid Inpatient as % of total Medicaid Revenue</td>
<td>69.0%</td>
<td>47.0%</td>
<td>-32%</td>
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<tr>
<td>Commercial Inpatient Revenue</td>
<td>$1,823,042,657</td>
<td>$5,408,327,851</td>
<td>197%</td>
</tr>
<tr>
<td>Commercial Inpatient as % of Commercial Revenue</td>
<td>57.3%</td>
<td>33.2%</td>
<td>-42%</td>
</tr>
<tr>
<td>Medicare Discharges</td>
<td>225,133</td>
<td>268,177</td>
<td>19%</td>
</tr>
<tr>
<td>Medicaid Discharges</td>
<td>66,343</td>
<td>94,177</td>
<td>42%</td>
</tr>
<tr>
<td>Commercial Discharges</td>
<td>265,893</td>
<td>226,362</td>
<td>-15%</td>
</tr>
<tr>
<td>Outpatient Revenue (All Payers)</td>
<td>$2,585,734,821</td>
<td>$22,328,406,784</td>
<td>764%</td>
</tr>
<tr>
<td>Outpatient Visits (All Payers)</td>
<td>8,559,748</td>
<td>16,695,548</td>
<td>95%</td>
</tr>
</tbody>
</table>
## WI ECONOMIC REGION

<table>
<thead>
<tr>
<th>WI ECONOMIC REGION</th>
<th>REVENUE LOST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast</td>
<td>$1,278,206,386</td>
</tr>
<tr>
<td>Northeast</td>
<td>$443,189,200</td>
</tr>
<tr>
<td>South Central</td>
<td>$630,804,745</td>
</tr>
<tr>
<td>North Central</td>
<td>$86,177,375</td>
</tr>
<tr>
<td>Eau Claire Area</td>
<td>$84,388,866</td>
</tr>
<tr>
<td>La Crosse Area</td>
<td>$51,369,254</td>
</tr>
<tr>
<td>Far North</td>
<td>$10,415,056</td>
</tr>
<tr>
<td>Northwest</td>
<td>$2,971,253</td>
</tr>
<tr>
<td>Southwest</td>
<td>$10,058,942</td>
</tr>
<tr>
<td><strong>STATE</strong></td>
<td><strong>$2,360,294,122</strong></td>
</tr>
</tbody>
</table>

Result: To retain a 5% Margin, $750 M cuts in operating costs plus 10,000+ employees laid off
The Wisconsin Solution

WI Health systems are focused on:

• Improved safety
• Improved quality
• Patient engagement
• Appropriate use of technology
• Lower operating costs
• Total cost of care, not price and discounts
Wisconsin Advantages

Robust data, publicly available

• Wisconsin Hospital Association (WHA)
• Wisconsin Health Information Organization (WHIO)
• Wisconsin Collaborative for Healthcare Quality (WCHQ)

Hospitals, physician groups and payers actively engaged; contributing data WI can measure Cost and Quality
High-Performing Networks

- Built on quality and total cost of care, not unit price
- Clinically integrated care supported by electronic medical records
- Transparent, with tools to identify the most effective providers
- Reward high-performing clinicians; improve underperforming clinicians
- Appropriate access to physicians and hospitals
"It's not that they can't see the solution. They can't see the problem."

- G.K. Chesterton

- Cost shifting is the wrong topic for debate
- Cost shifting arguments have used erroneous data and analysis
- Cost shifting is only part of 6% of the drivers of the total cost of health care
"While we focused on health care, we forgot to focus on health."

**Cindy Nayer**, CEO and Founder, Center of Health Engagement

"The secret to health is not health care".

**Debra Ness**, President, National Partnership for Women and Families
Focus on the Right Drivers

- Employee Health: 70%
- Market/Provider Behavior: 14%
- Plan Sponsor Behavior: 6%
- Employee Behavior: 10%

- Claims
- HRA
- Biometrics
- Illness
- Benefits
- Program Participation
- Activity Participation
- Workers Compensation
- Disability Days

- Outcome
- EBM Adherence
- Efficiency
- Process
- Technology
- Plan Design
- Plan Sponsorship
- Plan Turnover
- Plan Participation
- Plan Operations
- Employee Contributions
- Wellbeing Initiatives
- Demographics
The Math of Health Cost Shifting

For employees who become less healthy…

…costs go up $350 per year

For employees who become healthier…

…costs go down only $150 per year

Source: Keeping Healthy People Healthy, Health Enhancement Systems, Hesonline.com
Reward Outcomes and Better Health

Source: Adapted from Center for Healthcare Quality and Payment Reform
In the Final Analysis

• WI is a high quality state
• SE WI measured as a high efficiency market
• Health systems are focused on total cost of care and quality
• Yet, government funding still lags behind actual cost

Therefore “price” shifting is one of the necessary financial approaches to sustain quality, efficient care
Thank You

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