

Increasing Cost Transparency: An Overview of NASHP's Hospital Cost Tool

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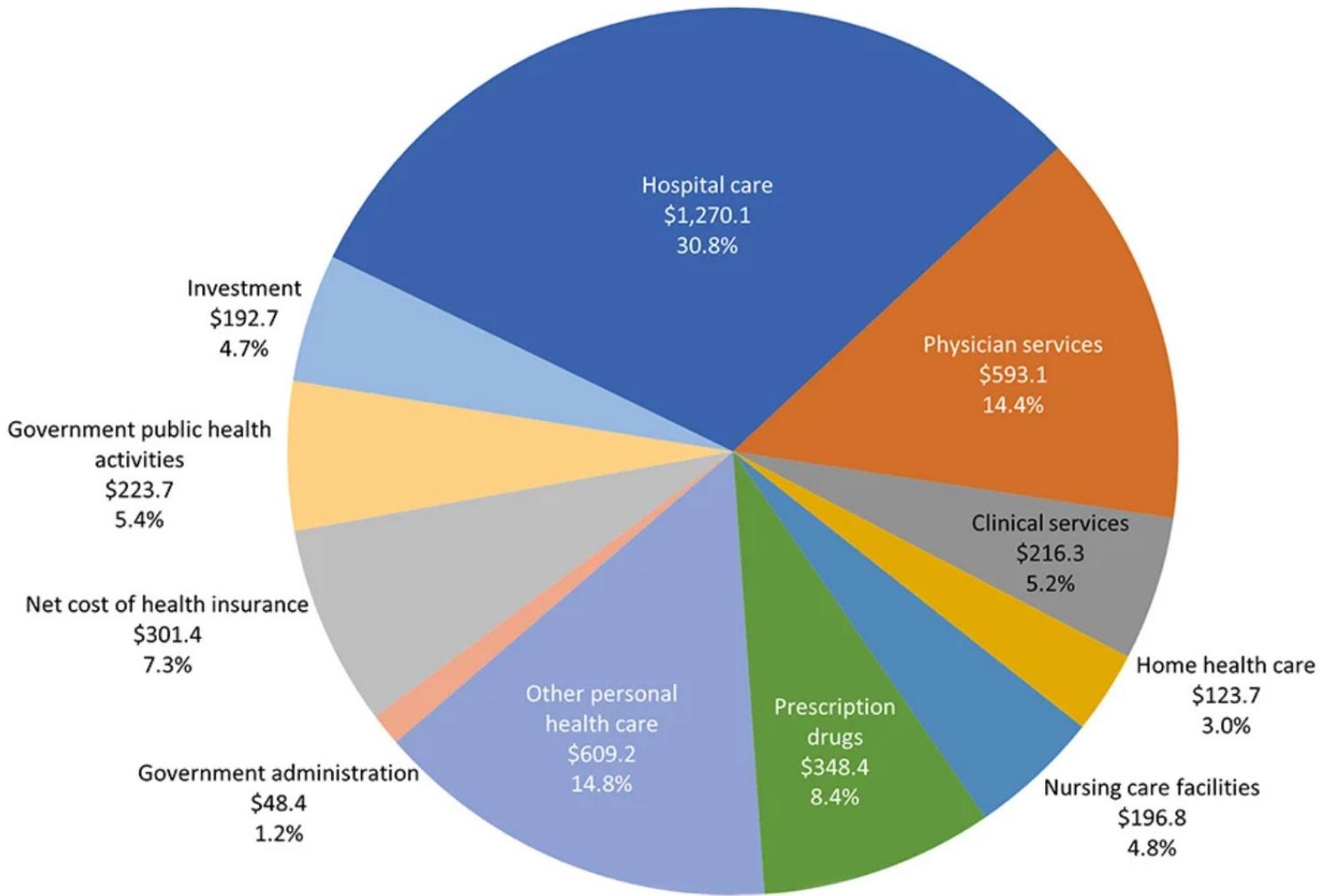
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About NASHP

- A national, nonpartisan organization committed to developing and advancing state health policy innovations and solutions to improve the health and well-being of all people.
- NASHP provides a unique forum for the productive exchange of strategies across state government, including the executive and legislative branches.
- To accomplish our mission, we:
 - **Advance** innovation in developing new policies and programs
 - **Surface** and support implementation and spread of best practices
 - **Ensure** availability of info, data, tools
 - **Encourage** sustainable cross sector solutions by strengthening partnerships
 - **Elevate** the state perspective

Hospital care costs represented the largest proportion of the U. S. health care expenditures in 2020

The U.S. spent \$4,124.0 billion on health care in 2020 where did it go?



