

# Connecticut Hospital

## Financial Drivers

Subcommittee on Financial Structure

October 15, 2007

## Key Findings

1. Population is growing
2. Demand for services is up
3. Expenses are tightly controlled
4. Funding from patients inadequate to cover expenses
5. Non-patient dollars routinely diverted to cover current expense
6. Inadequate government funding to cover cost of care delivered in Medicaid and Medicare programs.
7. Investment in technology to improve quality and care delivery is delayed and dampened

# Cost Driver: The Number of People We Serve

	<b>1997</b>	<b>% of Total</b>	<b>2006</b>	<b>% of Total</b>	<b>% Change</b>
Medicare	511,000	15%	525,457	15%	3%
Medicaid	390,246	12%	426,931	12%	9%
Uninsured	410,921	12%	385,528	11%	-4%
Commercial	2,046,181	61%	2,166,893	62%	6%
<b>Population</b>	<b>3,349,348</b>		<b>3,504,809</b>		<b>5%</b>

# Cost Driver: The Type of Inpatient Care Needed

	1997	LOS	2006	LOS	% Change
Medical/Surgical Admissions	243,158	5.4	291,452	4.9	20%
Maternity	45,647	2.6	43,991	2.9	-4%
Newborn	43,877	3.4	42,619	4.0	-3%
ICU Share	38%		42%		
Psych	26,177	8.5	27,476	9.1	5%
General Hospital Share	68%		86%		
<b>Total Admissions</b>	<b>372,434</b>	<b>5.0</b>	<b>422,720</b>	<b>4.9</b>	<b>14%</b>

# Cost Driver: Substantial Outpatient Care Needed

<b>Outpatient</b>	<b>1997</b>	<b>2006</b>	<b>% Change</b>
ED Visits	1,128,882	1,472,454	30%
Ambulatory Surgery	156,323	192,805	23%
Rehabilitation (Physical Therapy, Occupational Therapy/Speech)	654,686	975,232	49%
	1,939,891	2,640,491	36%

## Cost Driver: Substantial Outpatient Care Needed (Cont'd)

<b>Visits</b>	<b>2006</b>
Primary Care Visits	652,175
Cardiac	
Rehab	101,048
Cancer Care	
Chemotherapy	42,724
Radiation Therapy	214,689
Psychiatric Care	
Visits	394,302
Partial	19,737
Intensive Outpatient	44,409
	1,469,084

# Cost Driver: The Cost of Patient Care

	<b>1997</b> (000's)	<b>% of</b> <b>Total</b>	<b>2006</b> (000's)	<b>% of</b> <b>Total</b>	<b>Annual</b> <b>Increase</b>
Salaries & Benefits	2,267,356	61%	3,744,733	58%	5.7%
Physician Fees	126,965	3%	210,698	3%	5.8%
Supplies & Drugs	460,884	12%	963,116	15%	8.5%
Other than Supplies & Drugs	734,915	20%	1,299,276	20%	6.5%
Malpractice	38,973	1%	130,204	2%	14.3%
Depreciation	224,524	6%	355,141	5%	5.2%
Interest	58,313	2%	64,361	1%	1.1%
Expense Recoveries	(186,480)	-5%	(286,687)	-4%	4.9%
<b>Total Expenses</b>	<b>3,725,455</b>	<b>100%</b>	<b>6,480,844</b>	<b>100%</b>	<b>6.3%</b>

# Cost Driver: The Cost of Patient Care

	1997 (ooo's)	% of Total	2006 (ooo's)	% of Total	Annual Increase
FTEs	40,701		47,512		1.7%
<b>Salary</b>	<b>1,842,265</b>	<b>80%</b>	<b>2,917,634</b>	<b>78%</b>	<b>5.2%</b>
Benefits					
Health Insurance	183,463	9%	311,263	8%	6%
Workers' Comp	19,627	1%	37,068	1%	7.3%
Social Security Taxes	131,718	6%	201,138	5%	4.8%
Pension	70,095	3%	222,420	6%	13.7%
Disability	7,367	0%	12,877	0%	6.4%
Group Life	4,344	0%	7,166	0%	5.7%
Other	8,473	0%	35,164	1%	17.1%
<b>Total Benefits</b>	<b>425,087</b>	<b>20%</b>	<b>827,096</b>	<b>22%</b>	<b>7.7%</b>
<b>Total Salary &amp; Benefits</b>	<b>2,267,352</b>		<b>3,744,730</b>		<b>5.7%</b>

