Healthcare Association of Hawaii

Healthcare Industry in Hawaii

- Hawaii is made up of several key industries
- Healthcare industry in Hawaii includes all aspects of healthcare - providers, pharmaceuticals, research, insurance plans, etc.
- Health services sector includes the providers such as physicians, clinics, hospitals and nursing facilities
Health Services in Hawaii

- Healthcare industry is the second largest private industry in Hawaii
- Health services sector is one of the largest employers of the healthcare industry and Hawaii’s economy

Percentage of Health Services Sector to Total Private Industry (2001)

Source: State of Hawaii Data Book
Health Services in Hawaii (cont’d)

- Health services sector accounts for approximately 7% of the gross product of the private industries

Health Services in Hawaii (cont’d)

- Health services sector accounts for approximately 12% of wages in private industry

Source: State of Hawaii Data Book
Health Services in Hawaii (cont’d)

- Health services sector accounts for approximately 9% of employment in private industry

Source: State of Hawaii Data Book
(Note: 2001 amounts were revised in the 2002 Data Book)
Health Services in Hawaii (cont’d)

- Health services sector provides its employees with a higher annual average compensation than the average for private industry in general and the average for the State.
- Health services sector pays on average almost 30% more than the State average.

Source: State of Hawaii Data Book
Hospitals and Nursing Facilities in Hawaii

- Hospitals and nursing facilities comprise a significant portion of the health services sector
  - Approximately 49% of employees
  - Approximately 41% of total wages
  - Approximately 58% of revenues

Source: State of Hawaii Data Book and Facility as-filed cost report data
Tax Contributions in Hawaii

State Income Taxes

- Based on the average income for hospital and nursing facility employees and the average state income tax percentage for a family of four with income of $50,000, the average state income taxes paid per employee is approximately $4,100
- Based on the number of hospital and nursing facility employees, the income taxes paid is approximately 3% to 4% of annual state income taxes collected

General Excise Taxes

- Based on the average expenses incurred by the hospitals and nursing facilities and the general excise tax rate of 4%, the average GET paid is approximately $40 million each year
- On an annual basis, the hospitals and nursing facilities pay approximately 3% of the GET collected by the State

Source: State of Hawaii Data Book and Facility as-filed cost report data
Projected Increase by Age Group

- Resident population of Hawaii increased by approximately 3% from 1996 to 2002
- Elderly population is growing at significantly higher rates
- Percent of Hawaii’s population that is 65+ is higher in Hawaii (13.6% in 2000) than nationally (12.4% in 2000)
- Average life expectancy in Hawaii is 78.21 years (75.37 for men and 81.26 for women) compared to 75.37 nationally and is the highest of all states

**Percentage Growth by Age Group**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2010</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-19</td>
<td>7.99%</td>
<td>2.54%</td>
<td>0.35%</td>
</tr>
<tr>
<td>20-64</td>
<td>1.86%</td>
<td>7.43%</td>
<td>14.67%</td>
</tr>
<tr>
<td>65-74</td>
<td>13.01%</td>
<td>56.33%</td>
<td>30.11%</td>
</tr>
<tr>
<td>75-84</td>
<td>14.67%</td>
<td>30.11%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Over 85</td>
<td>73.42%</td>
<td>24.63%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

Source: State of Hawaii Data Book and the Universal Healthcare Almanac
Utilization of Hospital Services

- Number of hospital admissions increased approximately 10% from 1996 to 2002
- Number of patient days increased by less than 1% from 1996 to 2002
- Average length of stay decreased from 6.26 in 1996 to 5.68 in 2002
- Based on 2000 data, over 20% of the discharges were paid by Medicare and over 15% were paid by Medicaid

Source: State Health Planning and Development Agency (SHPDA) and Hawaii Health Information Corporation (HHIC)
Utilization of Nursing Facility Services

- Number of nursing long term care admissions increased approximately 46% from 1996 to 2002
- Number of patient days increased by approximately 12% from 1996 to 2002
- Average length of stay decreased from 279 in 1996 to 215 in 2003
- Based on 2000 data, over 75% of the resident days were paid by Medicaid

Source: State Health Planning and Development Agency (SHPDA) and Hawaii Health Information Corporation (HHIC)
Utilization of Services

- Population age 65 and over accounts for over 43% of hospital discharges in Hawaii (exclusive of neonatology and obstetric and gynecological cases)
- Population age 75 and over accounts for over 27% of hospital discharges in Hawaii (exclusive of neonatology and obstetric and gynecological cases)
- Cases where those age 65 and over make up over 50% of the hospital discharges include cardiology/cardiac and neurology cases

Source: Hawaii Health Information Corporation (HHIC)
Utilization of Services (cont’d)

- Number of cases is increasing for the 46-64, 75-84 and 85+ age categories (exclusive of neonatology and obstetric and gynecological cases)

Discharges by Age Group in Hawaii

Source: Hawaii Health Information Corporation (HHIC)
Hawaii Hospital Financial Data

- Hawaii hospital financial data shows that expenses exceeded revenues beginning in 2000 with the gap between expenses and revenues growing.
- Other operating (cafeteria, parking, etc.) and nonoperating revenues (interest and investment income, etc.) are needed to help cover expenses.
- Personnel expenses comprise approximately 50% of hospital expenses and benefits are approximately 18% of payroll costs.

