Waitlist

Uncompensated Care

Healthcare Reform

Hawaii's Healthcare System – What Lies Ahead?

Medicare

November 2009

Medicaid and QEXA

Data gathered by:
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Quality In Everything We Do

for

HAH
Healthcare Association
of Hawaii

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1. Healthcare in Hawaii's Economy

- Economic driver
  - 4th largest private industry based on GDP
  - Industry and its employees generate income and excise tax revenues
- Employment
  - Employs approximately 9% of Hawaii's workforce
  - Higher average salaries per employee
  - Larger employers

Source: 2007 State of Hawaii Data Book, DBEDT

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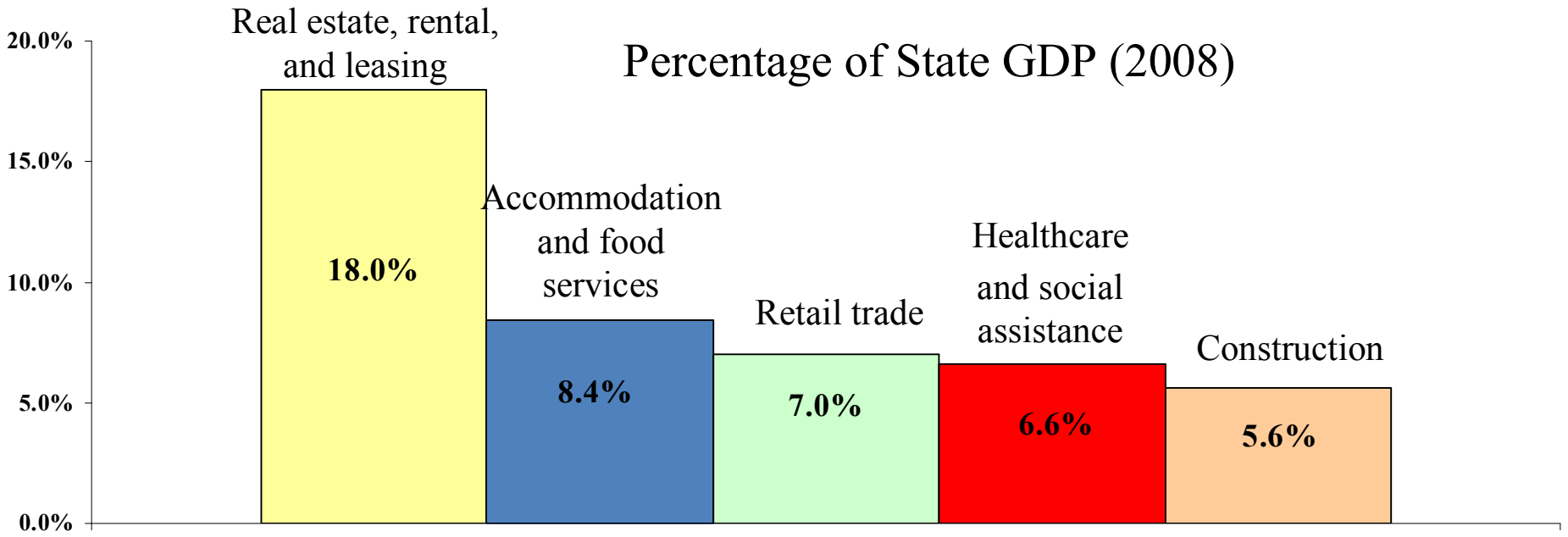
1. 4th largest private industry

- Healthcare and social assistance contributed $4.2 billion to Hawaii's Gross Domestic Product (GDP), or 6.7% of the GDP, ranking 4th among all private industries (2008)
- Healthcare GDP could become a larger percentage of the State's GDP as the percentage in the other industries decreases
- GDP likely to increase with ARRA funds
- Source of significant federal funding for the State – Medicare and Medicaid funds



Source: 2008 State of Hawaii Data Book

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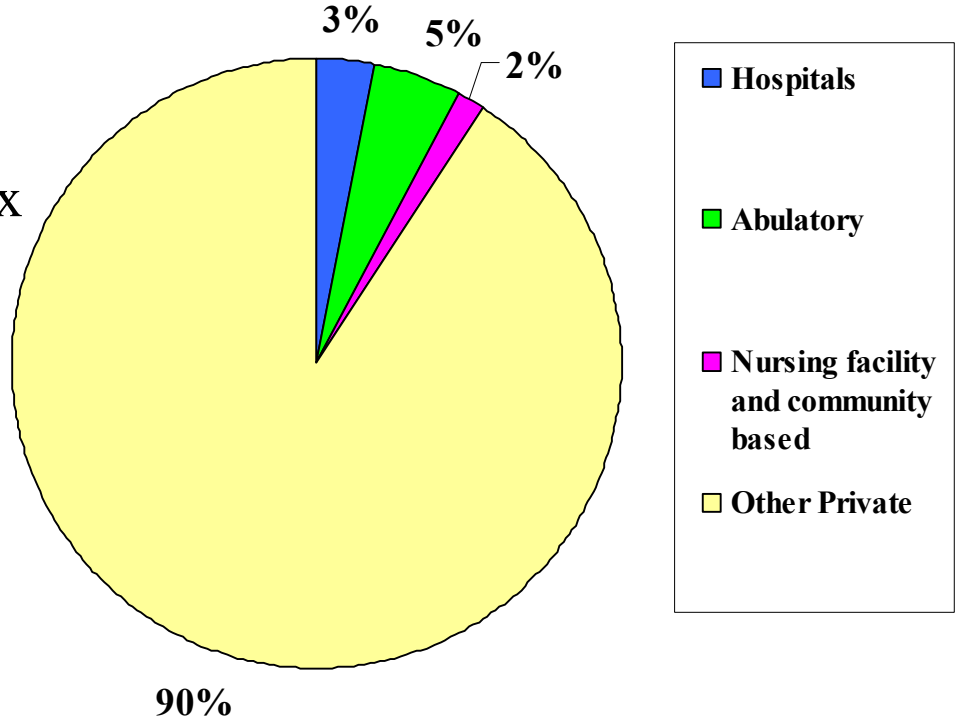
1. Generator of income and excise taxes

