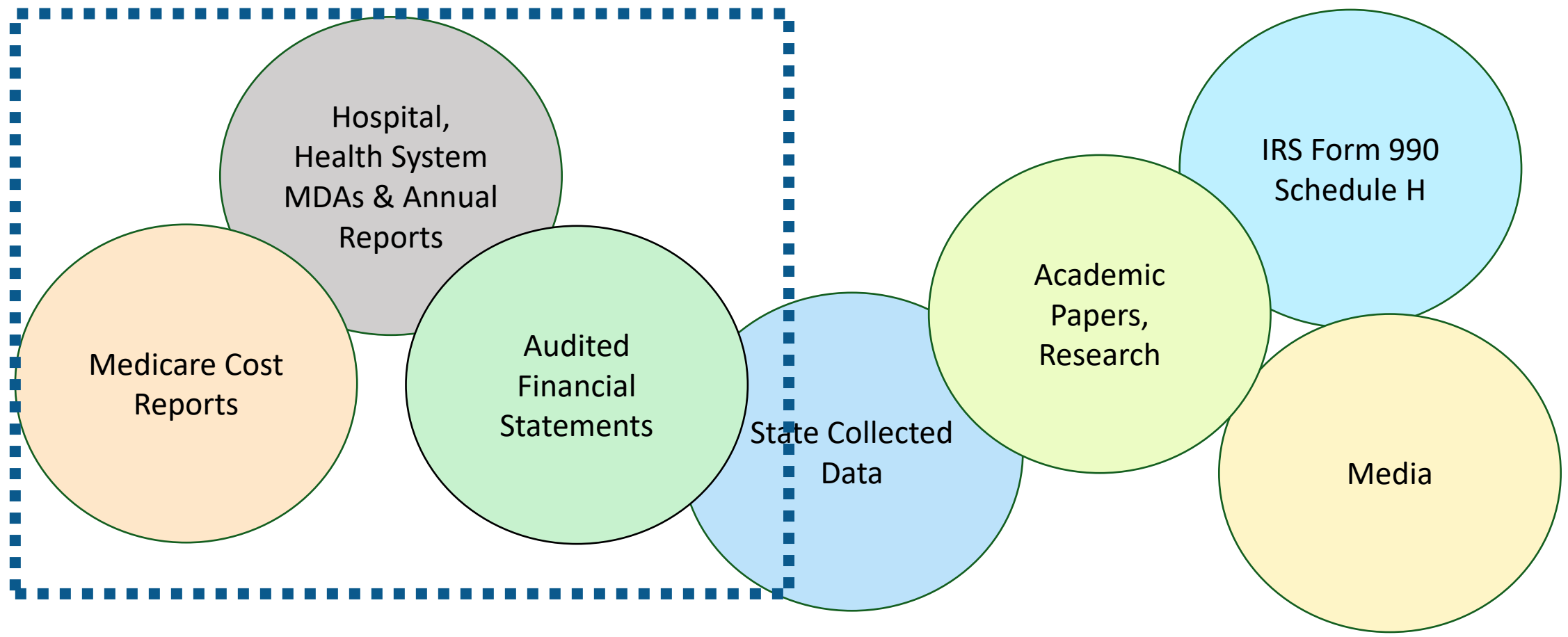


2023 TXCCRI Health Care Summit: NASHP Analysis of Texas Hospital Costs

Maureen Hensley-Quinn, Senior Director of Coverage, Cost, and Value

March 9, 2023

Hospital and Health System Data Sources



What is NASHP's Hospital Cost Tool?

- **An online tool that purchasers and regulators 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
- **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
- **Developed by the NASHP, alongside Rice University and Mathematica, with support from Arnold Ventures**



Key Data Metrics Include:

- **Costs vs Charges** (aka "[sticker prices](#)")
- **Commercial Breakeven vs Commercial Price** – the reimbursement rate needed to cover expenses vs the reimbursement rate received by the hospital
- **Operating Profit Margin** – earnings on hospital patient services
- **Net Profit Margin** – earnings retained by hospital, *includes* non-patient related income and costs
- **Charity Care and Uninsured/ Bad Debt Costs**
- **Payer Mix Metrics**, including payer-mix adjusted profit on each payer
- **Labor Costs, Patient Volume, and more**

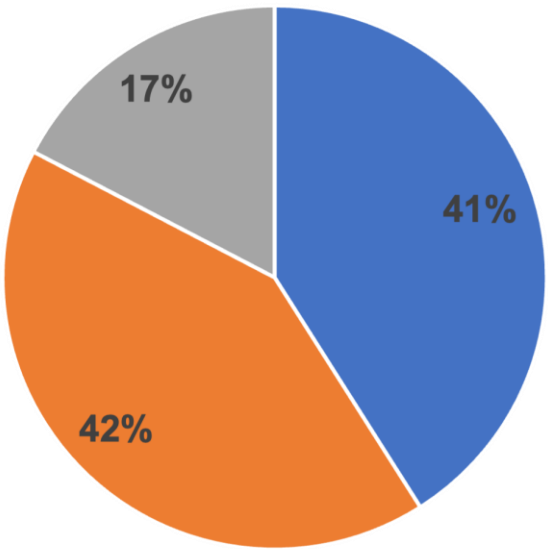


Statewide Overview

Texas Hospital Landscape

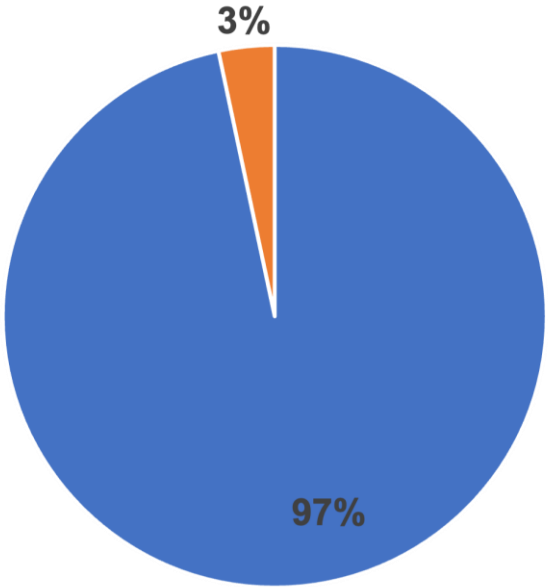
- There are 371 hospitals in Texas comprising 54,144 beds

Number of Texas Beds by Ownership Type, 2021



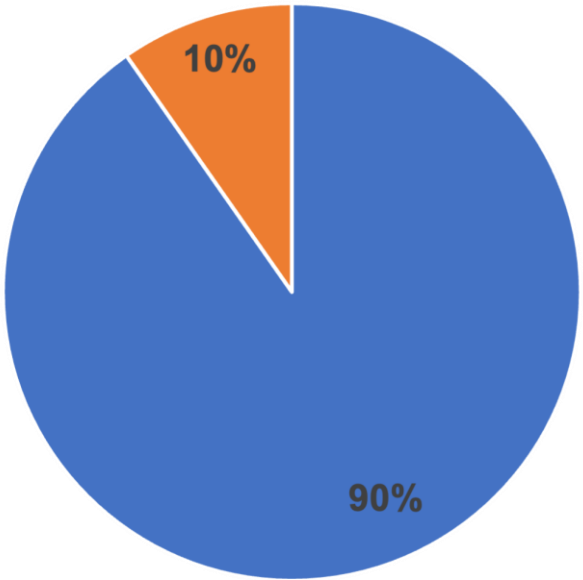
■ For-Profit ■ Non-Profit ■ Governmental

