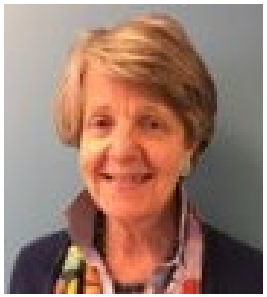
How NASHP's Model Legislation Increases Health System Financial Transparency and Provides a First Step to Address High Hospital Costs

Thursday, November 12, 2020,
2:30 – 3:30 p.m. ET

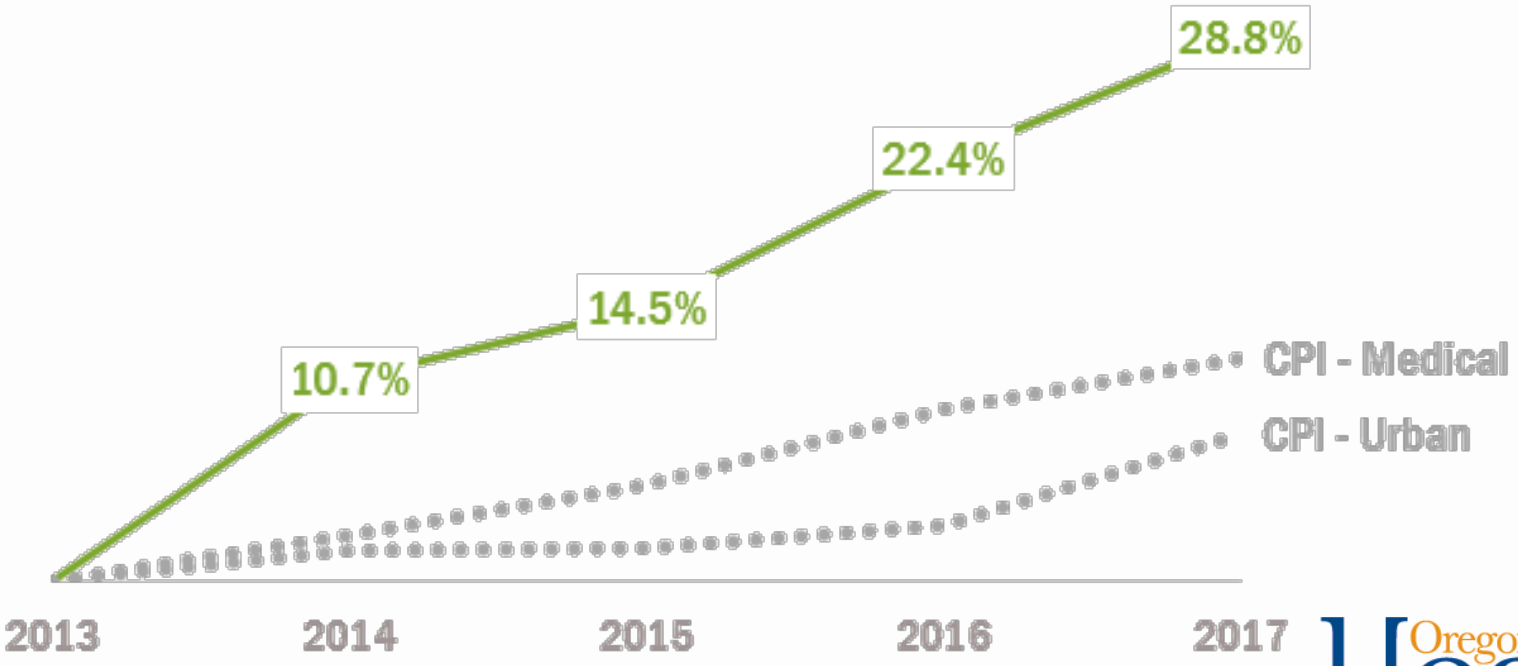
This webinar is supported by Arnold Ventures.

Welcome and Introductions **Trish Riley,** Executive Director**,** National Academy for State Health Policy	
Nancy Kane, DBA, Adjunct Professor of Management in the Department of Health Policy and Management, Harvard T.H. Chan School of Public Health	
Jeremy Vandehey, JD, Director of the Health Policy and Analytics Division, Oregon Health Authority	
Vicki Veltri, JD, LLM, Executive Director, State of Connecticut Office of Health Strategy	
Questions and Discussion	

HOW DOES HOSPITAL AND HEALTH SYSTEM FINANCIAL TRANSPARENCY HELP POLICYMAKERS ADDRESS RISING HEALTH COSTS?

