

Overview of NASHP's Hospital Cost Tool

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NATIONAL ACADEMY
FOR STATE HEALTH POLICY

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Introduction to NASHP's Hospital Cost Tool

- **What data can the hospital tool provide?**
 - Multiple measures from payer mix to breakeven levels
- **How can it be used to inform policy?**
 - Offers another view of hospital and health system financial data
 - Provides fuller picture, particularly when pared with APCD, hospital audited financials, tax filings, and bond reporting
- **What policies have states pursued so far?**
 - Reference-based pricing, affordability standards with insurance rate review to cap hospital reimbursement growth, tracking trends pre- and post-merger, further transparency into community benefit, etc.

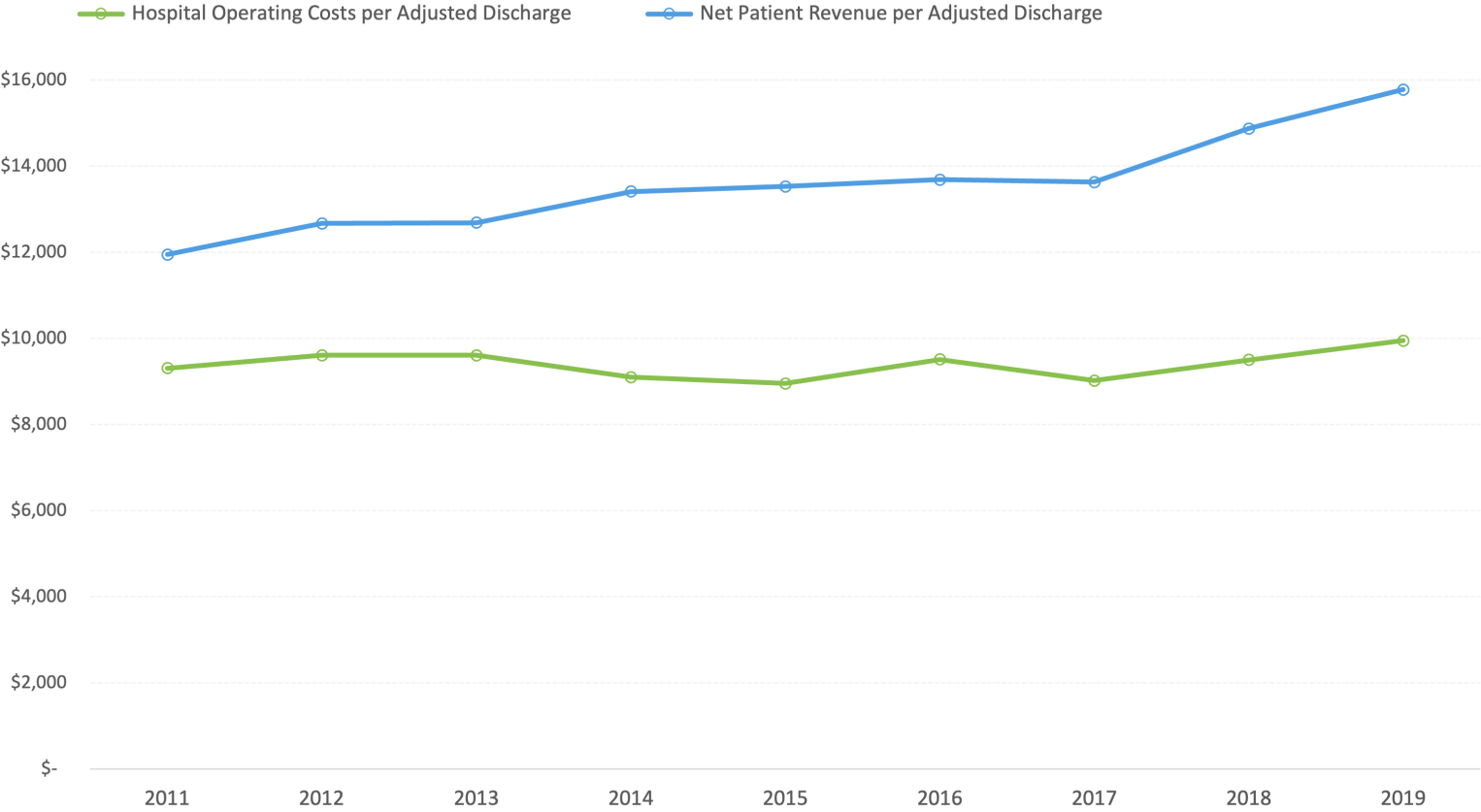


NASHP's Hospital Cost Tool

- Provides multiple hospital financial measures from the Hospital Cost Calculator, using hospital reported, attested information within annual Medicare Cost Reports
- NASHP and Rice University partnership = access to a national database of Medicare Cost Report data to calculate financial metrics through the Hospital Cost Calculator for 6,000+ hospitals