Number of Texas Beds by Facility Type, 2021



■ Short-Term ■ Critical Access Hospital

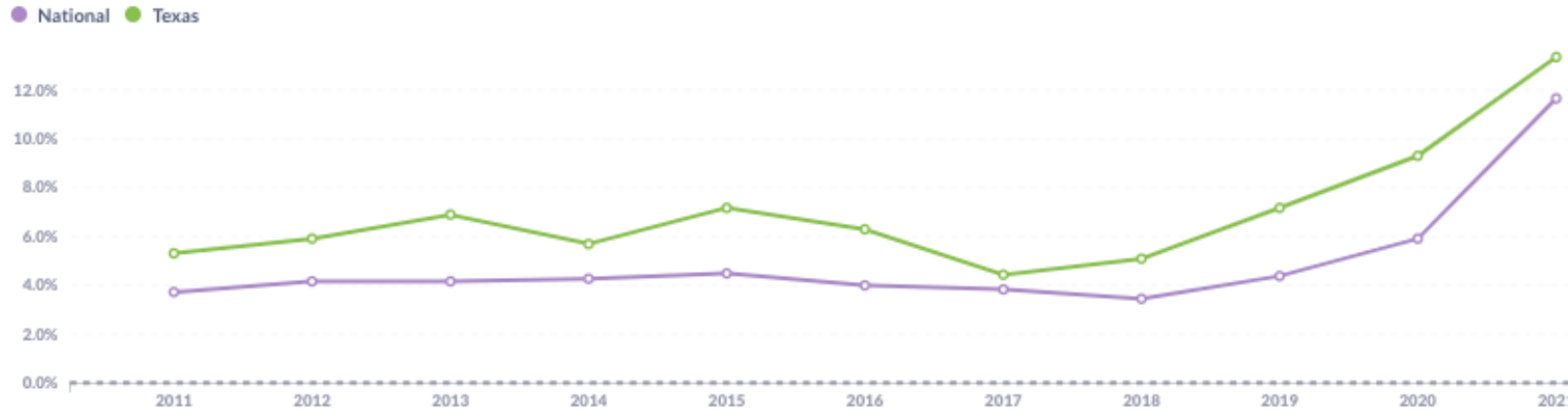
Number of Texas Beds by System Type, 2021



■ System ■ Independent

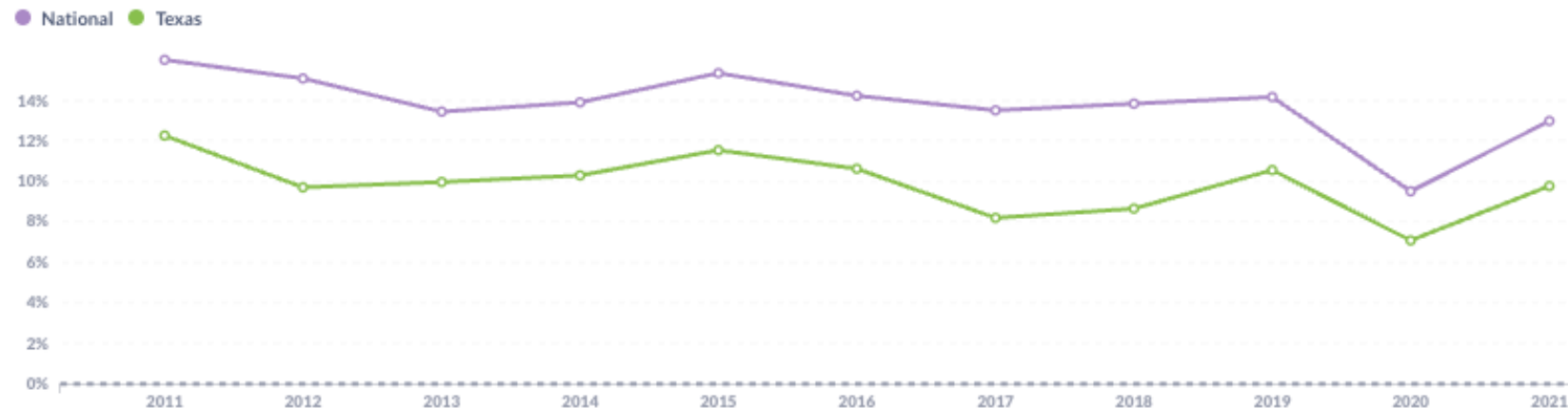
Net and Operating Profit Margins

Median net profit margin for the selected geographies over time



- Net profit margin includes other income/ expense such as investments and COVID-19 relief funds.
 - Median TX *net* profit margin in 2021: **13.4%**

Median operating profit margin for the selected geographies over time

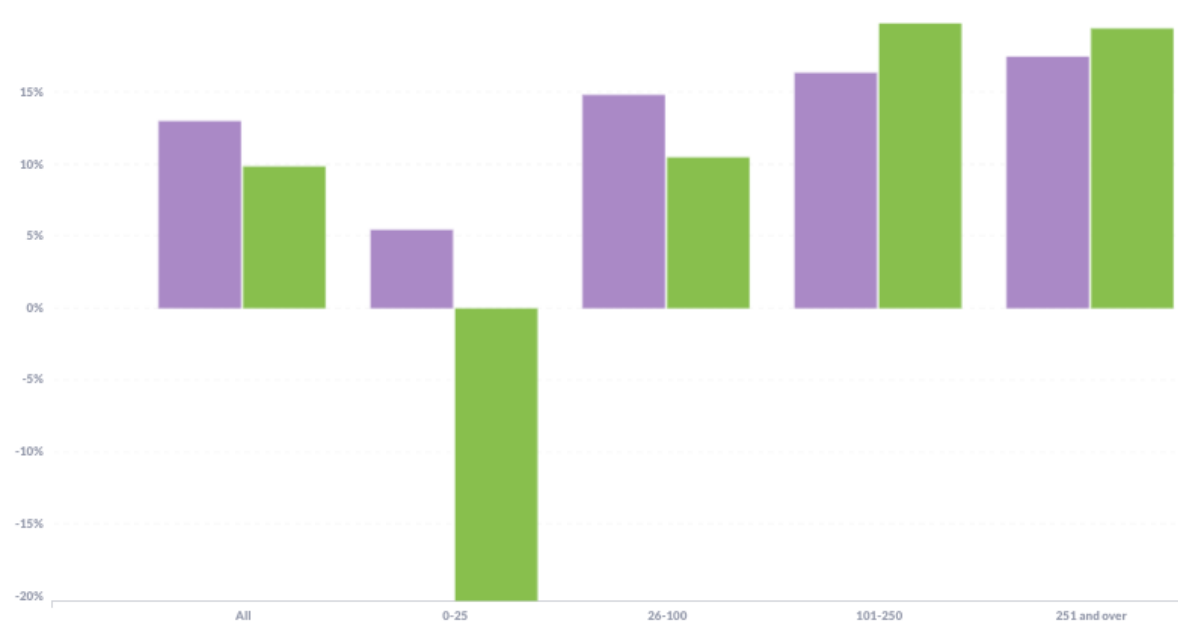


- Operating profit margin includes only direct patient care, no disallowed costs (e.g., research, transfers to home office).
 - Median TX *operating* profit margin in 2021: **10%**

