

Health Care Financing and Cost Shifting

Presentation to

Committee on Health Coverage, Insurance and
Financial Services

October 21, 2019

Context

“You get what you pay for.”

-Anonymous

Rising to the Challenge

RESULTS FROM A SCORECARD ON LOCAL HEALTH SYSTEM PERFORMANCE
2012



THE COMMONWEALTH FUND COMMISSION ON A HIGH PERFORMANCE HEALTH SYSTEM

MARCH 2012



Rising to the Challenge

A Scorecard on Local Health System Performance

2012

Portland Service Area Ranking 18 of 306

Bangor Service Area Ranking 62 of 306

Dimensions of Performance:

	<u>Portland</u>	<u>Bangor</u>
• Access & Affordability	Top Quartile	Second Quartile
• Prevention & Treatment	Top Quartile	Top Quartile
• Avoidable Hospital Use & Cost	Top Quartile	Second Quartile
• Healthy Lives	Top Quartile	Second Quartile

AIMING HIGHER



Results from a Scorecard on State Health System Performance, 2014

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MAY 2014



The
COMMONWEALTH
FUND

Aiming Higher

A Scorecard on State Health System Performance 2014

Maine's Ranking: 7 of 51

Dimensions of Performance:

- | | |
|---------------------------------|-----------------|
| • Access & Affordability | Top Quartile |
| • Prevention & Treatment | Top Quartile |
| • Avoidable Hospital Use & Cost | Second Quartile |
| • Healthy Lives | Second Quartile |
| • Equity | Top Quartile |

-
- | | |
|-------------------|-------------|
| • Top 5 States | 11 Measures |
| • Top Quartile | 23 Measures |
| • Second Quartile | 9 Measures |
| • Third Quartile | 8 Measures |
| • Bottom Quartile | 2 Measures |
| • Bottom 5 States | 0 Measures |



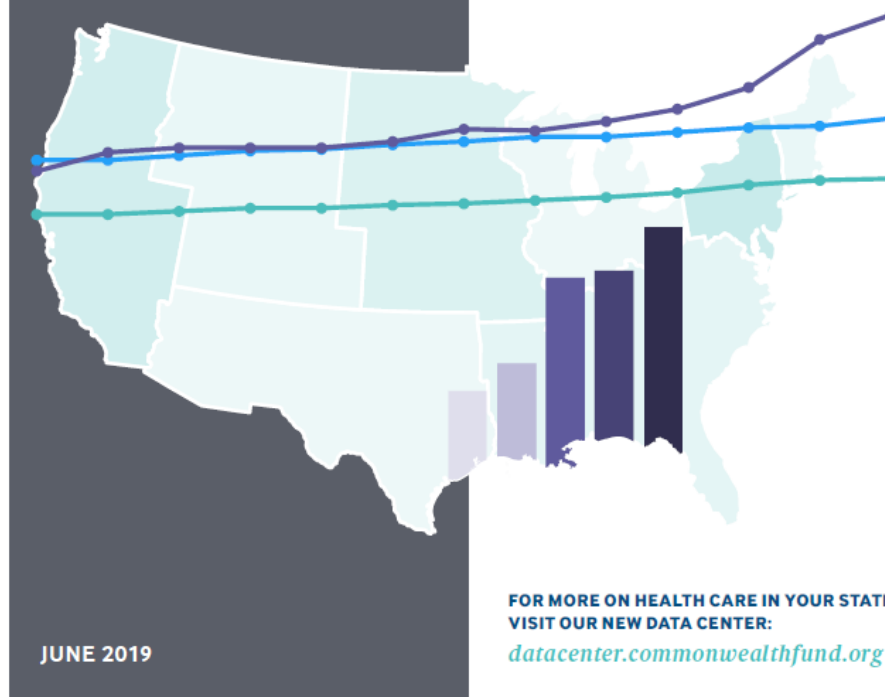
The
Commonwealth
Fund

2019 Scorecard on State Health System Performance

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JUNE 2019

FOR MORE ON HEALTH CARE IN YOUR STATE,
VISIT OUR NEW DATA CENTER:

datacenter.commonwealthfund.org

Aiming Higher

A Scorecard on State Health System Performance

2019

Maine's Ranking: 12 of 51

Dimensions of Performance:

