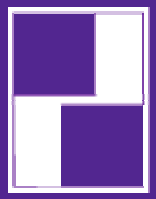

Changes in
HEALTH CARE
FINANCING &
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# When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

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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.

# When Public Payment Declines - Does Cost Shifting Occur?

The California Experience

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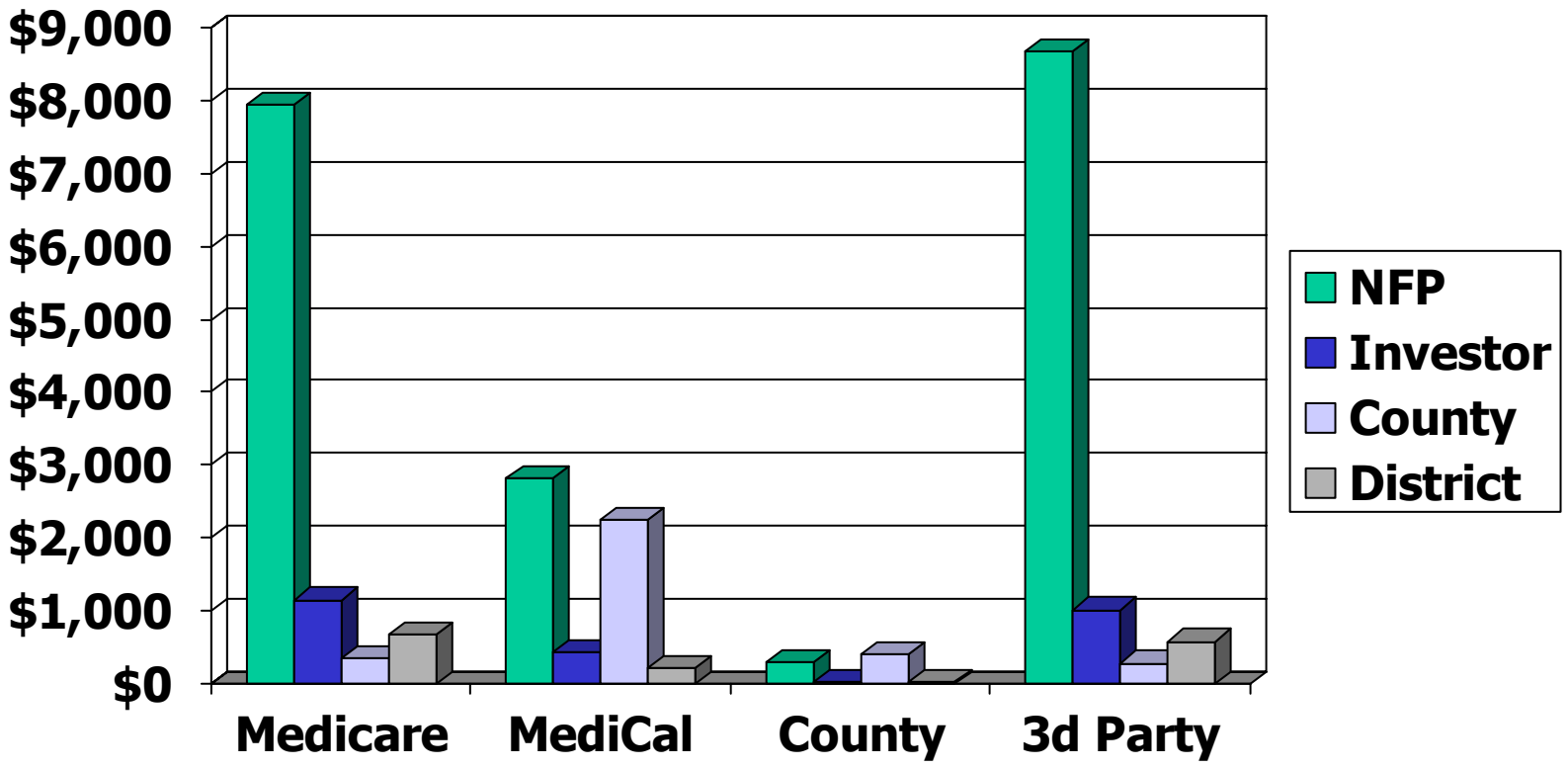
San Francisco

# Net Revenue by Payer - July to Dec. 2000 (370 Reporting Hospitals)



# California Facts

- 450 General Acute Care Facilities (1999), distributed by counties as follows:
  - 94 hospitals — Los Angeles
  - 20-23 hospitals — Orange, San Bernardino, San Diego
  - 10-16 hospitals — Alameda, Fresno, Kern, Riverside, Santa Clara
  - 8-9 hospitals — Contra Costa, Sacramento, San Francisco, San Mateo, Sonoma, Ventura
  - 3-7 hospitals — 17 counties
  - 2 or less — 26 counties