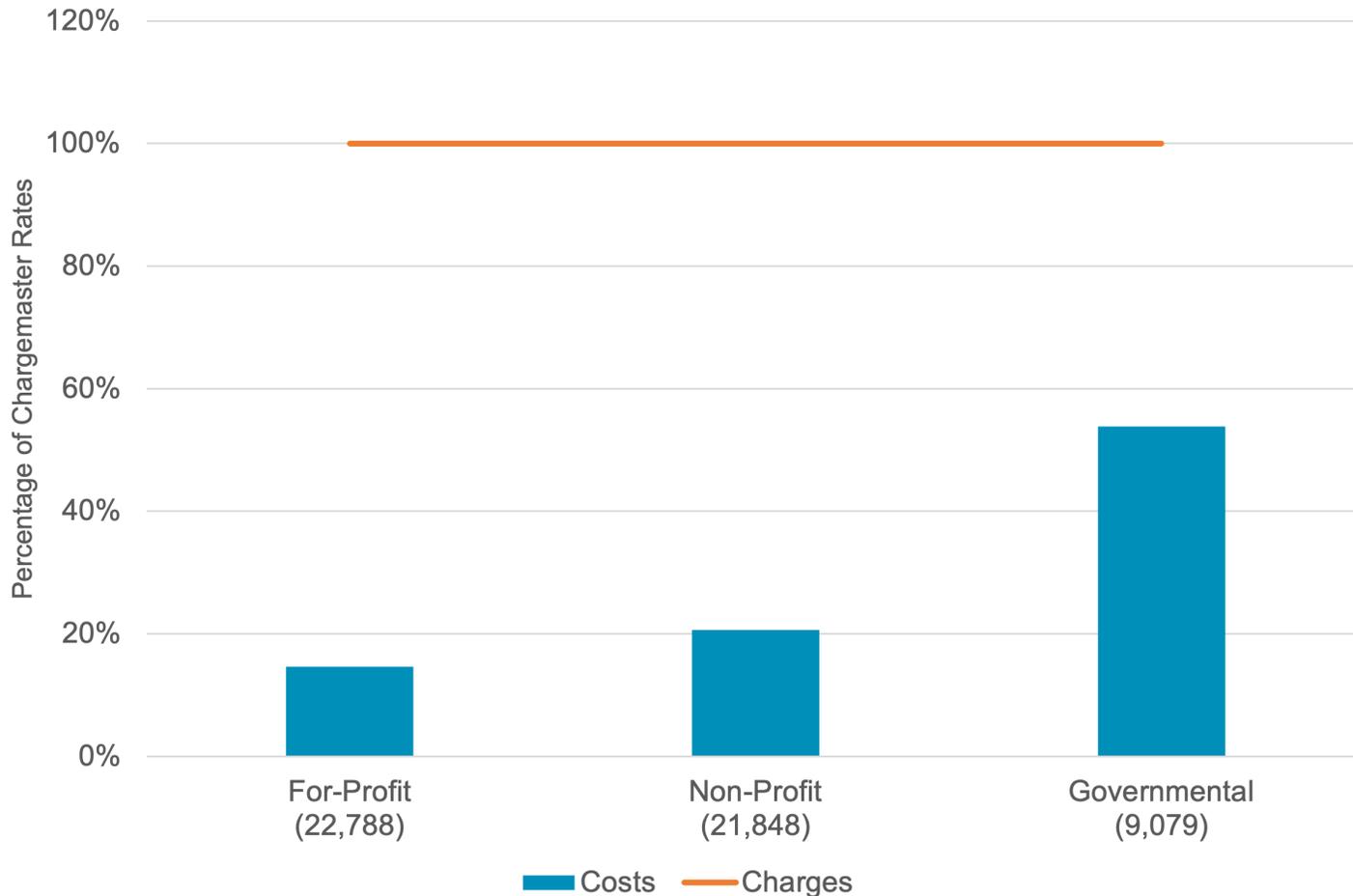
Source: AMA Trends in Health Care Spending: <https://www.ama-assn.org/about/research/trends-health-care-spending>



What is NASHP's Hospital Cost Tool?

- **A downloadable tool health purchasers, including state officials, can use to better understand and address hospital costs**
 - For example, the tool can help inform hospital rate negotiations or demonstrate hospital finances pre- and post-merger/ acquisition
- **The tool identifies costs using data that hospitals report annually to the federal government**
 - Each hospital that serves Medicare patients must annually submit, and verify the accuracy of, a Medicare Cost Report (MCR) to the Centers for Medicare & Medicaid Services (CMS)
 - MCRs provide hospital level data and are the only national, public source of hospital costs
- **The Hospital Cost Tool was developed by the National Academy for State Health Policy (NASHP) alongside Rice University, with support from Arnold Ventures**

Texas Median Cost-to-Charge Ratio by Ownership Type, 2019
(number of hospital beds in parentheses)