- Access & Affordability Second Quartile (14)
- Prevention & Treatment Top Quartile (7)
- Avoidable Hospital Use & Cost Second Quartile (16)
- Healthy Lives Third Quartile (30)
- Disparity Top Quartile (12)

-
- Top 5 States 6 Measures
 - Top Quartile 12 Measures
 - Second Quartile 21 Measures
 - Third Quartile 8 Measures
 - Bottom Quartile 5 Measures
 - Bottom 5 States 0 Measures

Selected Measures of Cost

- Medicare Spending Per Beneficiary

	<u>2013</u>	<u>2017</u>
United States	\$9,081	\$9,534
Maine	\$7,886	\$8,604

- Employer Sponsored Insurance Spending Per Enrollee

	<u>2013</u>	<u>2017</u>
United States	\$4,697	\$4,882
Maine	\$4,661	\$4,998

Selected Measures of Affordability

- Employee Insurance Costs as a Share of Median Income

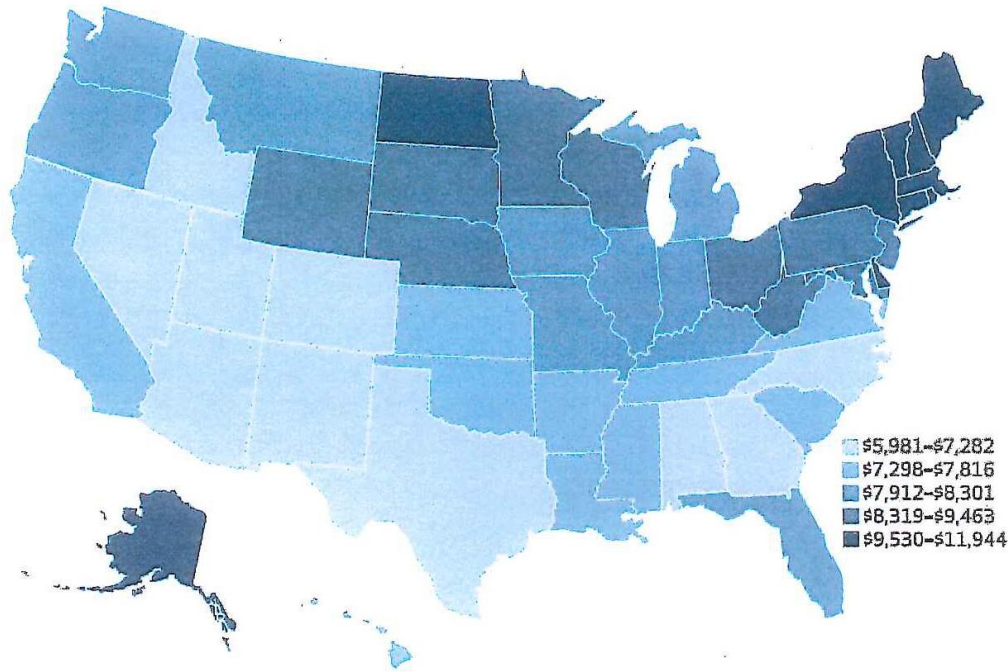
	<u>2013</u>	<u>2017</u>
United States	6.5%	6.9%
Maine	7.0%	6.2%

- High Out-of-Pocket Medical Expenses

	<u>2013</u>	<u>2017</u>
United States	11%	10%
Maine	11%	9%

Per Capital Spending by State (2014)

Per capita personal health care spending by state of residence, calendar year 2014



SOURCES Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; and Census Bureau.

Maine is the highest cost state, in the highest cost region of the country

NOT REALLY!