# California Facts (con't)

- Hospital Ownership (1999)

| | | | ALOS* |
|---|---|---|---|
| – Not-for-profit | 227 | | 4.7 |
| – Investor | 148 | | 5.1 |
| – District | 47 | | 3.9 |
| – Government | 28 | | |
| • Los Angeles County | | 6 | 6.0 |
| • Other | | 22 | 5.7 |

*Includes LTC days in acute care facilities Source:OSHPD

# California Facts

- Between 1995 and 2001, HMO enrollment up from 15.9 million to 21.4 million (over 50% of population)
  - Medicare+Choice enrollment peaked in 1999
    - Withdrawal of plans from some markets
  - Growth in managed Medi-Cal from <700,000 in 1995 to nearly 3 million in 2001
- Between 1995 and 2001, California lagged behind other states in average HMO premiums
  - Aggressive health plan contracting with providers
    - example: per diem hospital payments @ $600-$800 (w/o CCU, ICU, etc.)

# Hospital Ladder of Reimbursement: 1996-1999

- Highest Rung: Commercial Payers (PPO & Indemnity)
- Third Rung: Medicare
  - separate positioning for Standard versus Medicare+Choice
- Second Rung: HMO contracts
  - separate positioning based on contract type (per diem, capitated)
- Lowest Rung: Medicaid

# 1999 as Pivotal Year:
## Net from Hospital Operations Per Adjusted Day

| Hospital Ownership | 1998 | 1999 |
|---|---|---|
| Non-profit | $15 | ($22) |
| Investor | $75 | $56 |
| District | ($11) | ($18) |
| Government | | |
| LA County | ($163) | ($302) |
| Other | ($89) | ($142) |

# Hospital Ladder of Reimbursement: Today

- Highest Rung: Commercial Payers (PPO & Indemnity)
- Third Rung: HMO contracts
  - significant increases in per diem rates, elimination of many capitated contracts
- Second Rung: Medicare
  - separate positioning for Standard versus Medicare+Choice (where available)
- Lowest Rung: Medicaid
  - separate positioning for FFS versus Managed Care

# 2000-2001 - A Tough Time for HMOs

Health plan premiums not keeping up with rising costs

- Health Plan Losses - Leading to HMO Failures
  - Maxicare (5/2001)
  - Watts Health Plan (8/2001)
  - Tower Health (9/2001)
  - Health Plan of the Redwoods (6/2002)
  - Lifeguard (9/2002)

- Net Losses in 2000 - Existing Plans
  - Aetna/US Healthcare, Blue Shield, Western Health Advantage

Source: Baumgarten, California Managed Care Review 2002

# 2000-2001 -A Tough Time (con't)

- Difficult contract negotiations with hospitals
  - Sacramento - "the PERS factor"
  - Cancellation of capitated contracts
  - Market withdrawals

- Negative press on managed care - new state regulator (DHMC)
  - Concerns about access and quality

- Net Effect: Increased emphasis on PPO coverage
  - Emergence of low-option PPO packages under DOI

# Key Findings: Individual & Small Group Study

- Six markets: SF, LA, San Diego, Fresno, Sacramento, and Shasta
- Variability in health plan pricing across markets
  - Same small group HMO coverage (excluding Kaiser):
    - Costs in SF from 15.7% to 24.44% higher than LA
    - Costs in San Diego from -0.3% to 8.27% higher than LA
    - Costs in Fresno from 18.1% to 23.6% higher than LA
  - Same small group PPO coverage*:
    - Costs in LA from 17.8% to 30.0 % higher than SF
    - Costs in San Diego from -5.7% to 11.7% higher than SF
    - Costs in Fresno from -9.3% to 18.55% higher than SF

*excluding one outlier plan across markets

# Key Findings (con't)

- Individual plans:
  - 7 to 11 fold variation in health plan premiums, depending on market and enrollee age
  - Rate increase for matched plans over 9 months, as follows:

| | San Diego (1) | L.A. (2) | Shasta (6) |
|---|---|---|---|
| • Age 20 | 14.1% | 14.5% | 33.5% |
| • Age 30 | 13.5% | 14.0% | 32.5% |
| • Age 40 | 11.6% | 12.1% | 36.1% |
| • Age 50 | 10.8% | 11.3% | 34.4% |
| • Age 60 | 11.4% | 11.9% | 22.3% |

