



# Healthcare Association of Hawaii



## Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice Providers

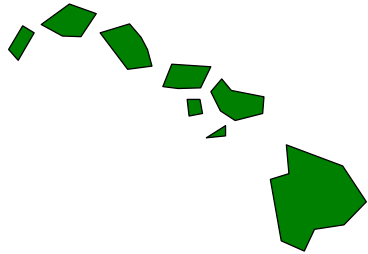
November 2006

Prepared using Data from  
 **Hawaii Health  
Information Corporation**

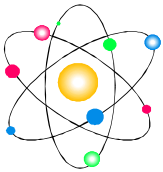
Prepared by  
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*Quality In Everything We Do*

# Healthcare Industry in Hawaii

Healthcare is the third largest employer of all private industries in Hawaii behind Accommodation and Food Services and Retail



Hawaii



Healthcare Industry

- Healthcare industry in Hawaii includes all aspects of healthcare including providers, pharmaceuticals, research, insurance plans, etc.



Health Services Sector

- A major part of the healthcare industry is the health services sector, which includes providers such as physicians, clinics, hospitals, nursing facilities, home care and hospice



Hospitals  
Nursing Facilities  
Home Care and Hospice

# Health Services in Hawaii

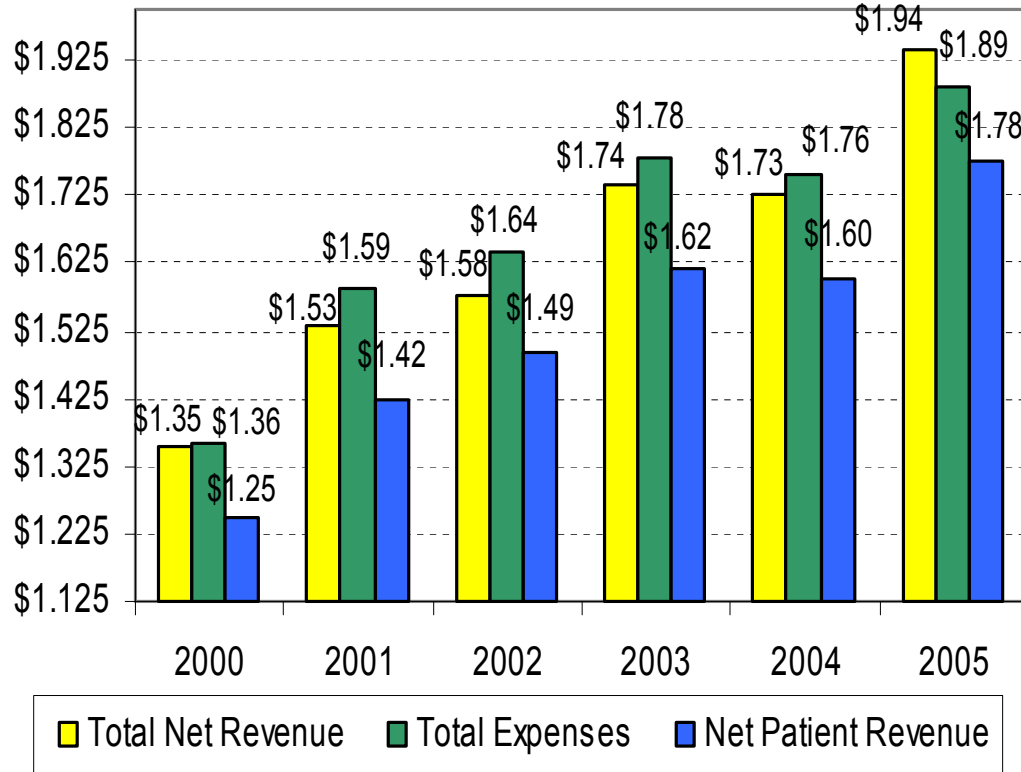
Healthcare is the fourth largest industry in Hawaii by Gross State Product behind Real Estate, Accommodation and Food Services and Retail

- Health care industry provided \$3,368,000,000 (\$3 billion) which represented 6.7% of the gross state product in 2004
- Health services sector is one of the larger employers of the healthcare industry and Hawaii's economy
  - Health services sector employed more than 41,700 out of a total workforce in Hawaii of 585,300 individuals in 2004 (7%)
  - Health services sector paid out more than \$1,800,000,000 (\$1.8 billion) out of \$20,596,784,000 (\$20.6 billion) in total wages in 2004 (8.7%)

# Hawaii Hospital Financial Data

Since payments received for services by Hawaii's hospitals do not cover expenses, hospitals are forced to rely on other sources of income, which is often not sufficient to provide for the operating losses

