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 paired 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

- **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

Source: NASHP Hospital Cost Tool, 2011-2019 Data
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**

Source: NASHP Hospital Cost Tool, 2012-2019
Cost-to-Charge Ratio Factors

- 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.

Source: NASHP Hospital Cost Tool, 2012-2019
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).

Source: NASHP Hospital Cost Tool, 2019 Data; price from RAND Corporation, 2016-2018 Data
Comparing Breakeven Point to Commercial Price

Commercial breakeven for each selected hospital with RAND 3.0 price

- Commercial Breakeven
- RAND 3.0 Price

Source: NASHP Hospital Cost Tool, 2019 Data; price from RAND Corporation, 2016-2018 Data
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 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%

Source: NASHP Hospital Cost Tool, 2019 Data
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

- Charity Care Cost
- Uninsured and Bad Debt Cost

Source: NASHP Hospital Cost Tool, 2011-2019 Data
What Percentage of Net Patient Revenue did the Hospital retain as Net Profit?

Source: NASHP Hospital Cost Tool, 2011-2019 Data
Thank you!

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