

Greater Milwaukee Business Foundation on Health, Inc. GMBFH

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Greater Milwaukee Business Foundation on Health study reveals area hospital per-unit commercial payments compare favorably with national index over last thirteen years

Milwaukee – December 15, 2016 – The Greater Milwaukee Business Foundation on Health, Inc. (GMBFH), known for its research on the cost, efficiency and quality of healthcare in southeast Wisconsin, released the results of a study at a meeting of providers, insurers, business and community leaders today. The study revealed that from 2003 through 2015, the increase in average southeast Wisconsin hospital per-unit commercial payments was roughly one-half of the rate of increase in the national Hospital Component of the Consumer Price Index (CPI).

The study, conducted by the consulting firm, Milliman, analyzed several key factors influencing southeast Wisconsin hospital per-unit commercial payments. The current study updates previous studies released in 2009, 2011, 2012, 2014 and 2015. All six studies examined the same factors and utilized the same methodologies to allow for a comparable analysis. The factors and highlights of the most recent study include:

- **Hospital Commercial Payment Comparison:** The average southeast Wisconsin hospital per-unit commercial payments increased approximately 48 percent (3.3 percent annually) from 2003 through 2015. This increase was less than half of the 101 percent total increase in the national Hospital Component of the CPI for the same period.

From 2012 through 2015, the total southeast Wisconsin hospital per-unit commercial payments increase of 8 percent was lower than the Hospital Component of the CPI of 14.4 percent.

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The total increase in individual health system hospital per unit commercial payments from 2003 through 2015 ranged from 22 percent to 71 percent – all less than the Hospital Component of the CPI of 101 percent for the same period.

- **Hospital Operating Costs:** For the years 2003 through 2015, area hospital per-unit operating costs (the day-to-day expenses of running a hospital) increased at a substantially lower rate than national indices, particularly in recent years. The study found that average southeast Wisconsin hospital per-unit operating costs increased 20 percent from 2003 through 2015 – approximately 1.5 percent annually. This compares with increases in the Hospital Producer Price Index (PPI) and the CMS Hospital Market Basket of 40 and 57 percent, respectively, from 2003 through 2015.

From 2009 through 2015, southeast Wisconsin hospital per-unit operating costs have increased only 1.4 percent. Aggregate per-unit costs increased 2.1 percent from 2014 to 2015, consistent with national increases during the same time period.

From 2003 through 2015, every health system had aggregate per-unit hospital operating cost increases lower than the corresponding change in the CMS Hospital Market Basket index. Five of the six health systems had aggregate operating cost increases below the corresponding change in the Hospital PPI – one system had an aggregate per-unit increase above the 40 percent national Hospital PPI figure.

- **Hospital Cost Shift Burden Distribution:** From 2013 to 2015, the relative impact of the southeast Wisconsin hospital cost shift burden (the difference between operating costs and payments including bad debts) changed significantly, due in part to the implementation of the Affordable Care Act (ACA). Governmental cost shift burdens – Medicare and Medicaid – increased by 39 percent and 53 percent respectively during this period, while non-governmental cost shift burdens – charity care and bad debt – decreased by 43 percent during the same time period.

The total southeast Wisconsin hospital governmental cost shift burden (Medicare and Medicaid) increased 21 percent from 2014 to 2015. Total governmental cost shift burdens were approximately \$1.2 billion in 2015. Governmental cost shift burdens accounted for 31 percent of the commercial cost for hospital services in 2015, compared to 27 percent of commercial hospital costs in 2014. The total southeast Wisconsin hospital non-governmental cost shift burdens (bad debt and charity care) decreased 38 percent from 2014 to 2015.

Total non-governmental cost shift burdens were \$220 million in 2015. These cost shift burdens accounted for 5.5 percent of the commercial cost for hospital services in 2015, compared to 9.4 percent in 2014.

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- **Health System Commercial Market Concentration:** Earlier studies found the average level of commercial market share concentration (the relative market share of the predominant health system in each zip code) generally increased from 2004-2007, then declined, beginning in 2008 and continuing through 2012 and remained essentially unchanged from 2012 through 2014.

This latest study found the average level of commercial market share concentration has increased slightly for the first time since 2007, but still remains near the lowest levels during the study period. While the overall averages of commercial market share concentration showed modest changes over the study period, underlying market changes have been significant. Approximately 41 percent of the included zip codes experienced a change of the predominant health system between 2003 and 2015. Additionally, the predominant health system in 37 percent of the zip codes experienced a market share reduction of at least 10 percent between 2003 and 2015, while the predominant health system in only 20 percent of the zip codes experienced a market share increase of at least 10 percent during the same time period, suggesting relatively stable levels of competition identified in the earlier studies.

“The results of this study are generally consistent with results of previous studies we have conducted. Hospitals in our region compare favorably to hospitals nationwide when looking at hospital per-unit commercial payments and hospital operating costs. One interesting departure from previous studies is an examination of the components of the hospital cost shift burden. Likely as a result of the ACA, the cost shifting from 2014 to 2015 due to Medicare and Medicaid continued to rise, while the cost shifting due to bad debt and charity care dropped significantly,” said Ron Dix the Foundation's executive director.

About the Greater Milwaukee Business Foundation on Health

The Greater Milwaukee Business Foundation on Health is a private operating foundation created in 2002. The mission of GMBFH is to undertake studies, programs and activities which promote the general health of the persons residing in the greater Milwaukee area and advance their awareness of health and healthcare delivery issues. GMBFH is not a grant making foundation. Instead, it works collaboratively with established organizations to improve health and healthcare delivery in the greater Milwaukee area.

For more information about the foundation, its board of directors, past and current initiatives and copies of the complete reports, visit the website: www.gmbfh.org.