Health Reform Oversight Committee

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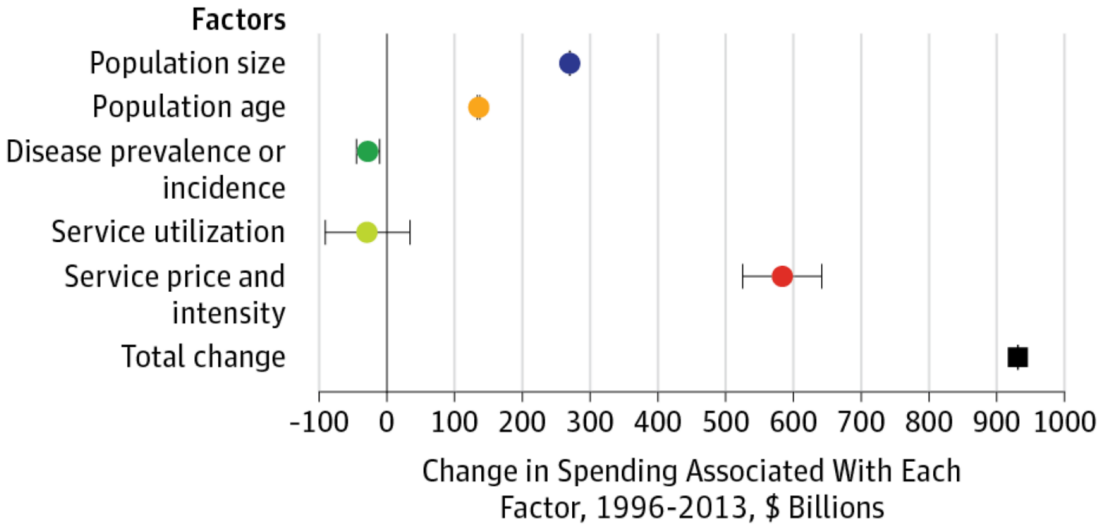
Factors Associated With Increases in US Health Care Spending, 1996-2013



NHE Increased 155% From 2000-2017

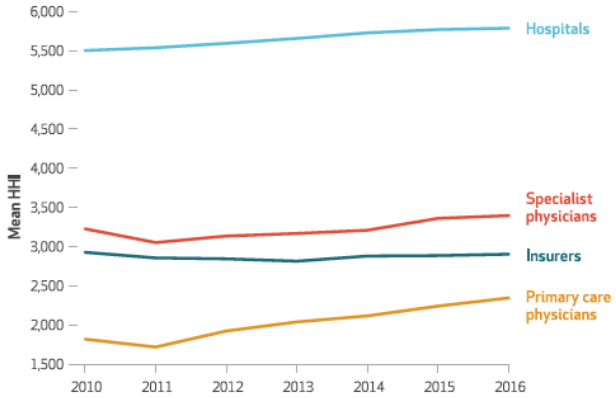
Changes in Annual Spending Associated With Each Factor in the 5-Factor Decomposition, 1996-2013. Data markers to the left of the black vertical line (no change) indicate factors associated with decreased spending; to the right of the line, factors associated with increased spending. Black square data marker indicates the total spending change between 1996 and 2013. Error bars indicate uncertainty intervals.

JAMA. 2017;318(17):1668-1678. doi:10.1001/jama.2017.15927

Provider Consolidation

EXHIBIT 1

Mean Metropolitan Statistical Area Herfindahl-Hirschman Index (HHI) for hospitals, physician organizations, and health insurers, 2010–16



SOURCES Author's analysis of data from the American Hospital Association Annual Survey, the SK&A Office Based Physicians Database from IMS Health, and the Managed Market Surveyor File from HealthLeaders InterStudy. **NOTES** The HHI calculations are explained in the text. Specialist physicians include providers in the fields of cardiology, oncology or hematology, radiology, and orthopedics. Insurers include preferred provider organization, exclusive provider organization, point-of-service plan, and health maintenance organization products in both the group and non-Marketplace individual markets, as explained in the text. HHIs for hospitals and specialist physician organizations increased 5.2 percent; for insurers, they declined 0.9 percent; and for primary care physician organizations, they increased 28.8 percent.

HHI > 2500 Highly Concentrated by DOJ and FTC Horizontal Merger Guidelines

In 2016, 90 percent of Metropolitan Statistical Areas (MSAs) were highly concentrated for hospitals, 65 percent for specialist physicians, 39 percent for primary care physicians, and 57 percent for insurers. Ninety-one percent of the 346 MSAs analyzed may have warranted concern and scrutiny because of their concentration levels in 2016 and changes in their concentrations since 2010.

