

# Employer Health Plans Addressing Hospital Costs



## Employer Strategic Planning Sessions

Marilyn Bartlett, CPA, CMA, CFM, CGMA

Senior Policy Fellow, NASHP

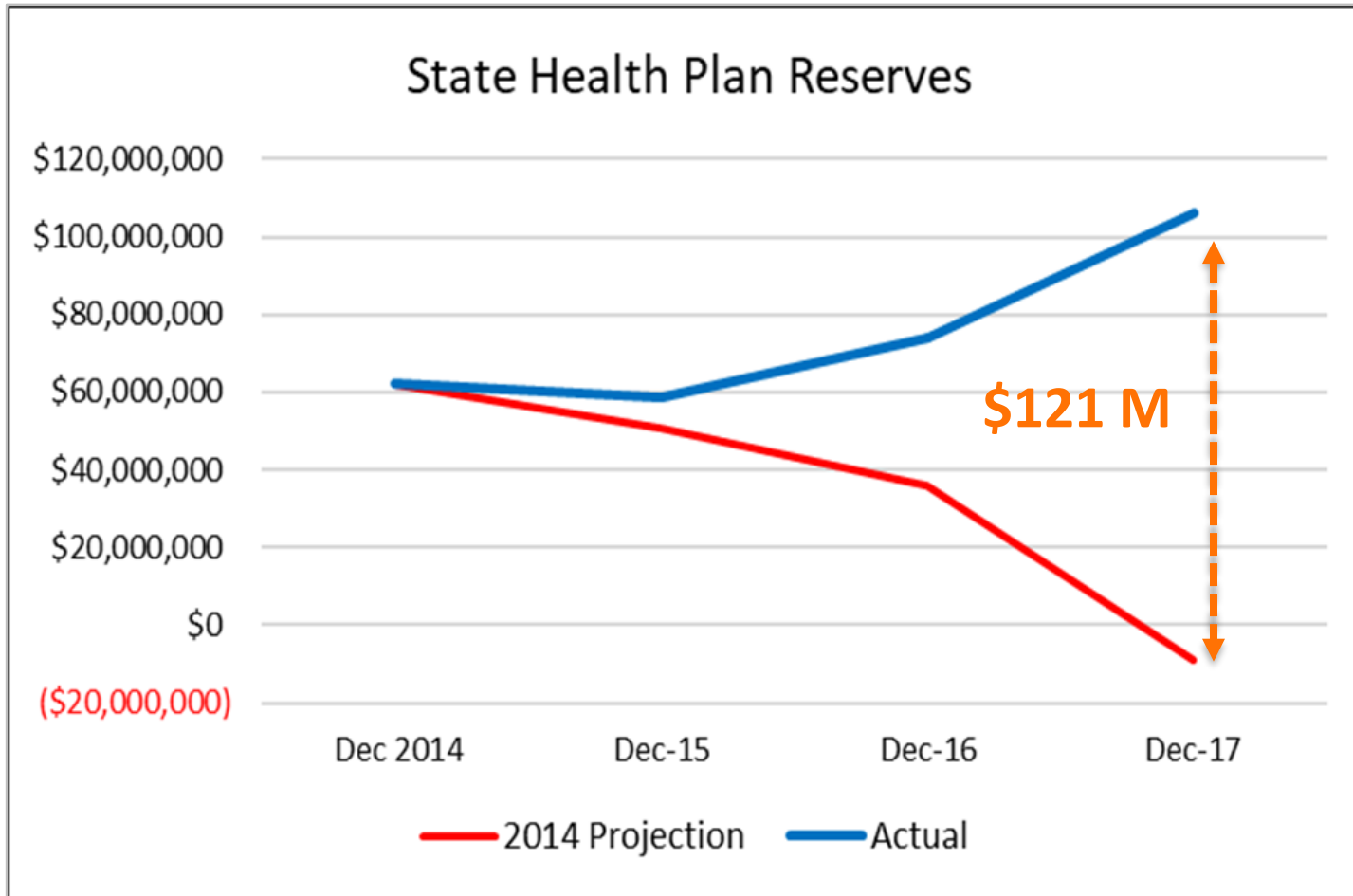
*July 13, 2023*



NATIONAL ACADEMY  
FOR STATE HEALTH POLICY

[nashp.org](https://nashp.org)