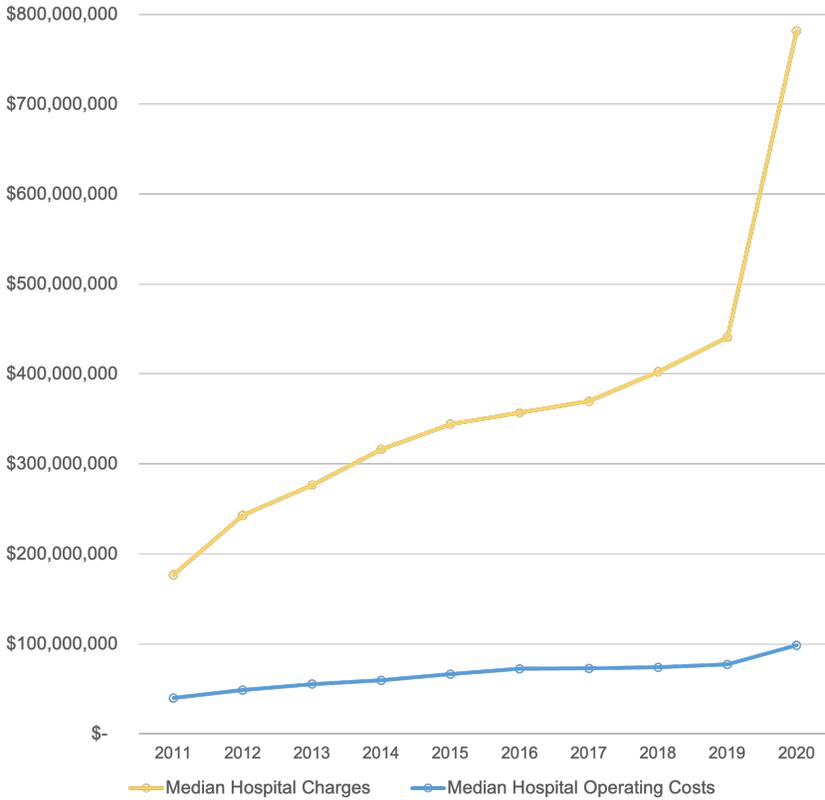


Cost to Charge Ratio

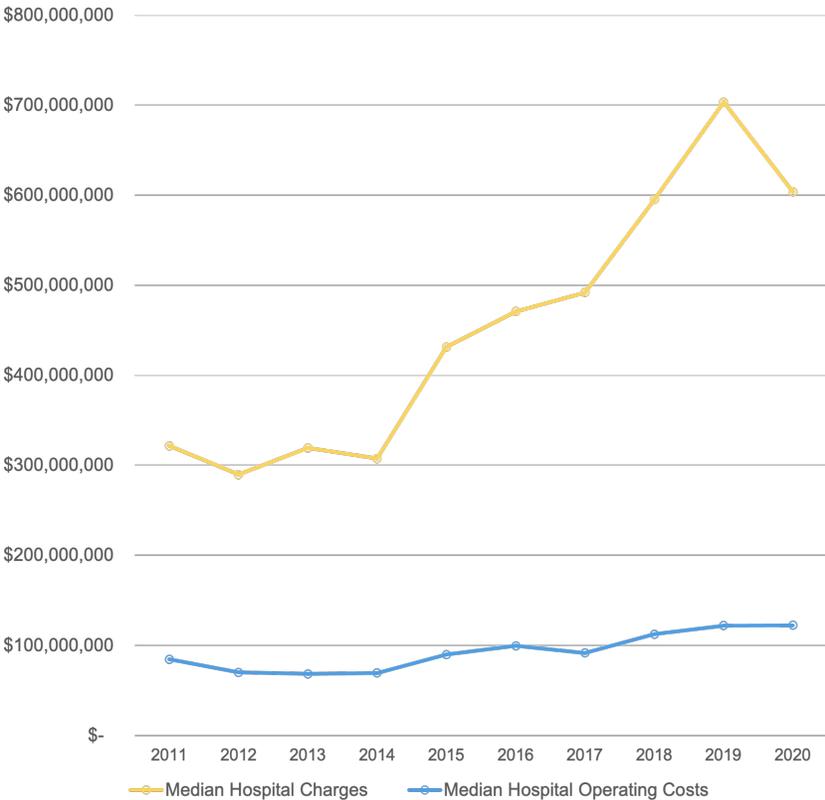
- **Charges:** the 'sticker price' set by the hospital for services
- **Costs:**
 1. Hospital services:
 - a. Salaries & Benefits;
 - b. Contracted Services;
 - c. Equipment and Supplies;
 - d. Rent, Interest, Depreciation, etc.
 2. Non-hospital services:
 - a. Research,
 - b. Joint Ventures,
 - c. Ancillary Services (Parking Lots, Cafeterias, Retail Pharmacy, etc.)
- **The lower a hospital's Cost-to-Charge Ratio, the less its charges reflect its costs**

Texas Hospital Operating Costs and Charges Over Time by Ownership Type

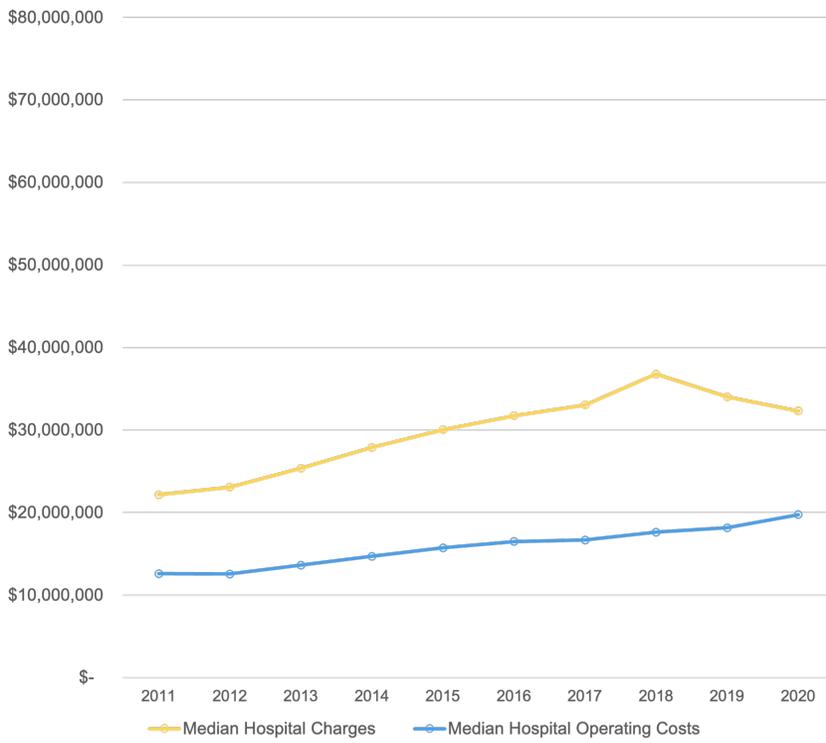
For-Profit Hospitals' Median Charges and Costs, 2011-2020



Non-Profit Hospitals' Median Charges and Costs, 2011-2020



Governmental Hospitals' Median Charges and Costs, 2011-2020



Note: To allow for adequate visibility, y-axis on “governmental hospitals” graph differs from those of other graphs.