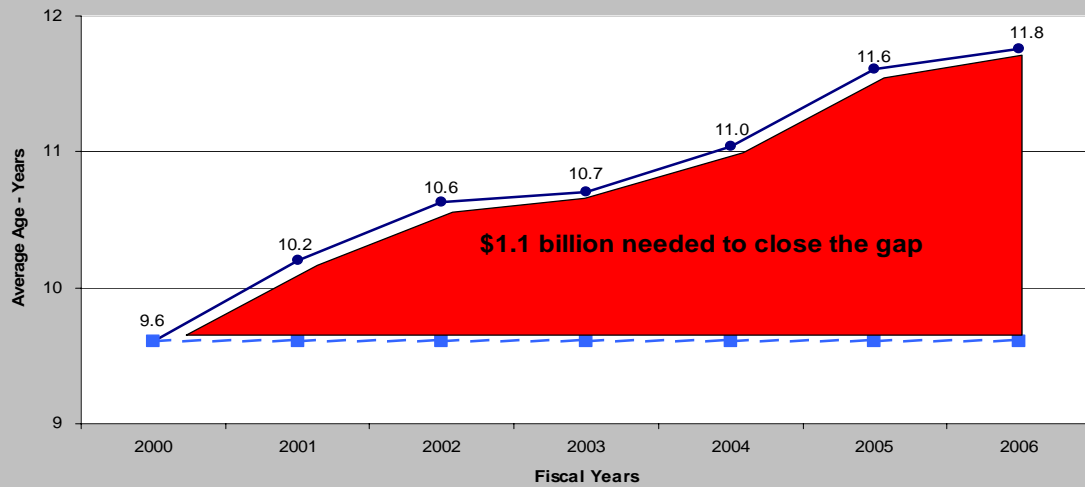
# What Does it Mean?

	<b>1997</b> (000's)	<b>2006</b> (000's)	<b>Annual Increase</b>
Total Expense	4,068,214	7,076,945	6.3%
Patient Gain/Loss	(108,515)	(349,101)	<b>13.9%</b>
Patient Margin	-2.74%	-5.19%	
Operating Gain/Loss	85,060	49,304	
Operating Margin	2.05%	.69%	

# What Does it Mean? (Cont'd)

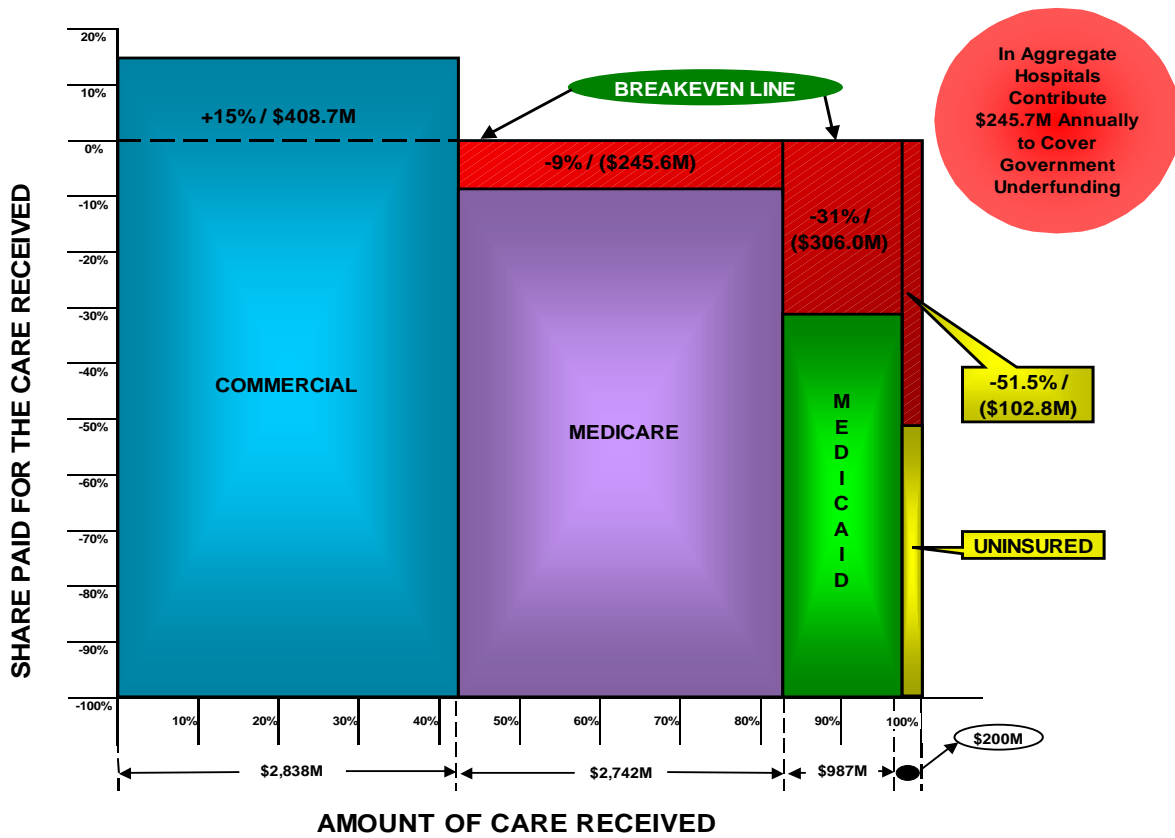
	<b>1997-2006</b> <b>(000's)</b>
Cumulative Patient Gain/(Loss) \$	(2,188,442)
Cumulative Patient Gain/(Loss) %	-4.33%
Cumulative Operating Gain/(Loss) \$	360,929
Cumulative Operating Gain/(Loss) %	.68%

