

Changes in
**HEALTH CARE
FINANCING &
ORGANIZATION**

When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

November 13, 2002
Washington, DC



AcademyHealth

These materials were commissioned by the Robert Wood Johnson Foundation for use at the invitational meeting *When Public Payment Declines Does Cost-Shifting Occur? Hospital and Physician Responses* and to stimulate discussion and understanding of the hospital and physician responses to reductions in public payment. In the event that the Foundation and the authors intend to submit these commissioned materials or revisions thereto for publication, we request that the materials not be cited or circulated without the permission of AcademyHealth.



DARTMOUTH-HITCOCO

When Public Payment Declines Does Cost Shifting Occur?

Hospital and Physician Responses

November 13, 2002

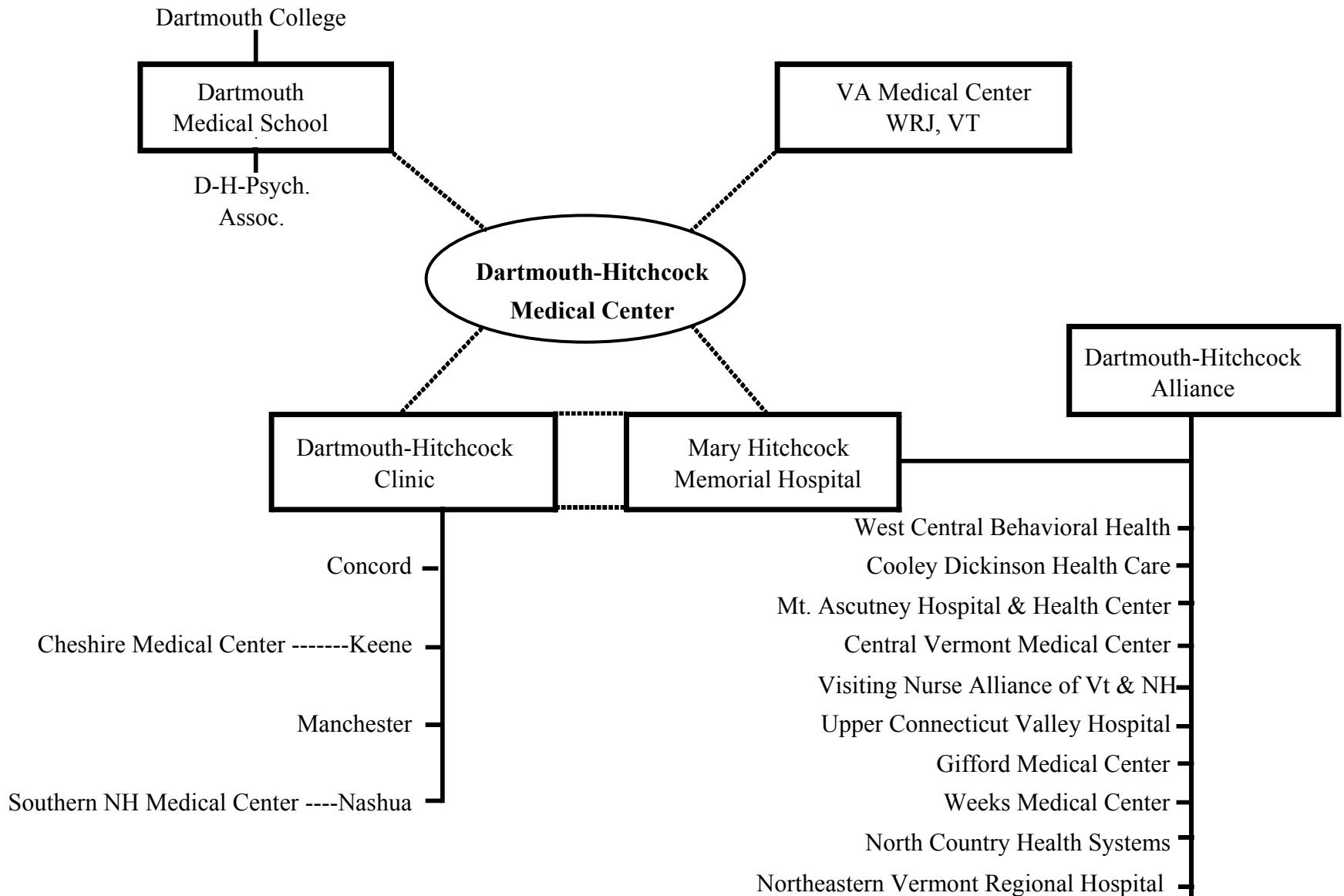
Wyndham Washington, D.C.