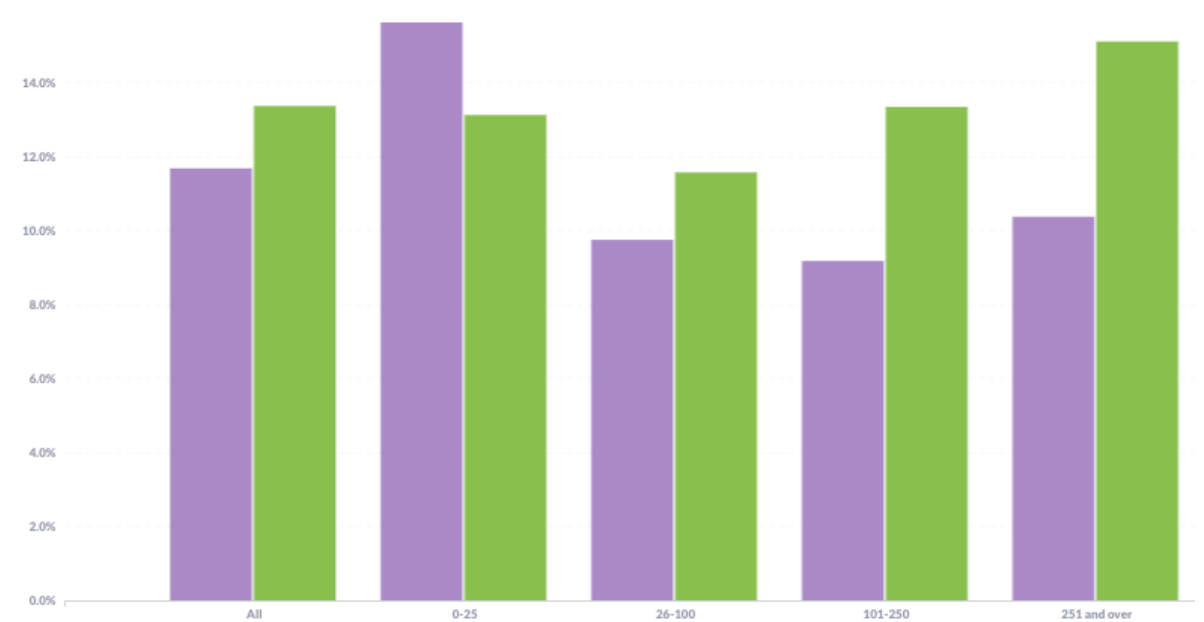
Profit Margins by Bed Size

- Texas hospitals are generally more profitable than their national counterparts
- Low operating profit margins for small (0-25 bed) Texas hospitals – 64% of these are Critical Access Hospitals

Median operating profit margin for the selected geographies by bed size



Median net profit margin for the selected geographies by bed size





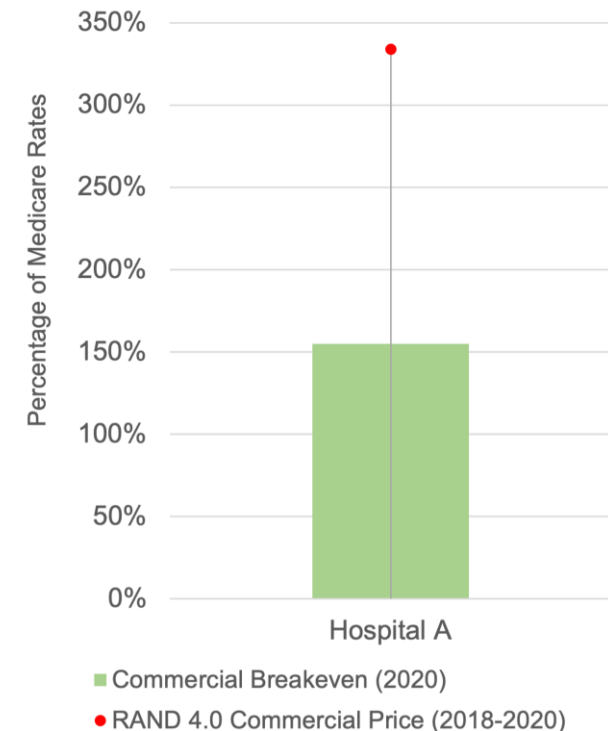
Breakeven Analysis

(State → System → Hospital)

Breakeven Analysis

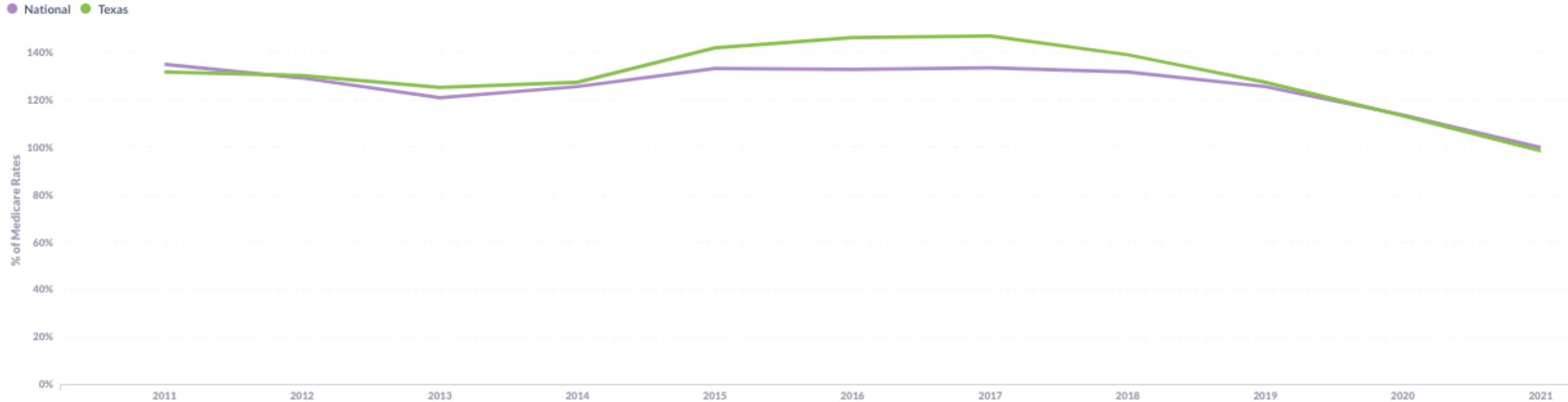
- **NASHP's Hospital Cost Tool** calculates a hospital's breakeven point: **Revenue = Expenses**
 - Revenue includes payments from all sources. Expenses include hospital operations, administration, ancillary services, & non-operating expenses.
- **NASHP Commercial Breakeven** – how much a hospital needs to be reimbursed by commercial payers in order to cover its expenses
 - **Factors that impact breakeven:** Medicare payment rate, hospital other income, reimbursement from other payers, reporting error
- **RAND 4.0 Commercial Price** – how much a hospital was reimbursed by commercial payers in aggregate from 2018 to 2020
- 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).