Hawaii Hospital Financial Data



- Hawaii hospital financial data shows that expenses exceeded net patient revenues since 2000
- Other income is needed in addition to net patient revenues to help cover expenses such as:
  - Operating income from cafeteria and parking which increases cost for workers and visitors
  - Nonoperating revenues including interest income which requires significant investments
  - Without the other income in 2005, losses from providing patient care was \$111 million

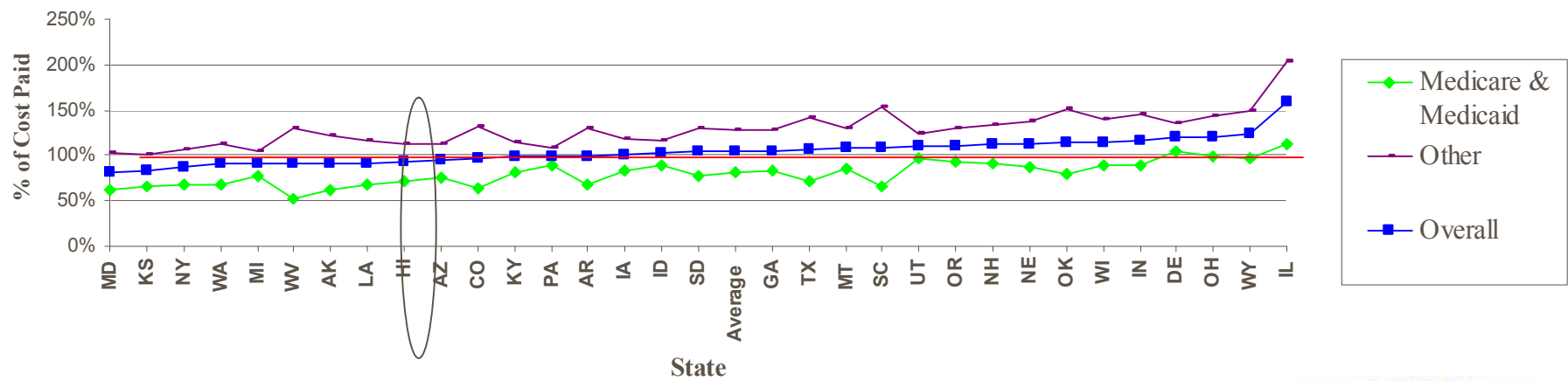
Source: American Hospital Association, 2007 Hospital Statistics

# Payments to Hawaii Hospitals

Government payments do not cover the cost to care for their patients

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (workers' comp, no-fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states, including Hawaii
- In many states, private insurance covers the shortfall from the government payors. In Hawaii, private insurance does not cover the shortfall, resulting in losses from operations

Percent of Costs Paid by State and Payor Categories (FY2005)