# It all started in 2015 – MT State Employee Health Plan



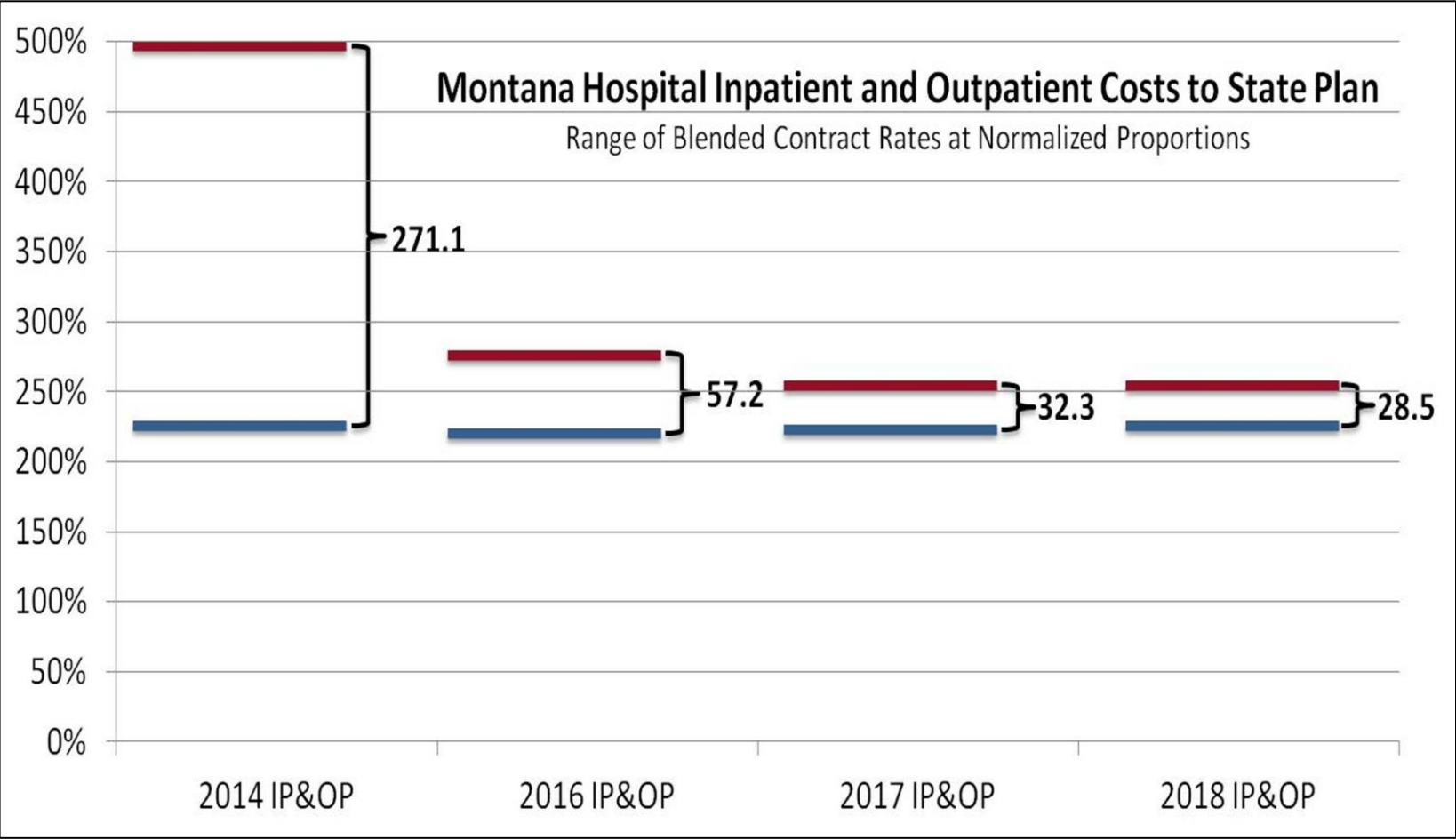
- Reference Based Pricing Contracts with all MT Hospitals
- Transparent, Pass Through RX Benefit. Eliminated High-Cost Pharmacy Chain
- On-site Primary Care Clinics
- New TPA, PBM, Consultant, Data Warehouse, Administration System
- No rate increases for 7 years (2017 - 2023)
- State Employee Pay Raises
- Lowered Health Plan Reserves to increase State Budget:
  - \$25 million (2017)
  - \$27 million (2021)
- Enhanced Plan Benefits

## Why use Medicare rates as the reference?

# Goal = Montana Hospital Reimbursement as Multiple of Medicare for ALL facility services

- Common reference to overcome variation in charge masters and differences in billing practices
- Largest healthcare payer in the world
- Medicare payments intended to be fair (DRG; APC)
- Payments adjusted for '*factors outside hospital control*': wage rates, case-mix severity, outlier and transfer cases, teaching intensity, interest expense, low-income shares....
- 2023 Hospital Medicare margins projected to be -10%; Breakeven for efficient hospitals. [MedPAC March 2023 Report to the Congress: Medicare Payment Policy](#)