Texas vs National Median Breakeven

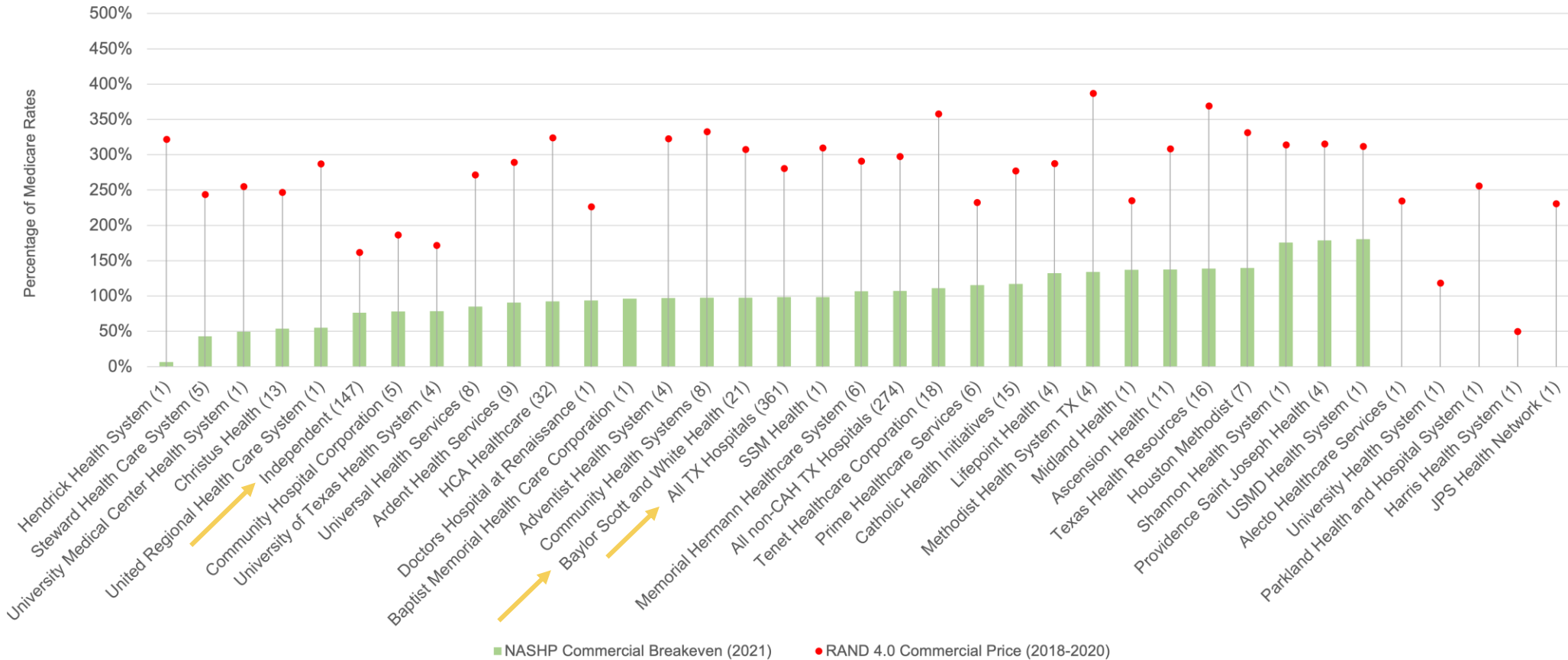
Median commercial breakeven for the selected geographies over time



- 2021 Median U.S. Breakeven: 100% of Medicare
- 2021 Median TX Breakeven: 99% of Medicare

Major Systems' Breakeven vs Price

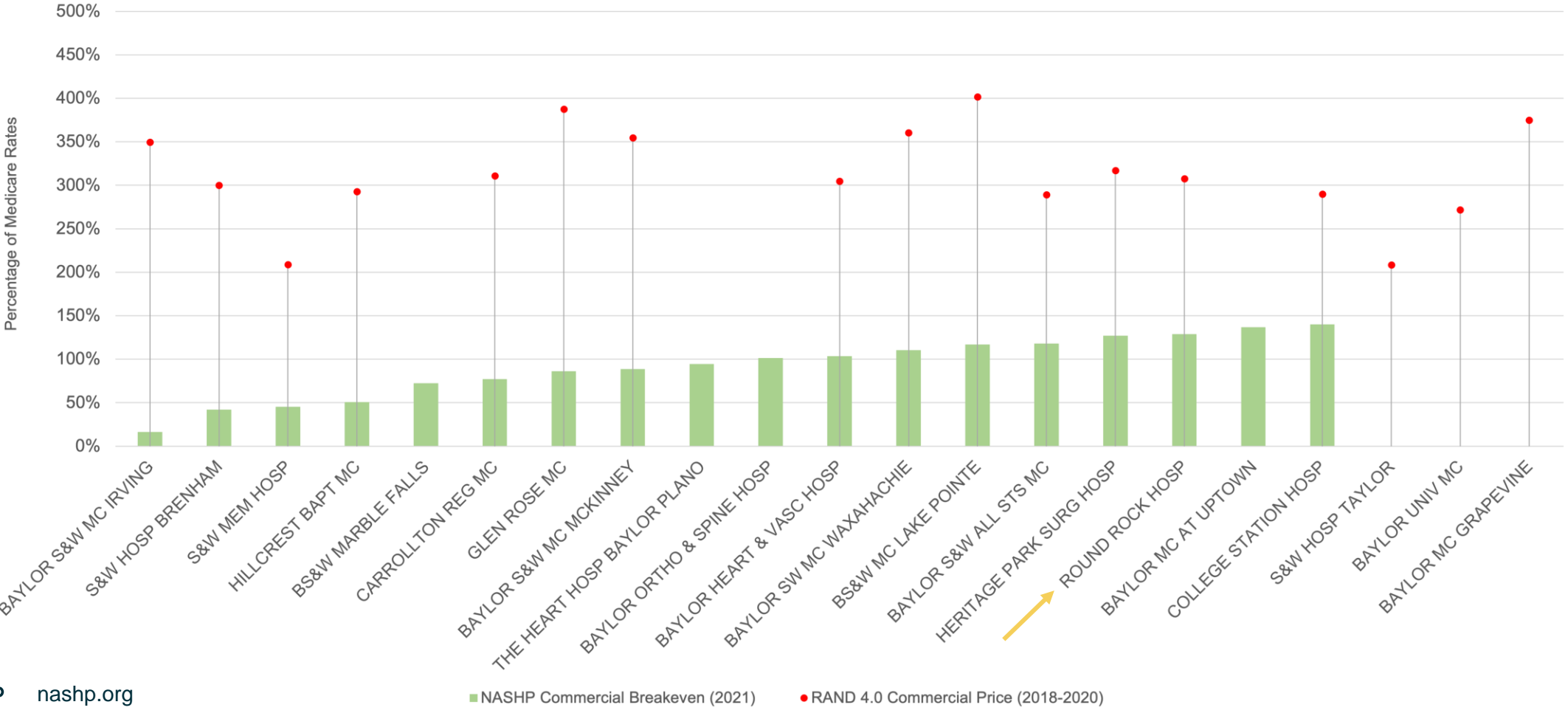
Commercial Breakevens and Prices of Texas Health Systems
(number of hospitals in parentheses)



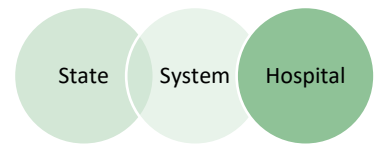
- Median TX Breakeven: 99% of Medicare
- Median TX Price: 281% of Medicare
- Example: Further explore BS&W (Only in TX, close to TX median)

