

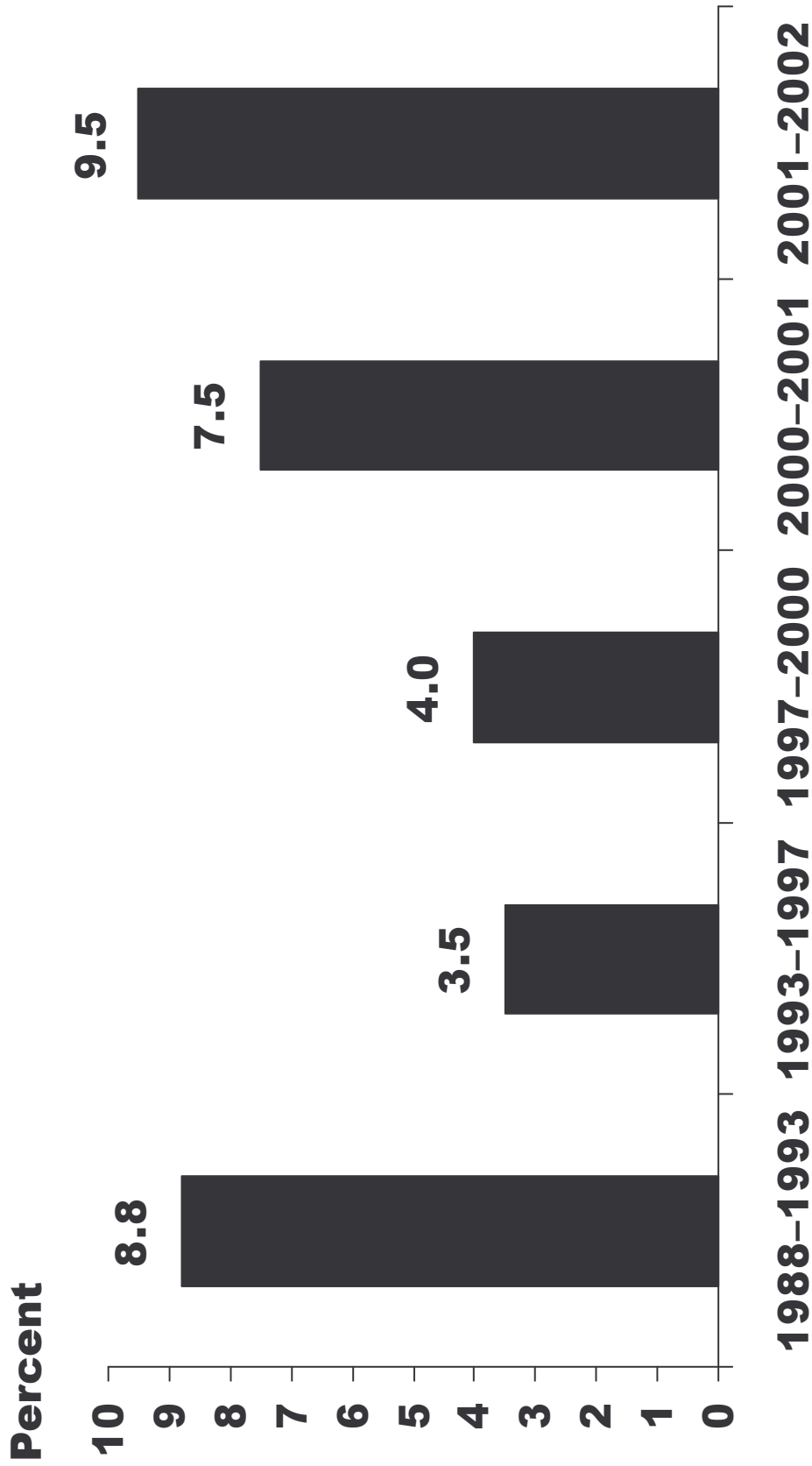


Hospital Pricing and Patient Financial Risk

**Karen Davis
President, The Commonwealth Fund
June 22, 2004**

**Hearing on Pricing Practices of Hospitals
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives**

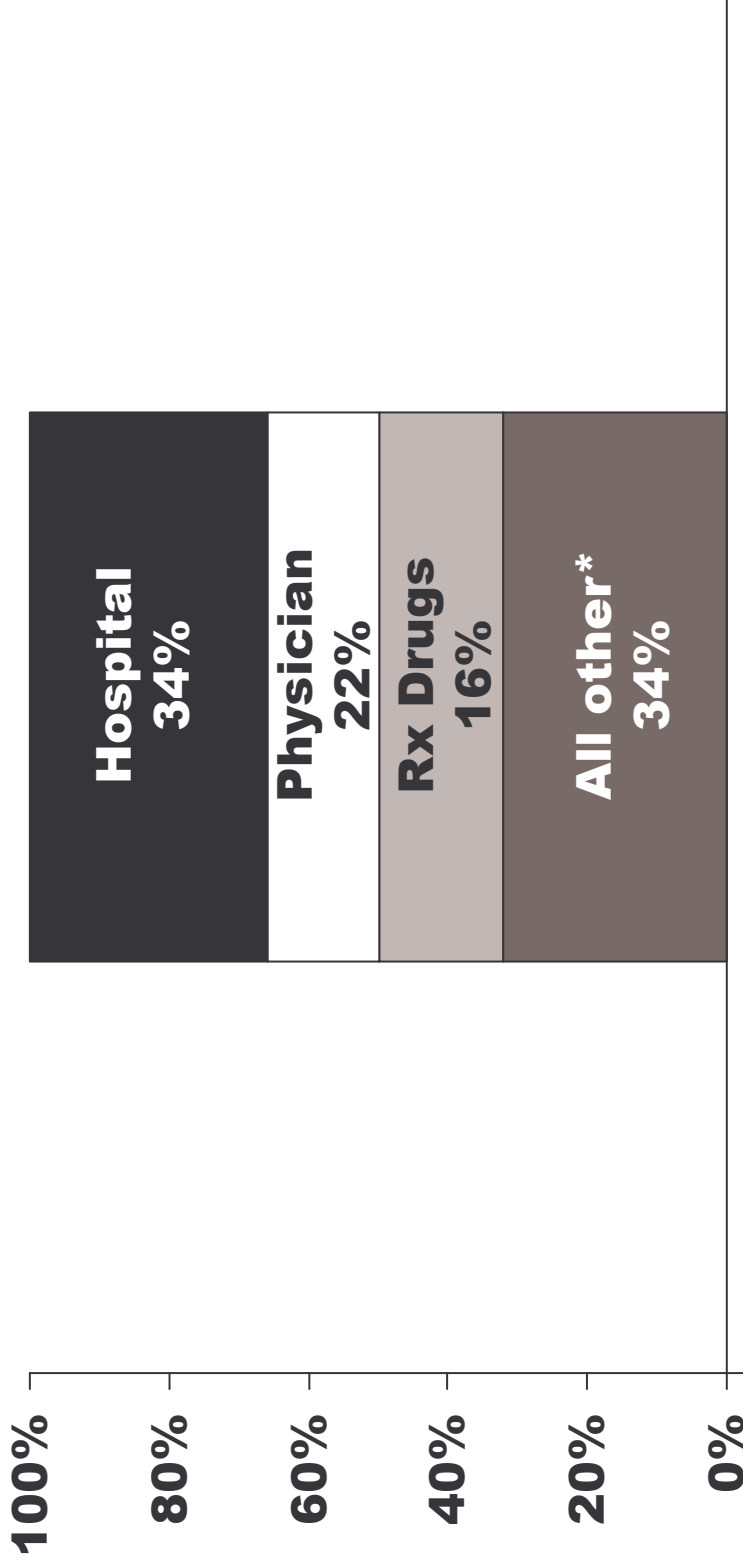
Average Annual Growth in Hospital Costs, 1988-2002



Source: K. Levit et al., "Health Spending Rebound Continues in 2002," *Health Affairs* (January/February 2004): 147-159.