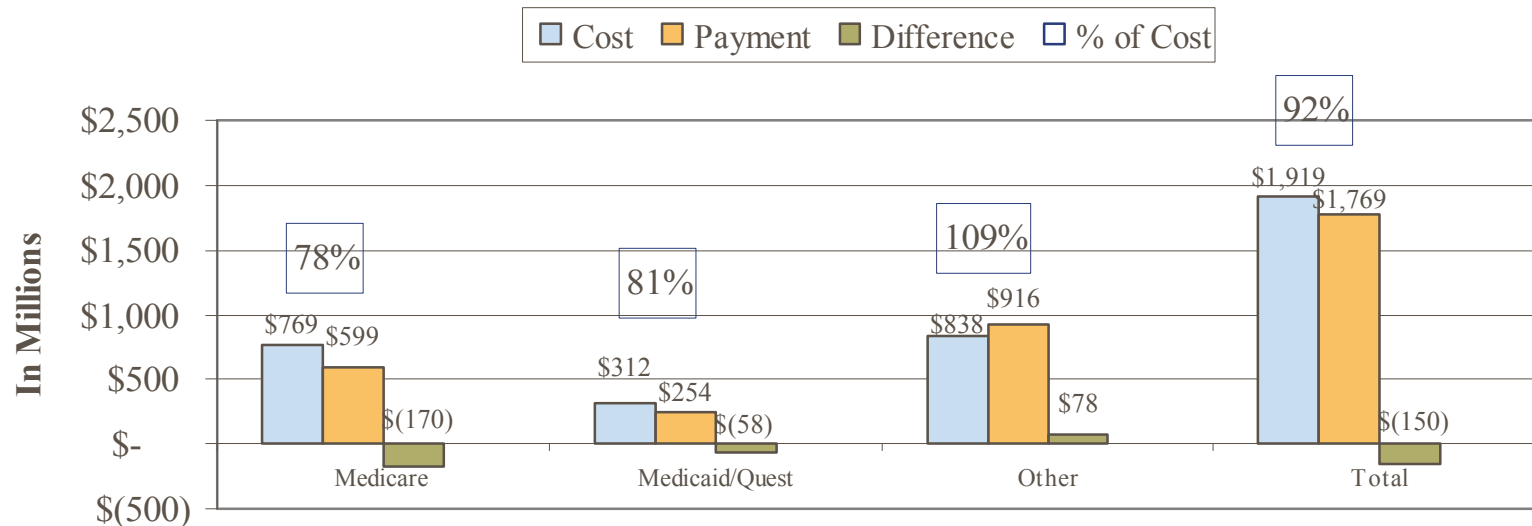


Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

# Payments to Hawaii Hospitals

Total costs for patient care in Hawaii's hospitals exceed payments received by \$150 million

Hawaii Hospital Cost and Payment by Payor Category (FY2006)



- Total cost for patient care for Medicare, Medicaid and QUEST is \$228,000,000 more than payments
- Private payors make up \$78,000,000 of the difference for total cost in excess of payment of \$150,000,000

Source: Hawaii DataBank Program, HHIC

# Significant Costs for Hawaii Hospitals

The cost of providing healthcare services is rising

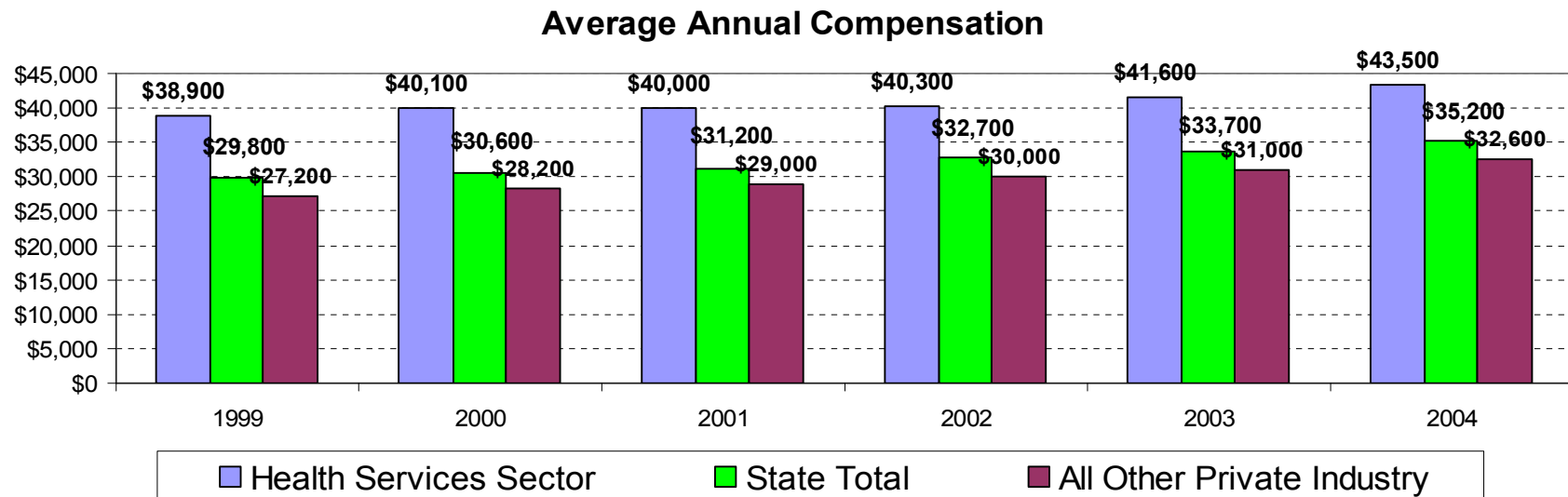
- Personnel expenses comprise approximately 47% of hospital expenses and benefits are approximately 16% of payroll costs
- Hawaii's healthcare providers serve the community through support of:
  - Medical education programs
  - Community programs
  - Provision of services regardless of ability to pay (Charity Care and Bad Debt)
- 24/7 availability of trauma care increases the cost as physicians and others need to be on call to provide care at any time
- Waitlisted patients utilize additional hospital services for which the hospitals receive lower payments
- Increasing drug costs have contributed to higher medical costs



# Health Services Wages in Hawaii

Health services sector provides its employees with a higher annual average compensation than the average for the State

- At \$43,500, the health services average annual wage is 33% higher than the average for all other private industries and 23% higher than the average for the State in total
- Staffing shortages have contributed to the increased average compensation