# Our Strategy – Reference Based Contracting

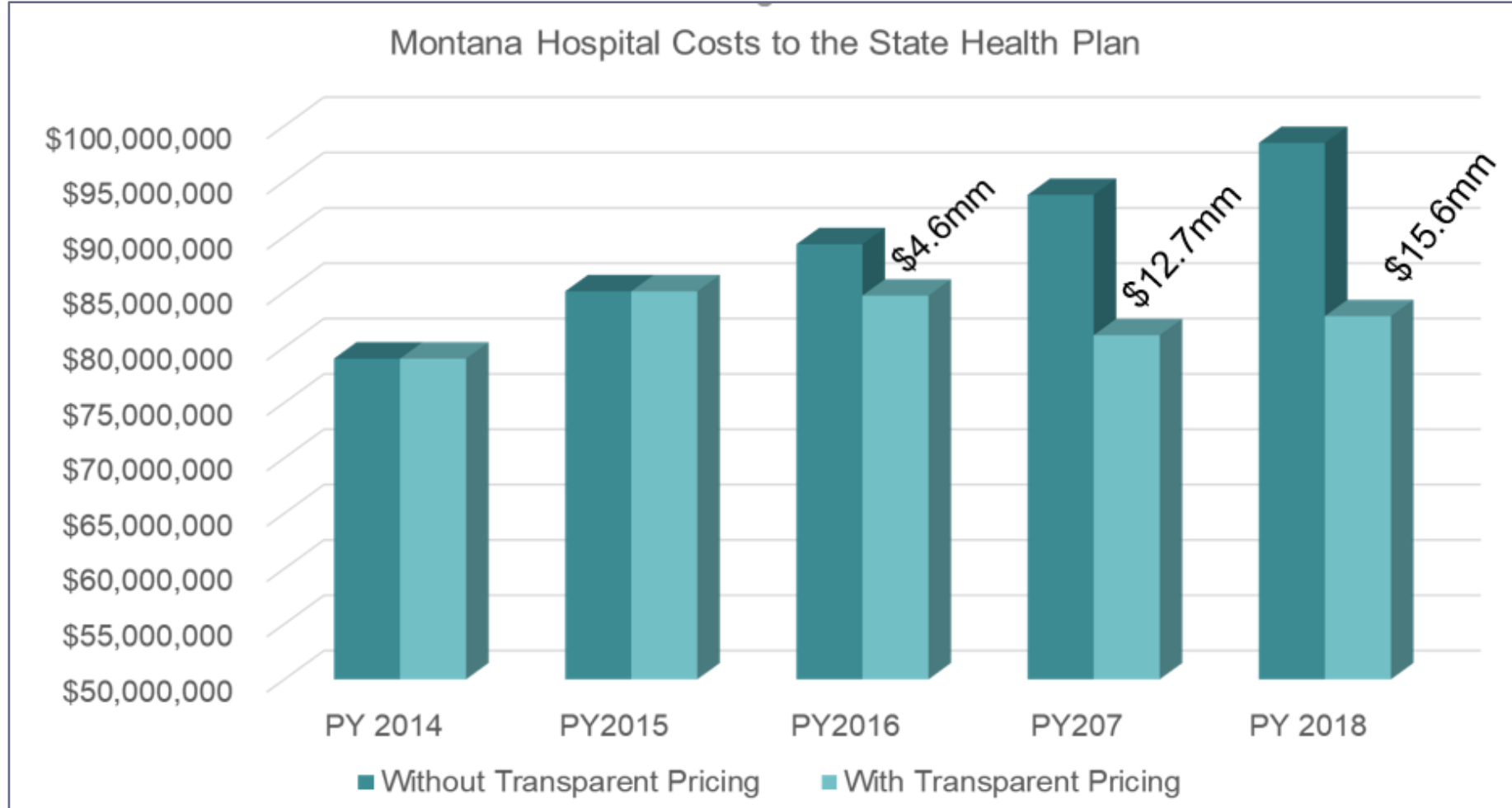


- Data Driven Strategy
- Analyzed claims payments compared to Medicare Rates
- Hospital Financial Analysis (Medicare Cost Reports)
- Breakeven Levels
- Contracts with 11 Acute Care and 47 CAH = No Balance Billing for members

with permission of



# Control over price trend



with permission of



# NASHP Hospital Cost Tool

## (From Montana to National)

- **Online tool health purchasers, including state officials, can use to better understand and address hospital costs and prices**
- **Identifies financial data and benchmarks using Medicare Cost Reports**
  - Hospital specific
  - 11 years of data – 4,600 hospitals (Acute Care and Critical Access). 2011-2021 reporting years. *Version 3.0 in November 2023*
  - MCRs provide hospital level data and are the only national, public source of hospital costs
  - HCRIS Data Base
- **Developed by the National Academy for State Health Policy (NASHP) alongside Rice University, with support from Arnold Ventures. Dashboard by Mathematica.**