Hospital Costs Are a Major New Source of Increased Outlays, 2002



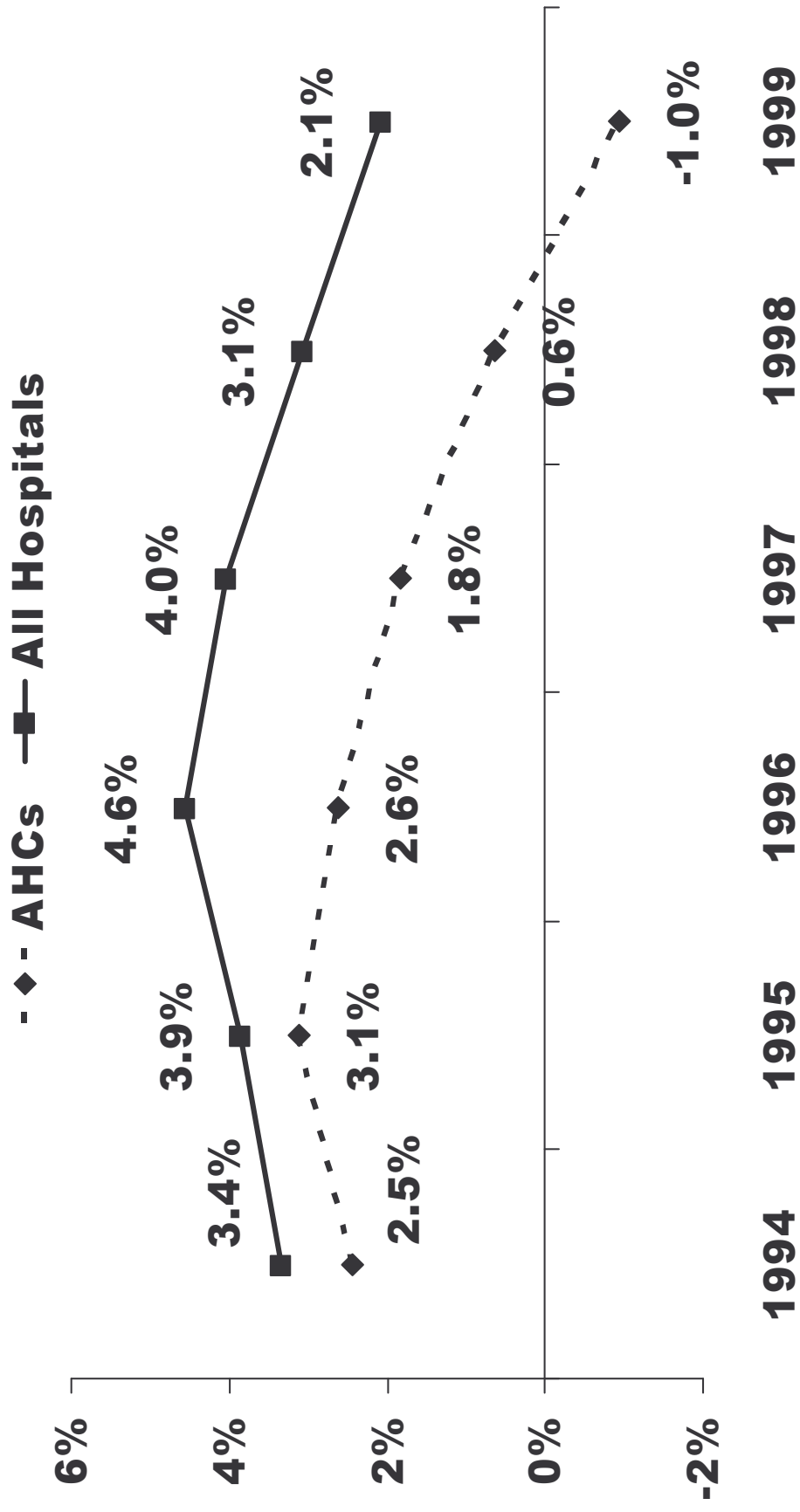
Share of Spending Increase

* Includes spending for dental, other professional, and other personal health care services; home health and nursing home care; durable and other nondurable medical products; administration and insurance net cost; government public health; medical research; and medical construction.

Source: K. Levit et al., "Health Spending Rebound Continues in 2002," *Health Affairs* (January/February 2004): 147–159.



Trends in Operating Margins of All Hospitals and Academic Health Centers, 1994-1999

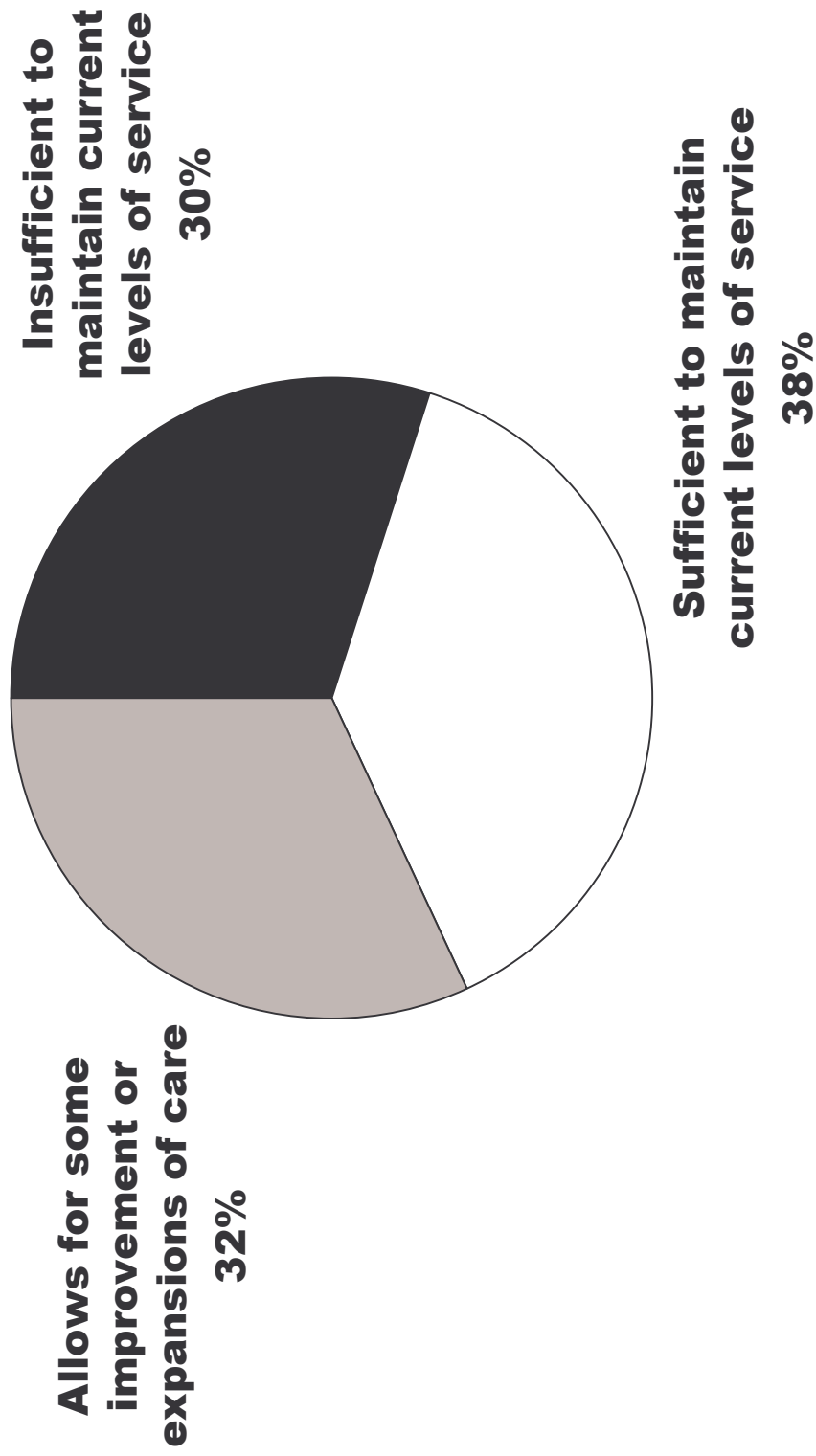


Note: Operating Margin = (Net revenue - Non-operating Revenue - Hospital Expense)/(Net Revenue - Non-Operating Revenue). AHC includes reported community hospitals data only; Total includes reported and imputed community hospital data only.

Source: Commonwealth Fund; Report by Allen Dobson, Lane Koenig, Namrata Sen, Silver Ho, Lewin Group, Analysis of AHA Annual Survey data.