Dartmouth-Hitchcock
Richard H. Showalter, Jr.,
Senior VP Finance

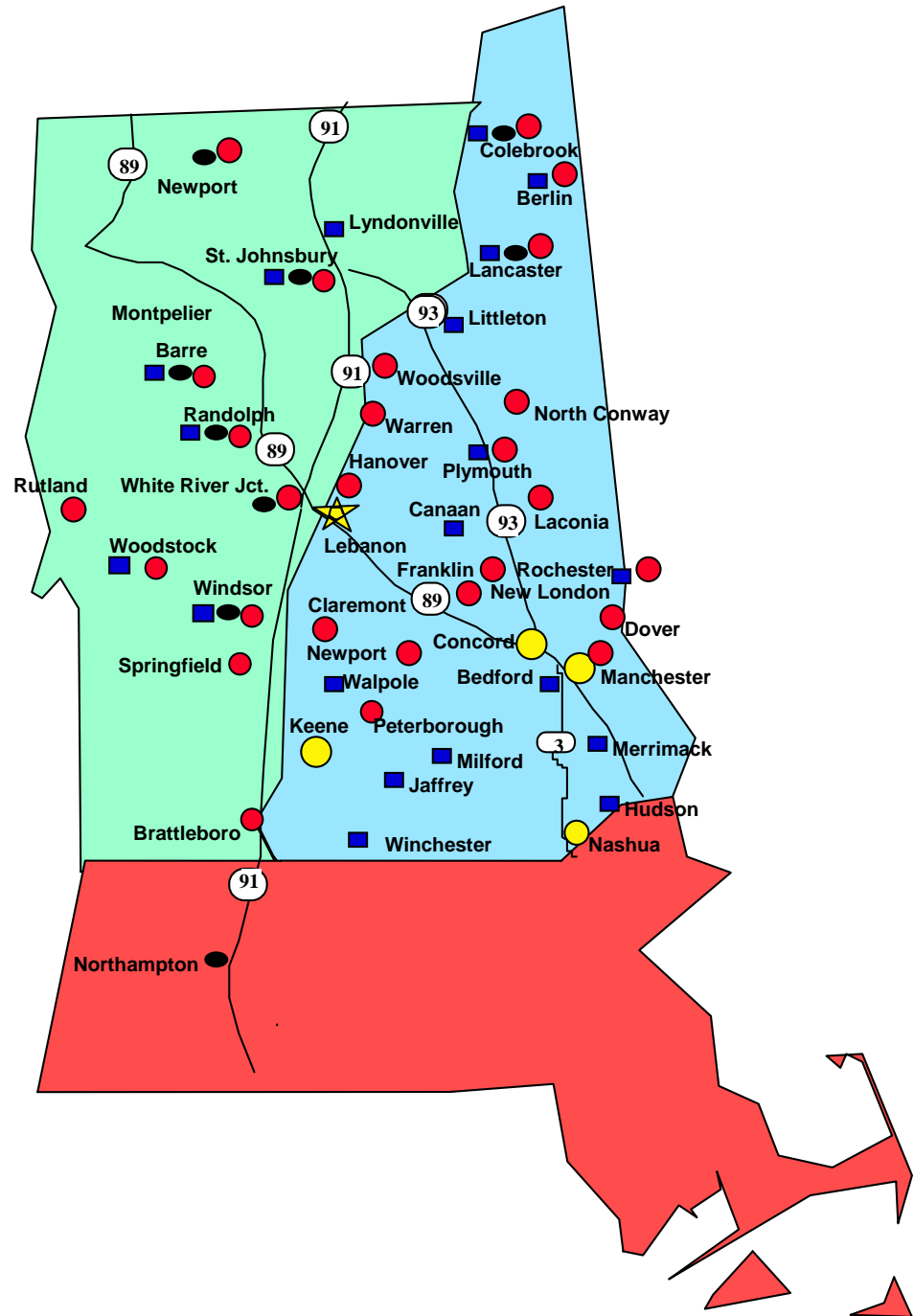
Presentation Outline

- Description of Dartmouth-Hitchcock
- General Comments about Cost Shifting
- The impact of changing payment levels on Providers
- Provider Responses






Dartmouth-Hitchcock Organizational Relationships



Dartmouth-Hitchcock Regional Map



LEGEND

-  Dartmouth-Hitchcock Medical Center
-  Dartmouth-Hitchcock Clinic Division
-  Dartmouth-Hitchcock Regional Clinic
-  DHA Organization
-  Outreach* * All DHC practices and divisions are host sites for outreach

General Comments

- The provision of health care has always involved some level of cost shifting
- Not-for-Profit hospitals try to keep down the cost to communities
- Regulation impacts market forces - health care is quasi-regulated
- Cost reductions from managed care in the early 90's offset any cost shifting effects
- Investment earnings have mitigated cost shifting
- Medicare pricing plans are not always in sync with market forces