Source: American Hospital Association, 2002 Hospital Statistics and Facility as-filed cost report data.
Hawaii Nursing Facility Financial Data

- Hawaii nursing facility data shows that expenses exceed revenues
- Over 75% of the resident days are for Medicaid recipients

Source: HCIASachs, 2001 Guide to the Nursing Home Industry
Contributions to Community

- In addition to providing medical care, Hawaii’s hospitals and nursing facilities provide a significant service to the community through support of:
  - Medical education
  - Community programs
  - Provision of services regardless of ability to pay

- Majority of the costs for these programs are funded by the hospitals and nursing facilities
Medical Education

- Seven hospitals have teaching programs (interns and residents)
- Teaching programs support the School of Medicine and medical research
- Payment is received mainly from Medicare but has decreased due to the Balanced Budget Act (BBA)
- A federal program was established to provide additional payment to children’s hospitals

### Medical Education in Hawaii

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Costs</th>
<th>Estimated Medicare Payments</th>
<th>Difference of $24,125 based on $8,975</th>
<th>Difference of $20,159 based on $12,941^</th>
<th>Difference of $20,741 based on $7,891</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 (Beginning of BBA)</td>
<td>$27,696</td>
<td>$12,941</td>
<td>$14,755</td>
<td>$15,691</td>
<td>$19,891</td>
</tr>
<tr>
<td>2001 (During BBA)</td>
<td>$33,100</td>
<td>$8,975</td>
<td>$24,125</td>
<td>$20,159</td>
<td>$21,125</td>
</tr>
<tr>
<td>2002 (During BBA)</td>
<td>$28,632</td>
<td>$7,891</td>
<td>$20,741</td>
<td>$15,691</td>
<td>$19,891</td>
</tr>
</tbody>
</table>

^1998 payment amount used as BBA impact is reflected in the BBA impact amounts

Source: Hawaii Residency Program study, teaching hospitals and Facility as-filed cost report data
Community Programs

- Medicare and Medicaid do not pay for these programs
- State and federal funds received through appropriations and grants are minimal
- Six year total program costs is $125,600,000 with only $15,600,000 received in funding for total unfunded (net) costs of $110,000,000
- Average annual unfunded cost from 1998 to 2003 is $18,300,000
- 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Program Costs (in thousands)</th>
<th>Funding Received (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$1,500</td>
<td>$0</td>
</tr>
<tr>
<td>1999</td>
<td>$2,800</td>
<td>$2,000</td>
</tr>
<tr>
<td>2000</td>
<td>$3,200</td>
<td>$2,700</td>
</tr>
<tr>
<td>2001</td>
<td>$3,400</td>
<td>$2,000</td>
</tr>
<tr>
<td>2002</td>
<td>$2,700</td>
<td>$2,000</td>
</tr>
<tr>
<td>2003</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

Net Cost $15,000

Source: Information provided by six hospitals and two nursing facilities
Charity Care and Bad Debt

- Hawaii’s hospitals and nursing facilities provide services regardless of ability to pay resulting in bad debt expense and charity care.
- As the percentage of uninsured in Hawaii increases, bad debt and charity care increases.
- Medicare provides some payment for bad debt. Due to the Balanced Budget Act (BBA), that payment is decreasing.
- Unemployment rate in 2002 was 4.2% compared to 4.6% in 2001 and 4.3% in 2000.
Charity Care and Bad Debt (cont’d)

- Average annual charity care and bad debt from 1998 to 2003 is $79,380,000
- Six year total is $385,600,000 in bad debt and $90,700,000 in charity care for total of $476,300,000

Source: Information provided by 27 hospitals and 7 nursing facilities
Negative Payment Impact Due to BBA

- Medicare is a significant source of payment for hospital, outpatient and nursing facility services
- Impact of the BBA on Hawaii’s facilities is significant over the six year period from 1998 to 2003
- Impact will mean larger losses for certain facilities, smaller profits for others or will turn profits into losses for certain facilities
- Average annual BBA impact from 1998 to 2003 is $29,639,000 for Hawaii which is about 2% of total net patient revenues
- Payment reduction averages 10% per year for the six years based on the anticipated Medicare payment before BBA
- Amounts reflect the impact on 17 hospitals including the hospital-based skilled nursing units (approximately 90% of the total hospital beds) and 5 freestanding nursing facilities
Negative Payment Impact Due to BBA (cont’d)

- Total BBA impact over the six years is $177,836,000:
  - C&C of Honolulu - $153,575,000
  - Hawaii County - $13,349,000
  - Maui County - $6,208,000
  - Kauai County - $4,704,000