We know health care costs, including hospital costs, have been growing

Total paid amounts per person increased 6.5 percent on average from 2013-2017.



Transparency is Important for States

- Hospitals are important economic drivers with public missions; their financial position is important information
- Hospital costs are largest piece of the spending pie across all health plan types – public and private
- Evaluation of the health of the sector and systems overall is an important planning function
- Evaluating the changing market –
  - Horizontal mergers and acquisitions – one system acquiring another hospital and/or practices affiliated with that hospital
  - Ongoing practice acquisitions – particularly in the era of COVID
  - Increased capital costs
  - Evaluate increased expenses v revenues
- Evaluate the actual revenues in specific areas – e.g., inpatient versus outpatient costs
- Tracking on items like COVID relief funds to complete financial picture

What Do We Mean by Financial Transparency of Hospitals/Health Systems?

Standardized disclosure of hospital/health system financial statements

- Balance sheet
- Income statement/changes in net assets
- Statement of cash flows

Standardized calculation of key metrics / ratios

- Profitability
- Liquidity
- Solvency
- Adequacy of capital investment

Multiyear Sources and Uses of Cash

How can these metrics be used to guide cost containment policymaking?

Examples of Potential Value:

- Monitor failing (often low-cost) hospitals/health systems to allow for pro-active intervention by state/local community
- Determine which health systems can "afford" caps on commercial payment rates
- Inform Attorney General pre-post reviews of hospital mergers/acquisitions (viability, capital commitments, community benefit obligations, impact on competitors)
- Inform policymakers of health system long-term spending priorities (sources and uses of cash)
- Monitor the use of charitable assets (transfers to out-of-state owners, changes in indigent care commitments)
- Assess impact of pension liabilities on health system solvency; inform potential legislative relief efforts
- Determine allocation of Medicaid supplemental funds, other sources of local/state special funding/grant-making

HOW DOES NASHP'S MODEL LEGISLATION AND REPORTING TEMPLATE INCREASE TRANSPARENCY?

Standardized Disclosure at Health System Level is Critical to Informed Policymaking

- Focus on health systems addresses the fact that most hospitals (and resources) are in systems, not all critical resources are retained at the hospital level, and other affiliates (such as physician groups) can have important financial implications

- Proposed template requires that providers standardize their own financials to make them comparable across health systems (so that state policymakers do not have to become highly specialized financial analysts themselves)

- Standardization removes the most common areas of non-standard reporting such as recognition of third party reserves, influence of fair-value accounting for financial instruments on profitability, different ways of presenting cash and investment restrictions, different determinations of what goes into the reporting of income