### Delayed Investment in Technology and Plant is the Result of Continued Operating Losses

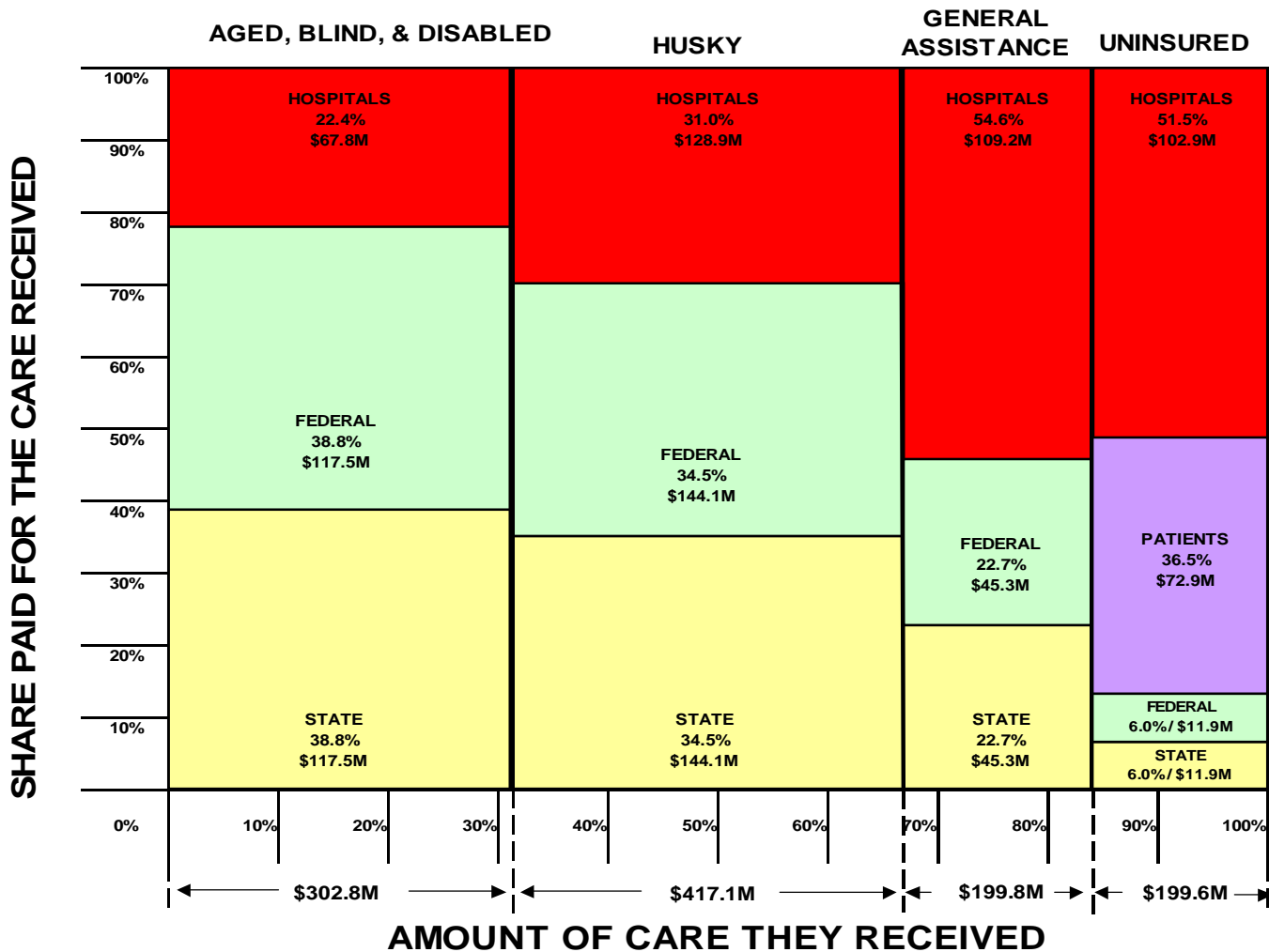


# Who Pays?

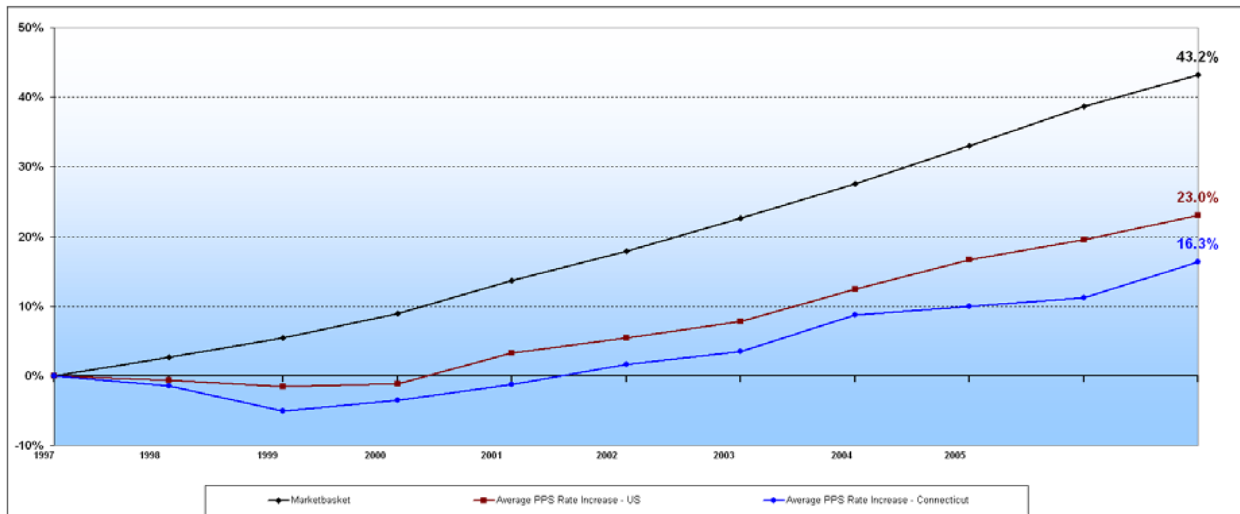
	<b>Medicare</b> <b>(ooo's)</b>	<b>Commercial</b> <b>(ooo's)</b>	<b>Medicaid</b> <b>(ooo's)</b>	<b>Uninsured</b> <b>(ooo's)</b>	<b>Total</b> <b>(ooo's)</b>
<b>Population Served</b>	515	2,217	433	381	3,546
<b>Gross Charges</b>	6,396,732	6,141,545	2,202,769	543,112	15,194,160
<b>Operating Cost for Patient Care</b>	2,838,403	2,742,023	987,445	199,649	6,767,521
<b>Payments</b>	2,592,798	3,150,771	616,329	72,940	6,432,940
<b>DSH Funds</b>			65,126	23,898	89,025
<b>Gain/(Loss) from Patient Care</b>	<b>(245,604)</b>	<b>408,748</b>	<b>(305,988)</b>	<b>(102,811)</b>	<b>(245,656)</b>