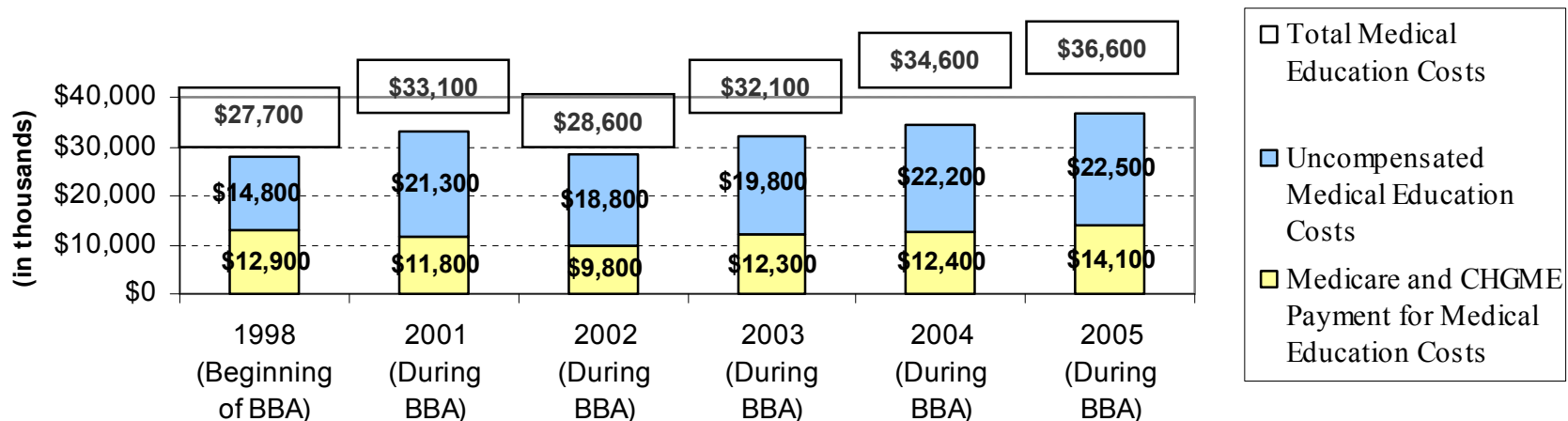


# Medical Education

The payment received does not cover the cost for training interns and residents

- Seven hospitals have teaching programs (interns and residents) to support the University of Hawaii's School of Medicine and medical research
- Medicare, the major source of payments for intern and resident programs, reduced payments due to the Balanced Budget Act (BBA)
- A federal program was established to provide additional payment to children's hospitals for medical education (CHGME program)
- Hospitals need to shift funds from other uses to provide medical education

**Medical Education in Hawaii**

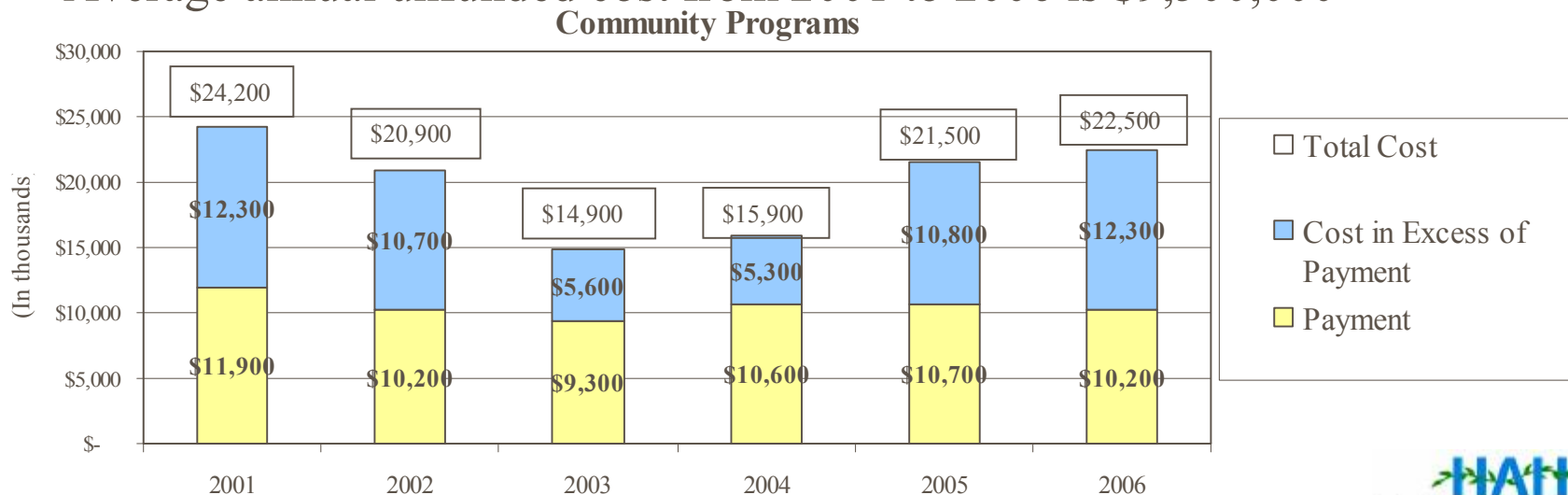


Source: Teaching hospitals as-filed cost reports

# Community Programs

Hospitals provide certain medical and social services with no or partial payment received