Fulton BD. Health Aff (Millwood). 2017 Sep 1;36(9):1530-1538. doi: 10.1377/hlthaff.2017.0556.

Physician Consolidation

Detailed Summary: Five-Year Period Through January 2018

National Trends

Measure	July 2012	January 2018	% Increase
Number of Hospital-Employed Physicians (thousands)	94.7	168.8	78.2%
% of Hospital-Employed Physicians	25.8%	44.0%	70.8%
Number of Hospital-Owned Practices (thousands)	35.7	80	124.4%
% of Hospital-Owned Practices	13.6%	31.2%	128.7%

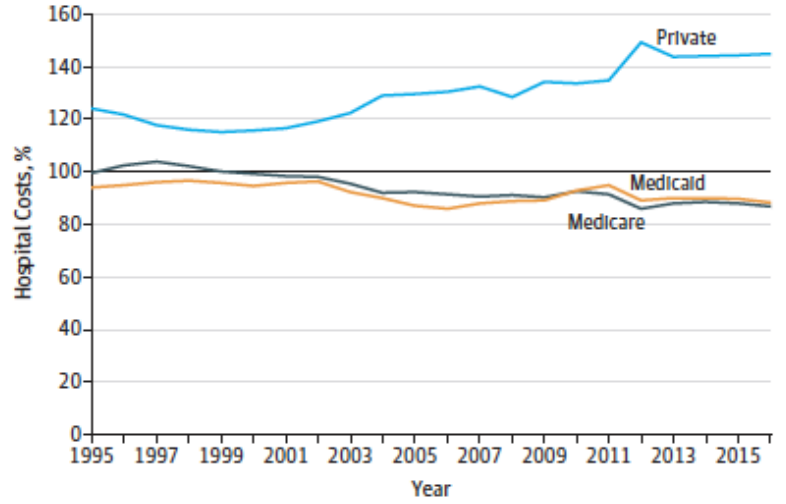
Regional Trends

Measure	Region	July 2012	January 2018	% Increase
% of Hospital-Employed Physicians	Northeast	22.1%	45.7%	107.0%
	South	21.0%	39.2%	86.8%
	Midwest	34.3%	55.1%	60.7%
	West	25.0%	41.2%	64.8%
	AK & HI	18.3%	34.1%	86.1%
% of Hospital-Owned Practices	Northeast	13.2%	31.6%	139.4%
	South	12.2%	28.5%	133.6%
	Midwest	20.1%	38.4%	91.0%
	West	11.3%	28.0%	147.8%
	AK & HI	7.3%	29.4%	302.7%

http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/021919-Avalere-PAI-Physician-Employment-Trends-Study-2018-Update.pdf?ver=2019-02-19-162735-117

Payments

Figure. Payment Rates as a Percentage of Hospital Costs for Public and Private Forms of Health Insurance in the United States

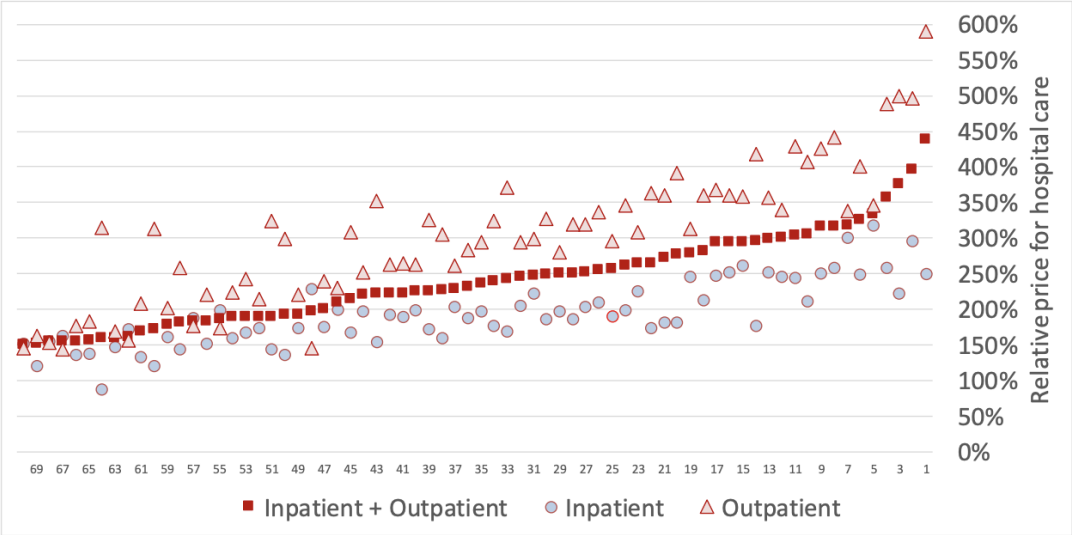


In response to market leverage, hospitals have increased their prices for private payers and increased their cost structure relative to the year 2000.