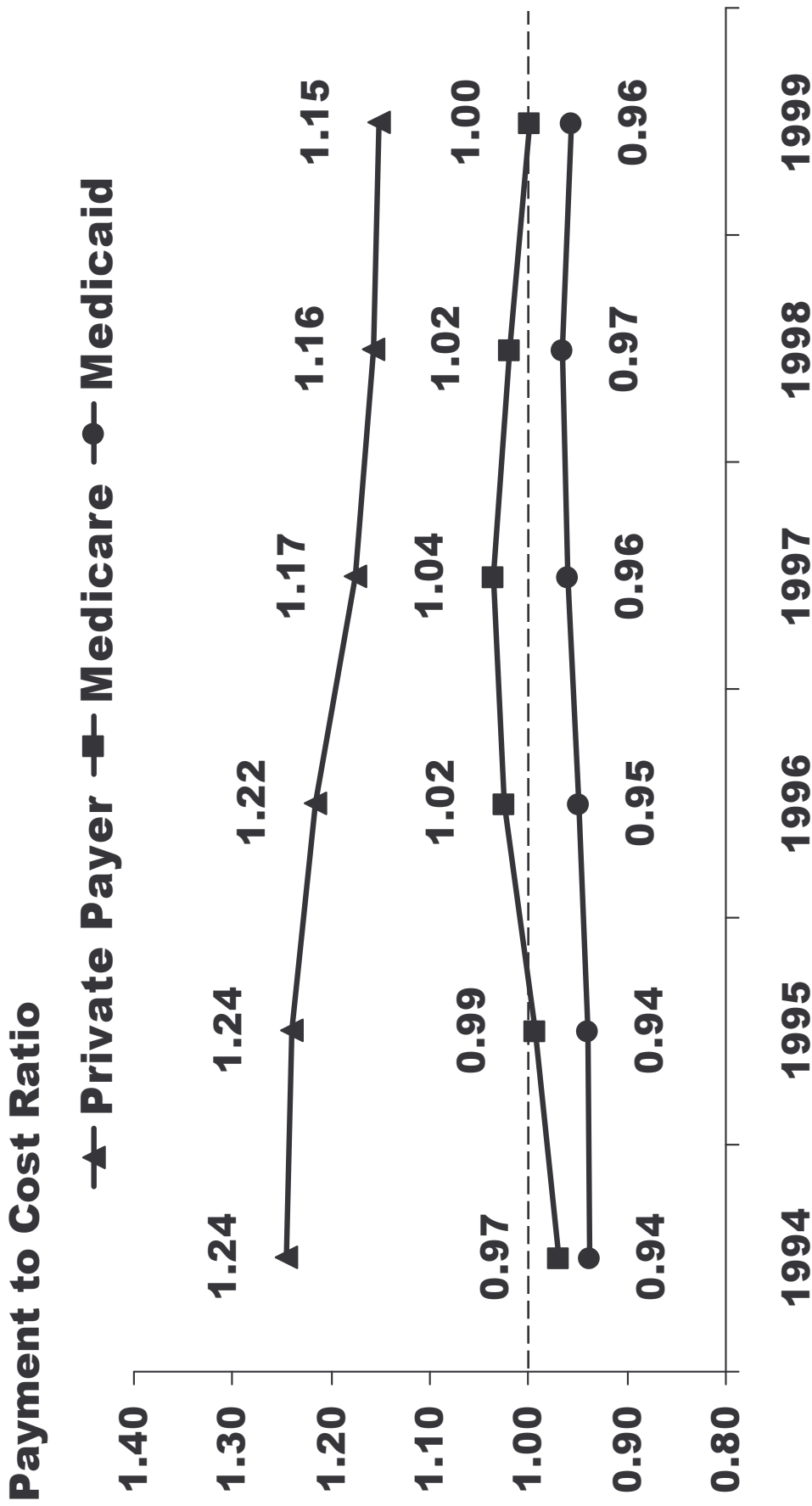


Current Financial Situation of U.S. Hospitals



Source: 2003 Commonwealth Fund International Health Policy Survey of Hospital CEOs.

Trends in Payment to Cost Ratios by Payer for All U.S. Hospitals, 1994-1999



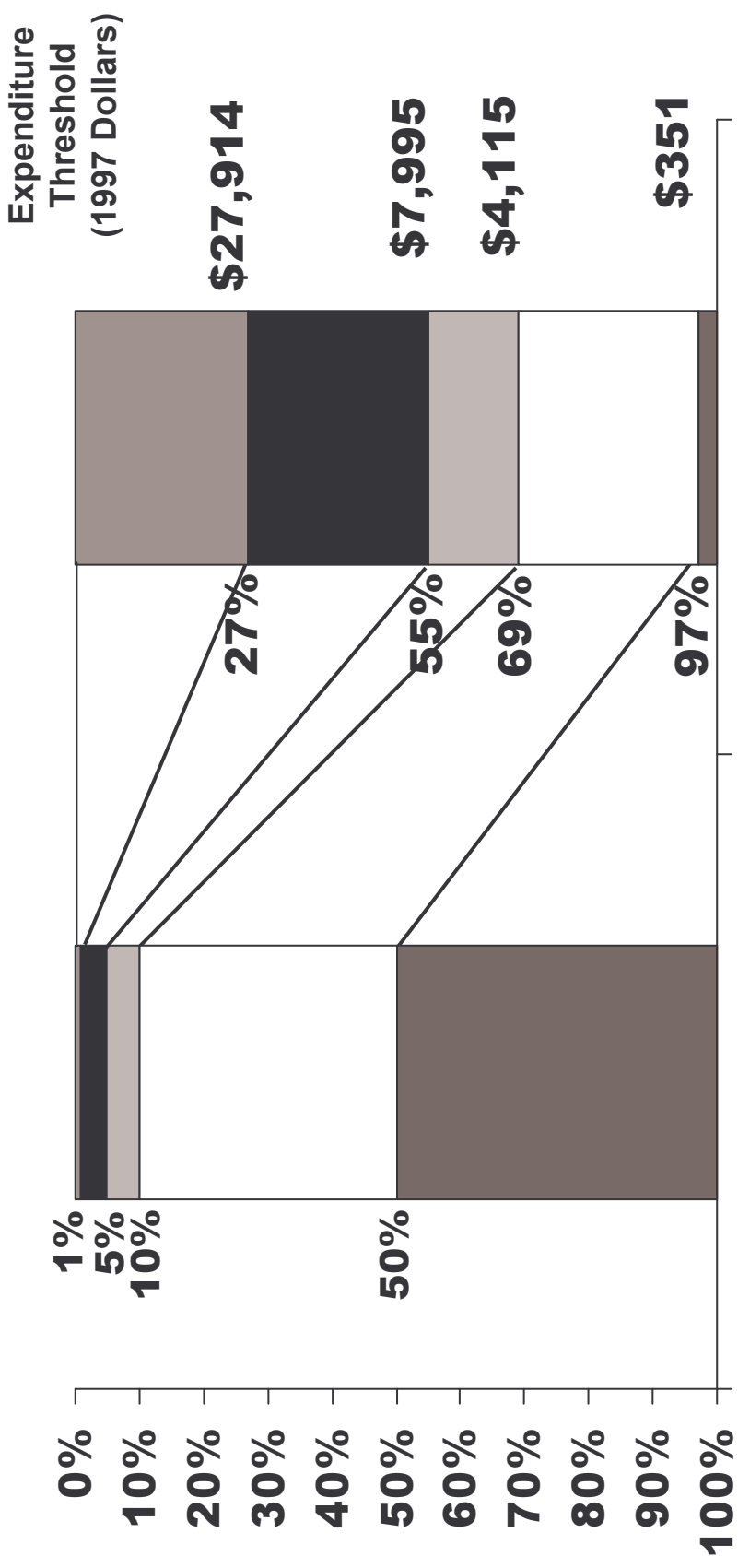
Note: Includes reported community hospital data only.

Source: Commonwealth Fund; Report by Allen Dobson, Lane Koenig, Namrata Sen, Silver Ho, Lewin Group, Analysis of AHA Annual Survey data.



Health Care Costs Concentrated in Sick Few⁶

Distribution of Health Expenditures for the U.S. Population, By Magnitude of Expenditure, 1997

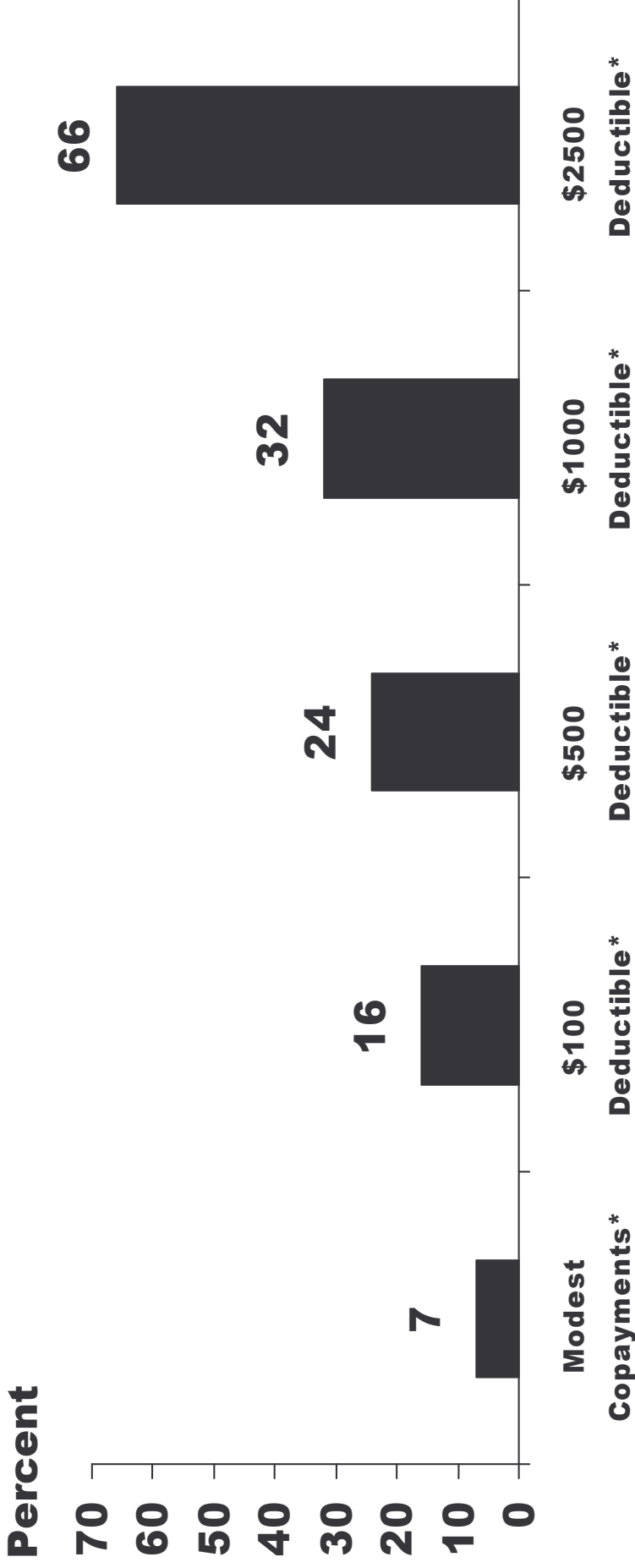


U.S. Population **Health Expenditures**



Source: A.C. Monheit, "Persistence in Health Expenditures in the Short Run: Prevalence and Consequences," *Medical Care* 41, supplement 7 (2003): III53–III64.