- Examples include alcohol and drug treatment, services for the elderly, programs on Hawaiian nutrition, programs for adolescents, school health programs, family planning programs, counseling services and outpatient clinics for the underserved and uninsured
- Medicare and Medicaid do not pay for these programs
- State and federal funds received through appropriations and grants are minimal
- Six year total program cost is \$119,900,000 with only \$62,900,000 received in payment. Total unfunded (net) cost is \$57,000,000
- Average annual unfunded cost from 2001 to 2006 is \$9,500,000



Source: Information provided by *five* hospitals and *two* nursing facilities

# Charity Care and Bad Debt

Hospitals, nursing facilities, home care and hospice providers render care to individuals regardless of ability to pay

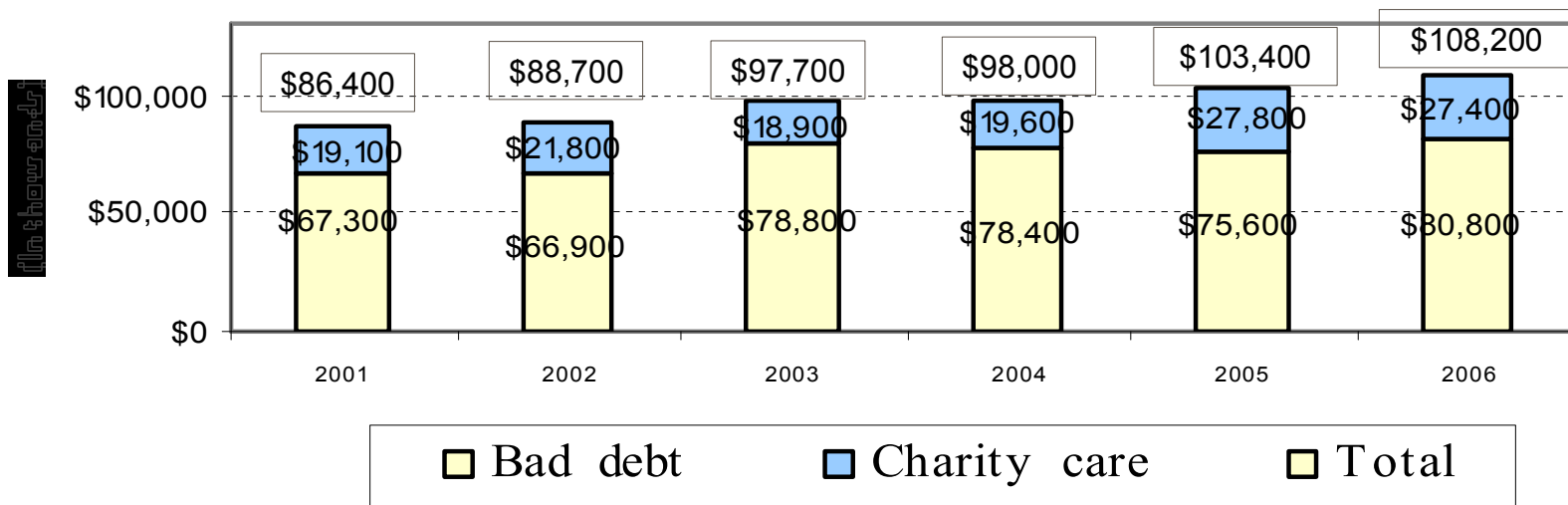
- Services provided to those without the ability to pay result in bad debt or charity care
  - Bad debt is incurred when the amount due from a patient cannot be collected (services are provided with partial or no payments received)
  - Charity care is incurred when the hospital never expected to collect payment from the patient (services are provided at no charge to patient)
- Despite a decreasing unemployment rate, bad debt and charity care have been increasing since 2001
- Not all that are employed are insured even with employer-based insurance

# Charity Care and Bad Debt

Total uncollected payments increased annually from 2001 to 2006

- Average annual charity care and bad debt from 2001 to 2006 is \$97,100,000
- Six year total is \$447,800,000 in bad debt and \$134,600,000 in charity care for total of \$582,400,000

Charity Care and Bad Debt



Source: Bad Debt and Charity Care information provided by 27 hospitals and 7 nursing facilities.