- Healthcare (hospitals, ambulatory healthcare providers, nursing and residential care facilities) employees account for approximately 9.3% of the individual income tax revenue of the State (2007)

Percentage of Individual Income Tax Revenue (2007)



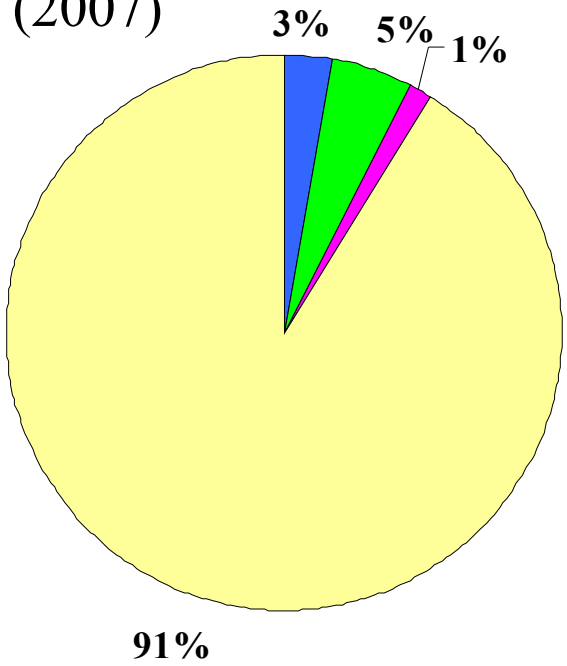
- Hospitals account for approximately 2% of the general excise tax revenue of the State based on GET paid on purchases of goods and services (2007)

Source: 2008 State of Hawaii Data Book

1. Significant employer with higher wages

- Healthcare (hospitals, ambulatory healthcare providers, nursing and residential care facilities) employs 44,337 people or 8.7% of Hawaii's private (excludes government) workforce (2007)

Percentage of Private Workforce (2007)



Average wages (2007)

Healthcare and social assistance average annual wages - $41,703

Hospitals - $52,234

Ambulatory - $50,494

Nursing and residential - $30,187

Social assistance - $24,162

Average wages (2007)

Private industry average annual wages - $37,436

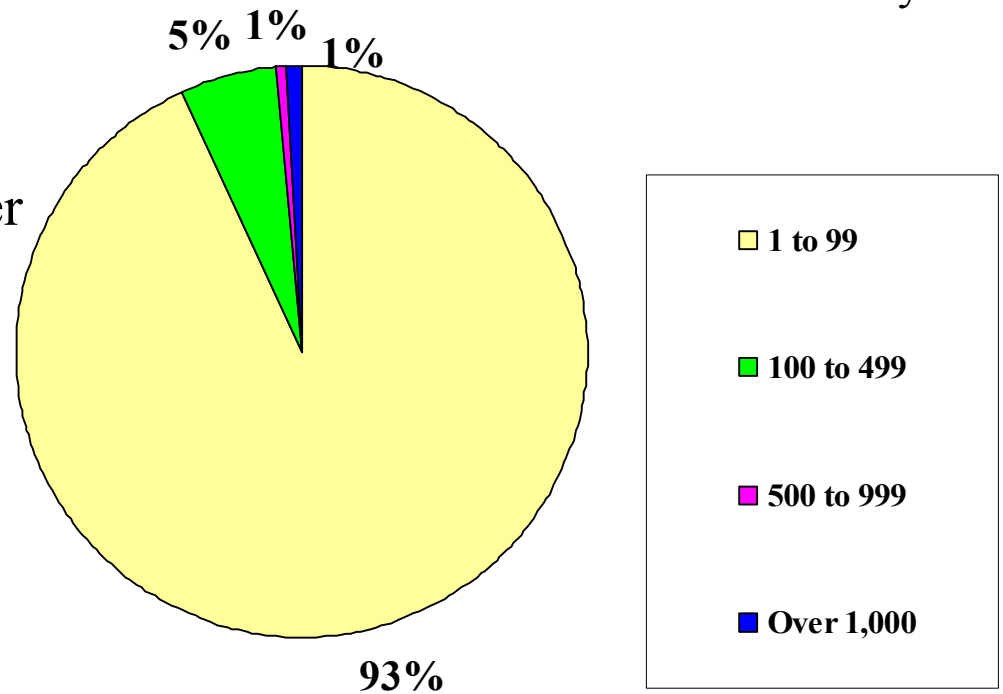
Source: 2008 State of Hawaii Data Book

1. Hospitals are large employers

Wahiawa General Hospital - 557
Rehabilitation Hospital of the Pacific – 494
North Hawaii Community Hospital – 370
Castle Medical Center – 1,075
Hawaii Medical Center – 1,089

Hawaii Pacific Health – 5,300
The Queen's Health Systems – 5,059
Kaiser Permanente Hawaii – 3,396
Hawaii Health Systems Corporation - 3,839
Kuakini Health System – 1,176

Percentage of Employers by Number of Employees (2008)



Source: 2008 State of Hawaii Data Book, DBEDT, Pacific Business News book of Lists '09 and Hawaii Business Top 250, August 2009

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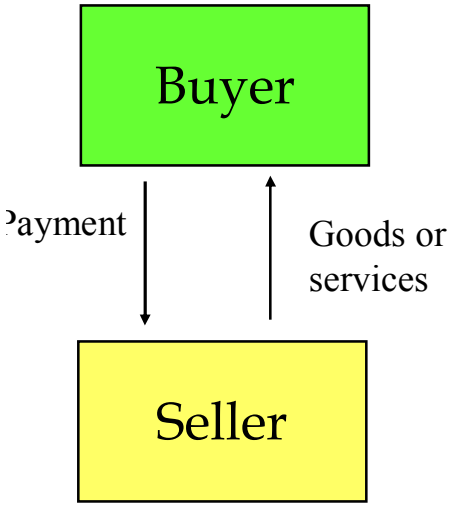
2. Financial Indicators