Hospital Operating Profitability

Compare net revenue and operating costs associated with patient care services over time

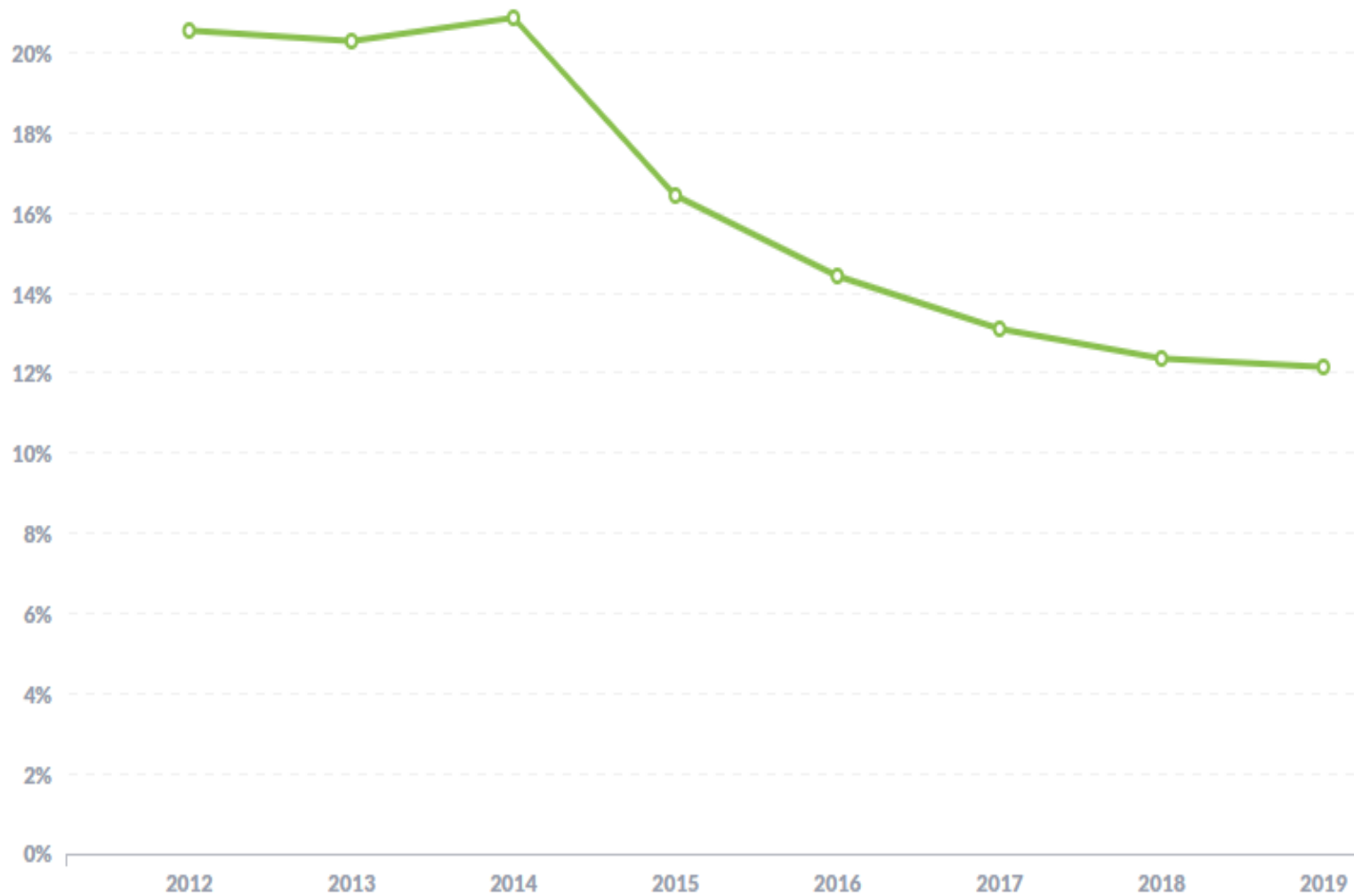


- **Adjusted Discharge** = Calculated volume of inpatient and outpatient utilization
- **Net Patient Revenue per Adjusted Discharge** = Hospital earned revenue per patient
- **Hospital Operating Costs per Adjusted Discharge** = Costs to perform services per patient
- **Operating Profit (Loss)** = Difference between revenue and costs