# Costs of Trauma Care

Trauma cost exceeded payment by \$29.5 million in FY2005

- Hospital staff is paid to be on call for trauma care (cost was \$6,200,000 in FY2005). There is no payment for this.
- Physicians, are paid to be on call for trauma care even when there are no trauma cases at the time (cost was \$11,800,000 in FY2005). There is no payment for this.
- Specialized trauma equipment and drugs must be purchased and maintained
- Specialized training must be provided to employees
- Payment for trauma services does not cover the cost of the patient care provided (excess of cost over payment is \$11,500,000 million in FY2005)

Source: As reported by 21 acute care facilities

# Waitlisted Patients

Patients who are 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 Medicare patients are provided care by the hospital without additional payments until they can be discharged
- Waitlisted Medicaid patients are provided care by the hospital, which is paid for additional days, but the payments still do not cover the costs
- Hospitals reported 65,659 waitlisted patient days in 2005 (equivalent of 180 patients daily)
- Statewide cost of waitlisted days was approximately \$110,000,000 in 2005

Source: HHIC

# Prescription Drugs

Prescription drug expenditures have increased

- Nationally, the amount spent on retail prescription drugs has increased an average of 8.3% each year from 1993-2005
- Prescription drug spending as a percent of total healthcare spending in Hawaii has almost doubled between 1993 and 2004 (6.0% and 11.6%, respectively).

<b>HAWAII</b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
Total Personal Healthcare Expenditures (PHCE) (in millions)	\$4,643	\$4,994	\$5,398	\$5,922	\$6,330
Prescription Drug Expenditures (PDE) (in millions)	\$429	\$486	\$549	\$615	\$733
% increase in PDE	13.2%	13.3%	13.0%	12.0%	19.2%
PDE as a % of PHCE	9.2%	9.7%	10.2%	10.4%	11.6%

Source: Kaiser Family Foundation, Prescription Drug Trends, June 2006 and Centers for Medicare and Medicaid (CMS) National Healthcare Expenditures



# Long Term Care, Home Care and Hospice

Long Term Care, Home Care and Hospice share some of the same issues as the hospitals

- Employee shortages
- Rising healthcare wages
- Increased pharmaceutical costs
- Government payment below cost
  - Projected payment rates for Medicaid, the major payor for nursing facilities, are approximately \$11.14 less per day than the nursing facility costs for an estimated total of \$11.2 million for Hawaii in 2006
  - Medicare, the major payor for home care, has not provided a full market basket update for inflation since implementing the Home Health Interim Payment System in 1998, with no increase in payment rates in 2006

Source: American Health Care Association, CMS

# Long Term Care

Nursing facilities are most significantly affected by changes to the Medicaid payment system

Factors specifically affecting Long Term Care in Hawaii include:

- Implementation of Act 294 for Medicaid
  - Payment based on patient acuity instead of type of facility (freestanding versus hospital based)
  - Financial impact has generally been a reduction in payment for the hospital-based nursing facilities and certain freestanding nursing facilities and an increase in payment to the majority of the freestanding facilities.
  - Full implementation is to be completed by 2008
  - Discontinuation of Medicaid payment for increased capital costs of new facilities
- Shortage of available beds

# Home Care, Hospice and DME

These service providers experience a variety of issues affecting their payment

Factors specifically affecting Home Care, Hospice and DME include:

- Mileage reimbursement (34% increase from 32.5¢ in 2000 up to 44.5¢ in 2006)
- The Medicare Payment Advisory Commission recommended that there not be any inflation increase in rates for 2007
- Hospice and Home Care services are not covered by Medicaid except on a demonstration project basis
- Medicare Part D hampers access to Home Infusion for patients with both Medicare and Medicaid eligibility
- Increased paperwork and administrative requirements by Medicare
- Medicare's new competitive acquisition process for DME will reduce payments to medical suppliers

Source: U.S. Government Services Administration, CMS

# Medicaid Impact

Medicaid payment issues have a significant impact on the state as Medicaid patients represent approximately 80% of nursing facility days and 27% of acute care days

- There are four major components or programs that could impact providers
  - Act 294, SLH 1998 (presented under Long Term Care)
  - Medicaid DSH
  - QUEST Expansion
  - State Children's Health Insurance Program (SCHIP)

## Medicaid DSH

- Prior to the implementation of QUEST, disproportionate share hospital (DSH) payments from Medicaid averaged \$34 million a year
- Hawaii and Tennessee are the only states that do not receive any DSH payments