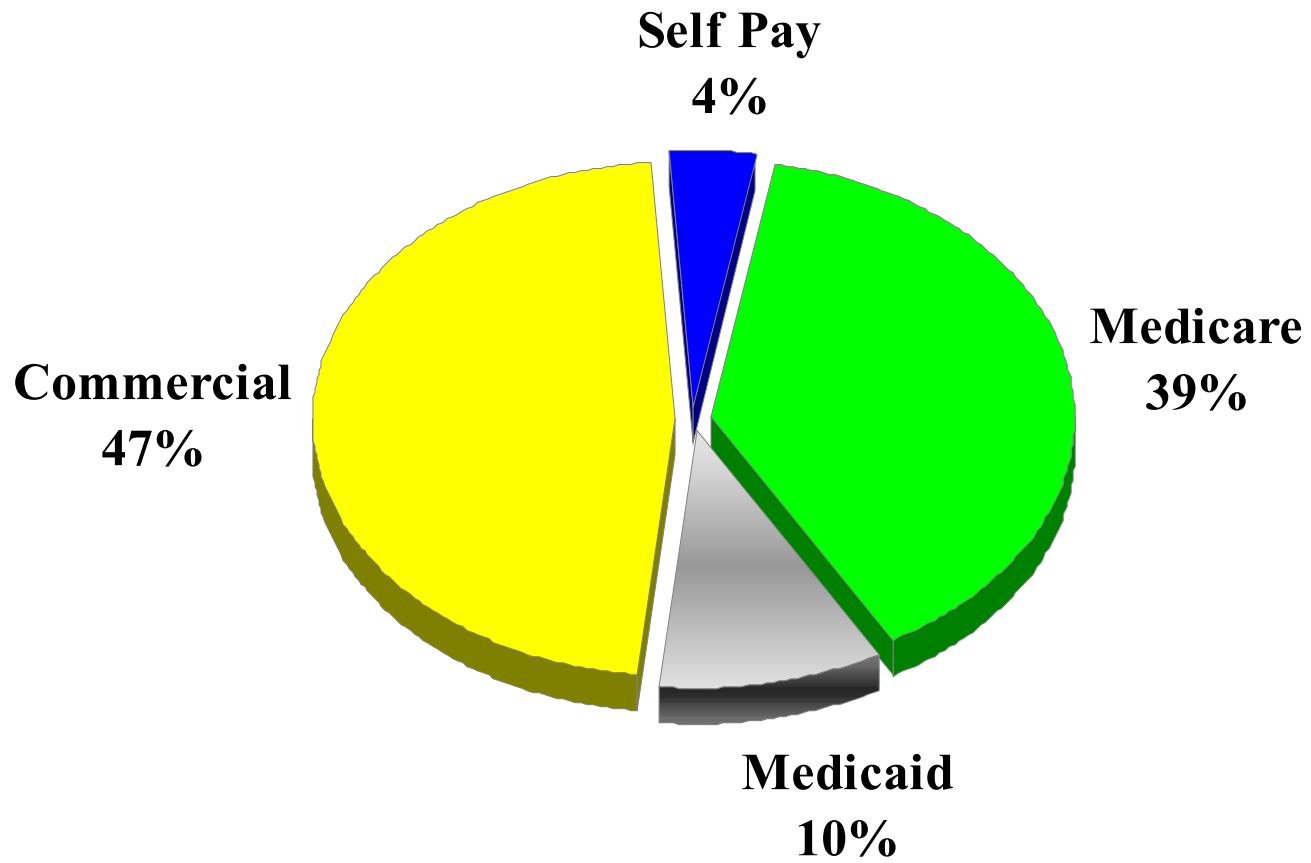
Examples of Cost Shifting

Ill persons	➔	Healthy populations
Old people	➔	Young people
Indigent persons	➔	Workforce
Chronically ill	➔	Procedure based services
Primary care	➔	Specialty care
Physicians	➔	Hospitals
State and Federal programs	➔	Employers
Teaching programs	➔	Clinical services
Psychiatric	➔	Medical/Surgical
Tobacco industry	↔	Medicaid budget