Percent of Hospitalized Patients with Out-of-Pocket Costs Exceeding 10% of Income by Cost-Sharing Amount



*** Notes:**

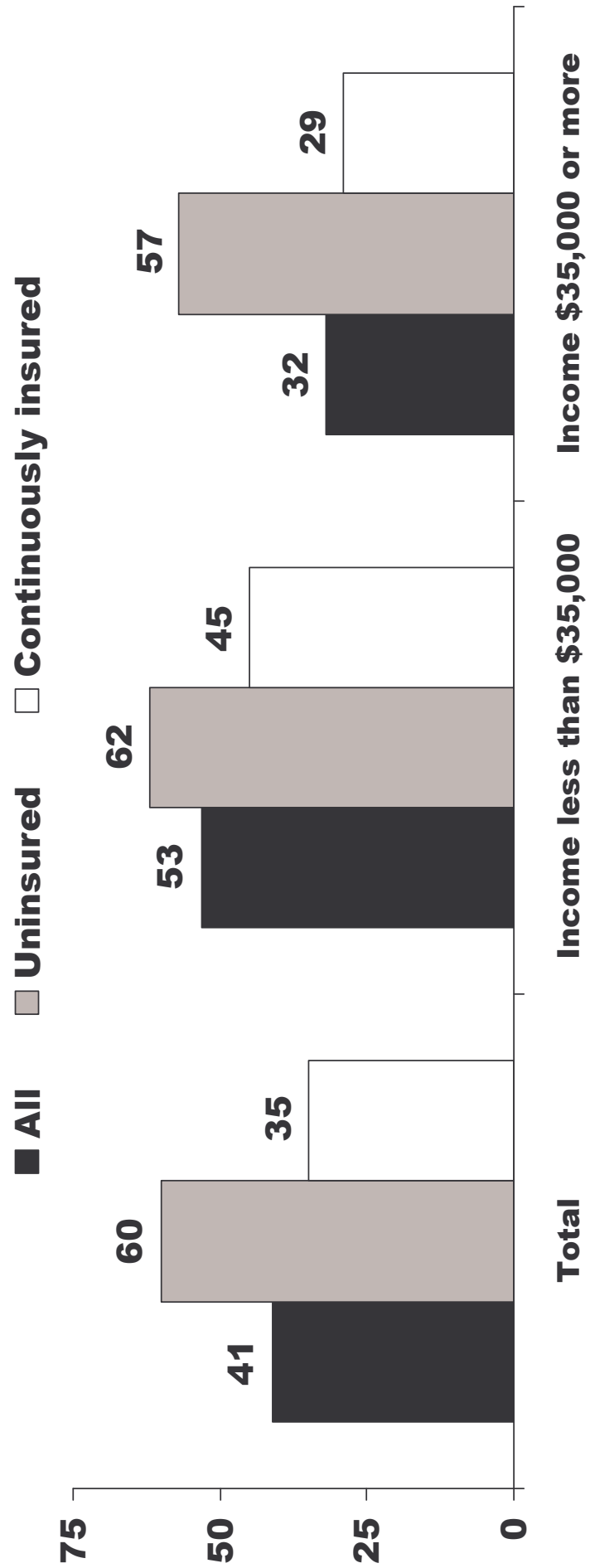
Modest Co-payments Option has \$20 co-pay for physician visits, \$150 co-pay for ED visits, and \$250 co-pay per day inpatient hospitalization; \$100 Deductible Option has 10% in-network coinsurance and 20% out-of-network coinsurance; \$500 Deductible Option has 20% in-network coinsurance and 30% out-of-network coinsurance; \$1000 Deductible Option has 20% in-network coinsurance and 30% out-of-network coinsurance; \$2500 Deductible Option also 30% in-network coinsurance, 50% out-of-network coinsurance; Maximum out-of-pocket limits are set at \$1,500 more than deductible for all options.

Source: S. Trude, *Patient Cost Sharing: How Much is Too Much?* Center for Studying Health System Change, December 2003.



Two of Five Adults Have Medical Bill Problems or Accrued Medical Debt:* Uninsured and Low Income Most at Risk

Percent of adults ages 19–64 with any medical bill problem or outstanding debt



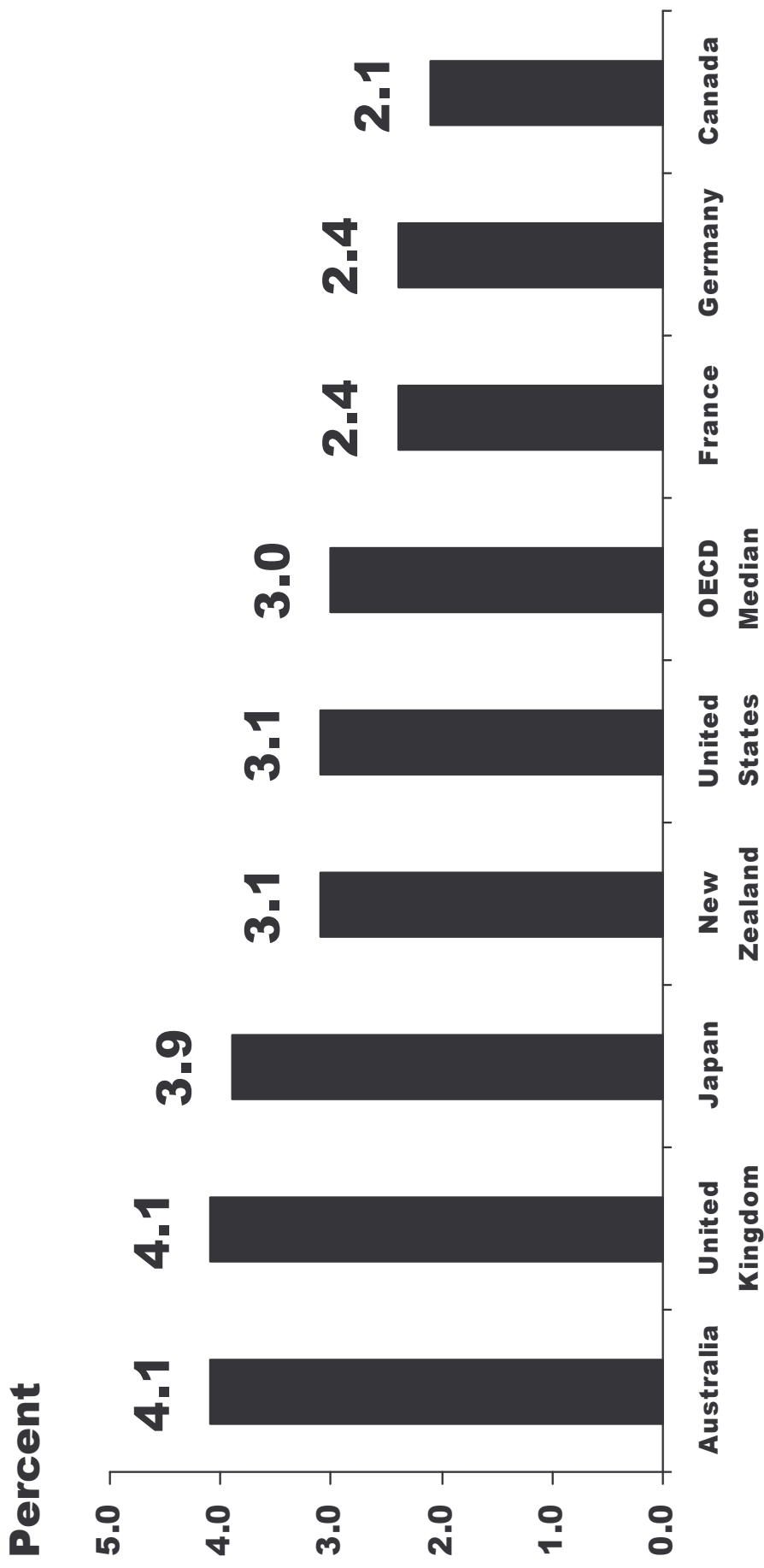
* Problems paying/not able to pay medical bills, contacted by a collection agency for medical bills, had to change way of life to pay bills, or has medical debt being paid off over time.

Note: Income groups based on 2002 household income.

Source: The Commonwealth Fund Biennial Health Insurance Survey (2003).