# A Louisiana Hospital – Operating Profit Margin



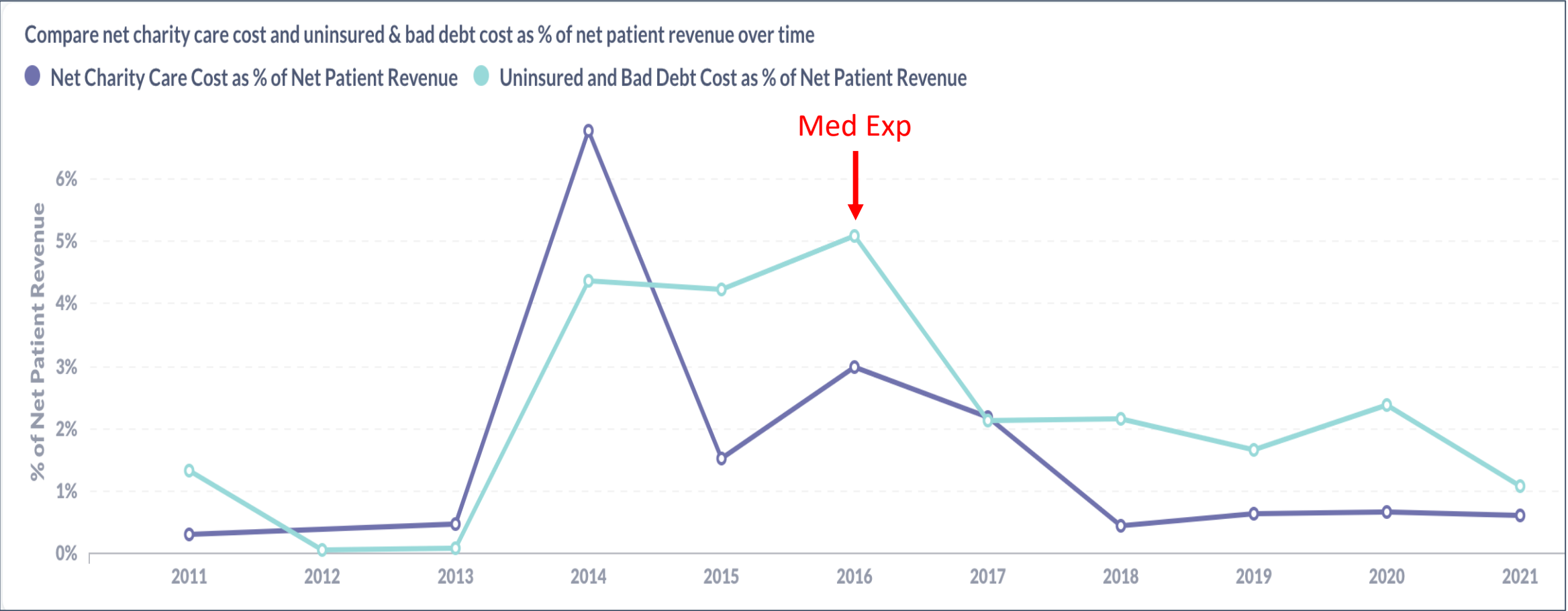
# A Louisiana Hospital – Net Profit Margin



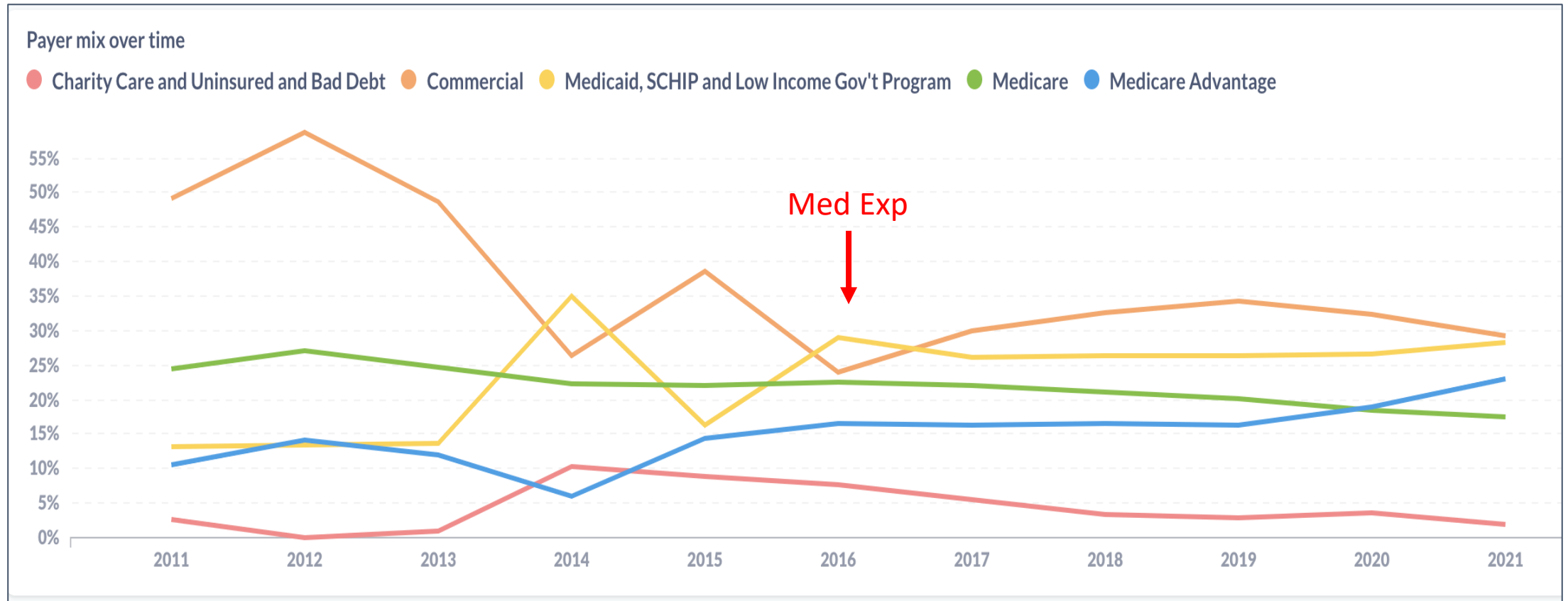
NASHP Hospital Cost Tool, <https://tool.nashp.org/>