Massachusetts	\$10,559
Vermont	\$10,190
Connecticut	\$9,859
New York	\$9,778
New Hampshire	\$9,589
Rhode Island	\$9,551
Maine	\$9,531

EMPLOYER SPONSORED HEALTH INSURANCE PLANS NEW ENGLAND STATES 2017

Maine's average annual premiums are approximately 5% below the national average. Within the New England States, Maine's premiums are approximately 7% lower than the average premiums in Vermont and Rhode Island, 10% lower than the average premiums in New Hampshire, 15% lower than those charged in Connecticut, and almost 20% below those charged in Massachusetts. However, these favorable variances are greatly reduced when differences in plan design are taken into consideration. The annual deductibles in the plans that cover Maine residents have increased significantly during the past seven years and are now among the highest in the nation. The figures for the nation and the six New England States are presented on the following page. When these differences (and the corresponding differences in the annual limits on an individual or family's out-of-pocket liability for deductible, copayment, and coinsurance expenses) are considered, it would be fair to describe Maine's premiums as slightly higher than those charged in Vermont, comparable to those charged in Rhode Island, and 10% - 12% lower than those charged in New Hampshire, Connecticut, and Massachusetts.

Average Annual Premiums

	Individual	Family
United States	\$6,368	\$18,687
Maine	\$6,132	\$17,442
New Hampshire	\$6,670	\$19,230
Vermont	\$6,651	\$18,552
Massachusetts	\$7,031	\$21,053
Rhode Island	\$7,048	\$18,387
Connecticut	\$7,012	\$20,020

EMPLOYER SPONSORED HEALTH INSURANCE PLANS NEW ENGLAND STATES 2017

Average Annual Deductibles

	Individual	Family
United States	\$1,808	\$3,396
Maine	\$2,305	\$4,032
New Hampshire	\$2,303	\$4,381
Vermont	\$1,926	\$3,632
Massachusetts	\$1,479	\$2,747
Rhode Island	\$1,808	\$3,481
Connecticut	\$1,924	\$4,008

Source: "Changes in Employer Sponsored Health Insurance at the State Level, 2013-2017", State Health Access Data Assistance Center, University of Minnesota, for the National Conference of State Legislatures, using data from the Agency for Healthcare Research and Quality's Medical Expenditure Panel Survey - Insurance Component.

Individuals with Private Health Insurance, Age 0-64
 Allowed Payments Per Member Per Month
 2015-2017

<u>Category</u>	<u>Maine</u>		<u>Average Increase</u>
	<u>2015</u>	<u>2017</u>	
Hospital - Inpatient	\$ 61.98	\$ 70.01	6.2%
Hospital - Outpatient	126.66	134.93	3.2%
Professional Services	105.74	108.29	1.1%
Pharmacy	<u>57.71</u>	<u>70.19</u>	<u>10.3%</u>
Total	\$ 350.58	\$ 385.43	4.9%

Source: MHDO All Claims Data Base/On Point Health Data

“Cost Shifting”

Factors Impacting Hospital Prices

- Services offered
- Cost of production
 - Scale
- Payor mix
- Payment rates
- Expected level of activity
- Desired operating margin



Maine Medical Center (Consolidated)

FY18

Payor Mix	<u>100%</u>	49%	13%	33%	5%		
		Medicare	Medicaid	Commercial Ins./Other	Free Care Bad Debt		
Gross Revenue		\$1406M	\$359M	\$954M	\$138M	Gross Revenue	<u>Total</u> \$2,857.3M
Net Payment Cost	46.4%			214M Discount		Net Payment Cost	\$1,325.7M
	43.9%			740M Payment			
		617M Cost	157M Cost	419M Cost	60M Cost		
		476M Payment	110M Payment				
Gain (Loss)	<u>2.5%</u>	<u>-\$141M</u>	<u>-\$47M</u>	<u>\$321M</u>	<u>-\$60M</u>	Gain (Loss)	<u>\$72.2M</u>
% Payment to Charge		34%	31%	78%	0%		46%
% Payment to Cost		77%	70%	177%	0%		106%

Maine Medical Center FY2018

	<u>Medicare</u>	<u>Medicaid</u>	<u>Payors</u>	<u>Bad Debt</u>	<u>Total</u>
Charges	\$1,406M	\$359M	\$945M	\$138M	\$2,857M
Payor Mix	49%	13%	33%	5%	100%
Cost	\$617M	\$157M	\$419M	\$60M	\$1,253M
Payment	\$476M	\$110M	\$740M	-	\$1,326M
Surplus (Deficit)	(\$141M)	(\$47M)	\$321M	(\$60M)	\$72M
Payment/Charges	34%	31%	78%	-	46%
Payment/Cost	77%	70%	177%	-	106%
	<u>Private Payors - Payment/Cost</u>			=	2.3
	Medicare - Payment/Cost				