Schulman KA, Milstein A. The Implications of “Medicare for All” for US Hospitals. *JAMA.* 2019;321(17):1661-1662.

Hospital Services

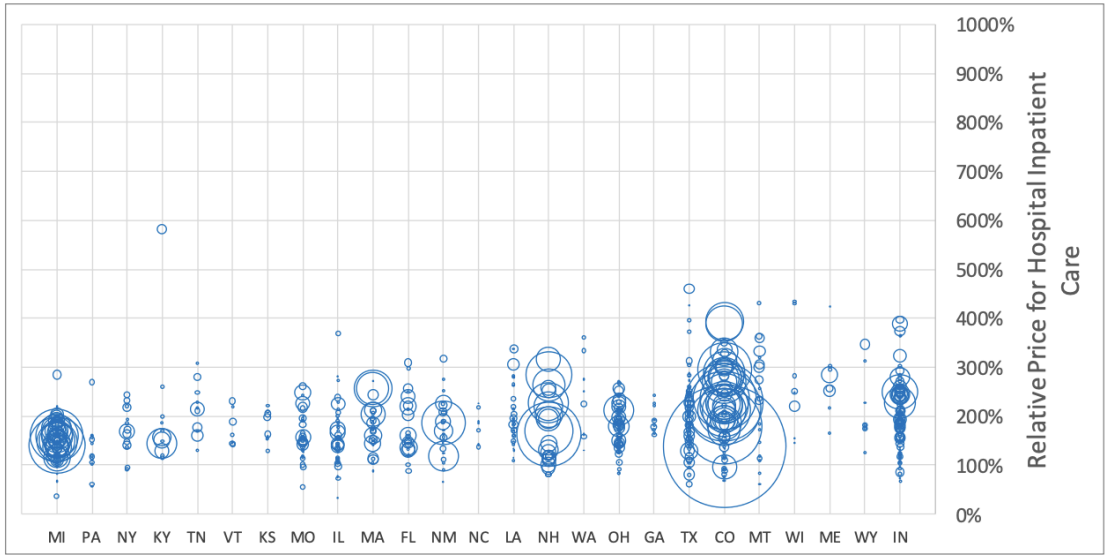
Figure 4.4. Relative Prices of Hospital Systems in 25 States, 2015–2017



NOTE: Relative prices equal the ratio of the amounts actually paid divided by the amounts that would have been paid—for the same services provided by the same hospitals—using Medicare's price-setting formulas.

White, Chapin and Christopher Whaley, Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely: Findings from an Employer-Led Transparency Initiative. Santa Monica, CA: RAND Corporation, 2019. https://www.rand.org/pubs/research_reports/RR3033.html.