- Lack of control over revenues and costs
  - Payments set by government
  - Payroll based on union agreements
- Hospitals continue to lose money on patient care
  - Payments are below the cost of care
  - Medicare expenditures per capita is the lowest of all states
  - Payments for waitlist patients do not cover cost
  - Amount of free care (bad debt and charity care) continues to be a significant cost
  - Medical education for residents and interns is needed, but costly
- Cost of healthcare premiums continues to increase

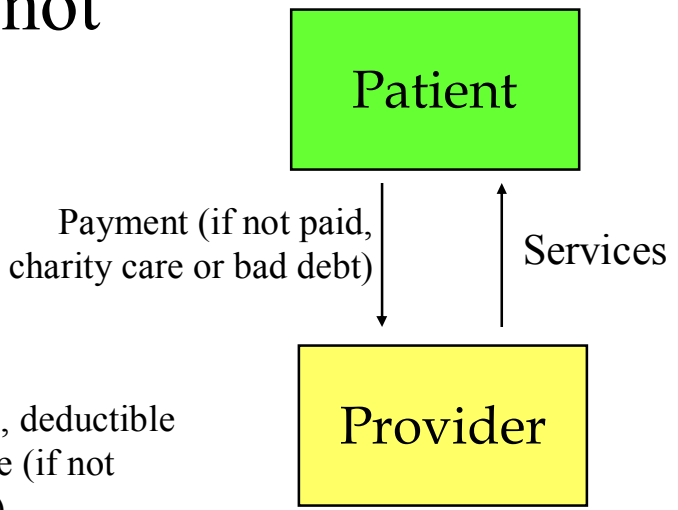
2. Healthcare payments

Typical buyer/seller arrangement

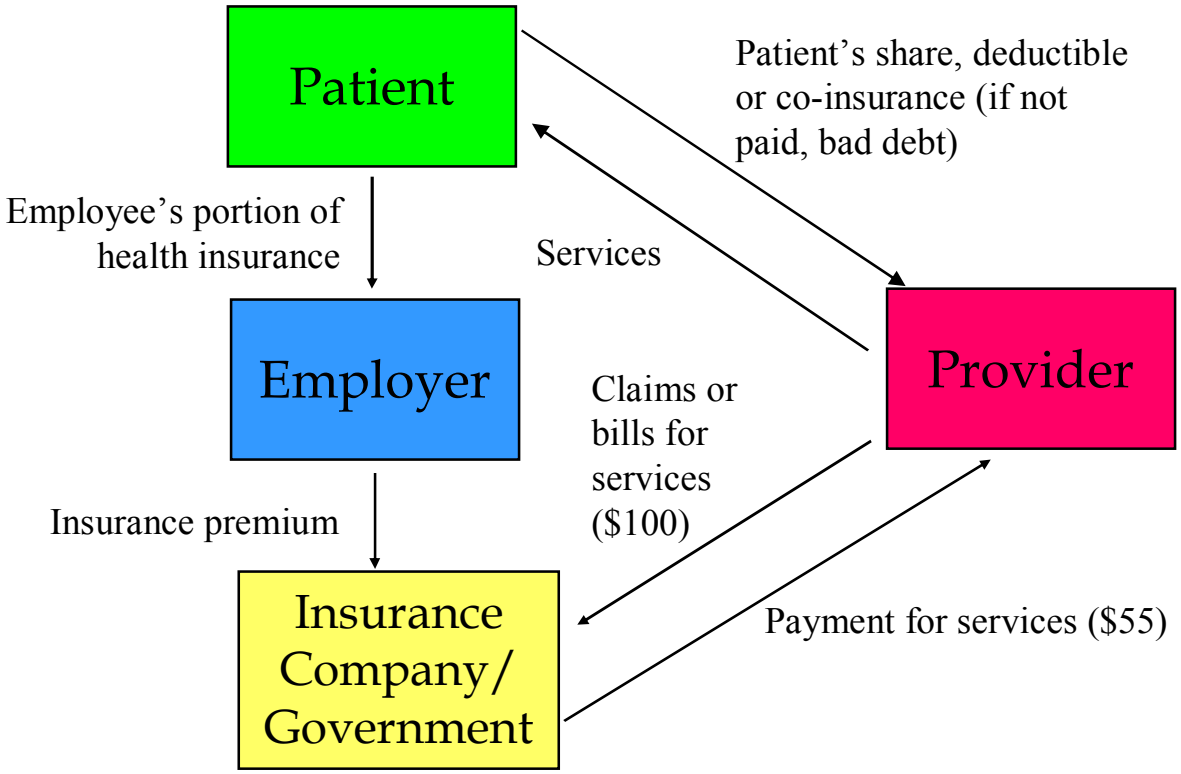


- Relationship between patient and provider is not a typical buyer/seller relationship

Healthcare (Uninsured)



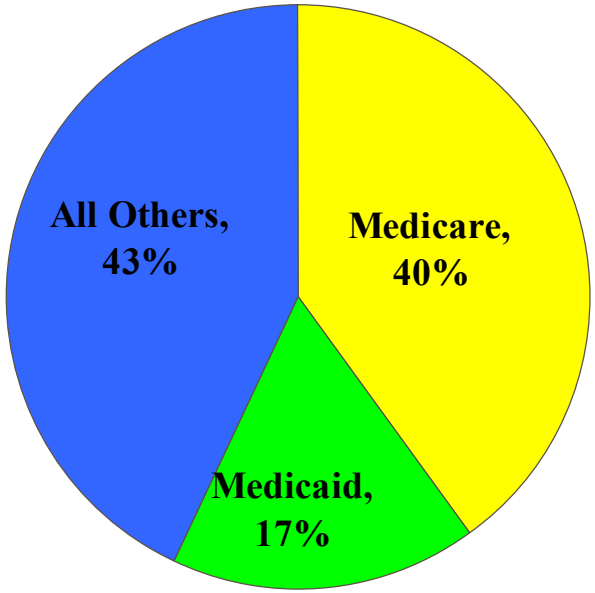
Healthcare (Insured)