Baylor Scott & White

Commercial Breakevens and Prices of Baylor Scott & White Hospitals



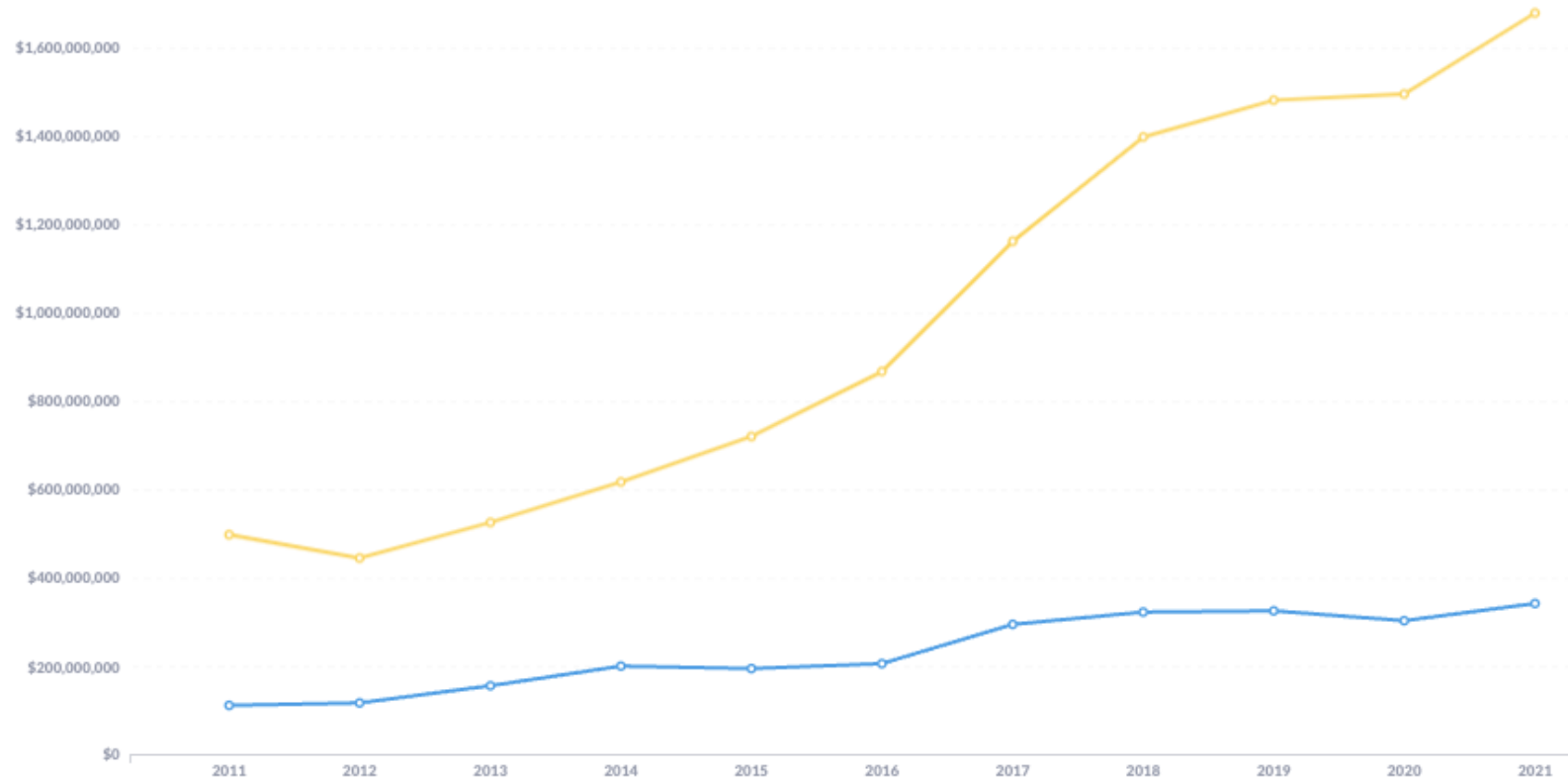
Round Rock Hospital (BS&W): Costs vs Charges Over Time



Round Rock Hospital (BS&W)

Hospital operating costs and charges over time

● Hospital Charges ● Hospital Operating Costs



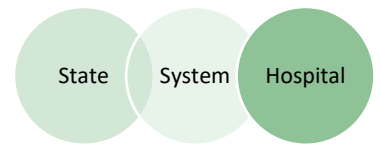
Charges: \$1.7 billion in 2021

- the '[sticker price](#)' set by the hospital for services

Costs: \$343 million in 2021

- Hospital services:
 - Salaries & benefits;
 - Contracted services;
 - Equipment and supplies;
 - Rent, interest, depreciation, etc.
- Non-hospital services:
 - Research,
 - Joint ventures,
 - Ancillary services (parking lots, cafeterias, retail pharmacy, etc.)

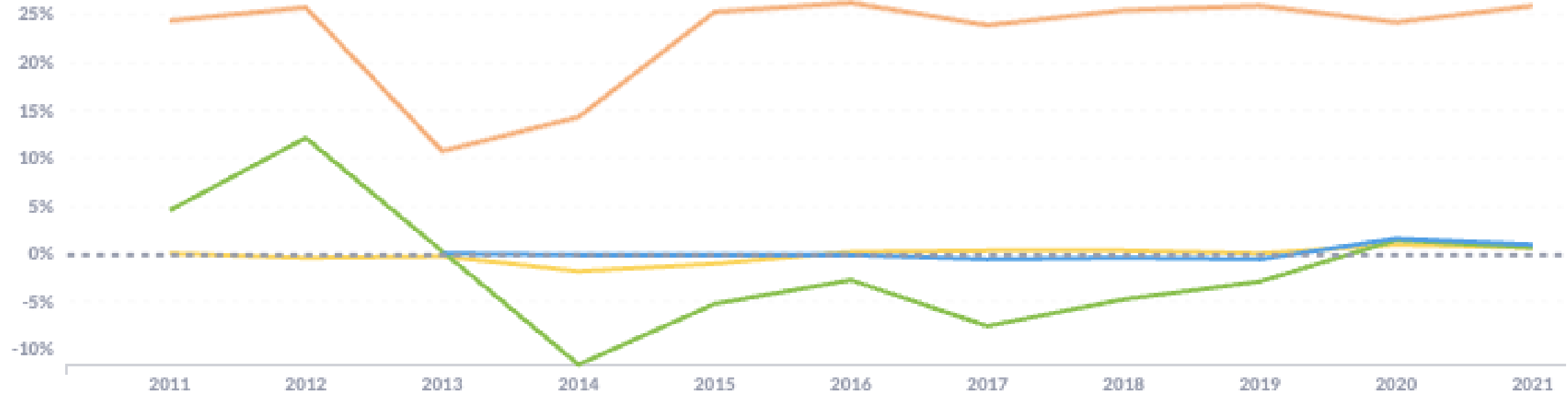
Round Rock Hospital (BS&W): Payer Mix Adjusted Profits



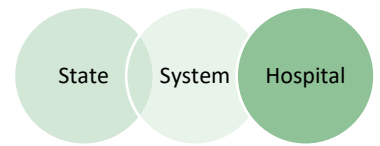
Round Rock Hospital (BS&W)

Payer mix adjusted profit (loss) over time

Commercial Medicaid, SCHIP and Low Income Gov't Program Medicare Medicare Advantage



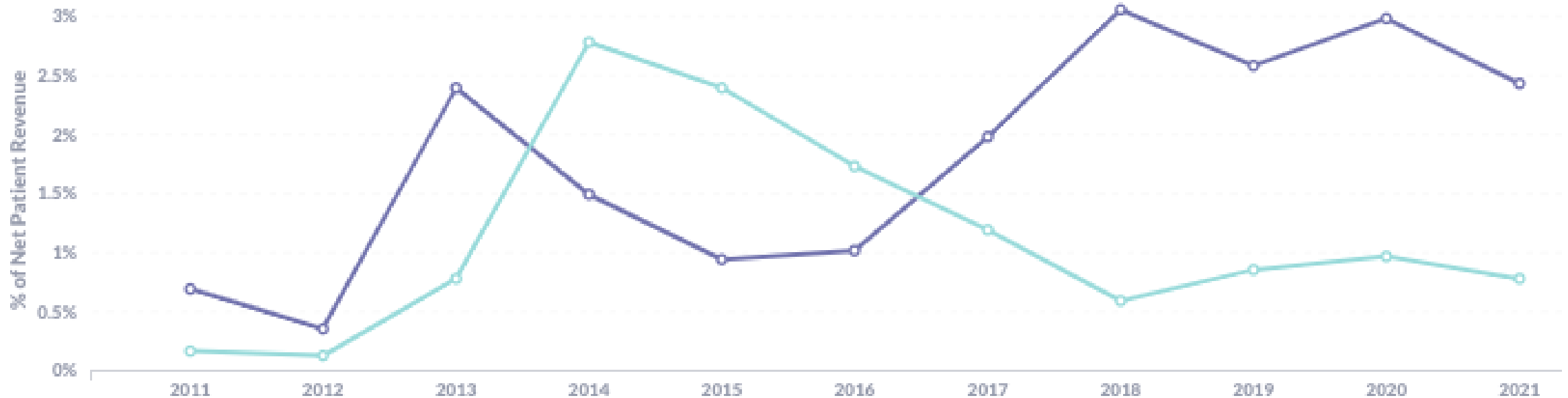
Round Rock Hospital (BS&W): Uncompensated Care