# A Louisiana Hospital – Uncompensated Care

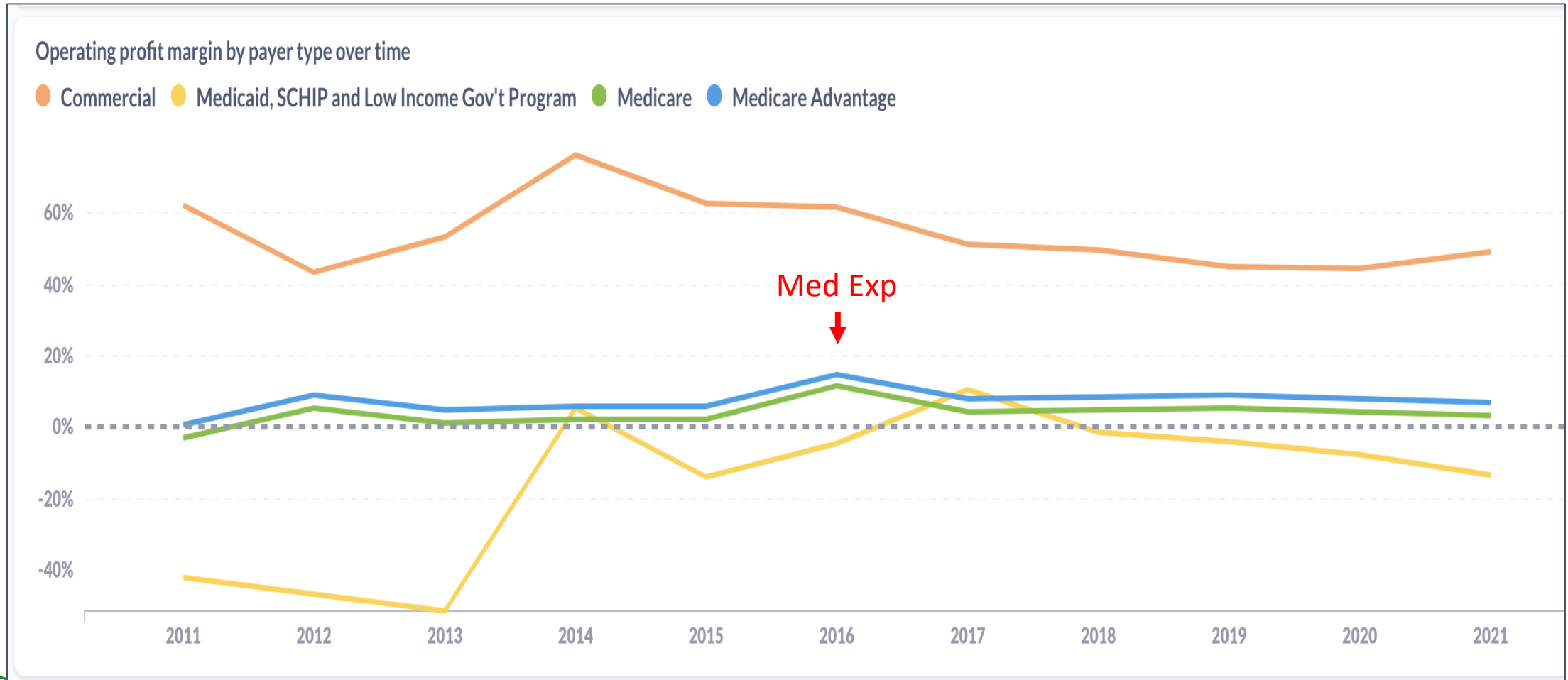


# A Louisiana Hospital – Payer Mix

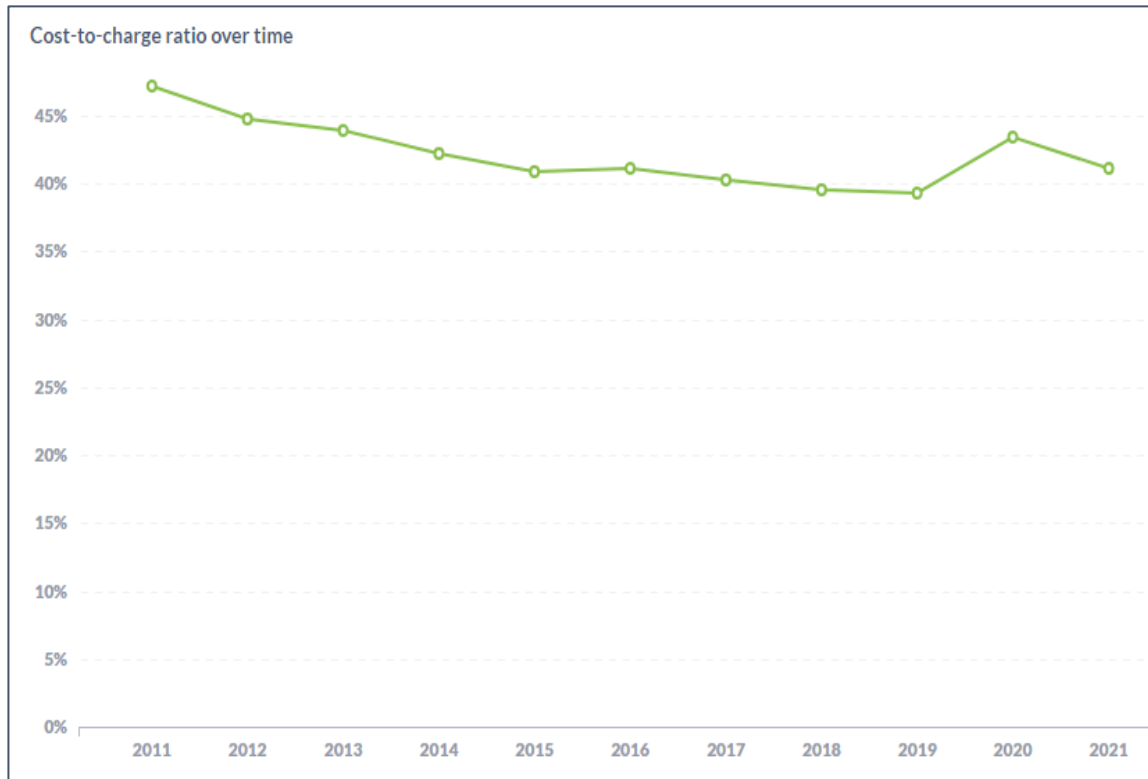


NASHP Hospital Cost Tool, <https://tool.nashp.org/>

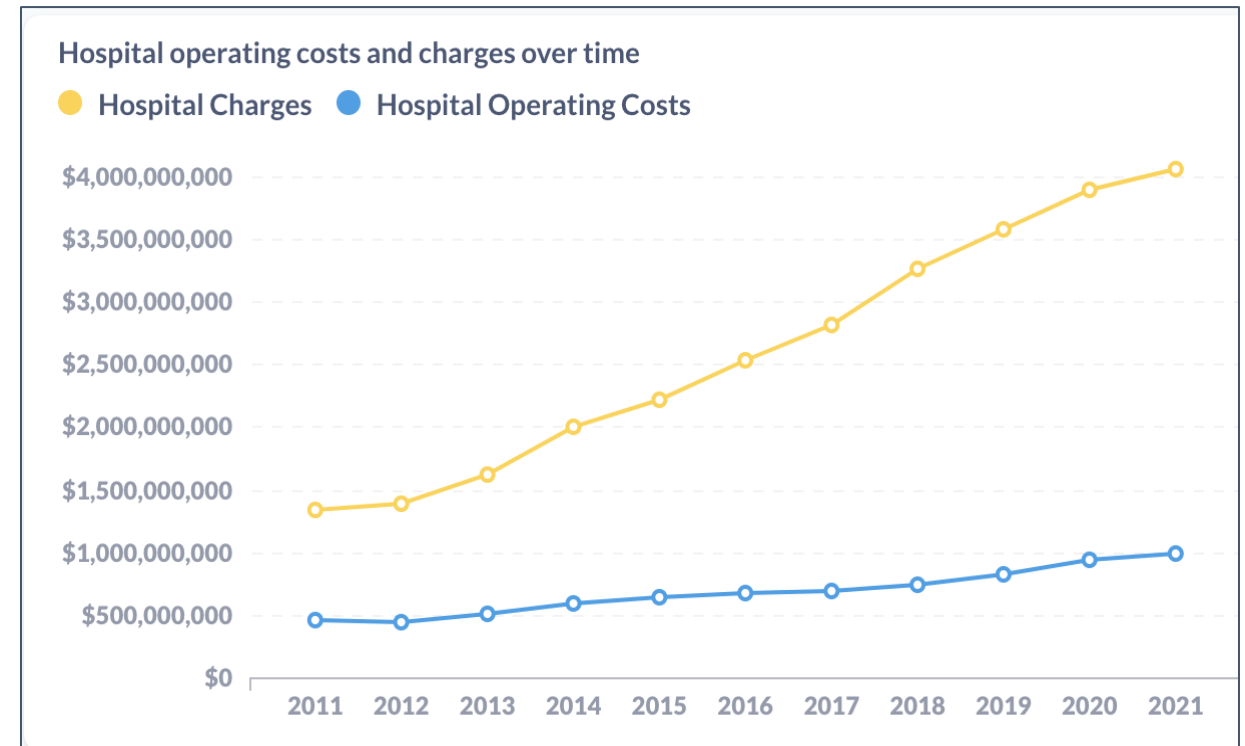
# A Louisiana Hospital – Operating Profit by Payer Type



# A Louisiana Hospital– Hospital Costs & Charges



Costs = Avg Annual Increase 5.5%  
Charges = Tripled in 10 years



Why would you settle for discount off charges vs cost plus?