Market Forces Affecting Provider Pricing

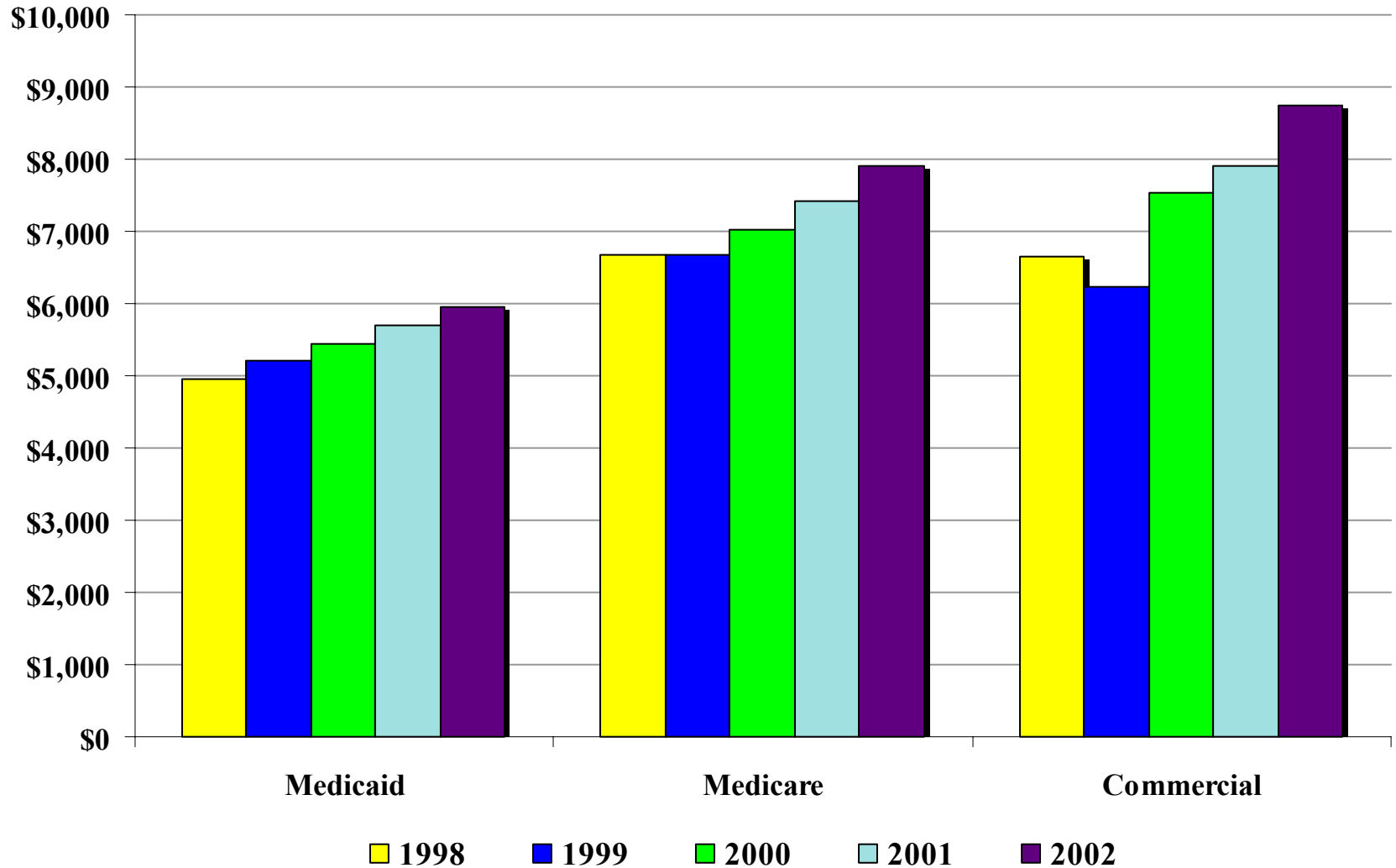
- Cost and availability of labor and medical supplies
- Financial health of U.S. and state economies
- Customer demand for more and higher level of service
- Competition varies by geography and service line
- Regulation varies by state
- Financial health of the plans - insurance cycle
- Financial health of the providers