Cost-to-Charge Ratio

- **Calculation:** Total Charges divided by Hospital Operating Costs
- **Charges** – the 'sticker price' set by the hospital for patient services
- **Hospital Operating Costs:** costs incurred by the hospital to provide patient services, salaries & benefits; contracted services, medical supplies, equipment and maintenance, and other operating expenses.
- **The lower a hospital's Cost-to-Charge Ratio, the less its charges reflect its costs**

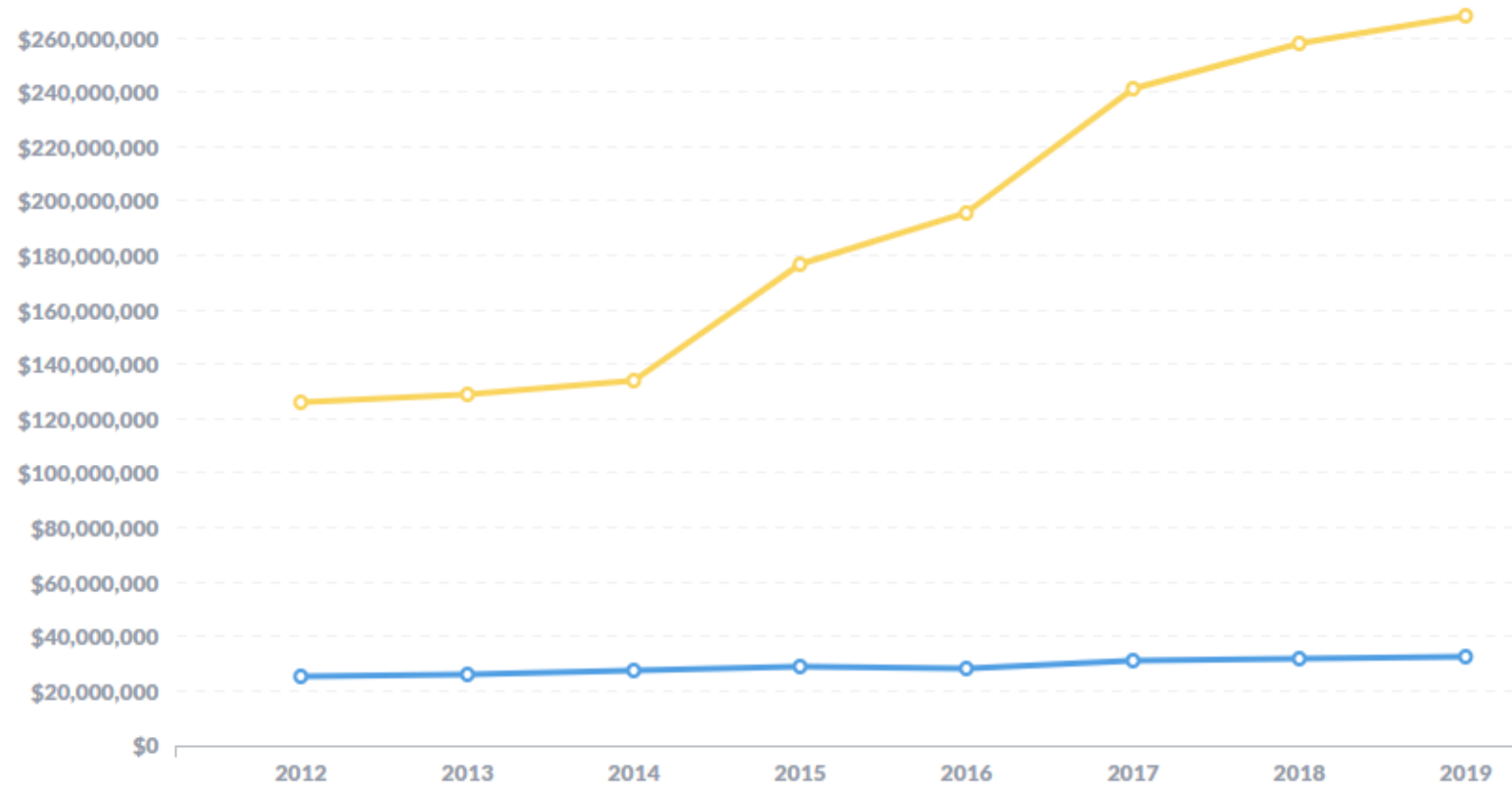
Cost-to-charge ratio over time



Cost-to-Charge Ratio Factors

Hospital operating costs and charges over time

● Hospital Charges ● Hospital Operating Costs



- Cost-to-Charge Ratio downward trend was caused by higher charges, not lower costs