2. Payments not controlled by providers

- Over 50% of payments not controlled by providers
  - Medicare payments set by the federal government
  - Medicaid payments set by the State government
- QUEST payments negotiated with QUEST plans
- Commercial payments negotiated with health plans

Hospital Payor Percentages by Charges 2009

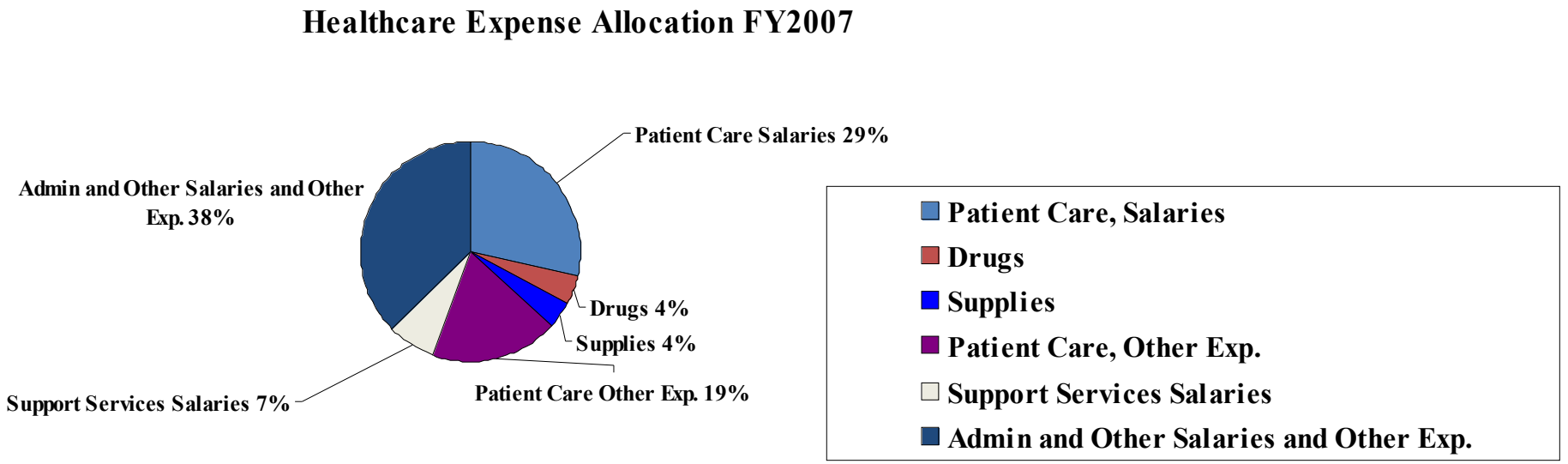


Approximately 80% of nursing facility payments are from Medicaid

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC). Includes 27 hospitals.

2. Costs are not totally controllable

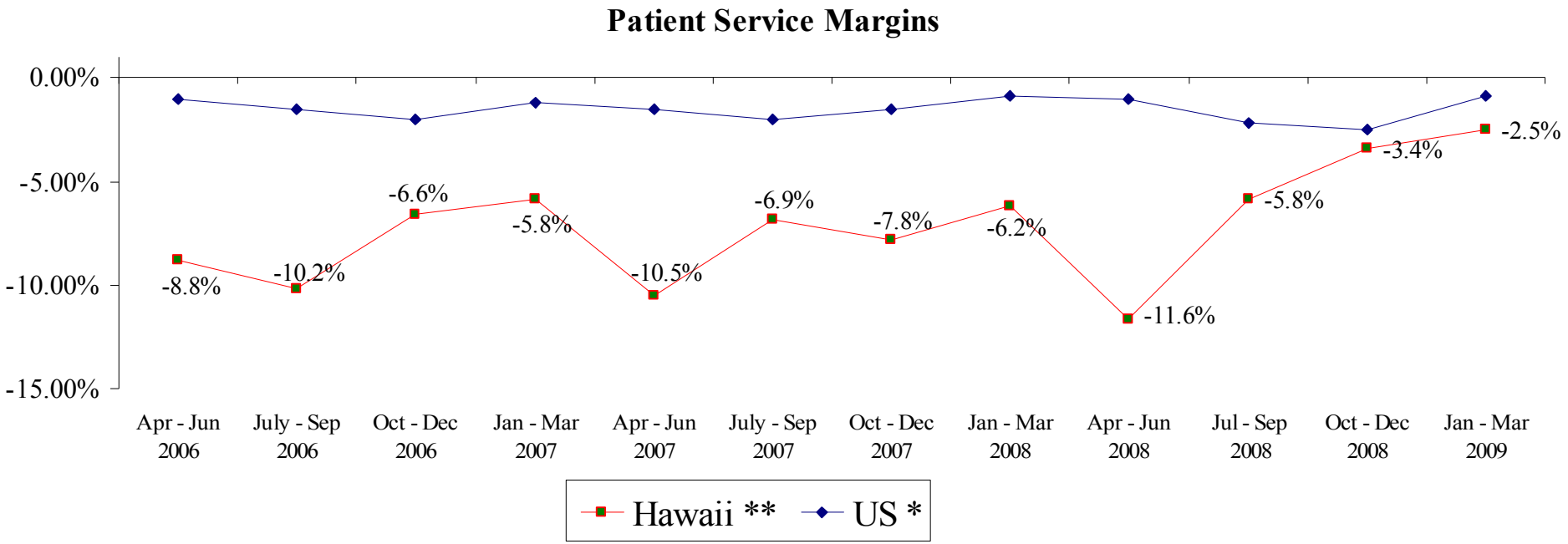
- Over 50% of costs are not totally controllable
- Patient care salaries are based on union negotiations
- Minimum staffing levels are required to provide quality care
- Drugs, supplies and other patient care expenses are driven by patient need
- Unemployment insurance costs will increase due to higher levels of unemployment in Hawaii