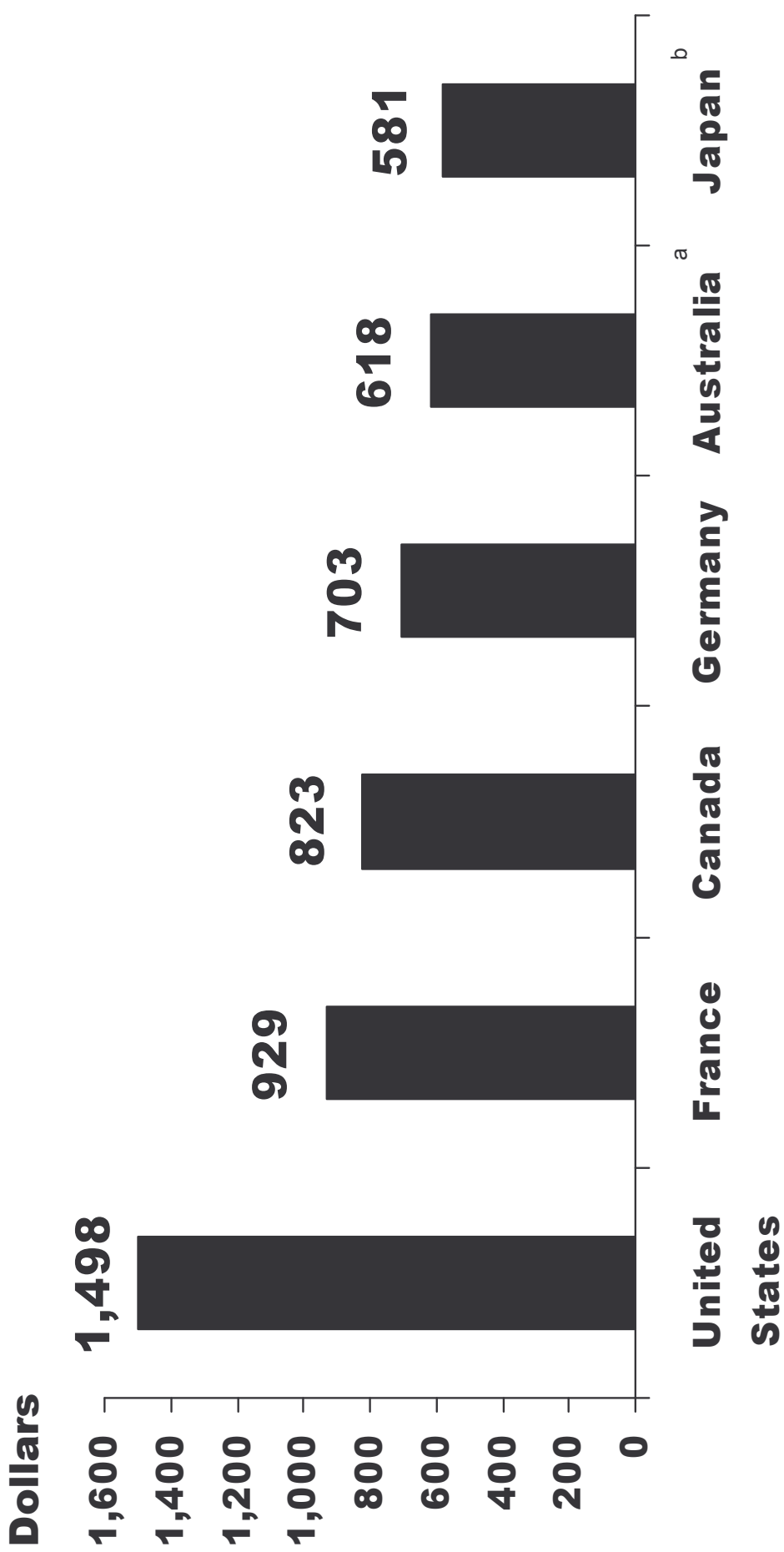


Average Annual Growth Rate of Total Health Care Spending per Capita Between 1991 and 2001 in Selected Countries



Source: U.E. Reinhardt, P.S. Hussey, and G.F. Anderson, "U.S. Health Care Spending in an International Context," *Health Affairs* (May/June 2004): 10–25.

Hospital Spending per Capita in 2000 Adjusted for Differences in the Cost of Living

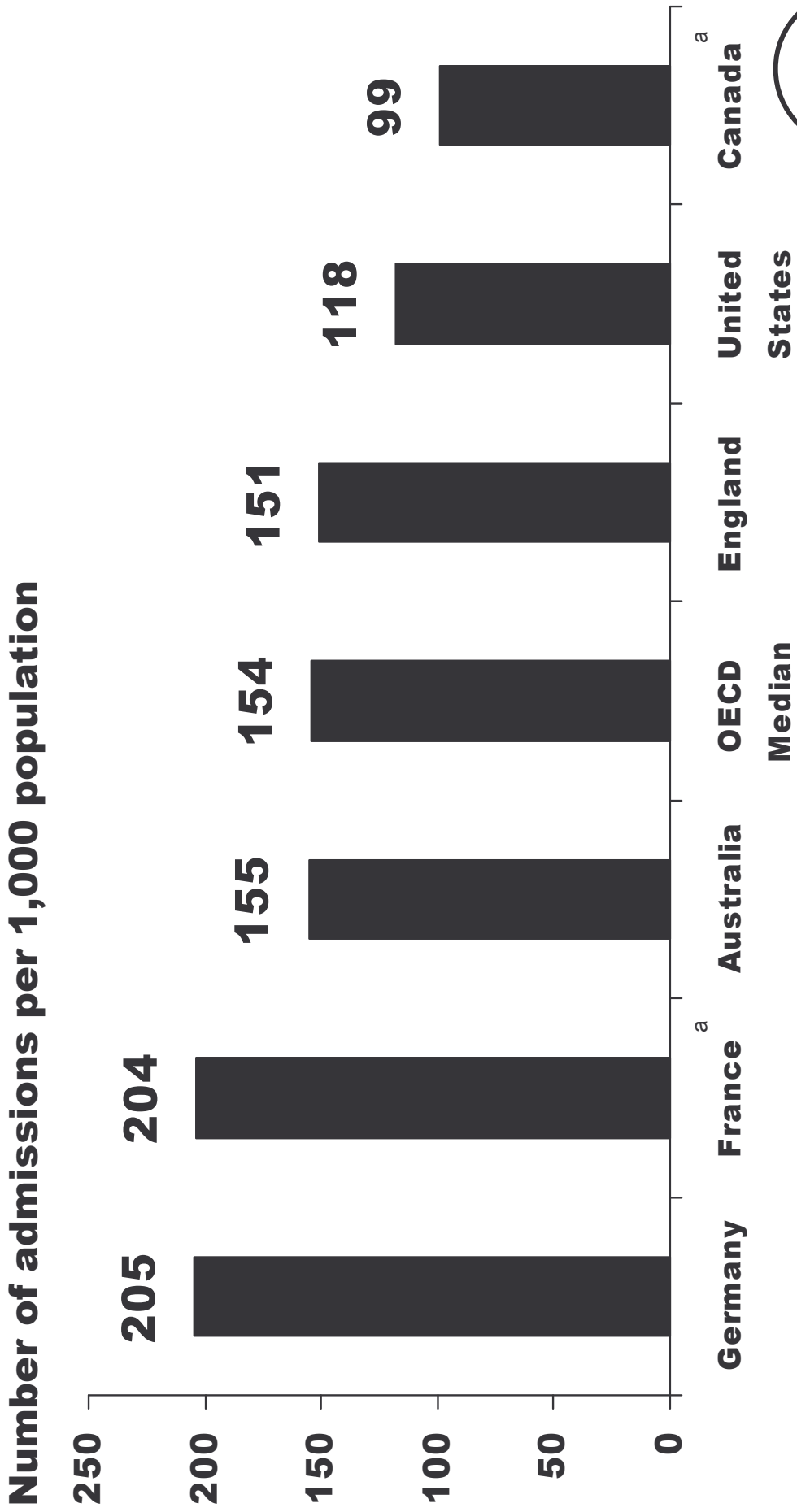


a 1998
b 1999

Source: G. Anderson et al., *Multinational Comparisons of Health Systems Data, 2002*, The Commonwealth Fund, October 2002.