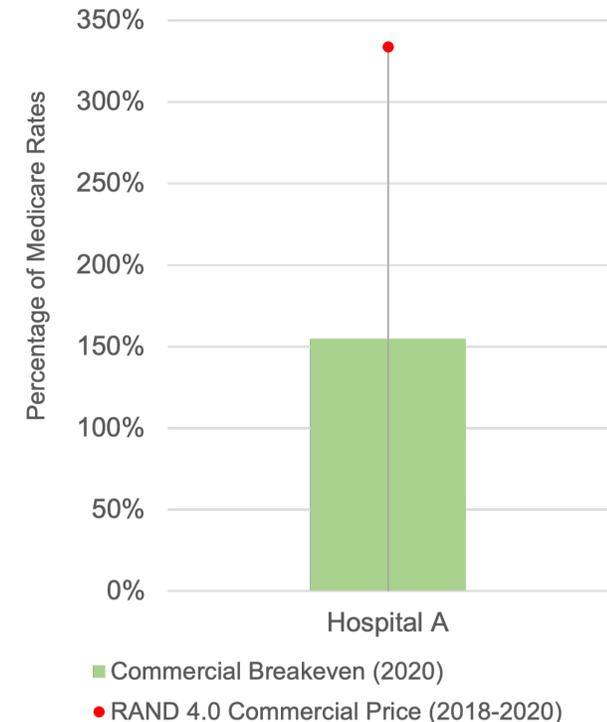


Commercial Breakeven Analysis

Breakeven Analysis

- **NASHP's Hospital Cost Tool** calculates a hospital's breakeven point: **Revenue = Expenses**
 - Revenue includes payments from all sources. Expenses include hospital operations, administration, ancillary services, & non-operating expenses.
- **NASHP Commercial Breakeven** – how much a hospital needs to be reimbursed by commercial payers in order to cover its expenses
- **RAND 4.0 Commercial Price** – how much a hospital was reimbursed by commercial payers in aggregate from 2018 to 2020
 - Calculated using data from the RAND Corporation's [Nationwide Evaluation of Health Care Prices Paid by Private Health Plans](#)
- **Breakeven and Price** expressed as multiples of the individual hospital's **Medicare rates** for comparability purchases

Example: Hospital A could cover its expenses if reimbursed by commercial payers at **155 percent** of Medicare rates. However, it was paid **334 percent** of Medicare (in aggregate from 2018 to 2020).