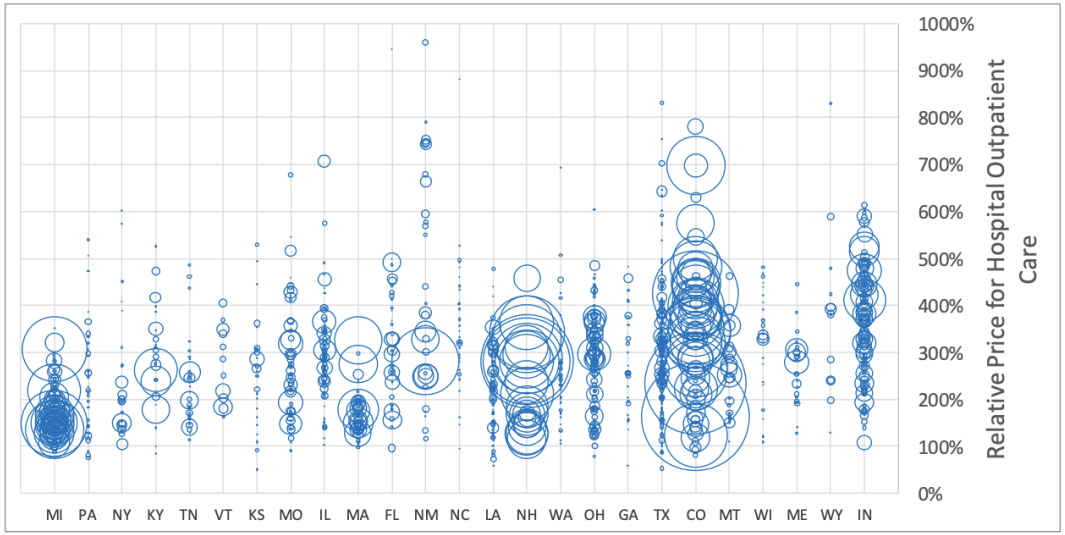
Hospital Inpatient Services



NOTES: Each bubble represents a hospital, and bubble size represents the volume of inpatient services provided by each hospital. Relative prices equal the ratio of the amounts actually paid divided by the amounts that would have been paid—for the same services provided by the same hospital—using Medicare's price-setting formulas. Bubble size is proportional to simulated Medicare payments for each hospital for inpatient stays, which reflects both the number of stays and the intensity of those stays. Hospitals are grouped on the horizontal axis based on their state, with states ranked left to right in ascending order of overall average relative price.

White, Chapin and Christopher Whaley, Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely: Findings from an Employer-Led Transparency Initiative. Santa Monica, CA: RAND Corporation, 2019. https://www.rand.org/pubs/research_reports/RR3033.html.

Hospital Outpatient Services



NOTES: Each bubble represents a hospital, and bubble size represents the volume of outpatient services provided by each hospital. Relative prices equal the ratio of the amounts actually paid divided by the amounts that would have been paid—for the same services provided by the same hospital—using Medicare's price-setting formulas. Bubble size is proportional to simulated Medicare payments for each hospital for outpatient services, which reflects both the number of services and the intensity of those services. Hospitals are grouped on the horizontal axis based on their state, with states ranked left to right in ascending order of overall average relative price.

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Potential Approaches

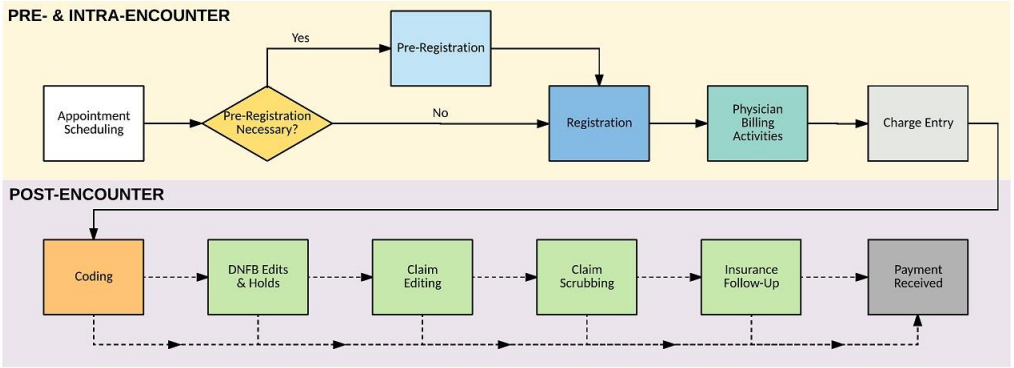
1) Address Hospital/System Strategy
2) Reduce Administrative Costs
3) Reduce Market Leverage

System Accountability: Balanced Scorecard

Clinical Quality & Internal Business **Goal: Foster enhanced clinical care and new program development to improve quality, patient safety and efficiency.**	**Customer Service** **Goal: Continuously improve customer service for both internal and external customers**
Work Culture **Goal: Continuously improve the work culture consistent with the DUHS value proposition**	**Finances** **Goal: Generate sufficient resources to reinvest in people, technology, buildings, research and education**

Change CEO Compensation from rewarding hospital margins

Non-Value Added Costs: US Billing Process



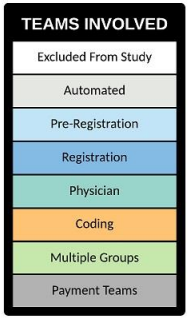


Table 1. Estimated Billing and Insurance-Related Administrative Costs by Activity [a]