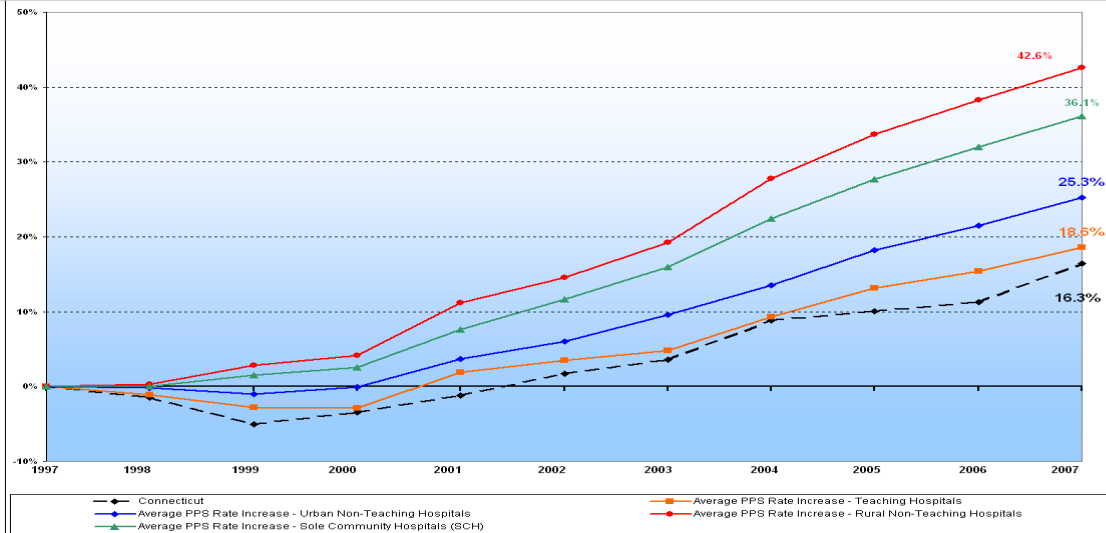
# WHO PAYS FOR THE COST OF CARE FOR THE UNINSURED AND INDIVIDUALS ELIGIBLE FOR STATE ASSISTANCE



10/9/07



	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006	FFY 2007	Avg. Annual Change
<b>Marketbasket Increases</b>												
Annual Change:		2.7%	2.7%	3.3%	4.3%	3.7%	4.1%	4.0%	4.3%	4.2%	3.3%	
Cumulative Change:		2.7%	5.5%	9.0%	13.6%	17.8%	22.7%	27.6%	33.1%	38.7%	43.2%	3.7%
<b>Average PPS Rate Increase - US</b>												
Medicare Payment Rate:	\$4,628	\$4,599	\$4,554	\$4,572	\$4,781	\$4,878	\$4,990	\$5,203	\$5,401	\$5,534	\$5,694	
Annual Change:		-0.6%	-1.0%	0.4%	4.6%	2.0%	2.3%	4.3%	3.8%	2.5%	2.9%	
Cumulative Change:		-0.6%	-1.6%	-1.2%	3.3%	5.4%	7.8%	12.4%	16.7%	19.6%	23.0%	2.1%
<b>Average PPS Rate Increase - Connecticut</b>												
Medicare Payment Rate:	\$5,678	\$5,592	\$5,391	\$5,480	\$5,606	\$5,773	\$5,875	\$6,175	\$6,243	\$6,312	\$6,605	
Annual Change:		-1.5%	-3.6%	1.7%	2.3%	3.0%	1.8%	5.1%	1.1%	1.1%	4.6%	
Cumulative Change:		-1.5%	-5.0%	-3.5%	-1.3%	1.7%	3.5%	8.8%	10.0%	11.2%	16.3%	1.5%
<b>Impact on Connecticut of Rate Change Less Than the National Average</b>		(\$1,897,000)	(\$43,192,000)	(\$28,580,000)	(\$57,432,000)	(\$46,572,000)	(\$54,274,000)	(\$45,940,000)	(\$84,454,000)	(\$105,131,000)	(\$83,909,000)	
												Ten-Year Cumulative Impact: (\$560,381,000)
<b>Impact Due to Hospital PPS Rate Increases Less Than Marketbasket:</b>		(\$52,630,000)	(\$131,809,000)	(\$155,792,000)	(\$186,761,000)	(\$202,572,000)	(\$240,487,000)	(\$235,970,000)	(\$289,634,000)	(\$344,326,000)	(\$336,998,000)	
												Ten-Year Cumulative Impact: (\$2,176,979,000)