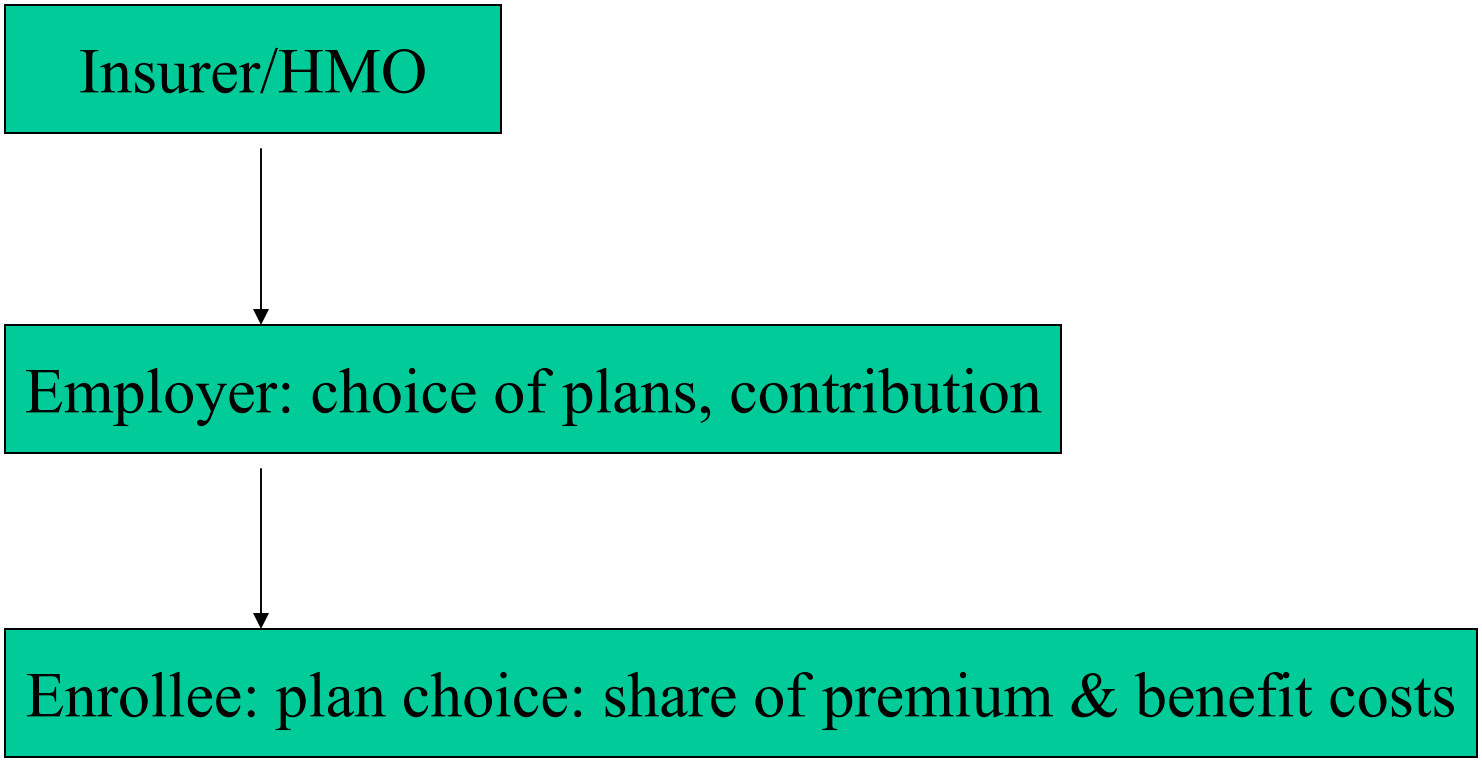
# Variability in Benefit Costs

- Hospital distribution and consolidation
  - Impact on HMO contracting
    - Little room for negotiation in rural areas
    - Power struggles between hospital systems and health plans
- Failure of medical groups/IPAs
  - Changes in contracts re risk-bearing (e.g., drugs)
  - Withdrawal of HMOs from smaller markets
    - Shifting enrollees to PPO products
- Differences in enrollee demographics & utilization patterns
  - Example: cardiac surgery in Redding

# Cost-Shifting to Consumers

- Marketing to employers of "defined contribution" or "consumer choice" programs
  - Contributions can be fixed at specific sum per month (e.g., $80, $100) or as percent of premium
  - Led by Blue Cross, payers create multi-option benefit programs
    - FlexScape: 6-9 health plans options
  - Revisions to PacAdvantage (small group purchasing pool)
    - Changes to contribution strategy
    - Changes in benefit packages: ER and office visit copays, inpatient hospital, outpatient surgery, mental health, prescription drugs coverage

# The Cost Shift by Commercial Payers

- 

# Major Issues Facing California

- Economic slowdown + rising premium costs
  - Small employers drop coverage or reduce contribution for health benefits
    - Employees sign-up for "low-option" plans with high front end costs
    - Employees drop coverage for dependents
  - Growing crisis for publicly funded hospitals and clinics
    - Los Angeles has highest number of uninsured in nation; facing $750 million deficit by 2005; considering closure of hospitals and clinics
    - Elsewhere county hospitals and local clinics have operating losses
  - Emerging problem: individuals with low-option plans unable to pay for care but not eligible for Medi-Cal, etc.