Maine Medical Center (Consolidated)

FY18

Payor Mix	<u>100%</u>	49%	13%	33%	5%		
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% Payment to Charge		34%	31%	78%	0%		46%
% Payment to Cost		77%	70%	177%	0%		106%

Scenario #1

Increase Medicare to 55% of Charges and Cost

	<u>Medicare</u>	<u>Medicaid</u>	<u>Private Payors</u>	<u>Free Care Bad Debt</u>	<u>Total</u>
Charges	\$1,571M	\$357M	\$800M	\$129M	\$2,857M
Payor Mix	55%	12.5%	28%	4.5%	100%
Cost	\$689M	\$157M	\$351M	\$56M	\$1,253M
Payment	\$534M	\$110M	\$624M	-	\$1,264M
Surplus (Deficit)	(\$155M)	(\$47M)	\$273M	(\$60M)	\$11M
Payment/Charges	34%	31%	78%	-	44%
Payment/Cost	77%	70%	177%	-	101%

Scenario #1

A 9.8% price increase would be required to offset the impact of such a change in payor mix. As indicated below, the payments received from private payors would increase by \$61M from \$624M to \$685M. As indicated below, \$685M would represent 195% the cost of the services received and approximately 2.5 times the amounts allowed by Medicare.

Charges	\$2,857M
Price Increase	x 1.098
	\$3,137M
Private Payors	x .28
	\$878M
Payment/Charges	.78
	\$685M

Payment/Cost	\$685M/\$351M = 1.95
<u>Private Payors</u>	<u>1.95</u>
Medicare	.77 = 2.5

Scenario #1

Let me emphasize that:

- 1) I do not believe there is a Board of Trustees or management team that would countenance an increase of this magnitude; and
- 2) Such an increase would be well above the maximum increase specified in many hospitals' contracts with private payors

I have provided this example to help illustrate one of the principal reasons why hospital prices vary as much as they do. There already are hospitals in Maine that provide 55% or more of their care to Medicare beneficiaries. I expect a number of them also provide more than 12% or 13% of their care to Medicaid beneficiaries. Their prices reflect their need to recover at least a substantial part of the increasing shortfalls from a smaller and decreasing cohort of privately insured patients. Their unwillingness or inability to do so helps explain why almost half of Maine's hospitals have reported operating losses in recent years.

Scenario #2
Limit Private Payors' Obligations to 120% Medicare Allowances

Maine Medical Center
FY2018
ADJUSTED

Medicare Payments	77% of Cost
Adjustment	x 1.2
Cap on Private Payors' Obligations	92% of Cost
Private Payor's Cost	\$419M
Cap on Private Payors' Obligations	\$386M
Actual Payments	\$740M
Allowed Payments	\$386M
Impact on Total Revenue	(\$354M)
Actual Surplus (Deficit)	\$72M
Adjusted Surplus (Deficit)	(\$282M)