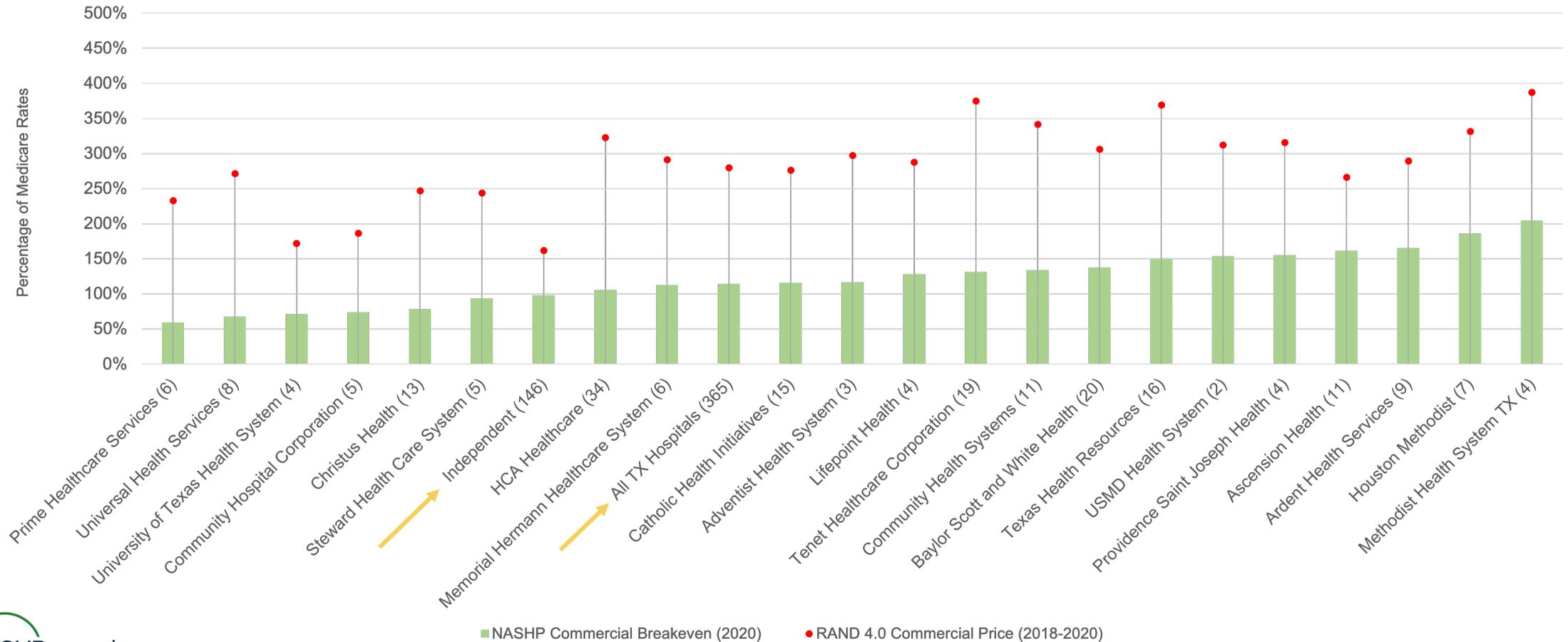


Factors That May Impact Breakeven

- **Medicare Payment rate** – A hospital's Breakeven is based on its own Medicare reimbursement rates. If a hospital is paid by Medicare in excess of its Medicare-related expenses, Breakeven would be lower.
- **Hospital Other Income** – If a hospital receives significant other income (e.g., return on investments, federal relief payments), the payment required from a commercial payer to Breakeven would be lower.
- **Reimbursement from Other Payers** – The hospital payer mix adjusted profits and losses from other payers (Medicaid, Medicare, CHIP and other local/state programs, Medicare Advantage) are reflected in the commercial payer Breakeven calculation.
- **Reporting Error** – Medicare Cost Reports are completed by the hospital or their contractor and may contain reporting errors, impacting Breakeven calculations.

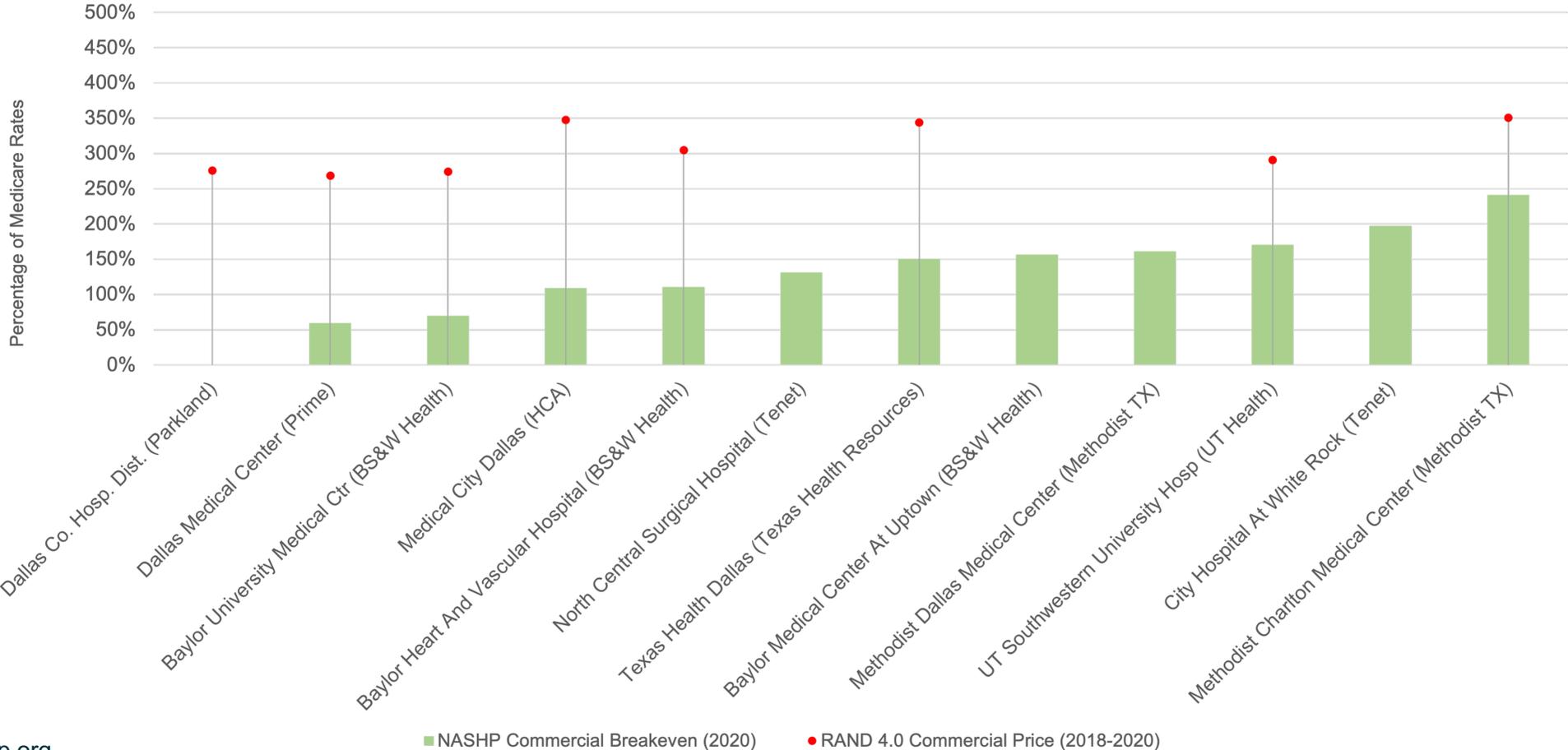
Major Systems' Breakeven vs Commercial Price Paid

Median Commercial Breakevens and Prices of Major Texas Health Systems
(defined as having two or more hospitals in the state, total number of beds in parentheses)