- Hospital reimbursements that are based on discounted charges will likely still trend upward, with charges

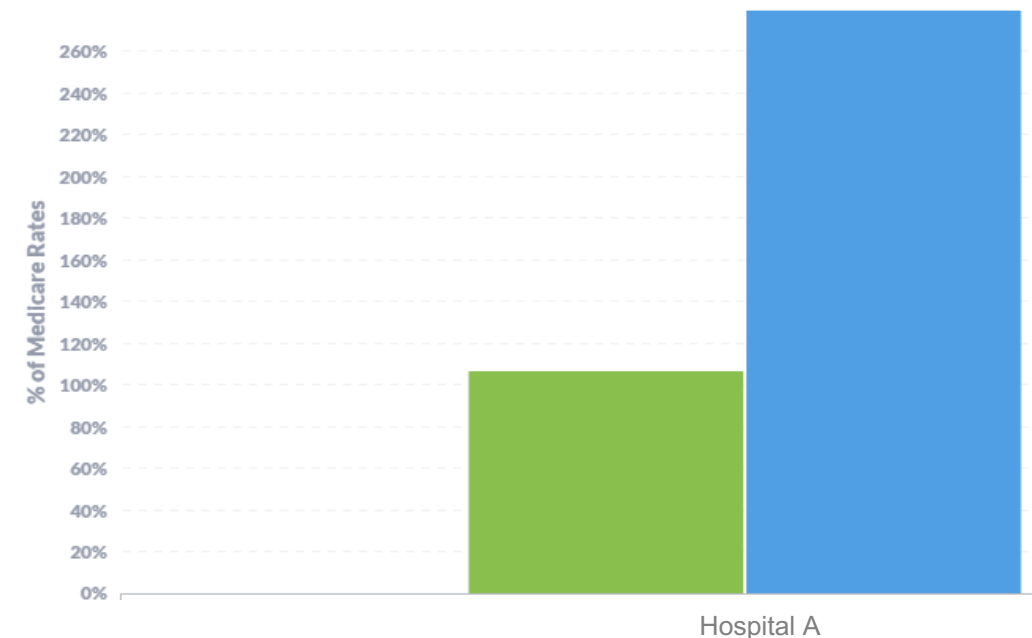
Breakeven Analysis

- NASHP's Hospital Cost Tool shows a hospital's **breakeven point**: when **Revenue = Expenses**
- Revenue includes all sources. Expenses include direct patient services, hospital operations and administration, ancillary services, etc.
- Breakeven point expressed as the payment required from a commercial payer (as a multiple of Medicare)

Example: This hospital could cover its expenses if reimbursed by commercial payers at **107 percent** of Medicare rates. However, it was paid **280 percent** of Medicare (in aggregate from 2016 to 2018).