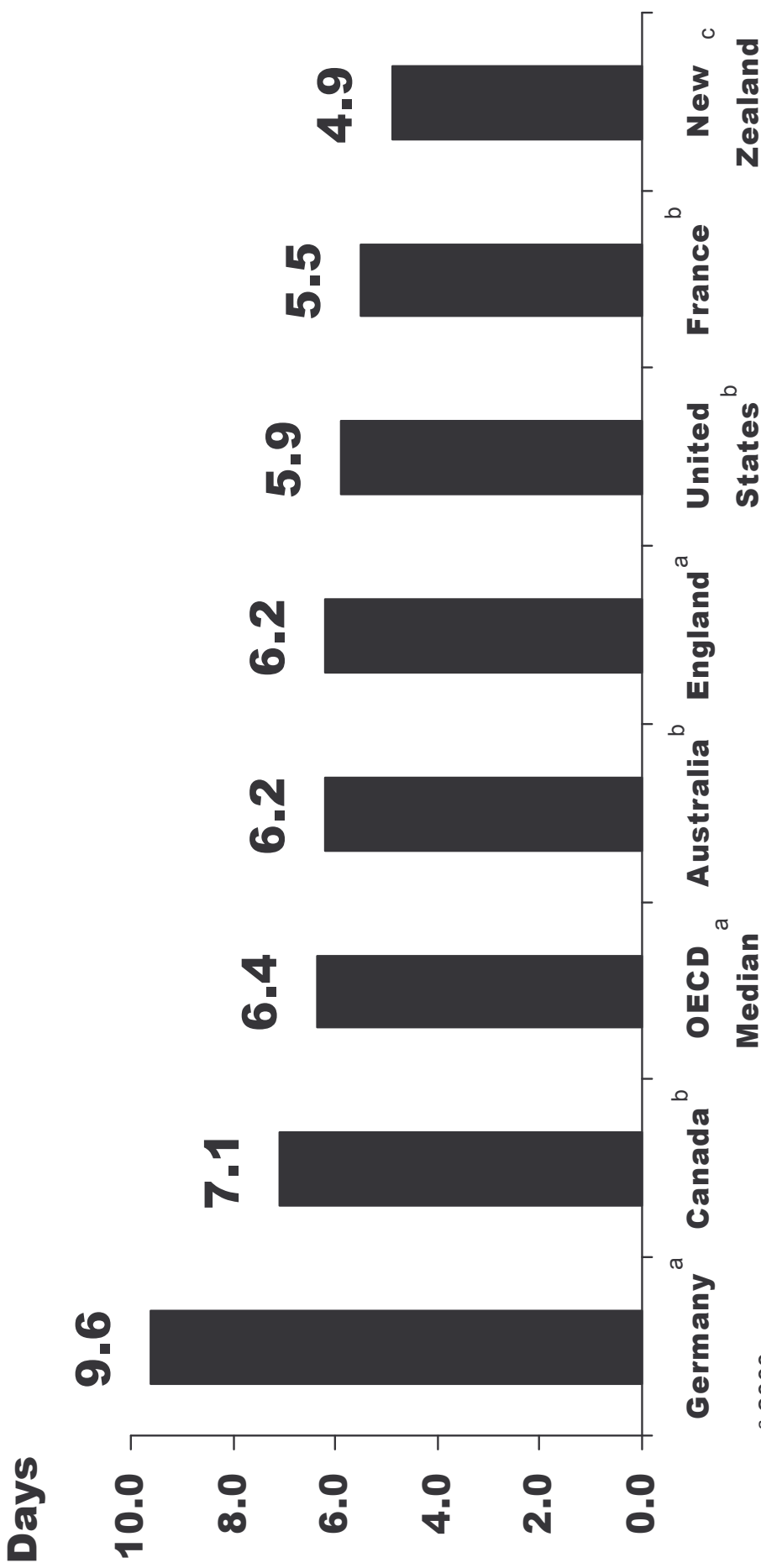
Hospital Admissions for Acute Care per 1,000 Population in 2000



^a 1999

Source: G. Anderson et al., *Multinational Comparisons of Health Systems Data, 2002*, The Commonwealth Fund, October 2002.

Average Length of Hospital Stay for Acute Care



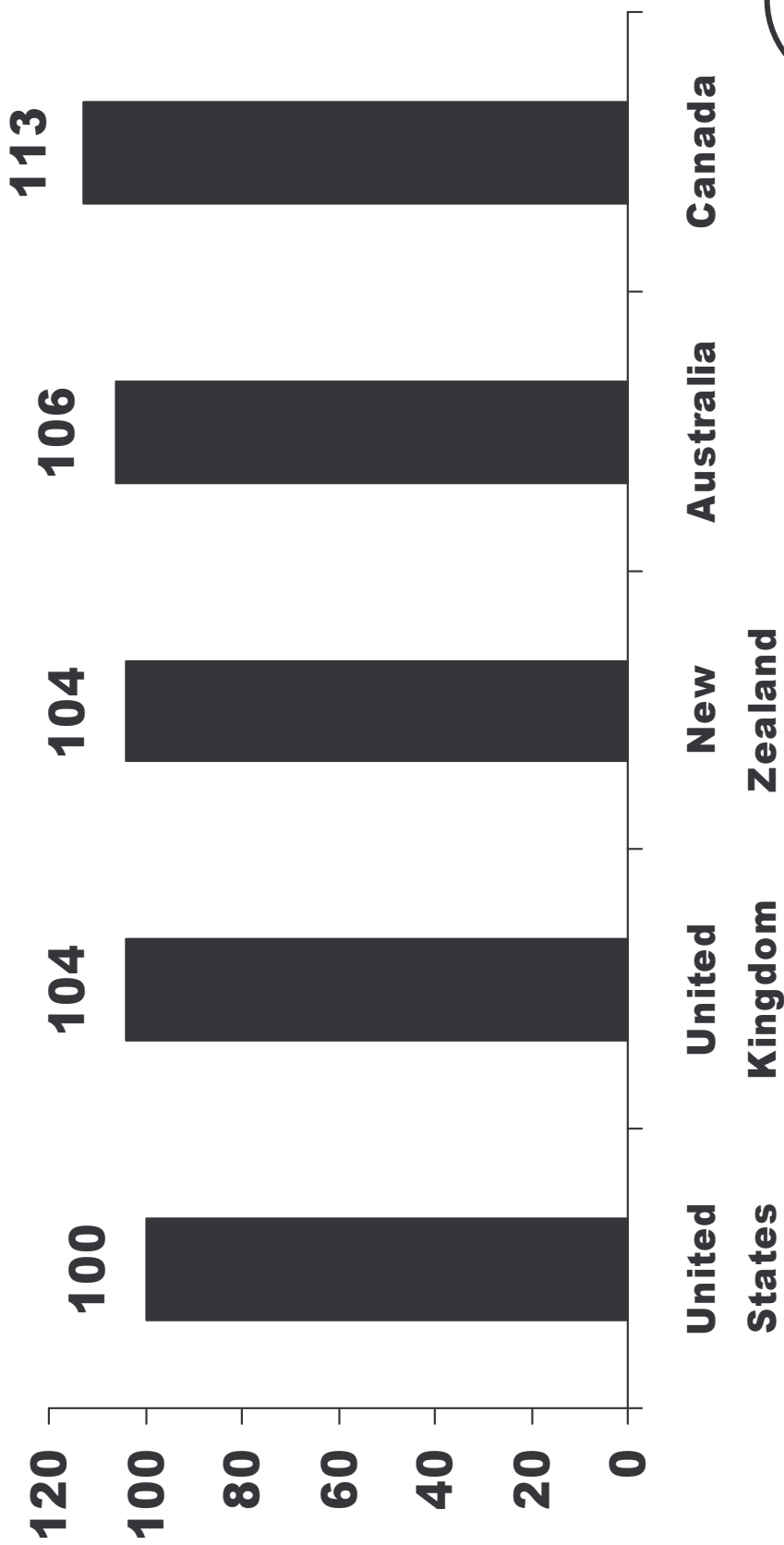
a 2000
 b 1999
 c 1998

Source: G. Anderson et al., *Multinational Comparisons of Health Systems Data, 2002*, The Commonwealth Fund, October 2002.



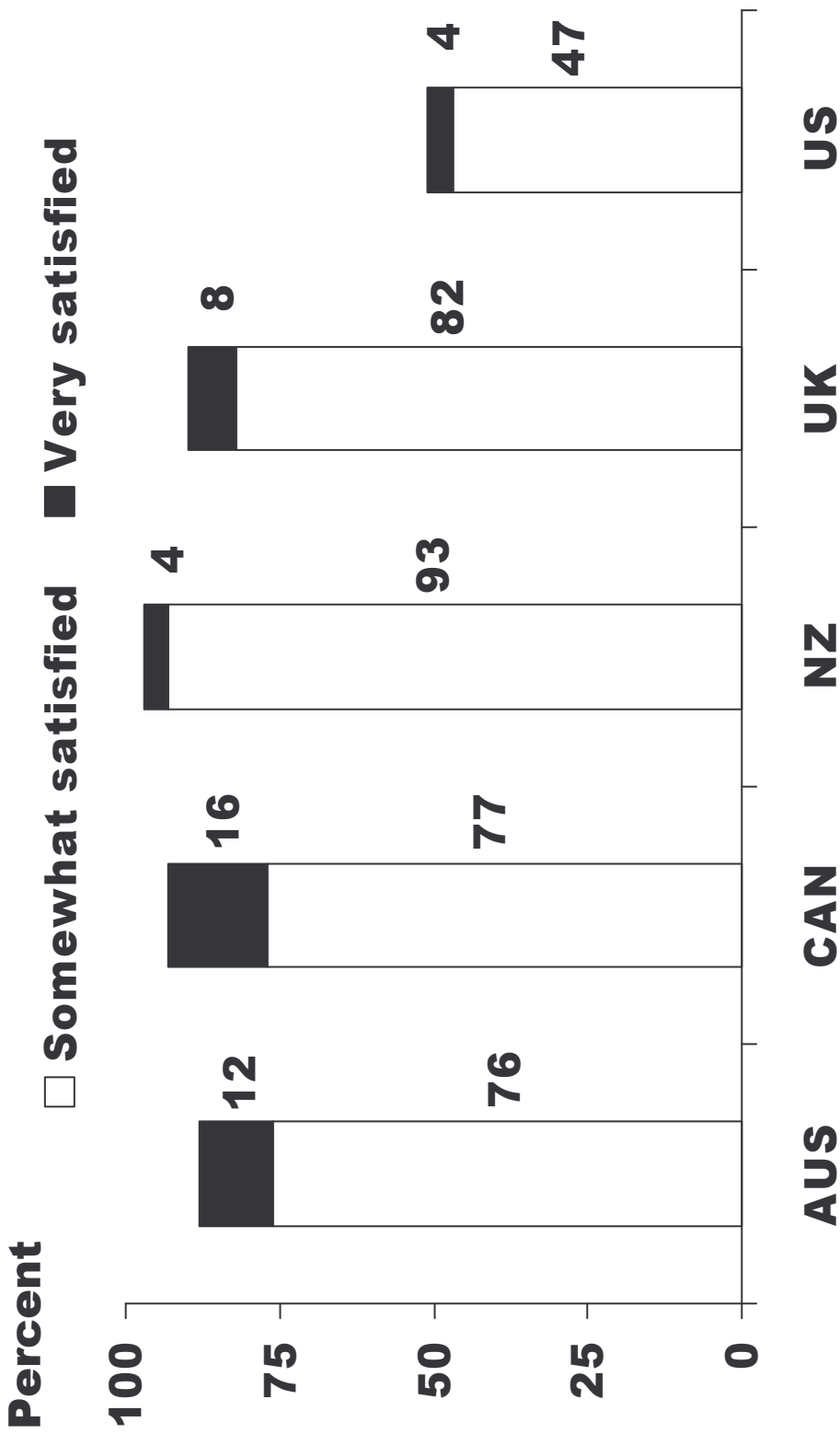
Kidney Transplant Five-Year Relative Survival Rate