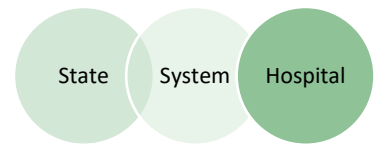
Round Rock Hospital (BS&W)

Compare net charity care cost and uninsured & bad debt cost as % of net patient revenue over time

● Net Charity Care Cost as % of Net Patient Revenue ● Uninsured and Bad Debt Cost as % of Net Patient Revenue



Round Rock Hospital (BS&W): Direct Patient Care Labor Costs



- Direct Patient Care Labor Costs per Adjusted Discharge have risen steadily over time
- Contracted hourly rate spiked in 2021, standard hospital labor did not
- HCT also has labor metrics for overhead (e.g., housekeeping, maintenance), administration, and home office

Round Rock Hospital (BS&W)

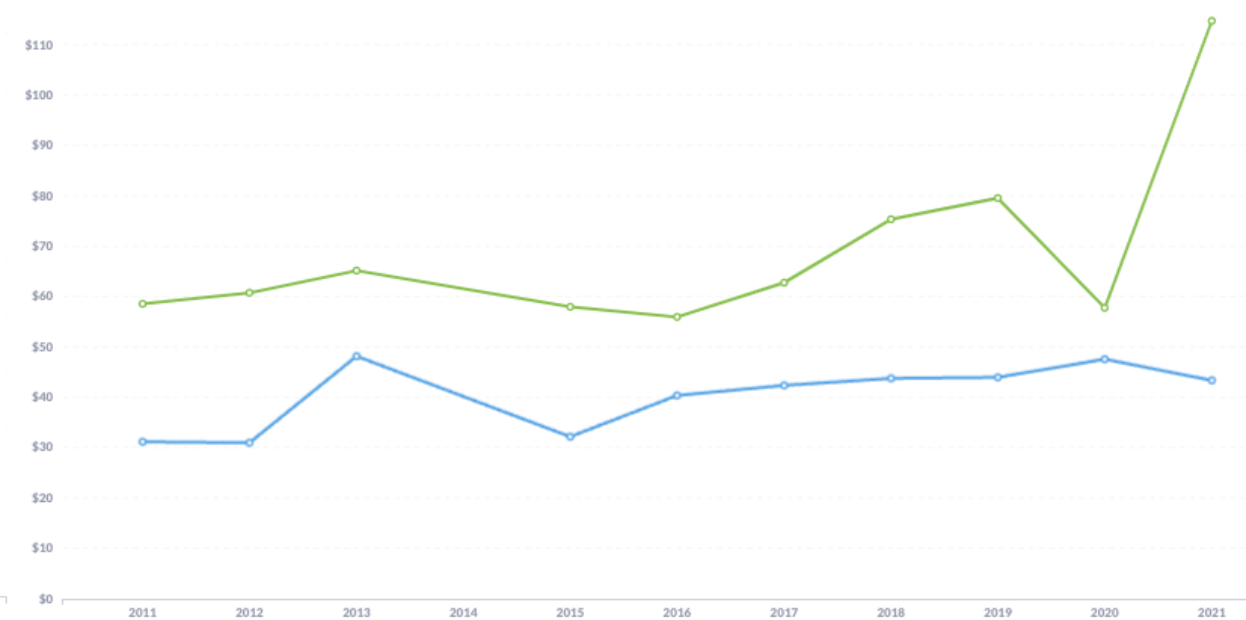
Direct patient care labor costs per adjusted patient discharge over time



Round Rock Hospital (BS&W)

Direct patient care contracted and hospital labor hourly rates over time

● Direct Patient Care Contracted Labor Hourly Rate ● Direct Patient Care Hospital Labor Hourly Rate



Round Rock Hospital (BS&W): Profit

- 2021 Net Profit Margin: **9%**
- 2021 Operating Profit Margin: **35%**
- 2021 Operating Profit per Adjusted Discharge: **\$5,770**

Round Rock Hospital (BS&W)

Operating profit margin over time





Audited Financial Statements

Source: <https://emma.msrb.org> not <https://tool.nashp.org/>

Hospital Closing

Wellstar's Atlanta Medical Center closes Nov. 1.

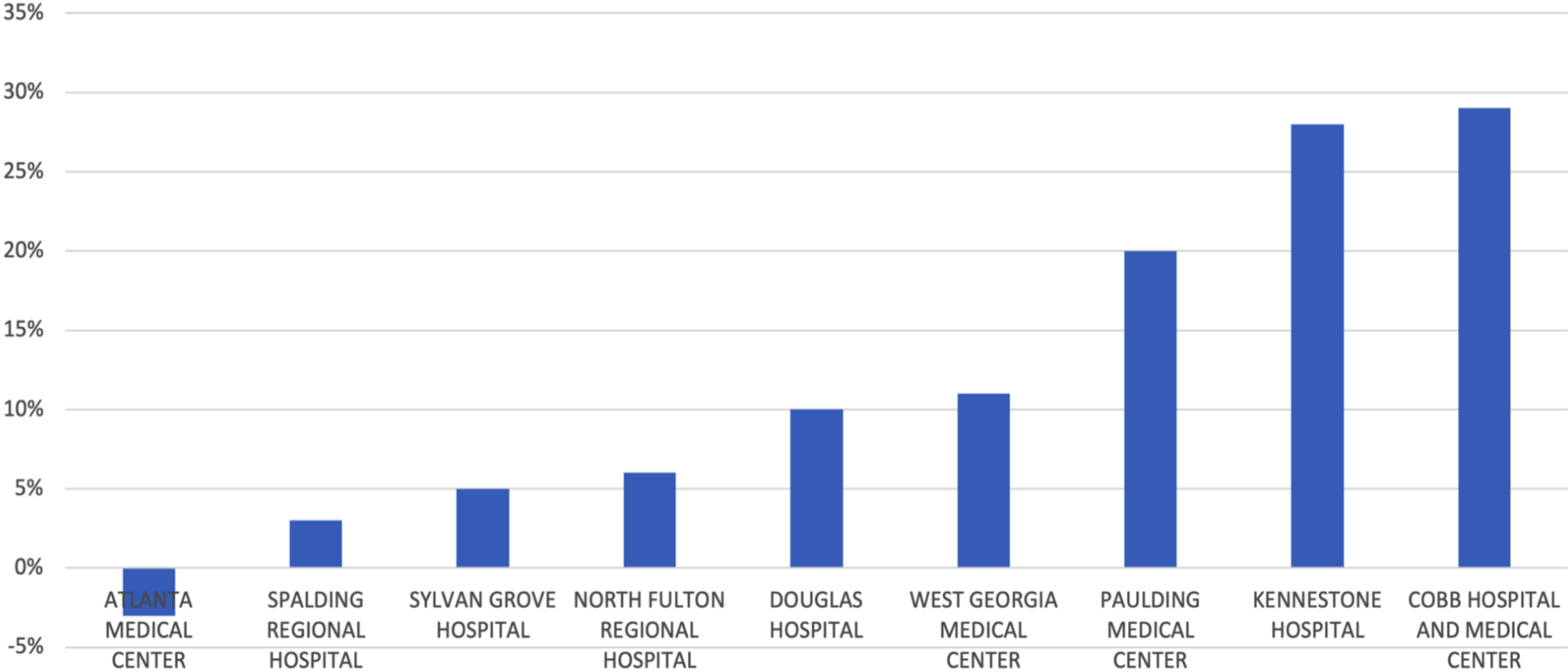
Falling revenue along with increasing costs for staff and supplies are to blame for the closure, according to Wellstar's announcement at the end of August.