Source: Federal Register, Hawaii State DataBank, HHIC

# Medicaid Impact

## SCHIP

- Program provides health benefits to uninsured children
- In 2005, there were 20,602 children enrolled in SCHIP in Hawaii
- In 2005, there were 17,310 uninsured (not enrolled in SCHIP or any other health plan) children (18 years and younger)
- Federal matching percentage for SCHIP is currently (FFY2007) 70.29% thus, for every dollar spent by the State, the Federal government pays for approximately 70 cents
- Each child enrolled in SCHIP reduces the uninsured population
- Uninsured tend to use expensive emergency room services and wait longer to obtain care resulting in higher charges that may lead to increases to bad debt and charity care
- SCHIP has not been approved by Congress past FY2007

Source: State Health Facts, Kaiser Family Foundation and CMS

# Medicaid Impact

## QUEST Expansion

- The QUEST Program (Medicaid managed care program) was implemented in 1994 for certain Medicaid beneficiaries
- The aged, blind and disabled (ABD) remain in the traditional fee-for-service (FFS) Medicaid program
- Medicaid has submitted its request to expand the QUEST Program for the ABD
- The providers would negotiate payment for services with the health plans just as is currently done for QUEST
- The impact on the providers has not been determined as it will depend on the negotiated payment with the health plans

# Who Pays For Healthcare

- Health insurance premiums have continued to increase

## Percentage Increase in Premiums

	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
HMSA	11%	8%	4.9%	3.8%	4.4%*
HMAA	7%	9%	6.0%	6.0%	
UHA	12%	-4%	6.4%	5.0%	
Kaiser	10%	12%	11.0%	3.0%	3.75%*

\* Proposed rate increases.

- Average annual increase in family health insurance premiums in the US from 2000 to 2006 was 10.6%
- Both Employees and Employers are paying for health insurance

## Portion of Annual Health Insurance Premiums Paid by Employee and Employer (2004)

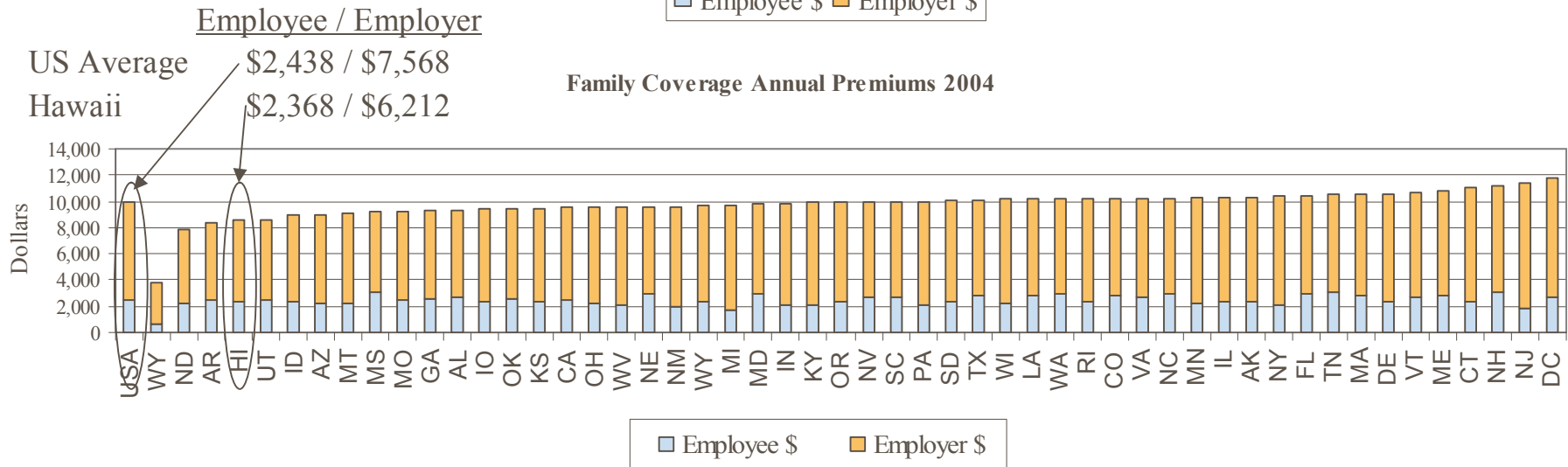
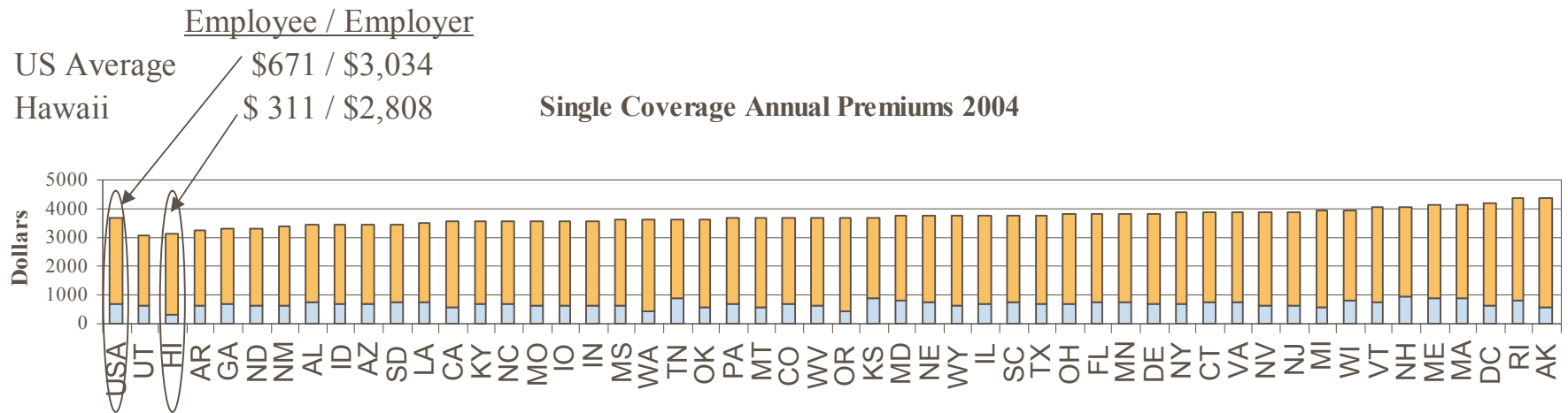
	<u>National</u>		<u>Hawaii</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
<b>Employee Portion</b>				
Single Coverage	\$671	18%	\$311	10%
Family Coverage	\$2,438	24%	\$2,368	28%
<b>Employer Portion</b>				
Single Coverage	\$3,034	82%	\$2,808	90%
Family Coverage	\$7,568	76%	\$6,212	72%