Source: As Filed Facility FY2007 Cost Reports, 24 facilities

2. Continued operating losses

- Hawaii's hospitals consistently lose money on patient care
- Hawaii's hospitals lost $187 million in providing patient care in 2008 and $212 million in 2007
- Operating losses fluctuate based on utilization of services, which can be unpredictable



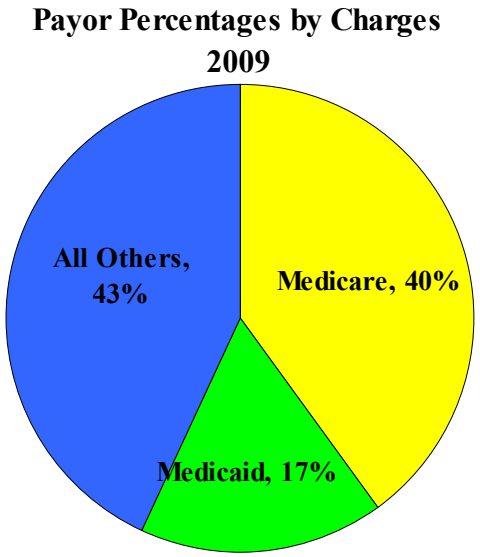
* US hospitals includes 697 hospitals ** Hawaii hospitals includes 25 facilities

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

2. Payments are below costs

2009
Percent of Costs Paid by:

	Medicare	Medicaid/ QUEST	Private Insurance and Other	Overall
Hawaii	75%	77%	106%	88%
All Databank Hospitals:				
Lowest Overall State	67%	32%	106%	88%
Average for US	87%	80%	140%	115%
Highest Overall State	111%	128%	165%	132%



- Lower Medicare and Medicaid payment percentages and higher Medicare and Medicaid volume results in:
  - $114 million loss for Medicare services
  - $78 million loss for Medicaid/QUEST services
- Healthcare reform will result in reduced Medicare and Medicaid payments
- In 2008, Healthcare industry obtained $13.3 million in Disproportionate Share (DSH) payments and $7.5 million of Supplemental payments from the federal government to help with the shortfall in Medicaid payments

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)
US includes 27 states, which includes 784 hospitals. Hawaii includes 26 facilities.

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2. Lowest Medicare spending

- Hawaii has the lowest Medicare spending per enrollee in 2006
  - Hawaii - $5,311
  - US average - $8,304
- Hawaii has the lowest growth in Medicare spending per enrollee from 1992 to 2006
  - Hawaii - $1,074 or 1.63% annual growth rate
  - US average - $3,193 or 3.53% annual growth rate

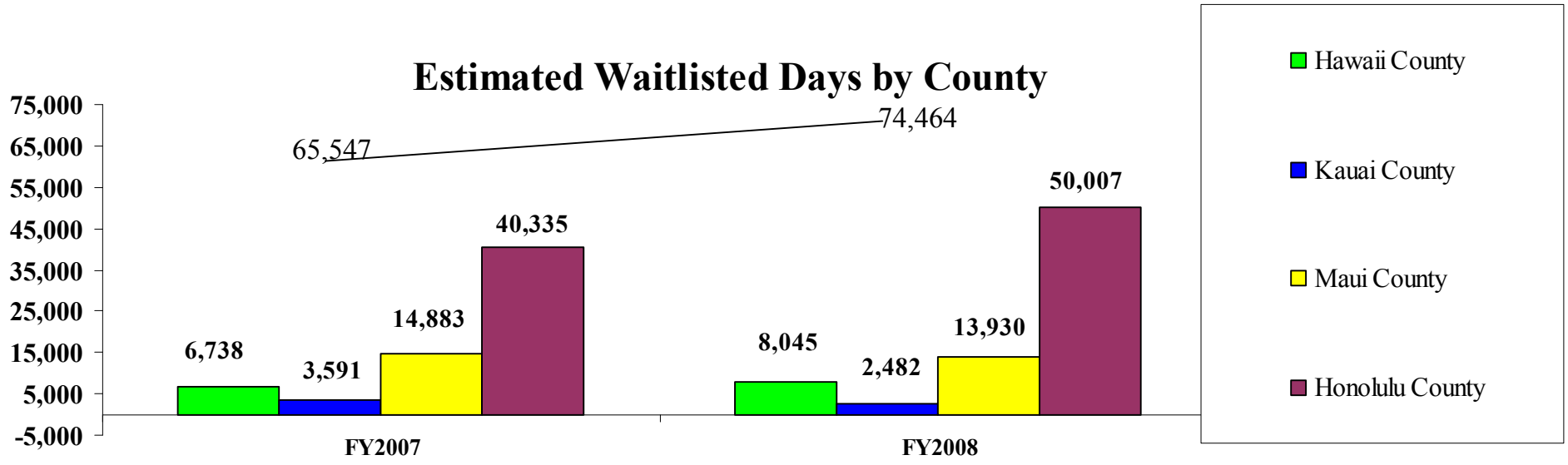
Source: The Dartmouth Institute for Health Policy & Clinical Practice, Dartmouth Atlas