Breakeven vs Commercial Price Paid in Dallas

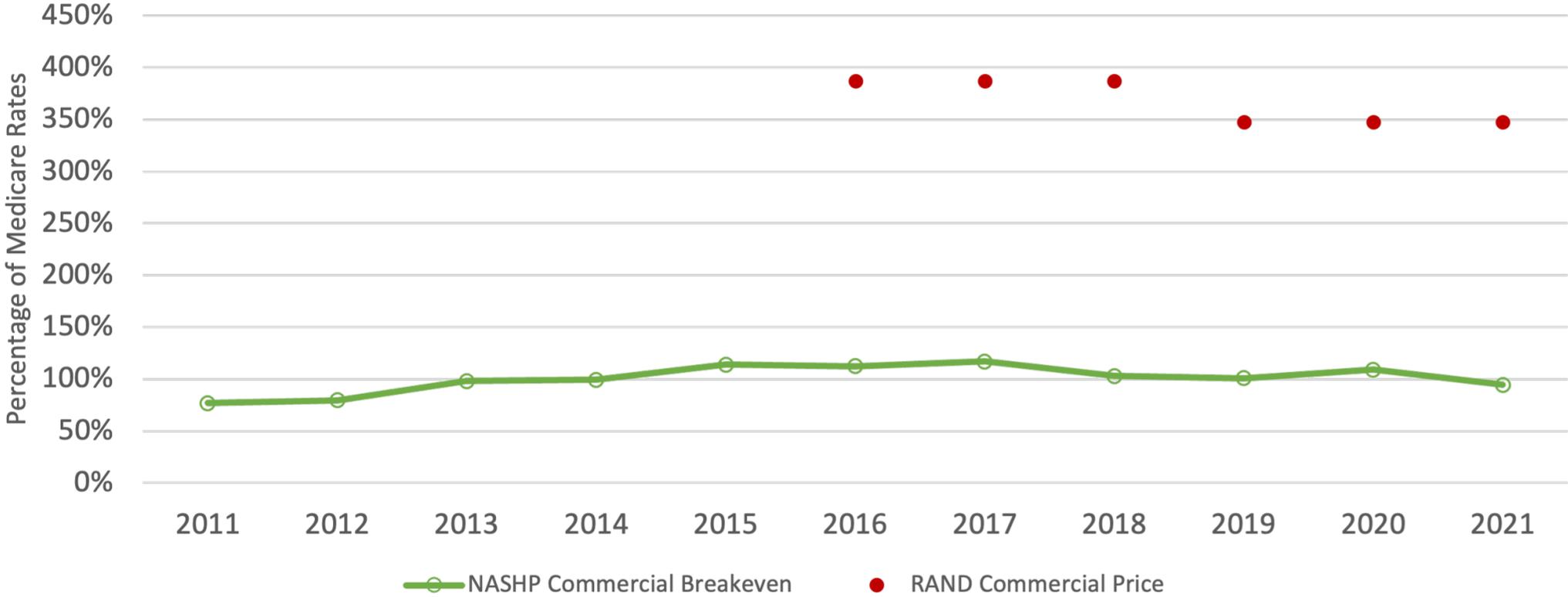
Median Commercial Breakevens and Prices of Hospitals in Dallas
(system name in parentheses)



Source: NASHP Hospital Cost Tool, 2019 Data; price from RAND Corporation, 2016-2018 Data

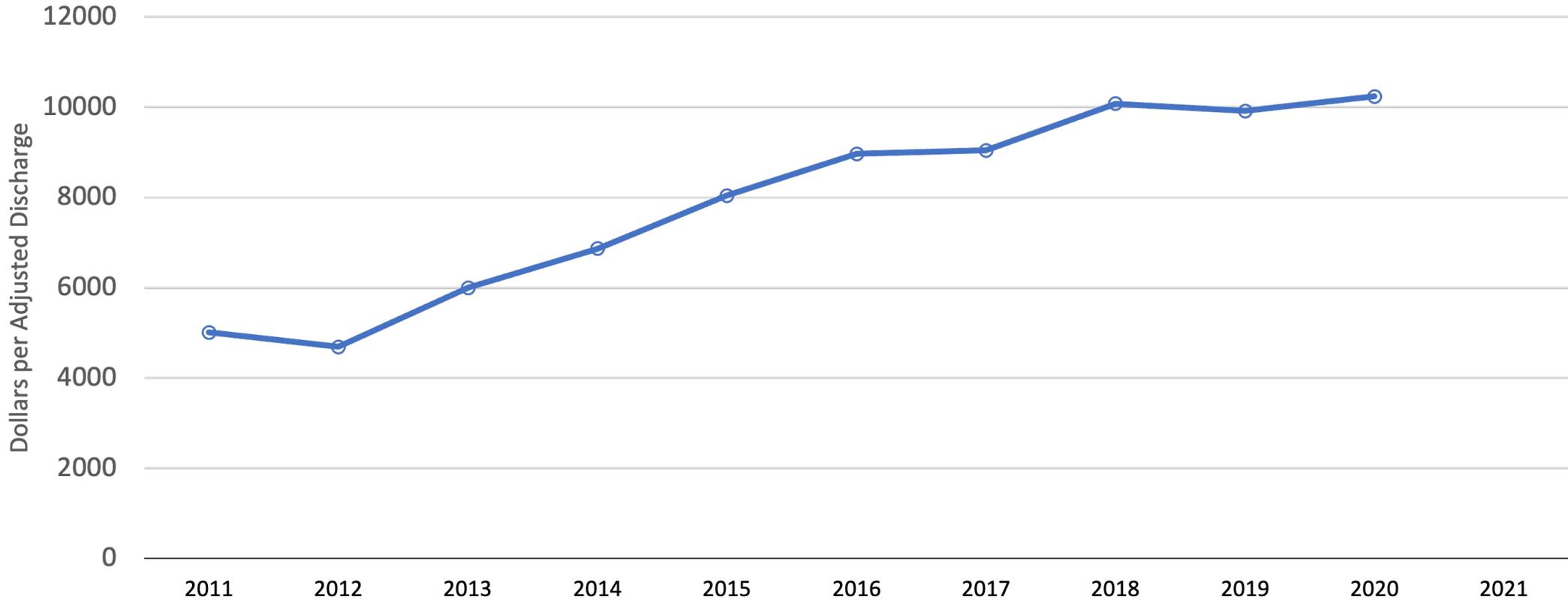
Large Hospital in Dallas: Breakeven vs Commercial Price Paid

