



**Testimony of the
New Hampshire Hospital Association**

**Senate Bill 505
Establishing the commission on health care cost containment
and appropriating a special fund**

House Commerce and Consumer Affairs Committee

April 7, 2010

Good morning Mr. Chairman, Madame Vice Chair and members of the Committee. My name is Steve Ahnen and I am the President of the New Hampshire Hospital Association, representing the state's 32 acute care and specialty hospitals. Thank you for the opportunity to appear before you today.

The New Hampshire Hospital Association and its member hospitals are committed to keeping health care affordable, and we believe this should involve every segment of the health care system – hospitals, insurers, other health care providers, businesses, government and individuals.

The status quo is not an option moving forward. We see payment reform as moving away from fee-for-service medicine towards a more integrated form of health care delivery and reimbursement that will align incentives for providers and payors so that better, higher quality and more cost effective care is rewarded over simply doing more. We believe that fundamental reform must include changes that align payments and incentives across the health care system in a manner that improves access to care, and that achieves the most efficient, affordable, high quality health care.

Movement on Senate Bill 505

Senate Bill 505 has come a long way since its original introduction as a bill to establish hospital rate setting commission. It would now establish a study commission designed to assess and understand the implications of federal health care reform on coverage and costs here in New Hampshire, as well as look at the broad drivers of health care costs. We believe that is the right focus and applaud Senators for recognizing the need to address the work of this commission in a more comprehensive manner, rather than the narrow view taken by the original version of SB 505 which only looked at one segment of the health care system: hospitals.

While the bill that was adopted by the Senate is a marked improvement over the bill as it was introduced, we believe that additional modifications are necessary to ensure that the language of the bill accurately reflects the commitments that were made to broaden the focus of the commission to truly reflect a review of the broad drivers of health care costs, not just a narrow focus on hospitals alone. Hospitals are an important part of the equation and will be one area of review by this commission, but we cannot support legislation that fails to review and address all of the drivers of health care costs.

Solutions Must Address All of the Drivers of Health Care Costs

Solutions to the challenges facing our health care system are much broader and deeper than one segment alone. While hospitals certainly have a role to play there are many factors that contribute to the rising cost of health care and health insurance premiums, such as: the cost shift from the underpayment from the Medicaid and Medicare programs, and those who have no insurance; pharmaceutical costs and profits; health insurance company profits; the administrative costs for hospitals, doctors and other health care providers of billing for services from private insurers; technology costs; rising labor costs; lack of sufficient behavioral health care services; benefit plan designs that do not provide the right incentives for people to lead healthier lives and that shield them from the cost of their care; and individual choices such as smoking and misuse of alcohol.

If we are going to truly create meaningful, lasting change, we must examine more than one element, hospitals, to manage escalating health care costs.

Government Underfunding Contributes to Higher Health Insurance Premiums

One of the most significant contributing factors to the high rate of health insurance premiums in New Hampshire is the fact that public programs, such as Medicaid and Medicare, do not pay the cost of services for the people who rely on those programs for their care. In New Hampshire, hospitals are being paid on average just over 50 percent of the allowable cost for providing care to Medicaid beneficiaries, and 82 percent of the allowable cost for care to Medicare beneficiaries. In total, this “cost shift” amounts to \$500 million annually that gets added to the bills of those with private insurance to make up for the losses from Medicaid, Medicare, the uninsured and those who are unable to pay their bills.

And this problem was only made worse earlier this year when the NH Department of Health and Human Services announced additional spending cuts, including Medicaid payments to hospitals by an additional \$20 million through the end of the current biennium. That’s on top of the cuts enacted over the past 18 months, bringing the total of Medicaid spending cuts to hospitals to over \$64 million. And there may be additional spending cuts yet to come as State officials continue to confront budget challenges that are the result of the current economic crisis.

As the economy has worsened, more Granite State residents have lost their jobs and with it the health insurance they and their families depend on. This has pushed up the number of people eligible to receive state-sponsored health care coverage through the Medicaid program. When Commissioner Toumpas announced the Medicaid spending cuts in February, he indicated that the increased spending was a result of larger than budgeted caseloads. According to the

Department, caseload growth under the Medicaid program is running at about 10 percent, well above the 3-4 percent that was included in the budget estimates adopted last summer.