2. Waitlist is still an issue

- "Patients who are deemed medically ready for discharge from the hospital must remain in the higher cost hospital setting when no nursing facility beds are available (waitlisted for a nursing facility bed)"
- Waitlisted patients spend more days in the hospital than appropriately discharged patients
- Waitlist Task Force formed by the HAH
  - Bill submitted in 2008 requesting $6 million to pay for the uncompensated costs for the Medicaid waitlist patients
  - Operational issues impacting waitlisted patients were identified and solutions recommended
- Number of waitlisted patient days continues to grow
- Hawaii needs to develop the right infrastructure and capacity to care for the waitlisted patients. More than 95% of all Hawaii nursing homes beds are occupied
- There are no incentives for the payors to look for proper placement of these patients as the payment rates for the waitlist days are low

2. Waitlist is still an issue

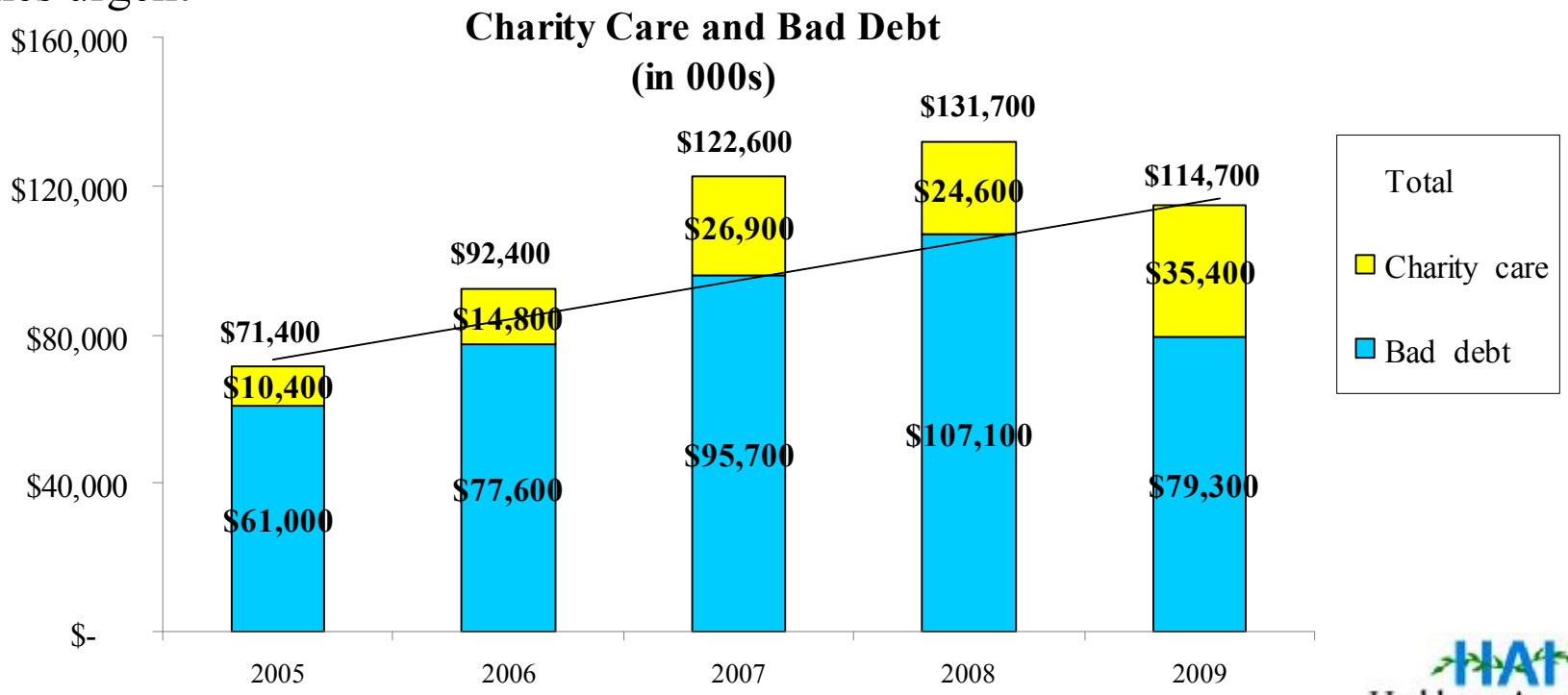
- Waitlist patients are one of the reasons for operating losses
- Medicare does not pay any additional money to the hospital for the additional days spent by the patient in the hospital waiting for a long term care placement
- Medicaid pays approximately 20% to 30% of the cost of those additional waitlisted days to Hawaii's providers
- Estimated uncompensated costs for waitlisted patients in Hawaii were approximately $62.6 million for 2007 and approximately $72.5 million for 2008



Source: HHIC

2. Free care (bad debt and charity care)

- Services provided to those without the ability to pay result in bad debt or charity care
  - Bad debt - amount due from a patient cannot be collected (services are provided with partial or no payments received)
  - Charity care - hospital never expected to collect payment from the patient because the patient is indigent (services are provided at no charge to patient)
- Many workers who have part time jobs do not receive health insurance benefits as the Hawaii Prepaid Insurance Act only requires employers to provide coverage for employees working 19 hours or more a week
- 2009 does not reflect the anticipated increase in bad debt and charity care as those unemployed continue to have coverage through COBRA as well as delay obtaining services until the need becomes urgent



Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC). Includes 27 hospitals.