Medical City Dallas Hospital (HCA Healthcare), 2011-2021
819 beds, for-profit, Dallas



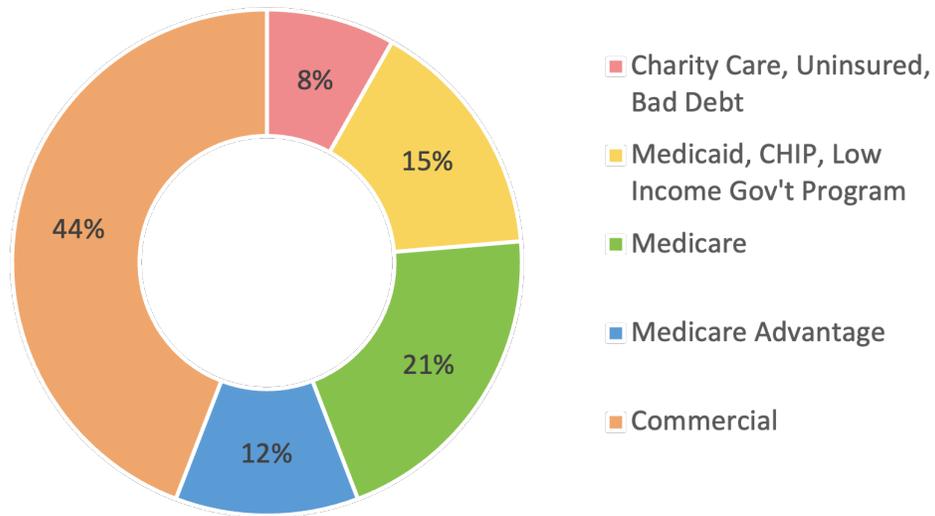
Hospital Profitability

Medical City Dallas Hospital (HCA) Net Income per Adjusted Discharge, 2011-2021

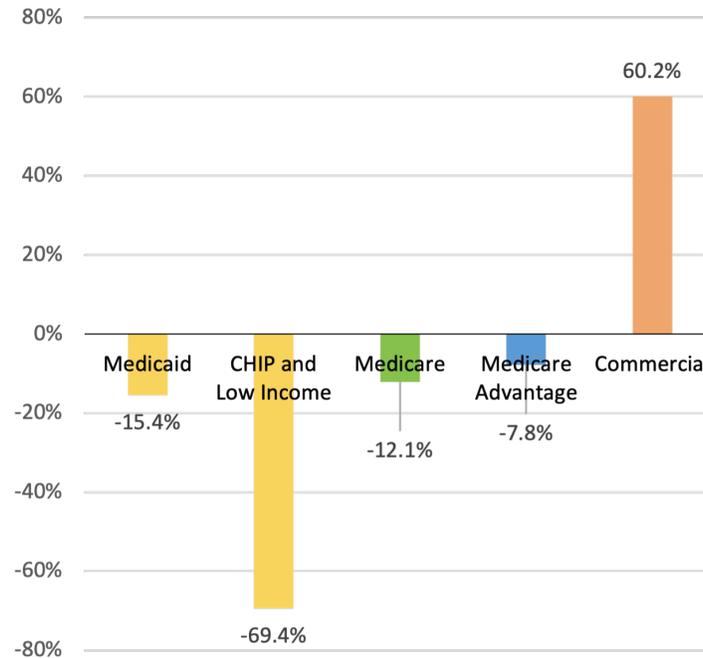


Payer Mix

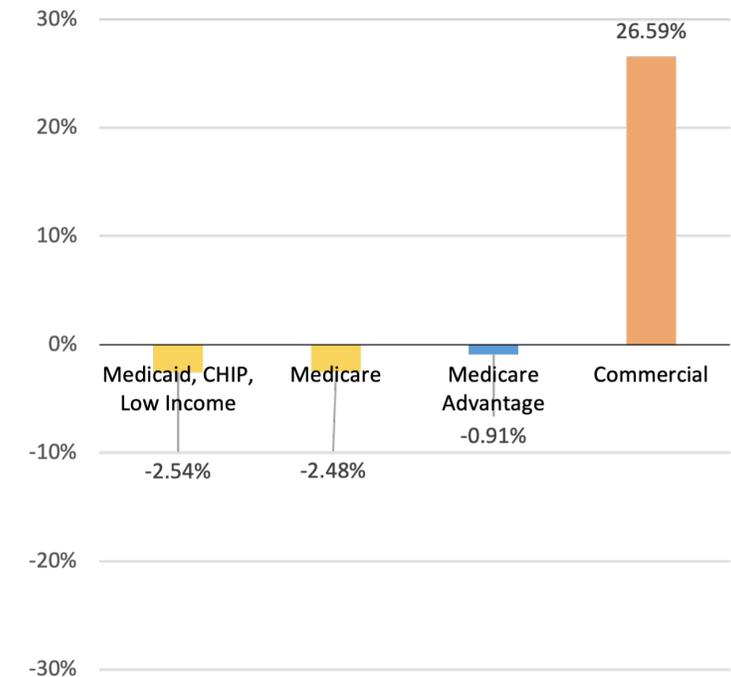
Medical City Dallas (HCA) Payer Mix, 2020