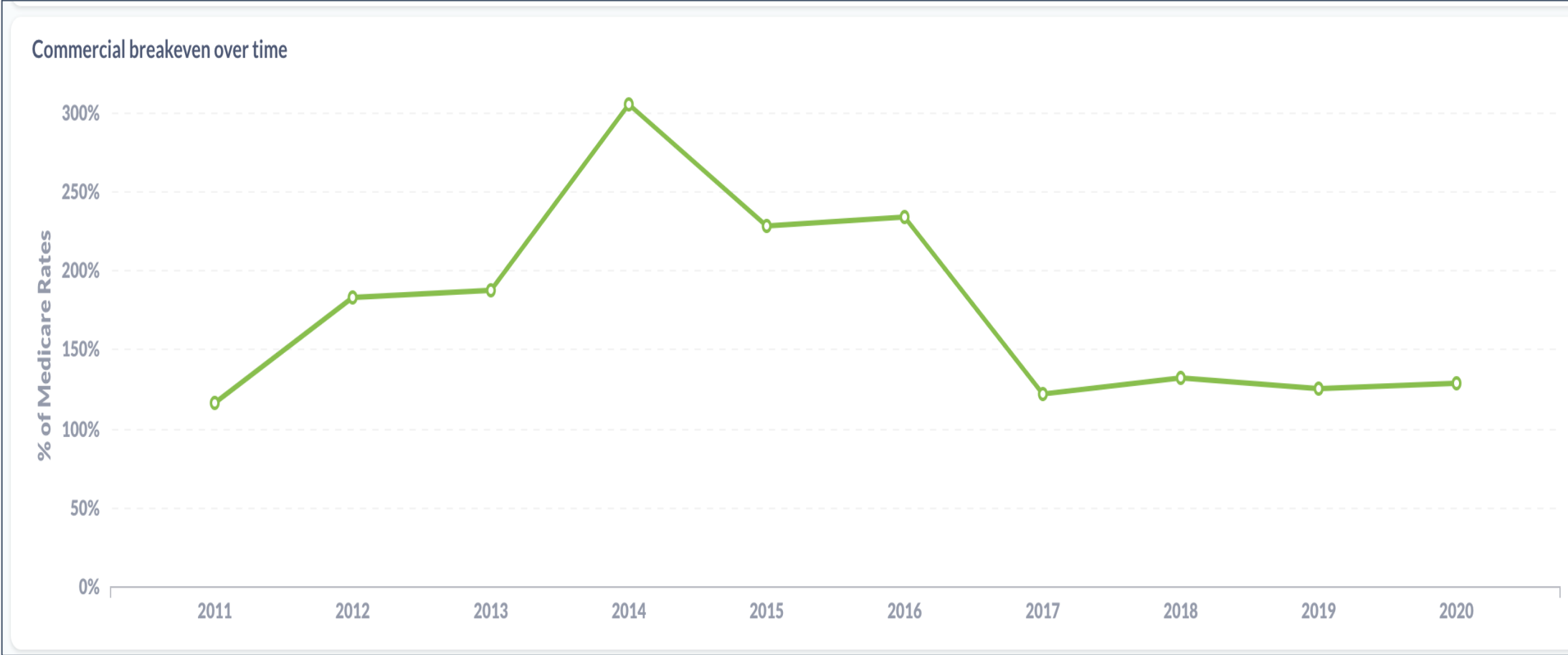
# Breakeven Analysis

---

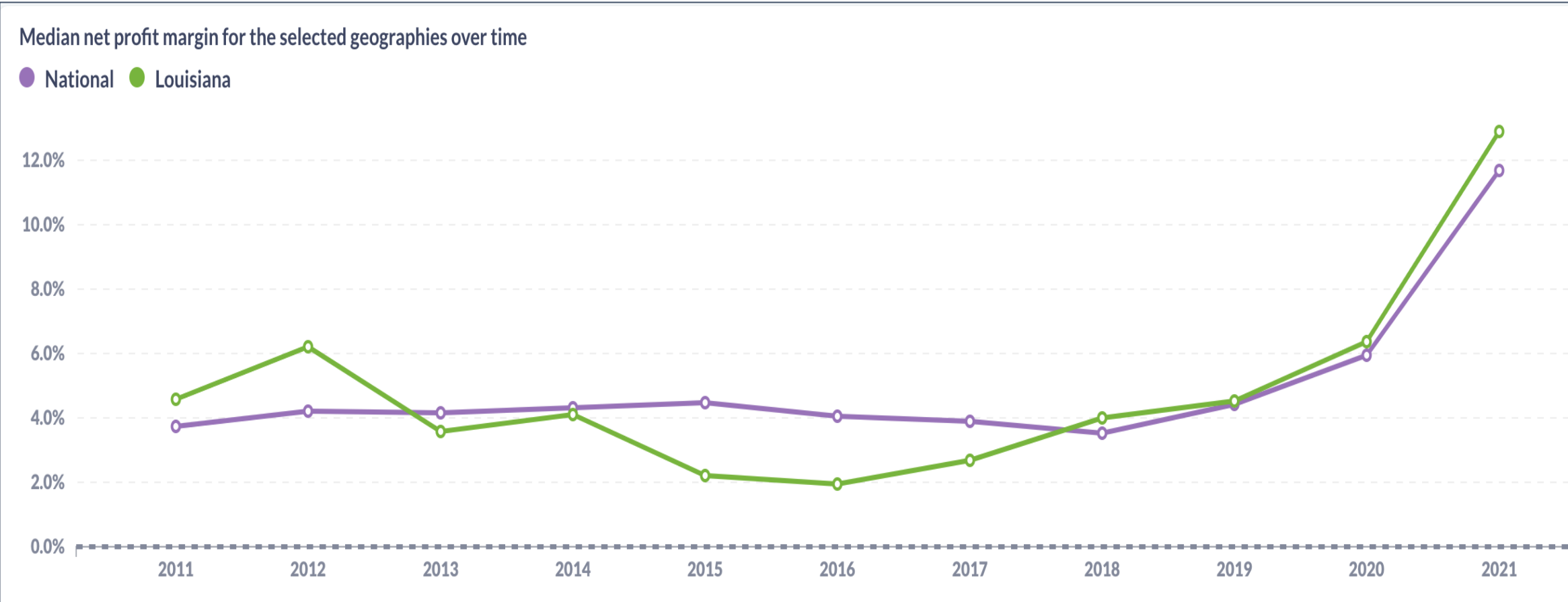
- **NASHP's Hospital Cost Tool** calculates a hospital's breakeven point: **Revenue = Expenses**
- **NASHP Commercial Breakeven** – how much a hospital needs to be reimbursed by commercial payers in order to cover commercial patient hospital costs, losses from other payers, charity care, uninsured, all Medicare disallowed costs, and other income/other expense.
- **Physician Direct Patient Services** not included, Billed and Reimbursed through other methods.
- **Breakeven and Price** expressed as multiples of the individual hospital's Medicare rates for comparability purchases