Standardized Performance on Quality Indicator
100=Worst Result; Higher Score=Better Results



Source: P.S. Hussey et al., "How Does the Quality of Medical Care Compare in Five Countries?" *Health Affairs*, May/June 2004.

Satisfaction with the Health Care System



Source: 2003 Commonwealth Fund International Health Policy Survey of Hospital CEOs.

Disclosing Hospital Quality Information to the Public: Views of Hospital CEOs in Five Nations

	AUS	CAN	NZ	UK	US
Percent saying should NOT be released to the public:	34%	26%	18%	16%	31%
Mortality rates for specific conditions	16	5	4	13	15
Frequency of specific procedures	31	18	25	15	40
Medical error rate	5	2	0	1	17
Average waiting times for elective procedures	6	1	0	1	29
Nosocomial infection rates	25	10	25	9	29

THE
COMMONWEALTH
FUND

Source: 2003 Commonwealth Fund International Health Policy Survey of Hospital CEOs.

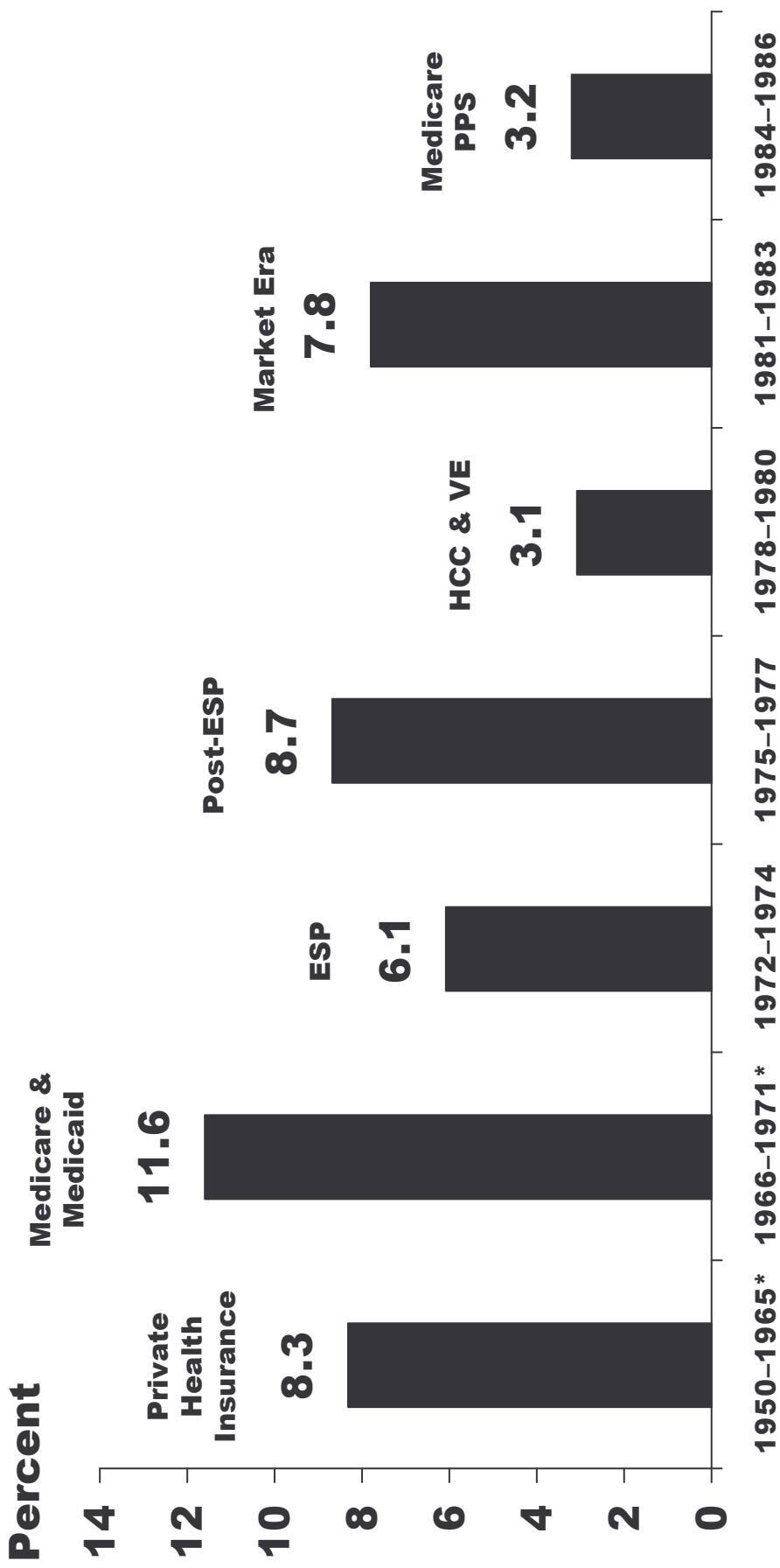
If You Had New Funding to Invest in a One-Time Capital Improvement to Improve Quality of Patient Care in One Area of Your Hospital, What Would it Be?

Percent saying:	AUS	CAN	NZ	UK	US
Electronic medical records/IT	35%	47%	46%	38%	62%
Emergency room/OR/Critical care facility	26	18	4	22	13
Basic hospital/patient facilities	17	14	21	22	3
Diagnostic equipment/medical technology	9	16	11	10	3



Source: 2003 Commonwealth Fund International Health Policy Survey of Hospital CEOs.

Average Annual Rate of Increase in Real Community Hospital Expenses, 1950-1986



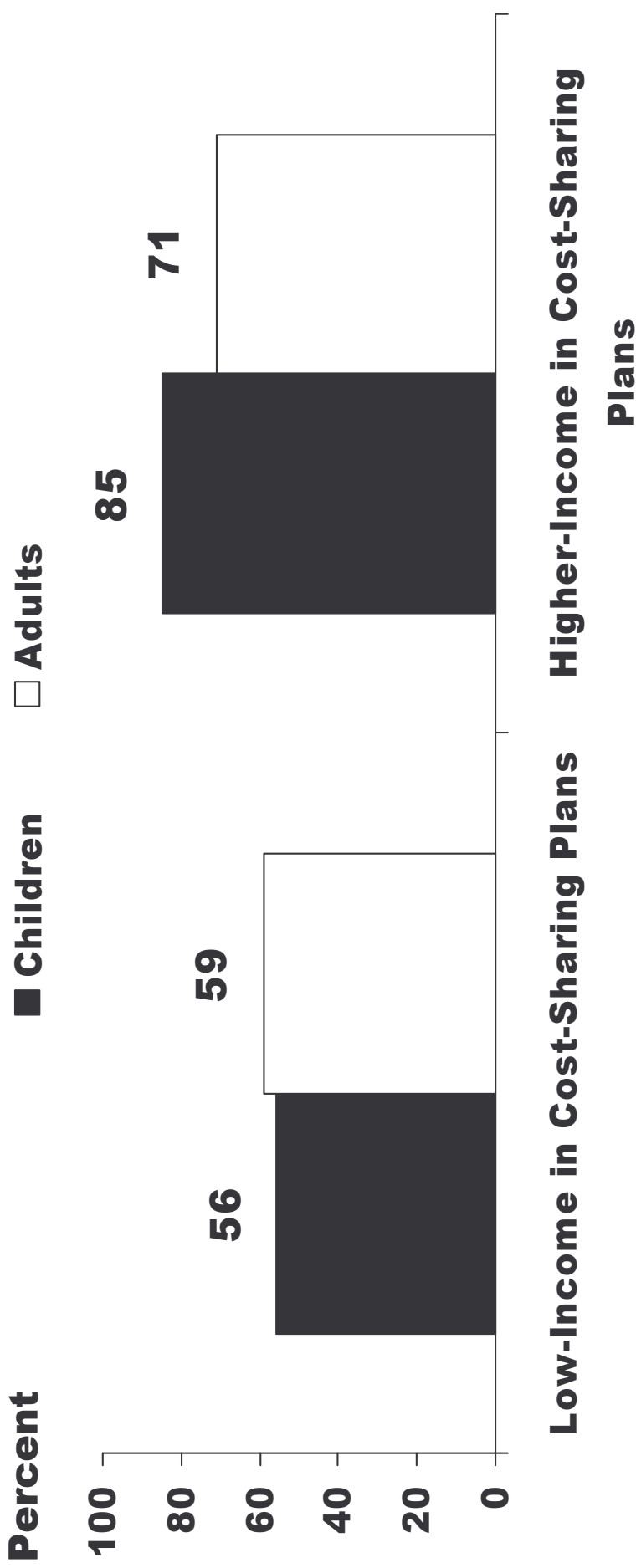
* Annualized.