Medical City Dallas (HCA) Operating Profit Margin, 2020

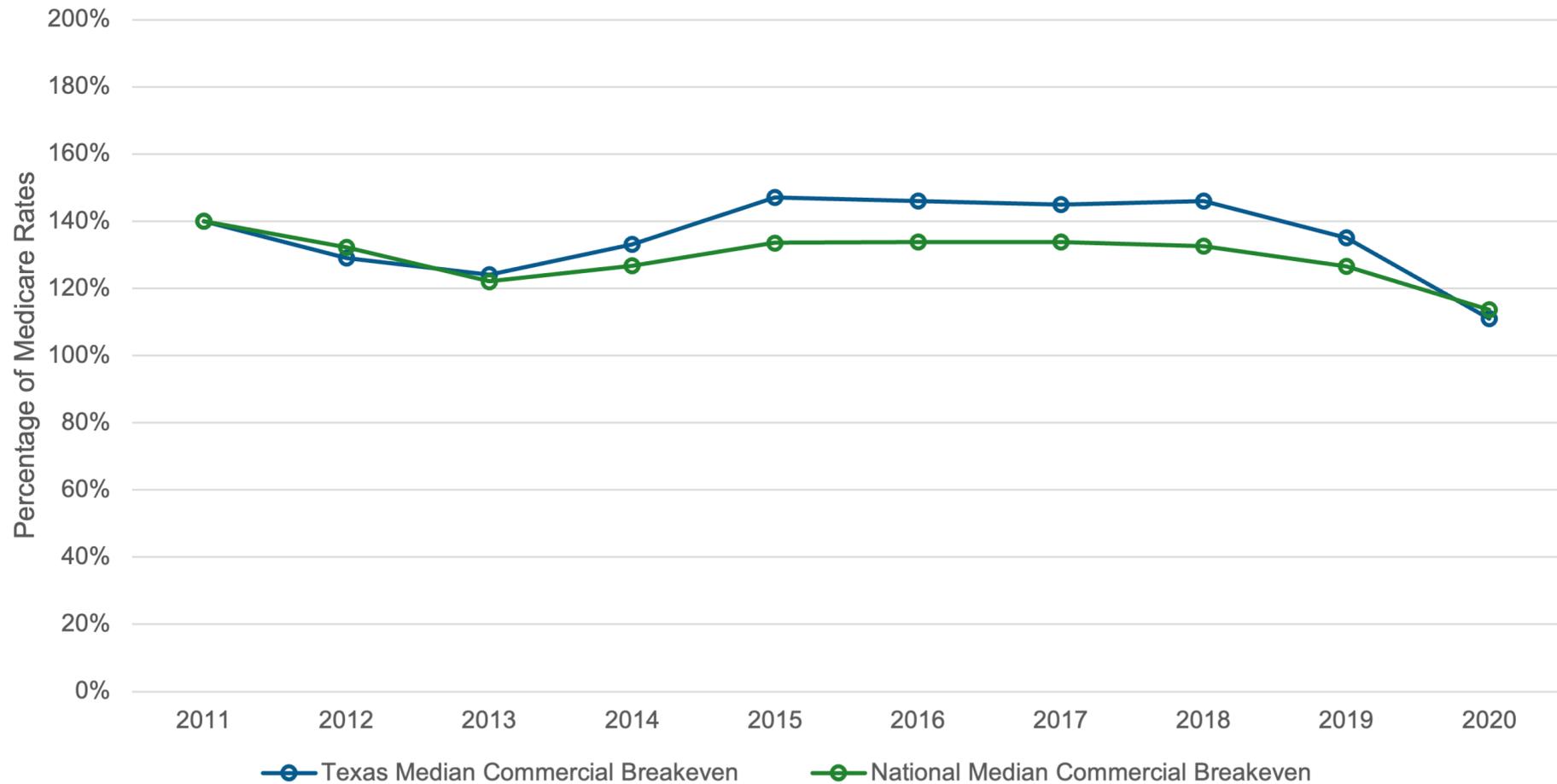


Medical City Dallas (HCA) Payer-Mix Adjusted Profit or Loss, 2020



Texas vs National Median Breakeven

Texas vs National Median Breakeven, 2011-2020



Applications of Hospital Cost Tool Data

- **What data can the hospital tool provide?**
 - Multiple variables from payer mix to breakeven levels
- **How can it be used to inform policy?**
 - Offers another view of hospital and health system financial data
 - Provides fuller picture, particularly when paired with APCD, hospital audited financials, tax filings, and bond reporting
- **What policies have states pursued so far?**
 - Exploring how to limit hospital cost growth
 - Affordability standards with insurance rate review to cap hospital reimbursement growth
 - Tracking trends pre and post mergers, Medicaid expansion, etc.
 - Further transparency into market consolidation; community benefit expenditure; etc.

Thank you!

NASHP's Health System Costs Resources:

- Written research and analysis & state legislative tracking
- Model legislation & regulation to address consolidation and more
- Hospital Cost Calculator & hospital financial transparency reporting template
- Available Now! Interactive Hospital Cost Tool
- <https://www.nashp.org/policy/health-system-costs/>



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