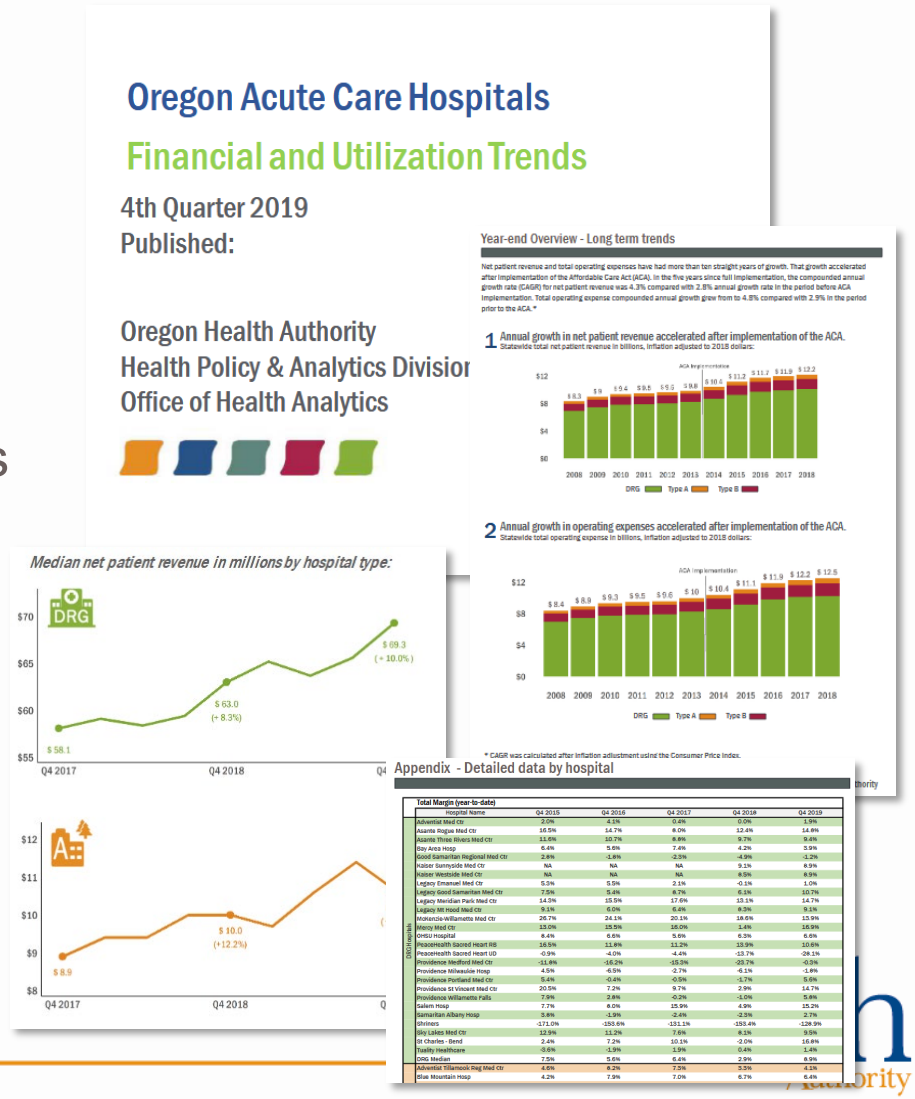
How Does it Increase Transparency

- Shows categories of expenses, assets and liabilities, and how they are changing over time
  - Patient related revenue and expenses v other spending – labs, etc.
  - Changes in payer mix & revenues by payer over time
  - Gives better picture of what is happening with practice affiliations, mergers, acquisitions, etc.
  - Captures specific revenue categories not currently captured in most reporting – revenues in alternate payment models
- Shows truer picture of financials than ad hoc requests – public reporting
- Shows movement of funds for capital spending – this is not regulated in CT but related to performance and cost of care. Long-term debt picture is important
- Allowance for quarterly filings may provide more timely information
- Medicaid Supplemental payments transparent
- Cash on hand, etc.
- Hospitals as employers – give fuller picture.

Oregon publishes quarterly reports on hospital finances

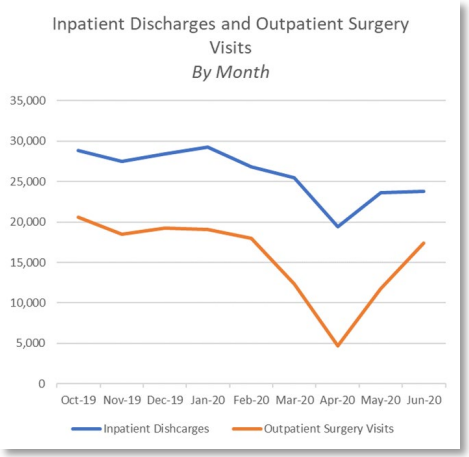
Measures include:

- Bad debt
- Charity care
- Net non operating gains/losses
- Net patient revenue
- Operating margin
- Total margin
- Total operating expense
- Total operating revenue
- Uncompensated care

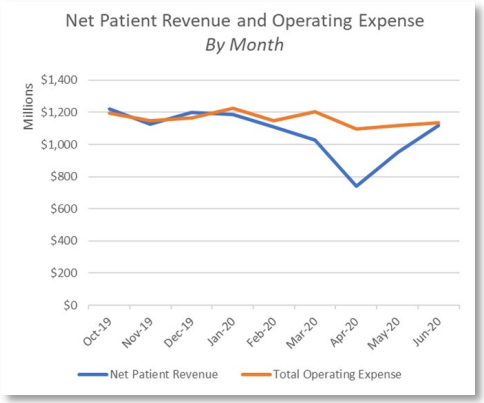


https://go.usa.gov/xwscy

Using hospital financial data to understand the impact of COVID-19



Hospital utilization fell in Q2 2020 with the suspension of elective procedures and stay-at-home orders