Dartmouth-Hitchcock PAYOR MIX



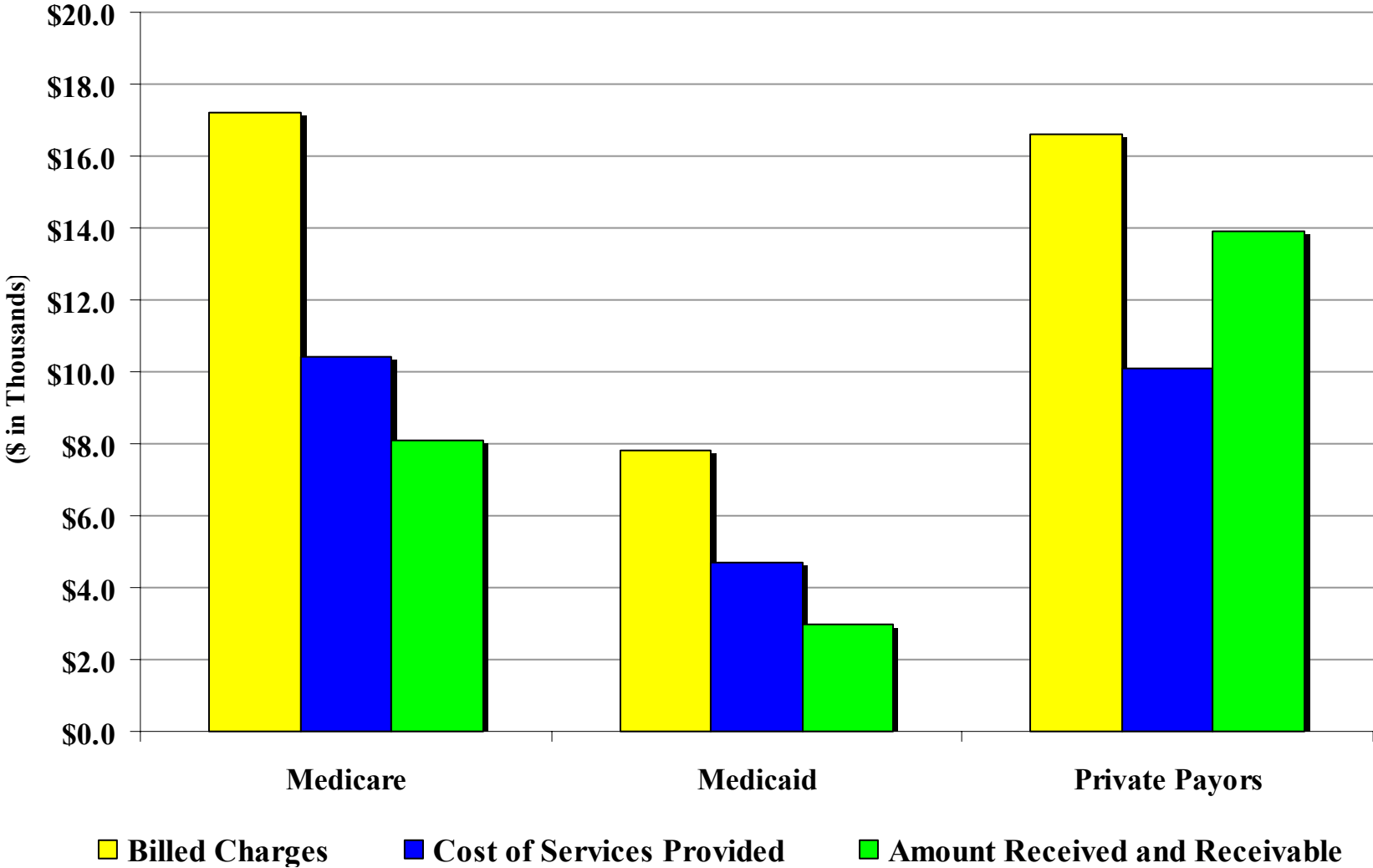
Dartmouth-Hitchcock

PAYMENT PER ADJUSTED DISCHARGE BY PAYOR

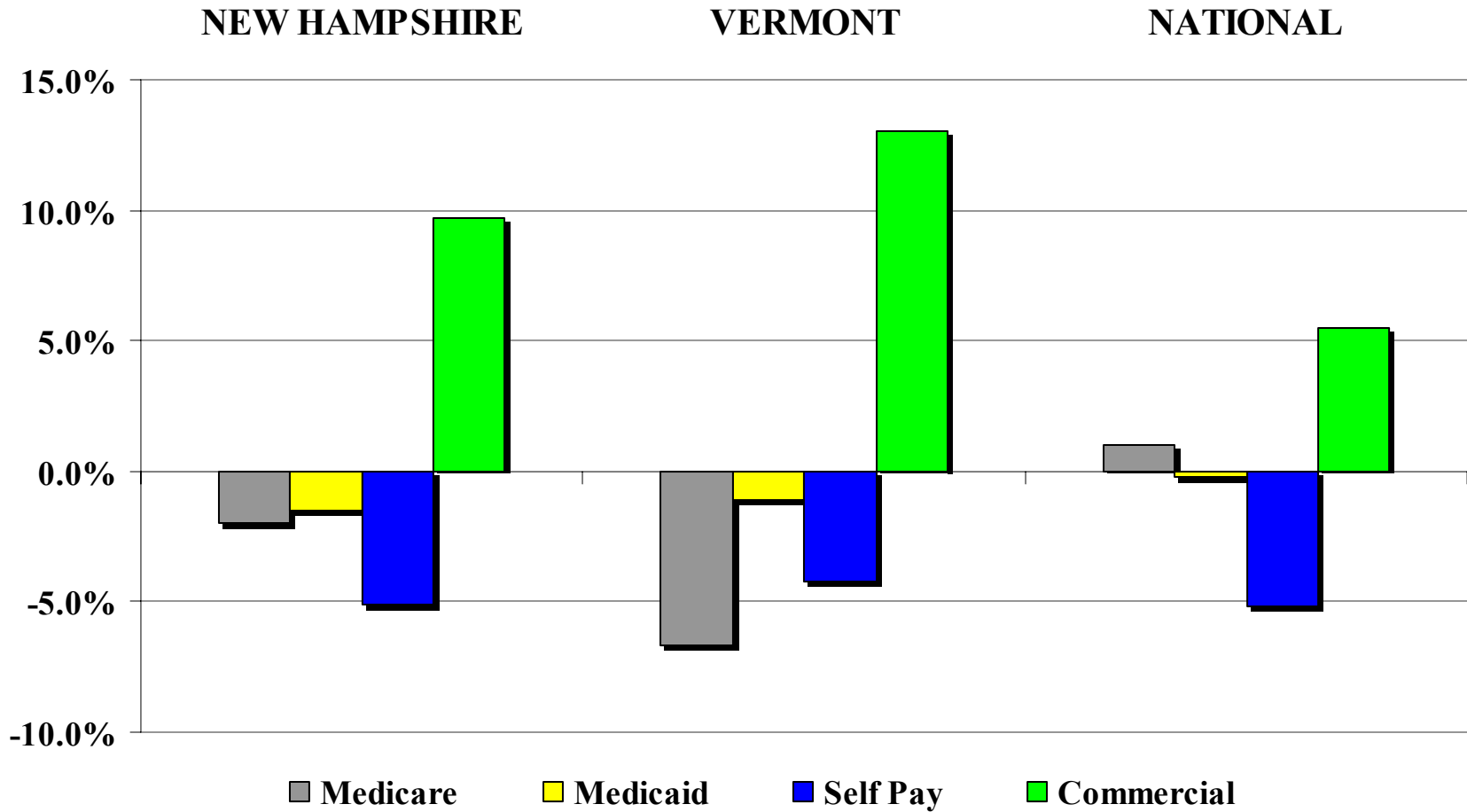


Dartmouth-Hitchcock

RURAL HOSPITAL - MARGIN BY PAYOR



Dartmouth-Hitchcock TOTAL MARGIN BY PAYOR



Source: AHA, *Hospital Statistics*, 1998

Dartmouth-Hitchcock

COST SHIFTING IMPACT

(\$ in 000s)

		2002	Ideal	Full Cost Shifting		Variance	
		Budget	World	%	\$	%	\$
Revenue:							
Medicare	39%	\$140,000	6.0%	-3.0%	(\$4,200)	-9.0%	(\$12,600)
Medicaid	10%	\$36,000	6.0%	0.0%	\$0	-6.0%	(\$2,160)
Commercial	51%	\$181,000	6.0%	14.0%	\$25,340	8.0%	\$14,760
Total		\$357,000	6.0%	6.0%	\$21,140	0.0%	\$0
Expenses		\$350,000	6.0%	6.0%	\$21,140	0.0%	\$0
Operating Margin		\$7,000	0.0%	0.0%	\$0	0.0%	\$0

Responses to Cost Shifting

- Increase price to other payors
- Reduce operating cost
- Seek additional revenue sources
- Limit access to programs and services
- Limit wage increases
- Improve efficiency of clinical process
- Lobby for payment increase
- Visit the Medicaid program director
- Discuss alternatives with the Board of Trustees

SUMMARY

- Cost shifting does exist
- First reaction is to go to other payors
- Cost reduction is an ongoing effort
- Other economic factors exacerbate impact on providers