**After weeks of drama, disappointment,
Atlanta Medical Center to close**

What's the financial condition of the Health System?

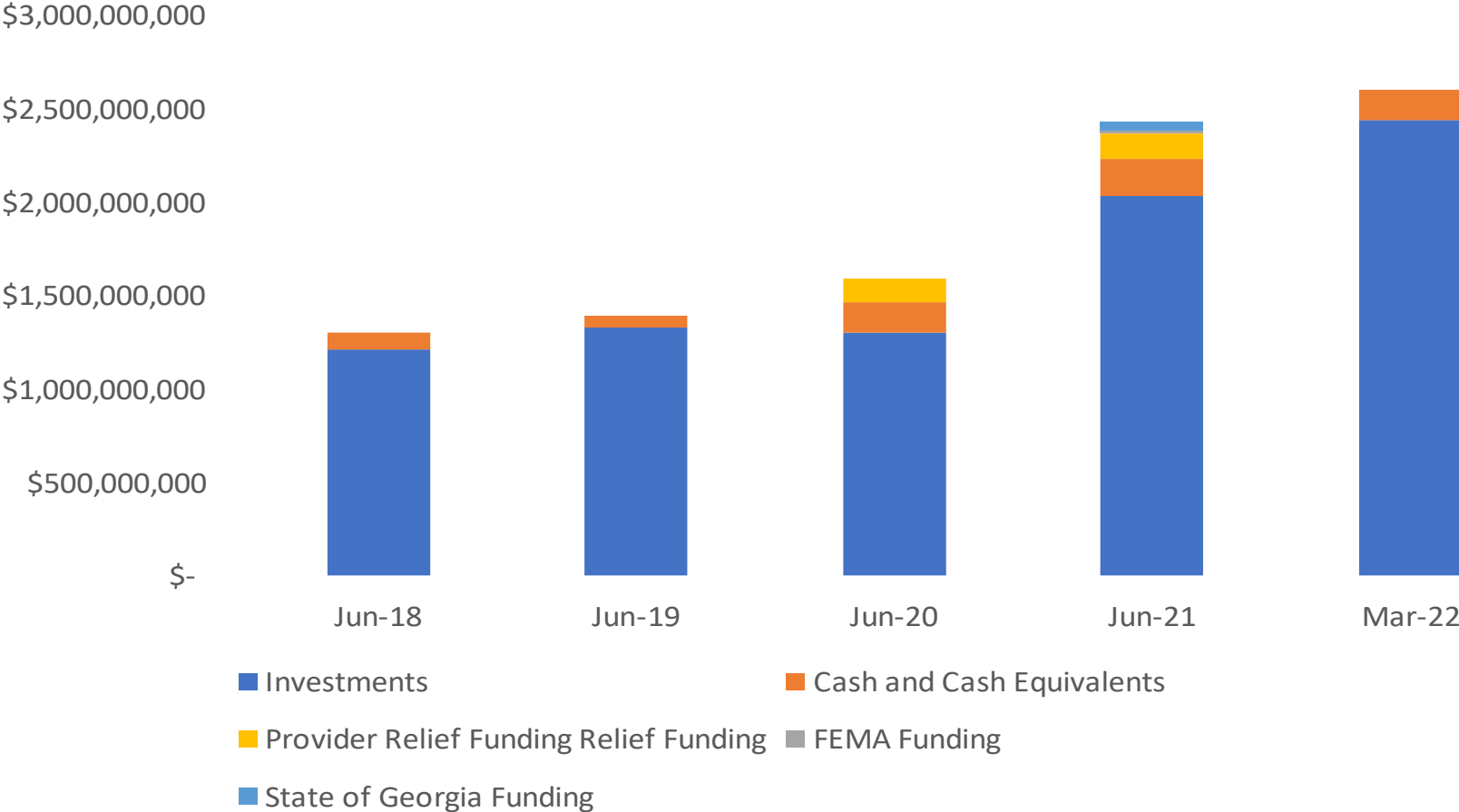
WellStar Georgia Hospitals

Net Profit Margins of WellStar Hospitals, 2020

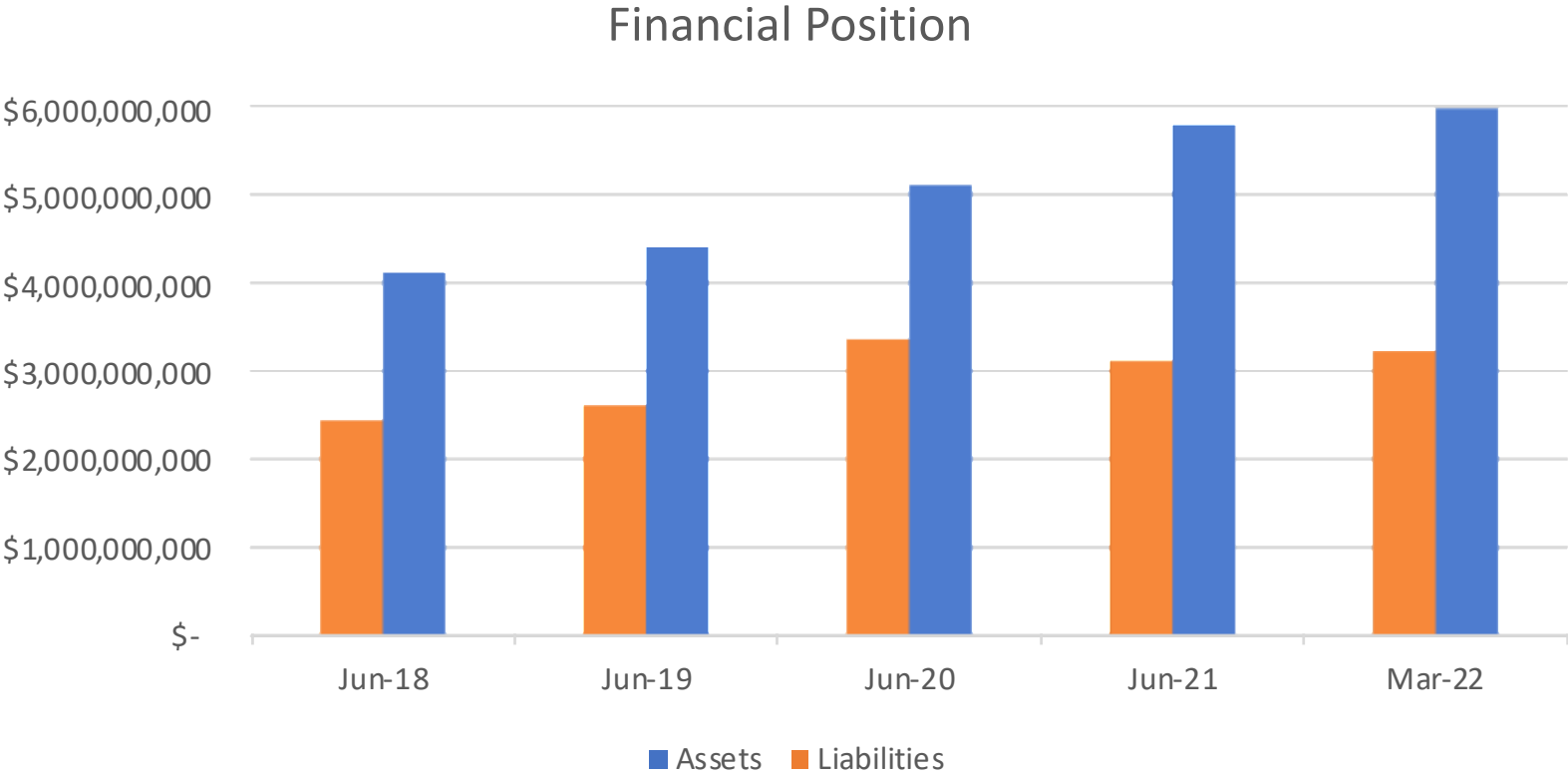


Wellstar Financial Assets

Wellstar Financial Investments



Wellstar Net Assets



- Assets compared to Liabilities
- Wellstar
- \$3.7 billion (2021)
- Acute Care and CAH
- Can compare by states, bed size, ownership, health system

Health System and Hospital Outlook

Over Half of Hospitals to Have Negative Margins Through 2022

American Hospital Association

- Hospitals are likely to lose “billions of dollars” due to continued depressed margins and heightened labor costs, according to a report Thursday prepared for the American Hospital Association by Kaufman Hall.

Hospitals estimate bleak financial outlook for 2022



Fitch Ratings – Outlook for 2023

- 75% operating expenses under pressure (labor, supplies, drugs)
- 2023 not expected to show a rapid operational recovery for most.
- If suffered significant operational losses, Break-even on a month-to-month basis should return sometime in 2023, with gradual improvement from there.
- If suffered only modest losses, return to profitability on month-to-month bases in late 2022 or early 2023

Operating Margin vs Net Income Margin

Atrium Health

9-month Comparative Income Statement

	<i>Dollars in Thousands</i>	9/30/22	9/30/21
OPERATING (LOSS) INCOME		\$ (83,377)	\$ 221,957
<u>NON-OPERATING (LOSS) INCOME</u>			
Stimulus Grants		\$ 50,596	\$ 149,400
Interest Expense		(83,255)	(71,250)
Net Investment (Losses) Gains		(1,328,222)	476,010
Other, net		(121)	4,083
TOTAL NON-OPERATING (LOSS) INCOME		<u>\$ (1,361,002)</u>	<u>\$ 558,243</u>
NET (LOSS) INCOME		<u><u>\$ (1,444,379)</u></u>	<u><u>\$ 780,200</u></u>

Source: <https://emma.msrb.org>

BAYLOR SCOTT & WHITE HEALTH
SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION OF THE OBLIGATED AFFILIATES AND BSWH
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2022
 (\$ in millions)

	Obligated Affiliates *	Consolidated Health Plan [†]	Other System Entities	Reclassifications and Eliminations	Total
Total operating revenue	3,658	933	3,070	(781)	6,880
Total operating expenses	3,522	945	2,651	(799)	6,319
INCOME (LOSS) FROM OPERATIONS	136	(12)	419	18	561
Total nonoperating gains (losses)	263	1	12	(174)	102
			Includes 58 total net gain on investments ^		
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES BEFORE TAXES	399	(11)	431	(156)	663
LESS INCOME TAX EXPENSE	—	—	10	—	10
REVENUE AND GAINS IN EXCESS (DEFICIT) OF EXPENSES AND LOSSES	399	(11)	421	(156)	653

Memorial Hermann Health System
Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2022	2021
Total revenues, gains, and other support	7,358,863	6,924,973
Expenses:		
Salaries, benefits, and related personnel costs	3,266,757	2,915,594
Services and other	1,974,414	1,877,002
Supplies and medicines	1,314,634	1,246,342
Depreciation and amortization	345,992	338,428
Interest	87,666	92,059
Total expenses	6,989,463	6,469,425
Operating income	369,400	455,548
Non-operating activities:		
Investment (losses) gains and other, net	(185,270)	1,043,468
Interest rate swap agreements	43,196	17,593
Gain (loss) on extinguishment of debt	12,002	(4,896)
Revenues in excess of expenses	239,328	1,511,713
Revenues in excess of expenses attributable to non-controlling interests	(80,905)	(84,159)
Revenues in excess of expenses attributable to the Health System	158,423	1,427,554