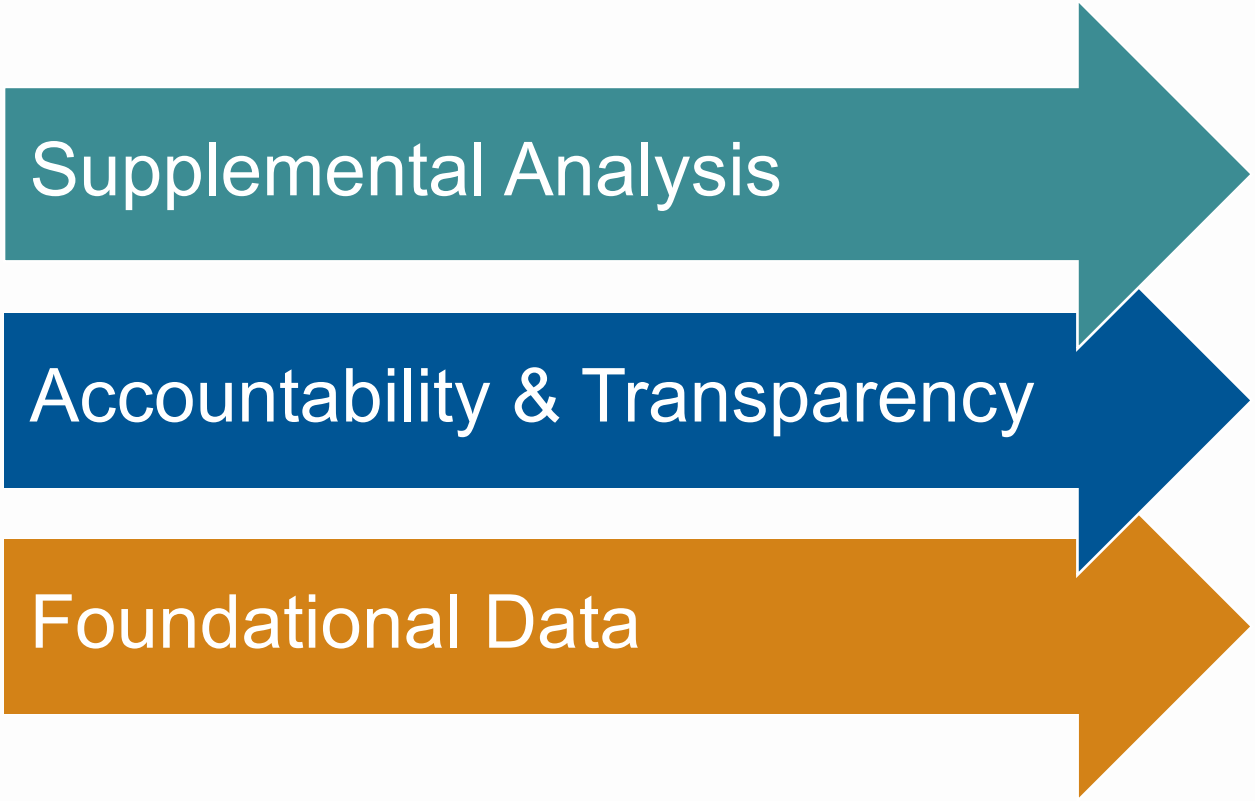
Resulting in a steep drop in net patient revenue (NPR)

WHAT CRITICAL INFORMATION WILL THE MODEL PROVIDE TO STATE POLICYMAKERS AND HOW CAN IT BE LEVERAGED?