Scenario #3
Limit Private Payors Obligations to 140% Medicare Allowances

Maine Medical Center
FY2018
ADJUSTED

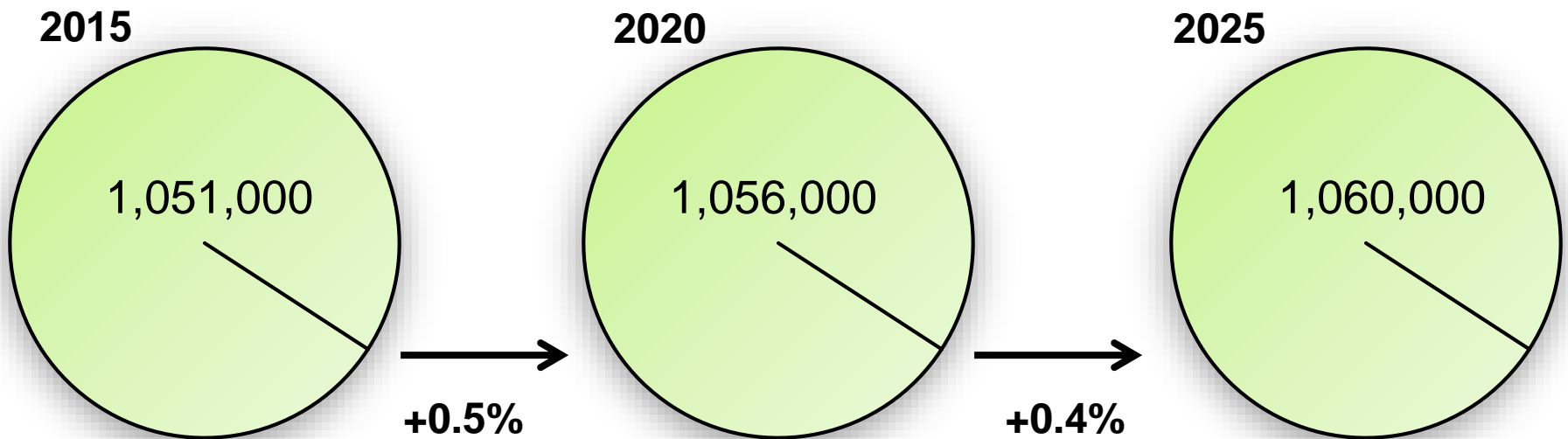
Medicare Payments	77% of Cost
Adjustment	x 1.4
Cap on Private Payors' Obligations	108% of Cos
Private Payor's Cost	\$419M
Cap on Private Payors' Obligations	\$452M
Actual Payments	\$740M
Allowed Payments	\$452M
Impact on Total Revenue	(\$288M)
Actual Surplus (Deficit)	\$72M
Adjusted Surplus (Deficit)	(\$216M)

The Coming Challenges

- Aging of our population
- Depletion of the Medicare Trust Fund
- Labor Shortages

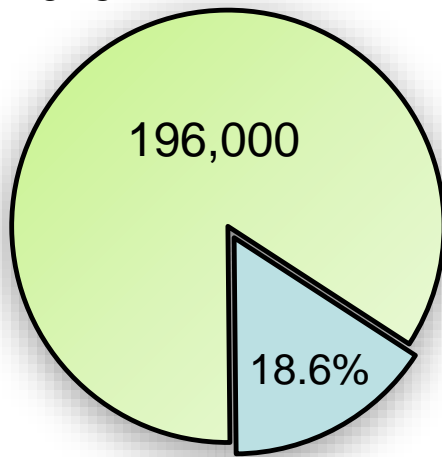
Population

The population of the twelve Counties in Maine and New Hampshire that Constitutes MaineHealth's Primary Service Area is not expected to increase materially during the current decade.

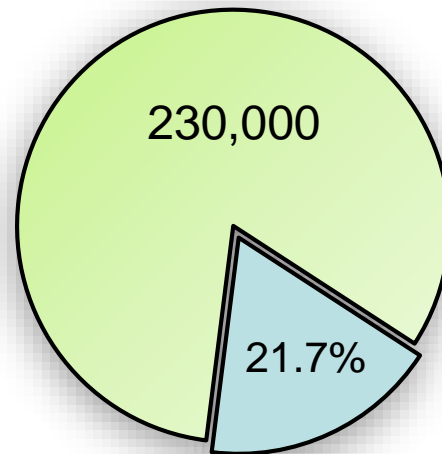


However, the population age 65 and older is expected to increase rapidly.