Commercial breakeven for each selected hospital with RAND 3.0 price

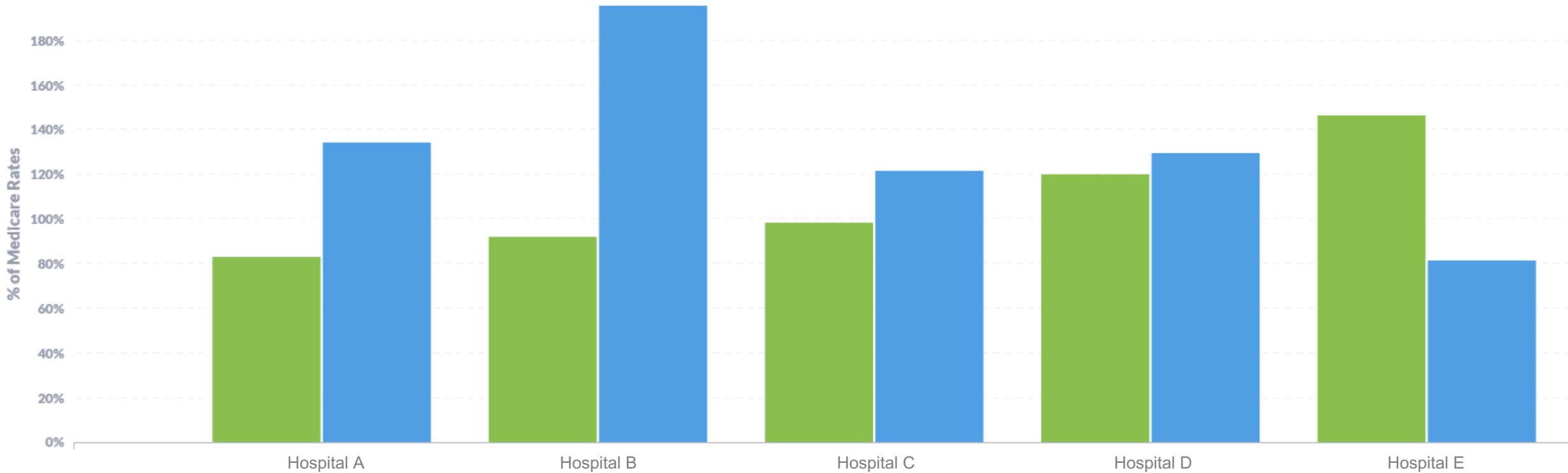
● Commercial Breakeven ● RAND 3.0 Price



Comparing Breakeven Point to Commercial Price

Commercial breakeven for each selected hospital with RAND 3.0 price

● Commercial Breakeven ● RAND 3.0 Price



Digesting Breakeven Analysis

Baseline considerations – efficiency issues, high costs, or price problems?

- Compare with other hospitals and/or state/national median breakeven points? By hospital bed size?
 - *Significant differences may indicate a hospital cost issue*
- What is the difference between the hospital's commercial breakeven and commercial price?
 - *Significant differences may indicate opportunity for payer reimbursement negotiations*

Helpful Reference

MedPAC report to Congress 2021-
Medicare Rate Adequacy: Hospital Margins
2019 data