Source: K. Davis et al., *Health Care Cost Containment*, Baltimore: Johns Hopkins University Press, 1990, p. 171.



Cost-Sharing Reduces Likelihood of Receiving Effective Medical Care

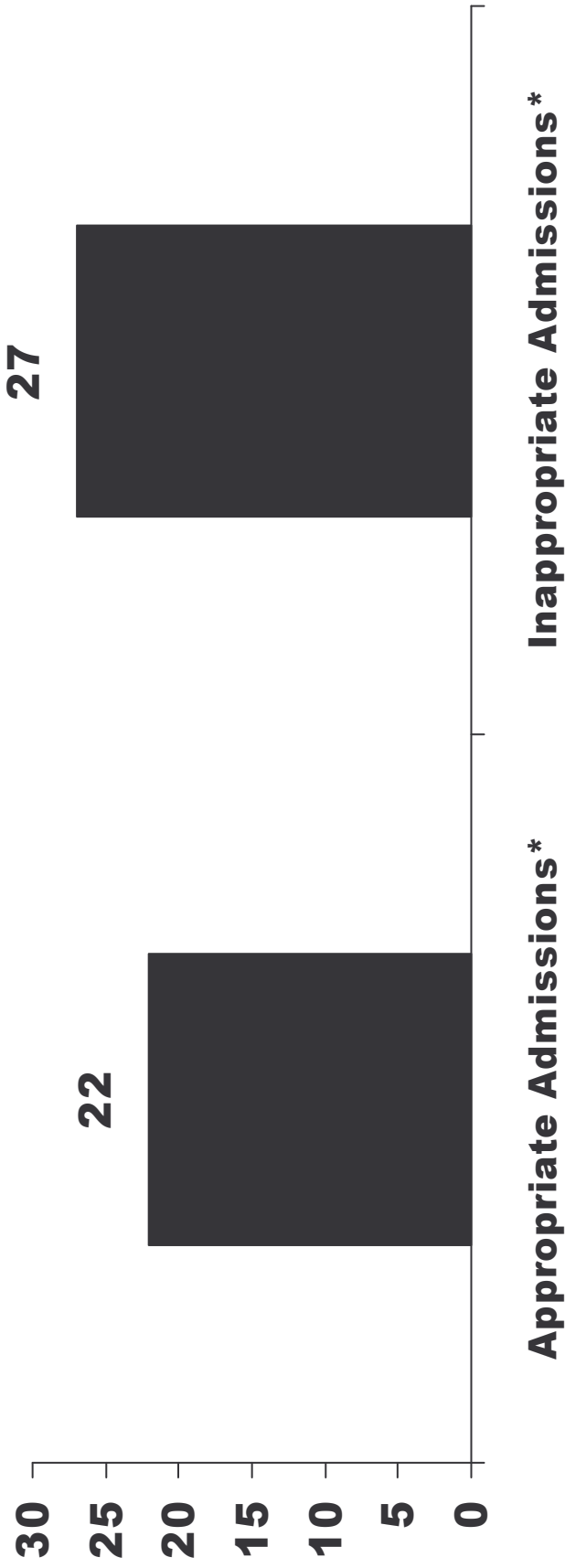
Probability of receiving highly effective care for acute conditions that is appropriate and necessary compared to those with no cost-sharing



Source: K.N. Lohr et al., Use of Medical Care in the RAND HIE. Medical Care 24, supplement 9 (1986): S1-87.

Cost-Sharing Reduces Both Appropriate and Inappropriate Hospital Admissions

Percent reduction in number of hospital admissions per 1,000 person-years



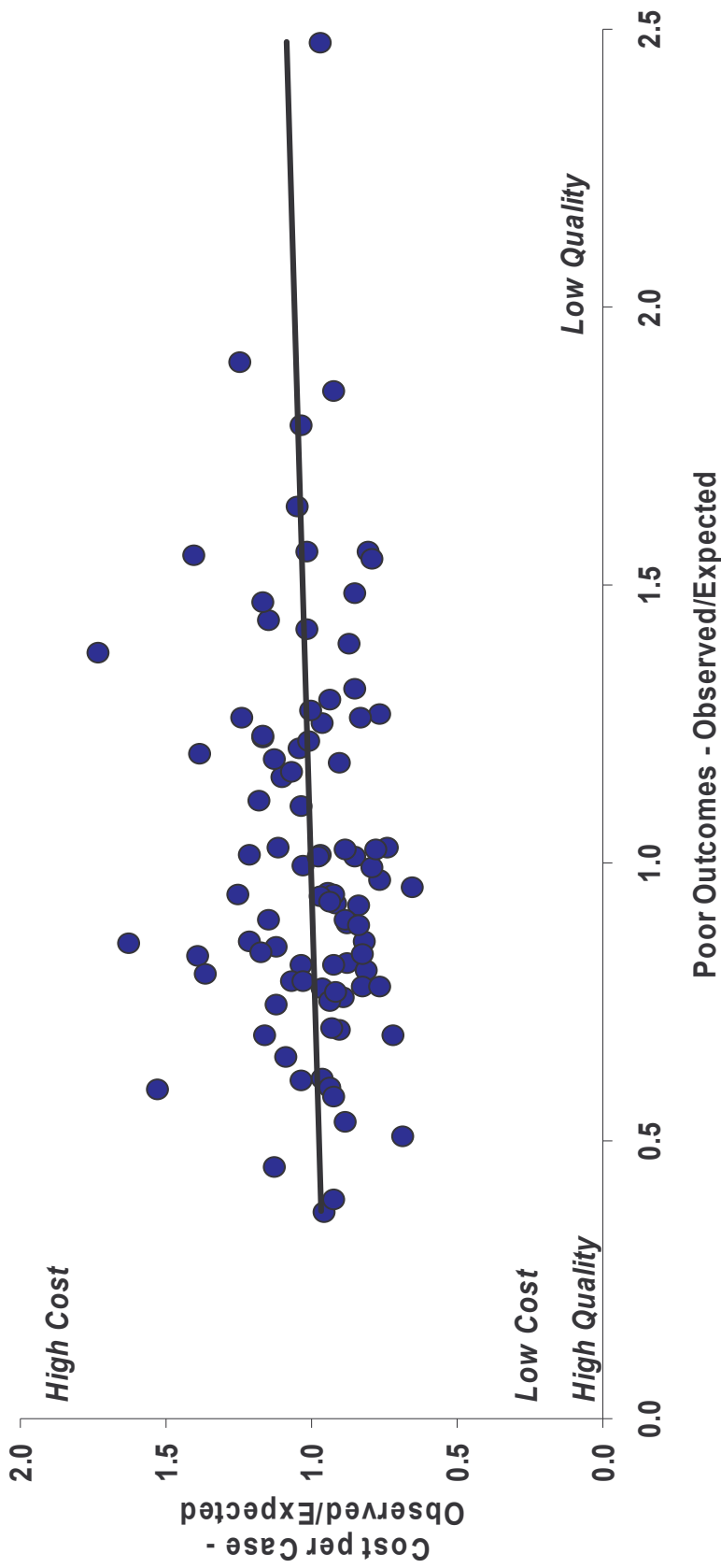
* Based on Appropriateness Evaluation Protocol (AEP) instrument developed by Boston University researchers in consultation with Massachusetts physicians

Source: A.L. Siu et al., "Inappropriate Use of Hospitals in a Randomized Trial of Health Insurance Plans," *New England Journal of Medicine* 315, no. 20 (1986): 1259–1266.



Cost and Quality Vary Widely Across Hospitals

Coronary Artery Bypass Graft:
Observed/Expected Cost vs. Observed/Expected Quality Outcomes
by Hospital



Source: S. Grossbart, Ph.D., Director, Healthcare Informatics, Premier, Inc.,
“The Business Case for Safety and Quality: What Can Our Databases Tell Us,”
5th Annual NPSF Patient Safety Congress, March 15, 2003.



Pay for Performance Programs

- **There are over 75 pay-for-performance programs across the U.S.**
 - **Provider driven (e.g., Pacificare)**
 - **Insurance driven (e.g., BC/BS in MA)**
 - **Employer driven (e.g., Bridges to Excellence—Verizon, GE, Ford, Humana, P&G, and UPS)**
 - **Medicare**
 - **2003 Medicare Rx legislation demonstrations of Medicare physicians a per-beneficiary bonus if specified quality standards are met**
 - **Medicaid**
 - **Rite Care will pay about 1% bonus on its capitation rate to plans meeting 21 specified performance goals**
 - **4 other states built performance-based incentives into Medicaid contracts—UT, WI, IO, MA**
- **Evaluation of impact still pending**