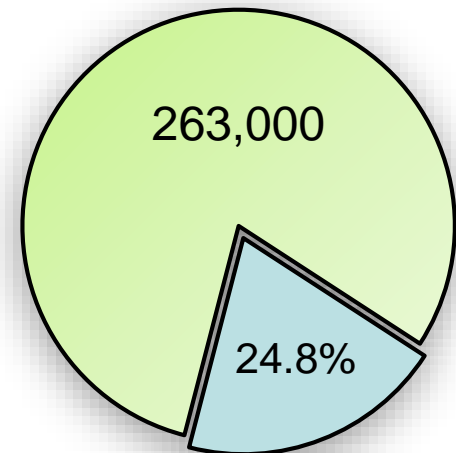
2015



2020

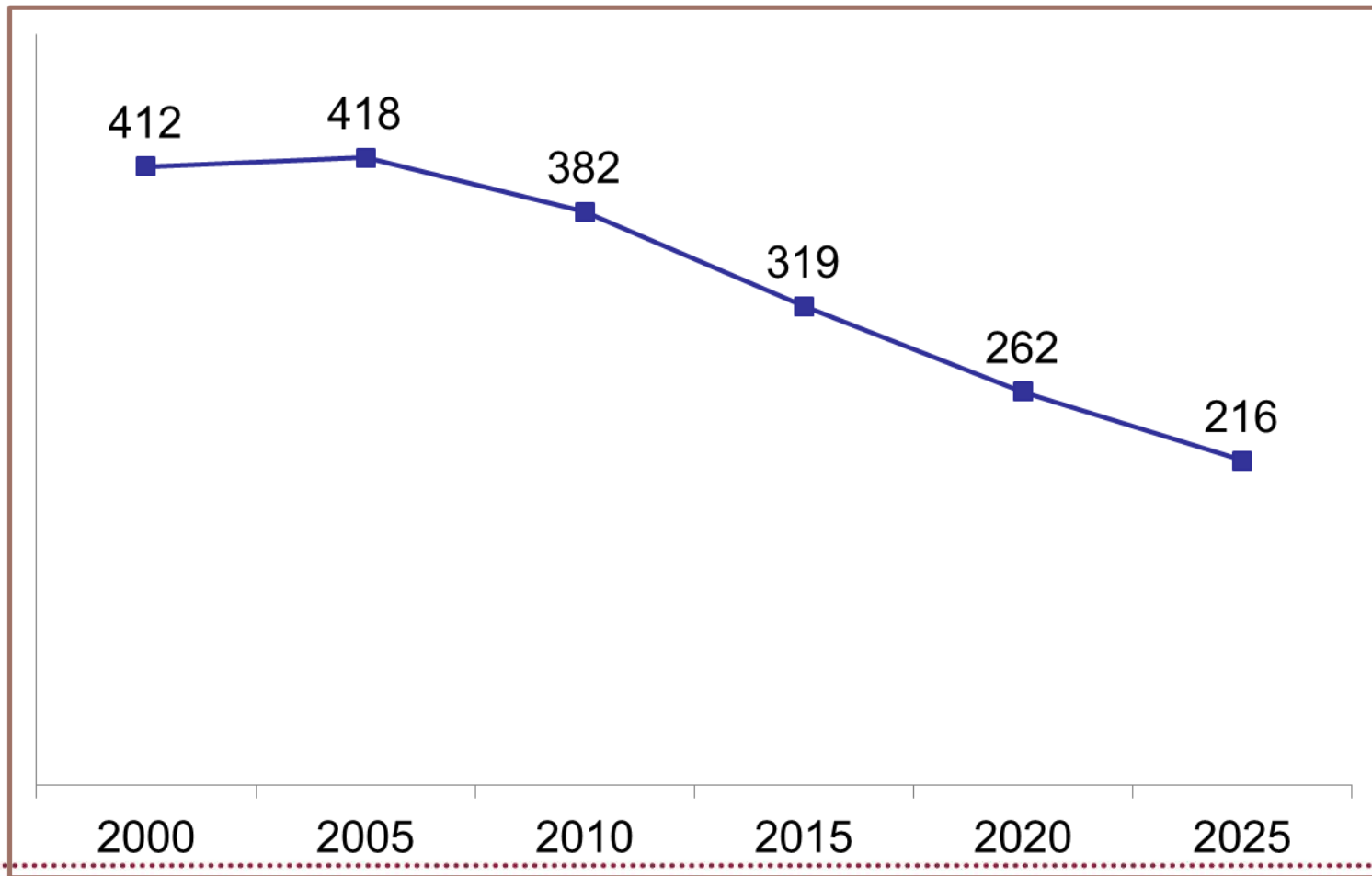


2025



Our health system will become significantly more dependent on the Medicare Program as the Federal government makes a determined effort to reduce Medicare spending.

Projected Trend in Maine's Elderly Dependency Ratio, 2000 – 2025
The Number of Persons of Working Age (20-64) for Each 100 Persons Age 65+



Concluding Remarks

Questions?