Efficient hospitals: **Lose 1%**

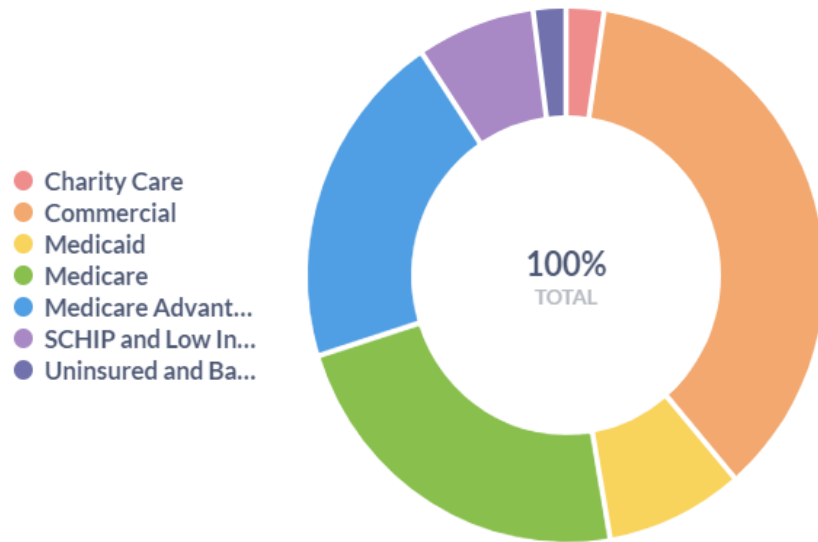
Average hospitals: **Lose 8.7%**

Average not-for-profit hospitals: **Lose 10%**

Average for-profit hospitals: **Gain 0.5%**

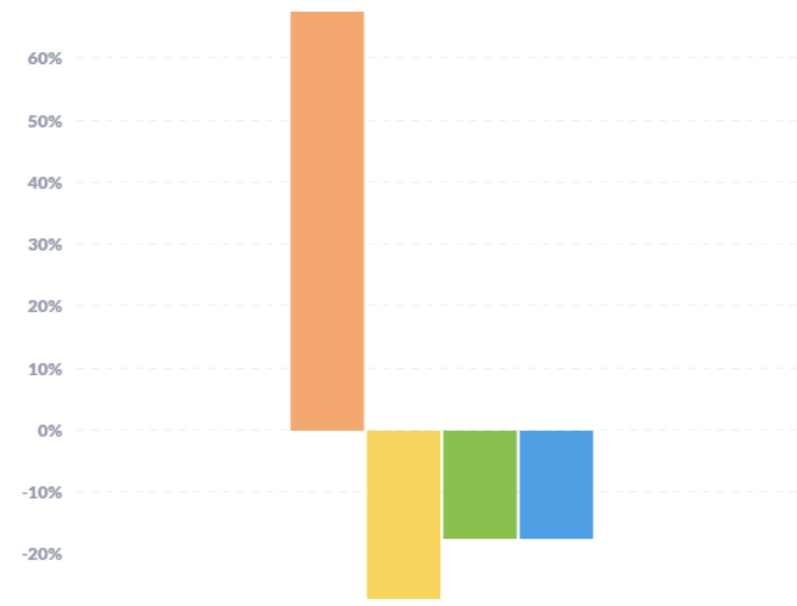
Consider Payer Mix with Profit Margin

Payer mix for the selected year



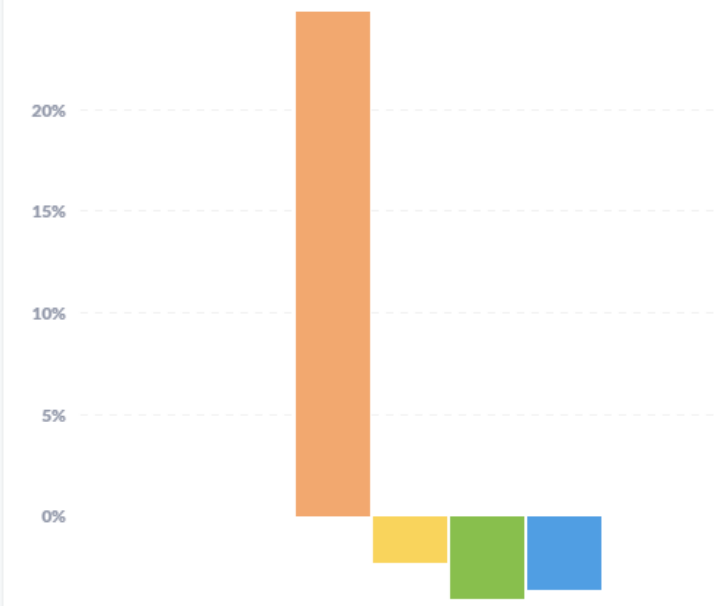
Operating profit margin by payer type for the selected year