	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006	FFY 2007	Avg. Annual Change
<b>Connecticut</b>											
Annual Change:	-1.5%	-3.6%	1.7%	2.3%	3.0%	1.8%	5.1%	1.1%	1.1%	4.6%	
<b>Cumulative Change:</b>	<b>-1.5%</b>	<b>-5.0%</b>	<b>-3.4%</b>	<b>-1.2%</b>	<b>1.8%</b>	<b>3.6%</b>	<b>8.9%</b>	<b>10.1%</b>	<b>11.3%</b>	<b>16.3%</b>	<b>1.5%</b>
<b>Average PPS Rate Increase - Teaching Hospitals</b>											
Annual Change:	-1.1%	-1.7%	-0.1%	4.9%	1.5%	1.2%	4.3%	3.5%	2.0%	2.7%	
<b>Cumulative Change:</b>	<b>-1.1%</b>	<b>-2.8%</b>	<b>-2.9%</b>	<b>1.9%</b>	<b>3.5%</b>	<b>4.8%</b>	<b>9.3%</b>	<b>13.1%</b>	<b>15.4%</b>	<b>18.6%</b>	<b>1.7%</b>
<b>Average PPS Rate Increase - Urban Non-Teaching Hospitals</b>											
Annual Change:	-0.2%	-0.8%	1.0%	3.7%	2.3%	3.4%	3.5%	4.1%	2.8%	3.1%	
<b>Cumulative Change:</b>	<b>-0.2%</b>	<b>-1.0%</b>	<b>0.0%</b>	<b>3.7%</b>	<b>6.1%</b>	<b>9.6%</b>	<b>13.5%</b>	<b>18.2%</b>	<b>21.5%</b>	<b>25.3%</b>	<b>2.3%</b>
<b>Average PPS Rate Increase - Rural Non-Teaching Hospitals</b>											
Annual Change:	0.3%	2.5%	1.3%	6.7%	3.1%	4.1%	7.2%	4.6%	3.5%	3.1%	
<b>Cumulative Change:</b>	<b>0.3%</b>	<b>2.8%</b>	<b>4.2%</b>	<b>11.1%</b>	<b>14.5%</b>	<b>19.2%</b>	<b>27.8%</b>	<b>33.7%</b>	<b>38.3%</b>	<b>42.6%</b>	<b>3.6%</b>
<b>Average PPS Rate Increase - Sole Community Hospitals (SCH)</b>											
Annual Change:	0.0%	1.5%	1.1%	4.9%	3.7%	3.9%	5.6%	4.3%	3.4%	3.1%	
<b>Cumulative Change:</b>	<b>0.0%</b>	<b>1.5%</b>	<b>2.6%</b>	<b>7.6%</b>	<b>11.6%</b>	<b>15.9%</b>	<b>22.5%</b>	<b>27.7%</b>	<b>32.0%</b>	<b>36.1%</b>	<b>3.1%</b>

# Summary

- Population is growing – 5% in the last decade
- Demand for services is up – Total admissions up 14% and outpatient services even higher
- Expenses are tightly controlled – 6.3% annual rate of growth
- Funding from patients inadequate to cover expenses – Annual losses exceed \$245 million
- Non-patient dollars routinely diverted to cover current expense – a \$654 million shortfall caused by Government underfunding and providing care to the Uninsured; covered in part by forced cost shift of \$408 million to employers and commercial payers
- Inadequate government funding to cover cost of care in Medicaid and Medicare programs - \$552 million shortfall in 2006
- Investment in technology to improve quality and care delivery is delayed and dampened – underfunded investments by \$1.1 billion