Source: Pacific Business News and Star Bulletin, Kaiser Family Foundation



# Who Pays for Healthcare

Hawaii's health insurance premiums are amongst the lowest in the nation



Source: State Health Facts, Kaiser Family Foundation

# Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice Providers

- Total costs exceeded payments for Hawaii's hospitals in 2006 by \$150,000,000 (\$150 million)
- Included in the costs are:
  - Medical education costs in excess of payments averaging \$19,900,000 per year
  - Community program costs in excess of payments averaging \$9,500,000 per year
  - Bad Debt and Charity Care averaging \$97,100,000 per year
  - Trauma costs for on call physicians and staff of \$18,000,000 in 2005
  - Trauma costs in excess of payments of \$11,500,000 in 2005
  - Cost of waitlisted patients of \$110,000,000 in 2005
- Hospitals, nursing facilities, home health and hospice providers also incur significant amounts to comply with the Health Insurance Portability and Accountability Act (HIPAA), Patient Safety requirements and other regulatory matters; and increases in salaries and drug costs
- Changes in Medicaid and QUEST will also impact the hospitals, nursing facilities and home health providers including the phase-in of Act 294 and expansion of QUEST to the ABD

# Factors Impacting Hawaii's Healthcare Providers

- Increases in premiums charged by health insurers do not necessarily translate into increased payments to providers
- Increases in rates charged by the facilities do not necessarily translate into increased patient revenues
- Payment amounts are fixed per day, discharge or visit. Provision of more services does not result in increased payment
- Private payors are also looking to control their costs to minimize increases in insurance premiums, which impacts the payments to the hospitals for services rendered

# Factors Impacting Hawaii's Healthcare Providers

- Although the healthcare providers have taken steps to control costs, certain cost increases are not within their control:
  - Increases in personnel costs due to contract negotiations and shortages
  - Increases in the cost of pharmaceuticals, medical supplies and medical equipment
  - General increases in malpractice insurance premiums
  - Increases in costs due to corporate compliance programs, HIPAA and other regulations
- Payments have been reduced by budget cuts in government programs such as Medicare and Medicaid

# Impact on Community and Industry

Financial losses may result in the following:

- Reduced access (resulting from services being limited or eliminated) to quality care
- Reductions in full-time equivalents and non-union salaries
- Reduced employee benefits including pension plans and retiree medical benefits
- Decreased bond ratings due to the poorer financial results which results in higher interest payments
- Reductions or limits in the amount provided for medical research
- Reductions or delays in capital expenditures (i.e., facilities maintenance and technology)

## Closing Remarks

Hawaii's residents expect to have continued access to quality healthcare.

Hawaii's healthcare providers are faced with reduced payments, increasing costs and the need to comply with mandates such as HIPAA.

If the financial condition of Hawaii's healthcare providers is not improved, Hawaii can expect that the "Perfect Storm" will hit the healthcare industry.