Costs and Processing Time	Primary Care Visit		Emergency Department Visit [b]		General Inpatient Stay		Ambulatory Surgery		Inpatient Surgery	
Total processing time, min	13		32		73		75		100	
Total cost	$20.49	100%	$61.54	100%	$124.26	100%	$170.40	100%	$215.10	100%
Cost breakdown by activity										
Pre- and intra-encounter costs										
Registration and preregistration	$3.82	19%	$5.58	9%	$16.48	13%	$16.48	10%	$16.48	8%
Physician time	$6.36	31%	$10.97	18%	$13.29[c]	11%	$51.20	30%	$51.20	24%
Post-encounter costs										
Professional billing	$4.22	21%	$11.72	19%	$4.22[c]	3%	$45.55	27%	$45.55	21%
Hospital billing	—	—	$13.70	22%	$44.43	36%	$17.44	10%	$44.43	21%
Overhead	$6.10	30%	$19.57	32%	$45.84	37%	$39.72	23%	$57.43	27%

[a] Percentages may not sum to 100 because of rounding.
[b] Emergency department visit without hospital admission.
[c] For a general medicine inpatient stay, the billing and insurance-related cost of physician time assumes that auto-population of the EHR after the first inpatient day occurs correctly without subsequent need for physician time or alterations. The cost of professional billing assumes that the incremental cost of additional inpatient days is minimal with respect to the first inpatient day and that physicians are timely with their billing responsibilities, such that all inpatient professional rounding charges are processed and submitted to payers concurrently.

Reduce Market Leverage

POLICY

Battling the Chargemaster: A Simple Remedy to Balance Billing for Unavoidable Out-of-Network Care

Barak D. Richman, JD, PhD; Nick Kitzman, JD; Arnold Milstein, MD, MPH; and Kevin A. Schulman, MD

The theory of implied contracts requires courts to impute the market price. In health care, what is the market price?

Am J Manag Care. 2017 Apr 1;23(4):e100-e105.

Back-Up

Updated CBO Projections

	Actual, 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020–2024	2020–2029
	In Billions of Dollars													
Revenues														
Individual income taxes	1,684	1,698	1,800	1,895	1,981	2,076	2,171	2,272	2,501	2,731	2,838	2,962	9,923	23,227
Payroll taxes	1,171	1,247	1,281	1,332	1,385	1,442	1,505	1,567	1,629	1,692	1,759	1,828	6,945	15,420
Corporate income taxes	205	228	245	268	298	335	371	400	409	398	407	415	1,517	3,547
Other	271	278	293	298	307	309	345	345	361	385	386	415	1,552	3,443
Total	3,330	3,451	3,620	3,792	3,971	4,163	4,392	4,585	4,900	5,206	5,390	5,619	19,937	45,637
On-budget	2,475	2,532	2,677	2,811	2,951	3,104	3,292	3,443	3,714	3,974	4,111	4,291	14,835	34,368
Off-budget[a]	855	919	943	981	1,020	1,059	1,100	1,142	1,186	1,231	1,279	1,328	5,103	11,269
Outlays														
Mandatory	2,523	2,707	2,838	2,962	3,192	3,326	3,446	3,682	3,900	4,101	4,405	4,454	15,764	36,306
Discretionary	1,262	1,332	1,400	1,446	1,481	1,513	1,543	1,584	1,622	1,661	1,706	1,736	7,382	15,690
Net interest	325	372	390	418	456	506	554	602	653	704	758	807	2,325	5,848
Total	4,109	4,411	4,628	4,826	5,130	5,344	5,543	5,869	6,174	6,466	6,868	6,997	25,470	57,845
On-budget	3,261	3,505	3,661	3,794	4,027	4,166	4,287	4,533	4,763	4,969	5,277	5,309	19,935	44,785
Off-budget[a]	849	906	967	1,032	1,102	1,179	1,256	1,336	1,412	1,497	1,591	1,689	5,536	13,059
Deficit (-) or Surplus	-779	-960	-1,008	-1,034	-1,159	-1,181	-1,151	-1,284	-1,274	-1,260	-1,479	-1,378	-5,533	-12,208
On-budget	-785	-972	-984	-983	-1,076	-1,062	-995	-1,090	-1,048	-995	-1,167	-1,017	-5,100	-10,417
Off-budget[a]	6	12	-24	-51	-83	-120	-156	-194	-226	-266	-312	-361	-433	-1,791
Debt Held by the Public	15,750	16,685	17,755	18,841	20,042	21,264	22,457	23,784	25,102	26,407	27,917	29,322	n.a.	n.a.
Debt as a % of GDP	77.8%	78.9%	80.7%	82.4%	84.5%	86.4%	88.0%	89.7%	91.2%	92.4%	94.0%	95.1%		

https://www.cbo.gov/about/products/budget-economic-data#3