## Synopsis of 25 Years of Hospital Reimbursement Cuts and Freezes

Year	Change	Comment
1982	<b>Paid actual cost for inpatient and emergency room care.....</b>	<b>No loss providing services</b>
	<b>Clinic care was paid at actual cost capped at 150% of the cost for a physician office visit. ....</b>	<b>No loss providing services</b>
1984	PA 84-367: Changed payment from actual to reasonable cost of an efficient provider. ....	Cut
	Added payments for Inpatient Administrative days (AND).....	Increase not implemented
1985	PA 85-482: Reduced the amount allowable for clinic from reasonable cost capped at 150% of the physician fee schedule to 116% of the physician fee schedule. ....	Cut
1987	PA 87-27: Removed from allowable cost expenses related to supporting or opposing unionization. ....	Cut
	PA 87-516: Permitted the Commissioner to pay more for clinic to DSH hospitals up to 175% of physician fee. ....	Increase not implemented
1988	PA 88-156: Permitted the Commissioner to pay more than reasonable cost for DSH hospitals.....	Increase not implemented
1989	PA 89-297: Reduced Emergency room payment for non-emergency use of the emergency room to the clinic rate.....	Cut
1991	PA 91-8: Capped the increase in the clinic rate to no more than CPI changes, froze current ED rates except those that decreased. ....	Cut and Freeze
	Reduced by the most recent Medical CPI payments for those outpatient services paid on a cost basis. ....	Cut
1992	PA 92-16: Froze the ED rates for another year except those that decreased. ....	Freeze

## Synopsis of 25 Years of Hospital Reimbursement Cuts and Freezes (Cont'd)

Year	Change	Comment
1994	PA 94-5: Reduced by the most recent Medical CPI payments for those outpatient services paid on a cost basis.....	Cut
	Froze the ED rates for another year except those that decreased. ....	Freeze
	Required a fee schedule to be developed for all outpatient services effective 1/1/1995, froze the fee schedule for 18 months, then required it to be increased to reflect the cost of services.....	Cut and Freeze
1995	PA 95-306: Limited the application of AND enhanced payments to instances when the patient is not eligible for Medicare.....	Cut
1998	PA 98-131: Beginning 10/1/1998, stopped pegging the annual inpatient inflation increase to Medicare and set it at 3% per annum thereafter. ....	Cut
1999	PA 99-279: Repealed the 3% inpatient adjustment for all years after 10/1/1998 - granting no increase thereafter.....	Cut
	Repealed outpatient fee schedule updates for 1999 and 2000. ....	Cut
2001	Repealed taxes.....	Increase
	PA 01-3: Increased outpatient fees by 10.5%. ....	No new dollars funded by reduction to Uncompensated Care Pool
	Increased inpatient to a minimum of 62.5% of cost. If above the minimum no increase. Froze the rates for 2002 and 2003.....	No new dollars funded by reduction to Uncompensated Care Pool
2003	PA 03-3: Extended outpatient rate freeze through 2005. ....	Freeze
	Extended inpatient rate freeze to 2004 and 2005. ....	Freeze

Year	Change	Comment
2004	PA 04-258: Set minimum inpatient target for 4/1/05 at 3750, 4/1/06 at 4000, 4/1/07 at 4250; inpatient rates remain frozen if above minimum. ....	Increase
	Cut SAGA by \$20 million per year.....	Cut
2005	PA 05-280: Delayed increasing the 2006 and 2007 minimum inpatient target for six months. ....	Freeze
	Cut DSH by \$10 million per year.....	Cut
2006	PA 06-188: Repealed the 2007 4250 minimum inpatient target. ....	Cut
	Permitted an inpatient increase for 2006 for institutions not eligible for minimum. ....	Increase not implemented
	Permitted an increase for outpatient clinic rates.....	Increase
	Permitted an increase for outpatient MRI rates. ....	Increase not implemented
	Permitted an increase for outpatient CT SCAN rates.....	Increase not implemented
	Permitted an increase for outpatient ED rates. ....	Increase
	Rates frozen in perpetuity. ....	Loss providing service \$250 Million
		Loss grows by more than \$30 Million per year
2007	PA 07-1, June Special Session: Legislation makes significant first step to close the gap approximately 46.2 and 72.6 million for FFS rate increases	