<https://nashp.org/commercial-breakeven/>

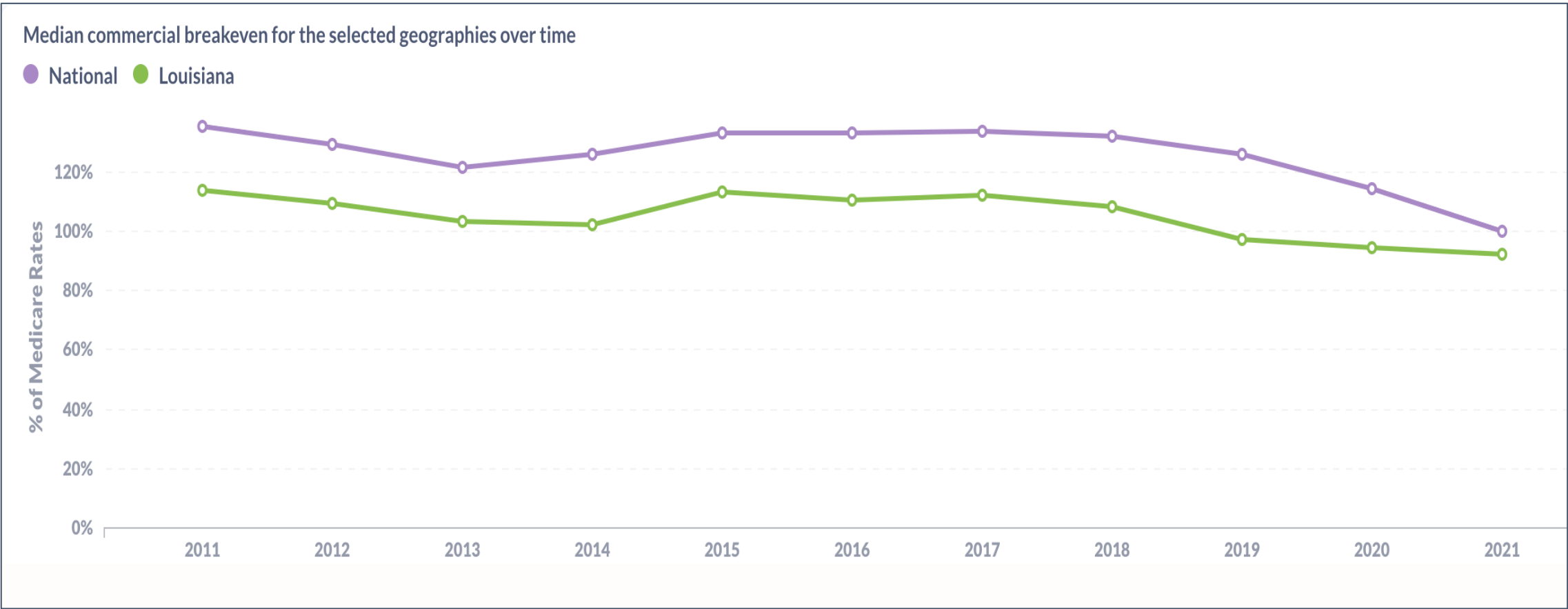
# A Louisiana Hospital – Commercial Breakeven



# Louisiana Hospitals – Median Net Profit Margin



# Louisiana Hospitals – Median Commercial Breakeven





# What is "Value" in Healthcare?

$$\text{VALUE} = \frac{\text{Quality}}{\text{Price}}$$

*Porter and Kaplan, Harvard Business Review*

# Thank you!

Hospital Cost Tool and Calculator

<https://www.nashp.org/policy/health-system-costs>

<https://www.nashp.org/hospital-cost-tool/>



NATIONAL ACADEMY  
FOR STATE HEALTH POLICY

[nashp.org](https://www.nashp.org)



@NASHPhealth



@NASHP