Policy Solutions

What Texas Can Do to Address High Provider Costs

Prohibiting anti-competitive contracting terms

NASHP’s model act is designed to help address high-cost drivers **within a consolidated health market** by prohibiting common anti-competitive contracting practices.

 <p>All-or-nothing contracting</p>	<p>Health systems leverage the status of their “must-have” providers and require plans to contract with all providers in the system or none of them. This forces insurers to face a difficult choice — include all of the systems’ providers (even if they are low-value or high-cost) or lose them all.</p>
 <p>Anti-tiering or Anti-steering Clauses</p>	<p>Dominant systems may require a health plan to place all physicians, hospitals, and other facilities associated with a hospital system in the most favorable tier of providers (i.e., anti-tiering) or at the lowest cost-sharing rate to avoid steering patients away from that network (i.e., anti-steering). These clauses undercut a plan’s ability to direct patients to high-value providers.</p>
 <p>Most-favored-nation (MFN) clauses</p>	<p>Typically used by a dominant insurer in combination with a dominant health system, MFN clauses are contractual agreements in which a health system agrees not to offer lower prices to any other insurer. For a dominant insurer, this ensures they are getting the best price and that no rival insurer can negotiate to offer a novel product at lower rates. MFNs may also allow insurers and providers to collude to raise prices.</p>
 <p>Gag clauses</p>	<p>Gag clauses may prevent either party in a contract from disclosing terms of that agreement, including prices, to a third party. The lack of transparency from gag clauses and the mistaken notion that prices are trade secrets undermines price transparency tools for consumers and decreases plan sponsors’ ability to push back on rising prices.</p>

Resources:





[Model Act to Address Anticompetitive Terms in Health Insurance Contracts](#)

Policy Brief: [A Tool for States to Address Health Care Consolidation](#)

Policy Brief: [Weighing Policy Trade-offs: Overview of NASHP’s Model Prohibiting Anticompetitive Contracting](#)

What Texas Can Do To Address High Provider Costs

Prohibiting unwarranted facility fees

<p>Prohibiting certain facility fees</p> 	<ul style="list-style-type: none">• Site-specific facility fees: services rendered at physician practices and clinics located more than 250 yards from a hospital campus.• Service-specific facility fees: typical outpatient services that are billed using evaluation and management codes, even if those services are provided on a hospital campus.
<p>Reporting</p> 	<ul style="list-style-type: none">• Requires annual reporting of facility fees charged or billed by health care providers.
<p>Authority</p> 	<ul style="list-style-type: none">• Delegates implementation authority to a relevant state agency
<p>Enforcement Mechanisms</p> 	<ul style="list-style-type: none">• An annual facility fee audit by the relevant state agency;• A private right of action for consumers; and• Administrative financial penalties against health care providers for violations.

Resources:

[Model State Legislation to Prohibit Unwarranted Facility Fees Reporting Requirements](#)

Report: [State Policies to Address Vertical Consolidation in Health Care](#)

Blog: [Combat Rising Health Care Costs by Limiting Facility Fees with New NASHP Model Law](#)

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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