## US Summary

### Ten Year Inpatient Average Rate Change

	1997 Average Hospital PPS Rate	2007 Average Hospital PPS Rate	Ten-Year Rate Change	Average Annual Change	Ten-Year Reimbursement Gap Hospital PPS Rate Compared to Markeybasket of 43.2%
<b>US</b>	<b>\$4,628</b>	<b>\$5,694</b>	<b>23.0%</b>	<b>2.1%</b>	<b>-20.2%</b>
Rhode Island	\$5,342	\$6,077	13.8%	1.3%	-29.5%
Massachusetts	\$5,686	\$6,515	14.6%	1.4%	-28.7%
New York	\$6,247	\$7,211	15.4%	1.4%	-27.8%
Delaware	\$4,905	\$5,671	15.6%	1.5%	-27.6%
<b>Connecticut</b>	<b>\$5,678</b>	<b>\$6,605</b>	<b>16.3%</b>	<b>1.5%</b>	<b>-26.9%</b>
Ohio	\$4,484	\$5,277	17.7%	1.6%	-25.5%
Michigan	\$4,969	\$5,886	18.5%	1.7%	-24.8%
Pennsylvania	\$4,561	\$5,453	19.6%	1.8%	-23.7%
Alaska	\$6,008	\$7,189	19.7%	1.8%	-23.6%
Utah	\$4,403	\$5,299	20.3%	1.9%	-22.9%
Illinois	\$4,675	\$5,669	21.3%	1.9%	-22.0%
Kansas	\$4,140	\$5,029	21.5%	2.0%	-21.8%
California	\$5,778	\$7,034	21.7%	2.0%	-21.5%
Washington	\$4,840	\$5,901	21.9%	2.0%	-21.3%
Nevada	\$4,694	\$5,731	22.1%	2.0%	-21.1%
New Hampshire	\$4,873	\$5,961	22.3%	2.0%	-20.9%
Indiana	\$4,188	\$5,153	23.0%	2.1%	-20.2%
Florida	\$4,215	\$5,215	23.7%	2.2%	-19.5%
Arizona	\$4,550	\$5,631	23.8%	2.2%	-19.5%
Louisiana	\$4,120	\$5,103	23.9%	2.2%	-19.4%
Colorado	\$4,324	\$5,367	24.1%	2.2%	-19.1%
Minnesota	\$4,548	\$5,663	24.5%	2.2%	-18.7%
West Virginia	\$4,076	\$5,094	25.0%	2.3%	-18.3%
Wyoming	\$4,468	\$5,586	25.0%	2.3%	-18.2%
Texas	\$4,366	\$5,462	25.1%	2.3%	-18.1%
Oregon	\$4,554	\$5,721	25.6%	2.3%	-17.6%
New Mexico	\$4,479	\$5,635	25.8%	2.3%	-17.4%
North Carolina	\$4,368	\$5,497	25.8%	2.3%	-17.4%
New Jersey	\$5,194	\$6,543	26.0%	2.3%	-17.3%
North Dakota	\$3,846	\$4,849	26.1%	2.3%	-17.1%
Nebraska	\$4,107	\$5,179	26.1%	2.3%	-17.1%
Missouri	\$4,115	\$5,202	26.4%	2.4%	-16.8%
Virginia	\$4,070	\$5,163	26.9%	2.4%	-16.4%
Georgia	\$4,282	\$5,461	27.5%	2.5%	-15.7%
Hawaii	\$4,897	\$6,249	27.6%	2.5%	-15.6%
Wisconsin	\$4,204	\$5,375	27.8%	2.5%	-15.4%
Maine	\$4,247	\$5,479	29.0%	2.6%	-14.2%
Oklahoma	\$3,871	\$5,034	30.0%	2.7%	-13.2%
Alabama	\$3,747	\$4,875	30.1%	2.7%	-13.1%
Tennessee	\$4,009	\$5,219	30.2%	2.7%	-13.1%
South Carolina	\$4,060	\$5,303	30.6%	2.7%	-12.6%
South Dakota	\$3,780	\$4,947	30.9%	2.7%	-12.4%
Montana	\$3,791	\$4,965	31.0%	2.7%	-12.3%
Iowa	\$3,822	\$5,006	31.0%	2.7%	-12.2%
Idaho	\$3,913	\$5,134	31.2%	2.8%	-12.0%
Vermont	\$4,986	\$6,557	31.5%	2.8%	-11.7%
Kentucky	\$3,948	\$5,221	32.2%	2.8%	-11.0%
Arkansas	\$3,643	\$5,074	39.3%	3.4%	-4.0%
Mississippi	\$3,617	\$5,173	43.0%	3.6%	-0.2%