Hospitals are seeing more people come to their doors for care who have no insurance and who are having difficulty paying for their care. Charity care and bad debt expenses are up across New Hampshire. And more people are delaying care as the uncertainty over their employment and economic situations continue.

All of this has had a significant impact on the financial condition of New Hampshire's hospital systems, which includes not only the care provided to patients on an inpatient basis, but also all of the components under the hospital, including physician practices, nursing homes, home health care, ambulance services and many others. In 2009, according to preliminary data, 7 New Hampshire hospital systems showed negative operating margins, meaning that those providers lost money on their operations. Another four hospital systems are just at break even between 0.1 and 0.5%. Another 7 are between 1.1% and 1.9%. Based on a survey of our members in 2009, almost all hospitals have seen a decline in their overall financial health. In addition, the stress on physician practices continues to grow as more seek the financial support of hospitals, including selling their practices or seeking hospital employment.

Duties of the Commission

While some modifications were made to the duties of the commission in the amended version of SB 505, the language should reflect the expanded focus on a broader range of health care cost drivers. Though the commission should look at reimbursement and its impact on access, price and uncompensated care, it should also be directed to review cost shifting, technology costs, pharmaceutical costs and profits, insurer costs and profits, provider costs and margins, benefit design, physician decision-making, increased utilization of services and individual lifestyle choices. Hospitals are just one component of a broader system that must be studied.

The Commission must understand how current payment systems impact physician and consumer behaviors (resulting in over-utilization of services); and consider options that create collaboration and coordination across primary care, specialty care, behavioral health, and hospital services, to name a few. And the Commission should look at options to increase price and quality transparency.

Alternative Payment and Delivery Systems

Innovations are taking place in health care and we're eager to learn more about accountable care organizations (ACOs) where providers, payors and patients have aligned incentives to provide the right care, at the right time, in the right place, every time. The ACO model was initially developed at The Dartmouth Institute and has been the topic of discussion nationally as part of federal health care reform and by health care organizations around the country as they seek to develop these systems.

Many hospital systems in New Hampshire are currently working to develop an ACO model of care in their community. This is because they fundamentally believe that the current method of fee-for-service payments must change so that incentives are properly aligned for providers,

payors, businesses and patients. For the past year, hospitals have been working through the Citizens Health Initiative payment reform pillar project to develop a pilot project to test a new payment and delivery model where providers would be responsible for the health of a population, including cost and outcomes. Providers would form into an ACO that would be responsible for serving those patients in the most efficient and effective manner. This pilot would involve all of the major private health insurance plans in NH, and an RFP will be sent out this month to hospitals, providers and other interested groups.

Passage of federal health care reform legislation now means that Medicare and Medicaid will be moving in this direction, providing opportunities to test these new innovative delivery systems through demonstrations and pilot programs. Many states are moving forward with approaches of their own. We are supportive of those efforts. Including Medicare and Medicaid under the CHI pilot project would yield potentially even far greater economies and efficiencies, and we believe that it will be important for those programs to come under the banner of these new approaches to financing and delivery over time.

We believe that this provides a fundamental shift in health care payment and delivery that holds the promise of higher quality, more efficient and effective health care while reducing costs over time. In fact, later this week, the Hospital Association and the Foundation for Healthy Communities will be holding a conference to learn from leaders around the country and in our state who are moving forward to develop ACOs. Our goal is to look at how to apply what others have already learned to help inform this new approach to delivering better, higher quality and more cost effective care in New Hampshire.

Mr. Chairman, Madame Vice Chair and members of the Committee, we encourage you to move forward with SB 505 and the modest adjustments we are recommending to ensure that the language of the bill accurately reflects the commitments that were made to broaden the focus of the commission to truly reflect a review of the broad drivers of health care costs, not just a narrow focus on hospitals alone.

Thank you for the opportunity to appear before you today to share our views on Senate Bill 505. There are other hospital representatives here today listening to the discussion and others may wish to comment further on their thoughts about the impact this legislation would have on their institution and their ability to serve the patients and communities who depend on them. I would be happy to respond to any questions you might have.