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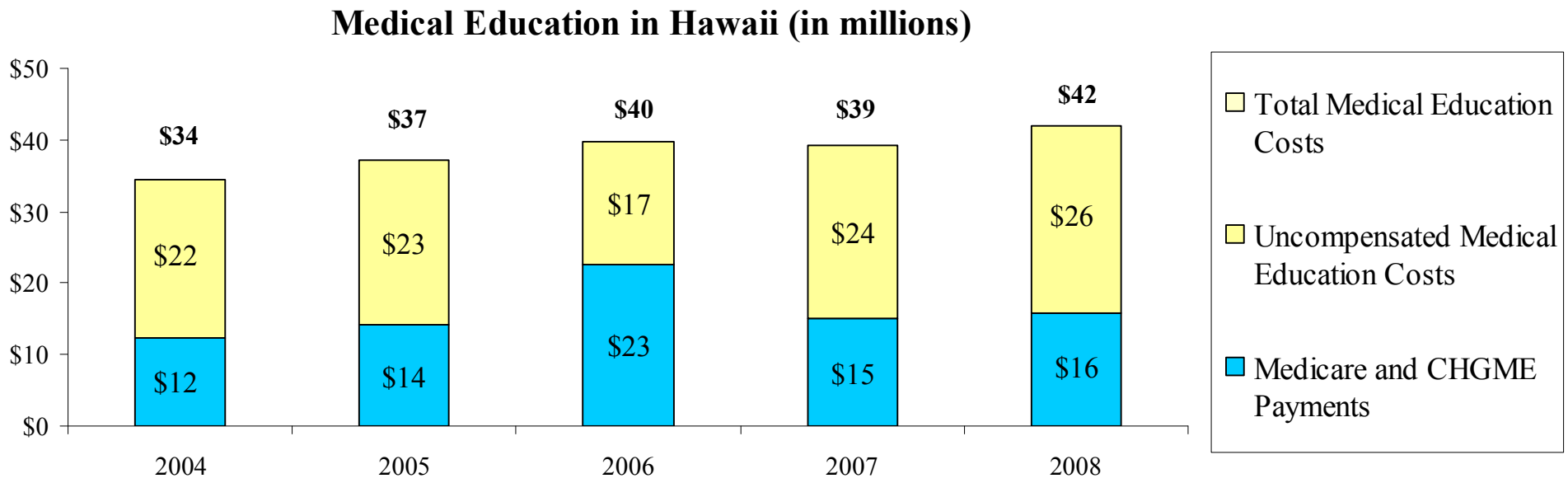
2. Medical education

- Medical education is needed to support the interns and residents and provide for future physicians, but costs continue to increase
- Seven hospitals have teaching programs to support the University of Hawaii's School of Medicine and medical research
- Medicare is the major source of payments for intern and resident programs. A federal program was established to provide additional payment to children's hospitals for medical education (CHGME program)
- Hospitals need to shift resources from other uses to provide medical education



Source: As-filed cost reports (7 hospitals)

2. Health insurance premiums

- Costs to the consumer for health insurance continues to increase
- Average annual increase in healthcare insurance premiums from 2005 to 2008 has been
  - Single – 14.6%
  - Family – 17.6%
- Average annual increase in earnings from 2005 to 2007 was 4%

Portion of Annual Health Insurance Premiums Paid by Employee and Employer (2008)

	Hawaii		National	
	$	%	$	%
Single Coverage				
Employee Portion	$ 451	12%	$ 882	20%
Employer Portion	3,380	88%	3,504	80%
Total	$ 3,831		$ 4,386	
Total (2005)	$ 3,339		$ 3,991	
Family Coverage				
Employee Portion	$ 2,597	24%	$ 3,394	28%
Employer Portion	8,447	76%	8,904	72%
Total	$11,044		$12,298	
Total (2005)	$9,392		$10,728	

- Hawaii has the second lowest total premiums in the nation for single coverage and the third lowest for family coverage

Source: Kaiser Family Foundation, Agency for Healthcare Research and Quality (AHRQ), State of Hawaii Databook

3. Healthcare Landscape is Changing Rapidly

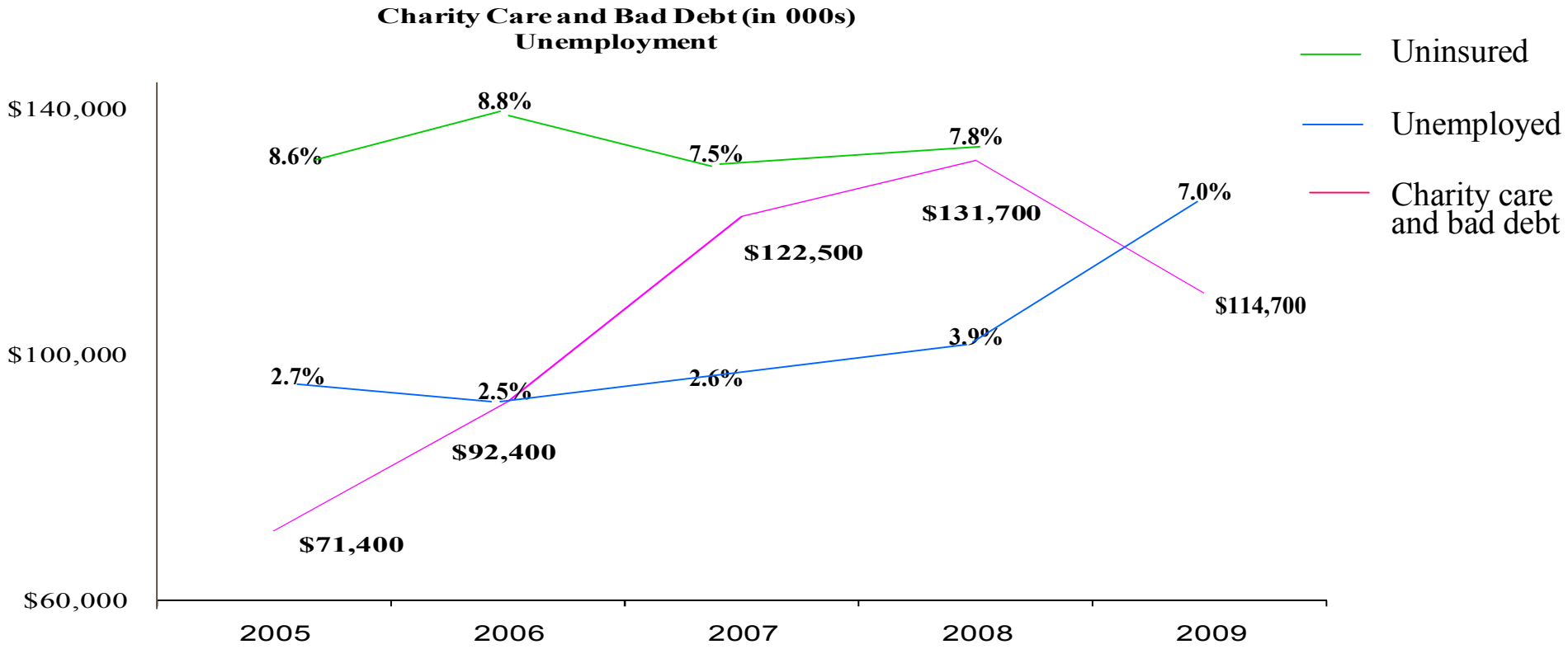
- Payment for services
  - As healthcare coverage increases, the federal government will gradually reduce Medicare DSH payments; this could mean less access to "DSH Like" funding for Hawaii
  - Hospitals could see a reduction of inpatient payments due to readmissions policies
  - Medicare market basket updates for inpatient, outpatient, rehabilitation, long-term care and psychiatric hospitals, home health and hospice may be reduced
- Coverage
  - Through a public option and/or insurance exchanges, there may be more coverage options created
  - The goal is to ultimately expand coverage to 97% of the population legally residing in the US