Commercial Medicaid Medicare Medicare Advantage



Payer mix adjusted profit (loss) for the selected year

Commercial Medicaid Medicare Medicare Advantage

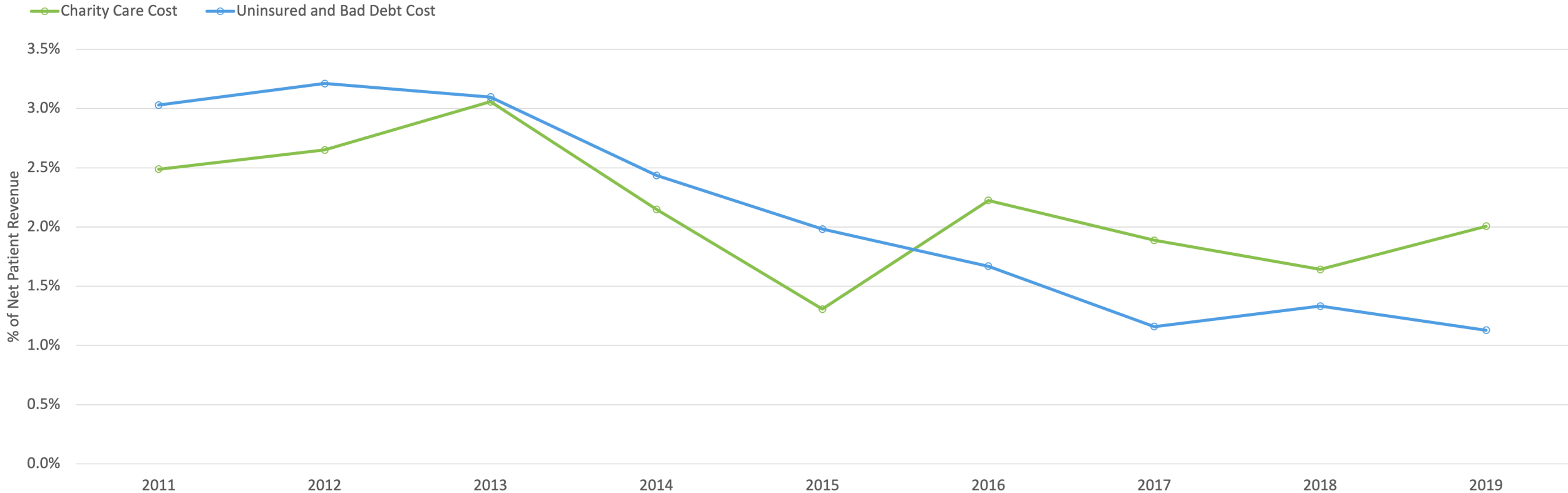


- **Payer Mix adjusted profit (loss) provides a more complete picture:**

- Operating profit margin of negative 27% on Medicaid patients
- But Medicaid was only 8% of total Payer mix
- Relative impact on operating income (Payer mix adjusted profit (loss)) of only negative 2%

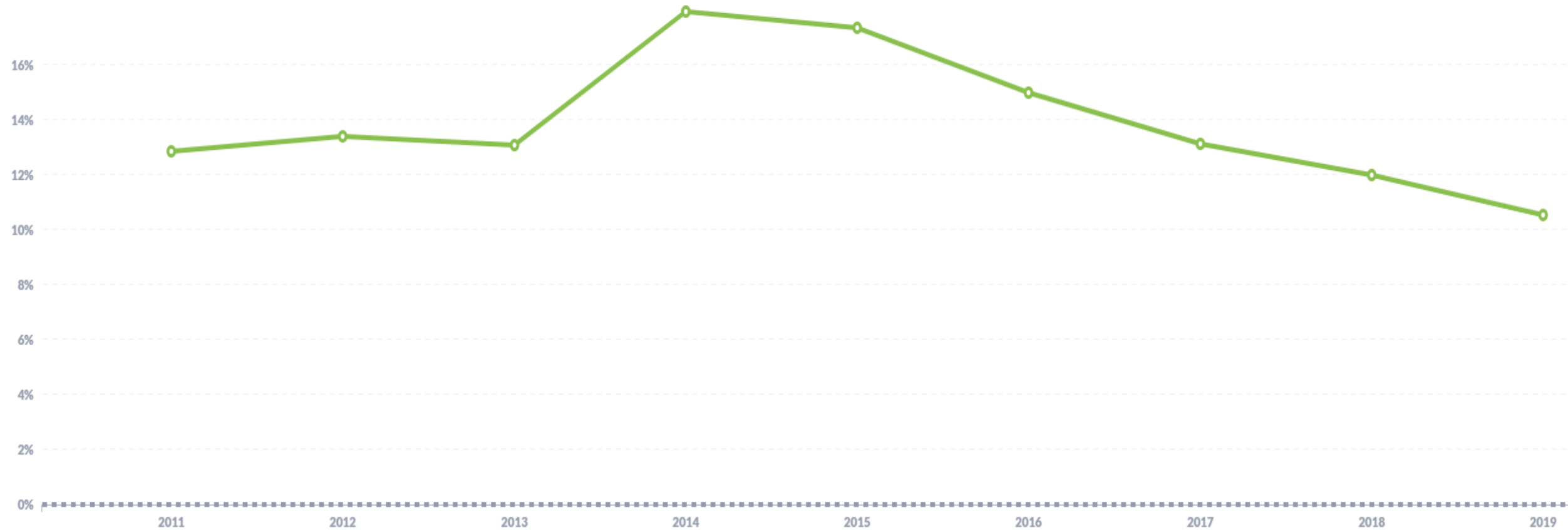
What Percentage of Net Patient Revenue did the Hospital spend on Charity Care and Uninsured patient costs?

Compare charity care cost and uninsured & bad debt cost as % of net patient revenue over time



What Percentage of Net Patient Revenue did the Hospital retain as Net Profit?

Net profit margin over time



Thank you!

Explore NASHP's Interactive Hospital Cost Tool:
<https://www.nashp.org/hospital-cost-tool/>



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