Information for state policymakers and how can it be leveraged

- Deeper insight into stability of systems/hospitals over time
- Validate financial performance for purposes of further market transactions – e.g., CON
- Evaluate overall market changes – system fees, affiliation, pre- and post-merger/acquisitions
- Design or evaluate models of care to target cost containment
- Pair with quality to assess overall measures of performance with quality
- Changes in IP/OP revenues over time may show changes in market changes/prices
- Tie with APCD, facility fee, discharge data, and benchmark data to provide fuller picture of performance
- Variation of pricing across the sector; e.g. RAND study findings, better informed by fuller information
- Changes in uncompensated care provided that may point to other concerns

Building a more holistic understanding of what's driving health system costs



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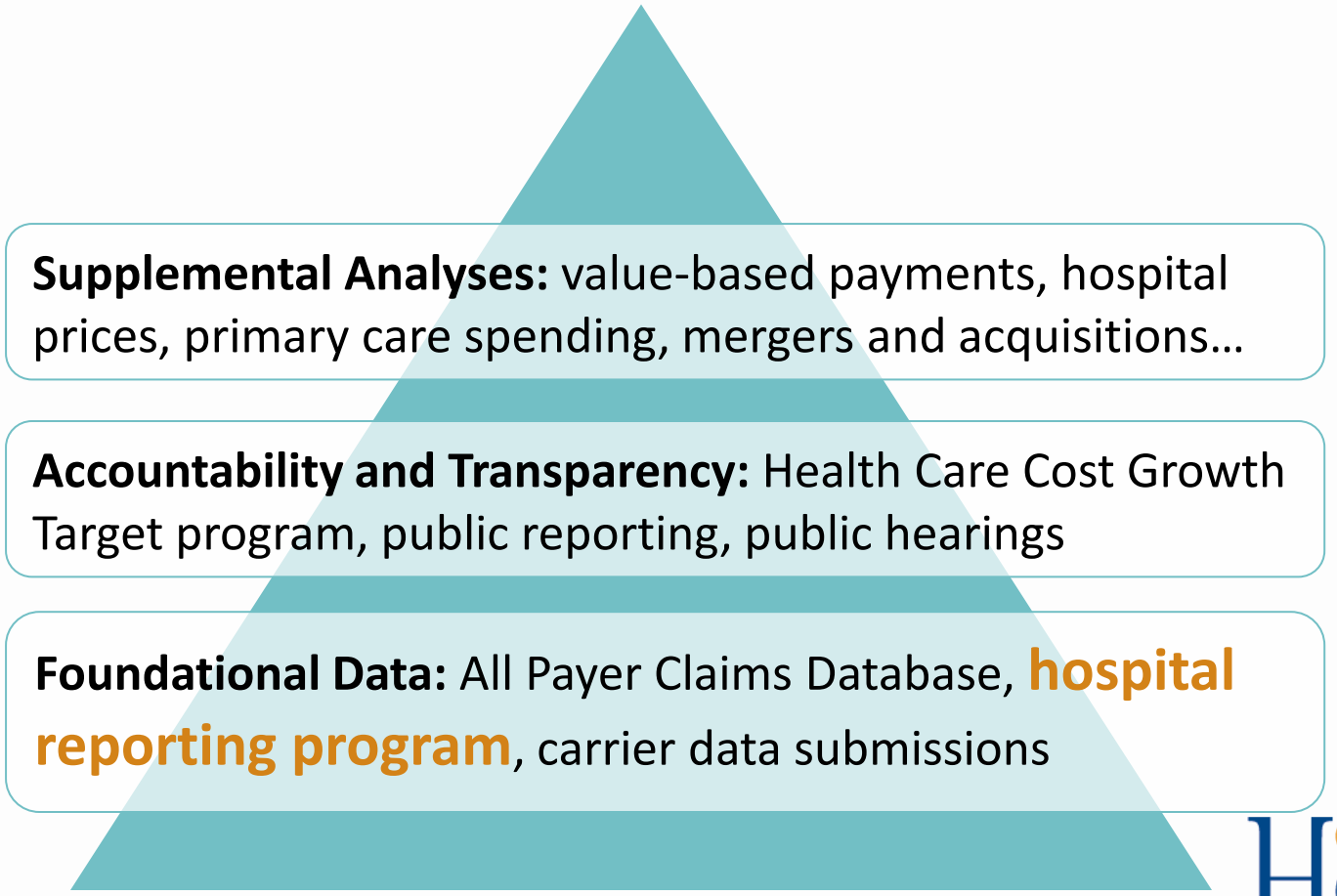

Q&A

Please type your questions into the chat box.

Thank you!

Your opinion is important to us. After the webinar ends, you will be redirected to a web page containing a **short survey**. Your answers to the survey will help us as we plan future NASHP webinars.

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