3. Healthcare Landscape is Changing Rapidly

- Access
  - As coverage increases and reimbursements decline, providers' access to capital will be more difficult
  - This could lead to challenges in reinvesting in infrastructure and equipment that could exacerbate capacity and access issues
- Regulatory issues
  - RAC audits will impact Medicare reimbursement and cash flow

3. Continued increase in free care

- Bad debt and charity care has increased and will continue to increase as unemployment increases and the number of uninsured increases
  - 12,100 more individuals lost their job and insurance in 2009 (as of October 2009)
  - Approximately 93,400 individuals do not have insurance coverage (October 2009)
- Full impact of the increase in unemployment is yet to be felt as the unemployed have health insurance under COBRA (assuming they can afford to pay for the insurance) and delay receiving care until it is urgent



Source: HHIC, State of Hawaii Databook, Honolulu Advertiser, Oct. 21, 2009 and US Census Bureau. 2008 unemployment is based on data benchmarked in March 2009

3. Reduced payments

- Reduced payments from commercial payors as a result of increased membership and continued pressures to reduce premiums
- Increased Medicaid/QUEST members which will continue to challenge the State budget and payments for Medicaid/QUEST members are already below cost
- Annual increase in Medicaid nursing facility payments eliminated – impact of approximately $200,000+ for a 120 bed facility
- Members in public insurance programs for which payment will be based on Medicare rates which are already below cost
- Medicare payments will decrease and are already below cost
  - Reductions in Medicare payments to generate savings to pay for healthcare reform
  - Reduced payments for readmissions
  - Bundling of services into one payment amount

3. Increased regulatory requirements

- Recovery Audit Contractors (RAC) audits
  - Demonstration project in 4 states resulted in over $400 million in hospital paybacks to Medicare
  - Impacts all providers of care to Medicare patients
    - Hospitals
    - Nursing facilities
    - Home and community based providers
    - Physicians
  - Requires significant resources of the providers to prepare for the audit and to appeal denials
  - Auditors have incentive to find denials
    - Payback of denied claims
    - Impacts on cash flow

3. Reduced capacity/access

- Credit crisis made access to capital more difficult and costly – higher interest rates on debt
- Debt covenants are stricter and more difficult to meet with the losses from patient services and decline in investment income
  - May result in default on covenants
  - Higher interest rates
- Capital needed for renovations and new equipment will be more costly and difficult to obtain
  - Older equipment will be used longer
  - Equipment will not be upgraded as frequently
  - Capital expenditures may receive lower priorities in budgets
- Incentives for development of infrastructure and continuum of care diminished
- Impact on capacity with aging population needing more services

3. Actions to address change

- Hawaii's hospitals continue to implement cost control and efficiency measures to improve their financial condition
  - Consolidation of services into fewer locations (i.e. closing of clinics)
  - Discontinuation or sale of unprofitable service lines while trying to maintain access to care
  - Reduced administrative office space and staff size
  - Sale of real property and other businesses not directly related to patient care to generate funds to reinvest in the provision of care
  - Deferred maintenance to facilities
  - Implementation of information systems (e.g., electronic medical records) costing more than $100,000,000 to improve efficiencies in operations
  - Implemented energy conservation projects
  - Use of more efficient and effective treatment methods to reduce the number of days a patient stays in the hospital
  - Standardized drug purchases to take advantage of volume discounts and the availability of generic drugs

4. Call to action

How can you help? Support HAH's legislative package!

Federal Issues – Priority

- Support a comprehensive health reform package that minimizes cuts to Medicare reimbursement, increases coverage options and competition in the insurance industry, addresses geographic variation so that Hawaii Medicare payments are on par with comparable locales
- Continue DSH payments and institutionalize DSH for Hawaii so that it is a regular part of Medicaid rather than an earmark
- Fund healthcare for low-income Compact of Freely Associated States (COFA) patients who live in Hawaii
- Support residency programs

4.Call to action

How can you help? Support HAH's legislative package!

State Issues – Priority

- Appropriate State funds to match federal DSH funds
- Require Medicaid to reimburse hospitals at the acute care services rate for patients who are waitlisted for long-term care
- Require Medicaid to reimburse long-term care facilities at the subacute level of care for patients with medically complex conditions who are waitlisted in the hospital
- Establish a Medicaid presumptive eligibility process for patients in acute hospitals who are waitlisted for long-term care
- Support the creation of a computerized system of Medicaid applications that is designated to reduce the time taken to process applications
- Ensure that Hawaii receives its fair share of funds for healthcare reform from the American Recovery and Reinvestment Act (ARRA), including the Health Information Exchange, and monitor the funds received to ensure that they are actually used for their intended purposes without replacing existing funding