BBA Impact on Hawaii

Federal Payments in Hawaii

- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in Hawaii.
- Burden of the unreimbursed costs can no longer be shared with the private sector as insurers are also looking to reduce payments to providers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Medicare Payment per Discharge</th>
<th>Cost per Discharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 (Beginning of BBA)</td>
<td>$13,735</td>
<td>$13,365</td>
</tr>
<tr>
<td>2001 (During BBA)</td>
<td>$12,788</td>
<td>$9,902</td>
</tr>
</tbody>
</table>

1998 difference between cost and payment per discharge is $370
- 2001 difference between cost and payment is $2,886 which reflects the impact of BBA

Source: Facility as-filed cost report data
Medicare Payments in Hawaii

- Hawaii has one of the lowest per enrollee Medicare payments
- Medicare benefit payments in 2000 totaled $622,000,000
- National Medicare payment is 45% higher than Hawaii’s average payment per enrollee in 2000 and the differential has increased each year
- Differential is due to many factors including payment and utilization of services
- With 162,000 enrollees in Hawaii in 2000, the differential is approximately $281,556,000

Source: The Universal Healthcare Almanac
Medicaid Impact

- Currently, nursing facilities receive an amount per day based on 2 levels of care.
- The per day amount is based on the historical costs of the facility, subject to limits. Therefore, each facility has a different reimbursement amount.
- Each year the reimbursement rate generally increases by an inflation factor.
- Act 294, SLH 1998 requires the reimbursement to be based on the acuity of the resident.
- Instead of 2 levels of acuity, the number of levels could range from 34 to 44 based on the Medicare acuity system.
Medicaid Impact

- The anticipated financial impact will generally be a reduction in reimbursement for the hospital-based nursing facilities and certain freestanding nursing facilities and an increase in reimbursement to the majority of the freestanding facilities.

- To minimize the impact, a phase-in plan was developed
  - Hospital-based facilities will not receive the usual inflationary increase in their rates in fiscal years 2004 and 2005. Starting in fiscal year 2006, the hospital-based facilities would experience a decrease in their reimbursement rates from the current levels each year until at least 2009. The decreases range from approximately 1% to 10%.
  - Certain freestanding nursing facilities will also either not receive any increases to their rates in 2004 and 2005 or increases at lower levels than the remaining freestanding facilities from 2004 to at least 2009.
  - The rates for the majority of the freestanding facilities will increase each year until at least 2009. The increase ranges from 2% to 10%.
Medicaid Impact

- The total impact to the Medicaid budget is to be neutral.
- Assuming that the facilities would have received a 3.1% inflationary increase each year, the impact based on the rates that would have been in place and the phase-in rates using the current number of Medicaid days is:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freestanding</td>
<td>$1,900,000</td>
<td>$3,800,000</td>
<td>$7,400,000</td>
<td>$11,200,000</td>
<td>$15,200,000</td>
<td>$19,400,000</td>
</tr>
<tr>
<td>Hospital-based</td>
<td>(1,900,000)</td>
<td>(3,900,000)</td>
<td>(7,300,000)</td>
<td>(10,800,000)</td>
<td>(14,600,000)</td>
<td>(18,500,000)</td>
</tr>
</tbody>
</table>

- After 2009, the rate per day will be based on the acuity of the resident and the rate per acuity level will be the same for each nursing facility whether hospital-based or freestanding.
- The impact of Act 294 on the number of already limited nursing facility beds in Hawaii has not been determined.
  - The potential impact on the number of hospital-based nursing facility beds could be a reduction in those beds due to the lower reimbursement.
  - The higher freestanding reimbursement could encourage the addition of freestanding beds which has been limited due to the high cost and lower reimbursement.
**Summary of the Financial Impact on Hawaii’s Hospitals and Nursing Facilities**

- Unfunded costs* incurred by the hospitals and nursing facilities for community support average $113,700,000 each year
- Hospitals and nursing facilities will also incur significant costs to comply with the Health Insurance Portability and Accountability Act (HIPAA), Patient Safety requirements and other regulatory matters and increases in salaries

<table>
<thead>
<tr>
<th>Unfunded Costs *</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Education</td>
<td>$14,755,000</td>
<td>$14,755,000</td>
<td>$14,755,000</td>
<td>$20,159,000</td>
<td>$15,691,000</td>
<td>$15,691,000</td>
<td>$95,806,000</td>
</tr>
<tr>
<td>Community Programs</td>
<td>16,000,000</td>
<td>19,600,000</td>
<td>20,400,000</td>
<td>20,800,000</td>
<td>18,200,000</td>
<td>15,000,000</td>
<td>110,000,000</td>
</tr>
<tr>
<td>Bad Debt/Charity Care</td>
<td>52,100,000</td>
<td>64,100,000</td>
<td>95,300,000</td>
<td>86,000,000</td>
<td>88,700,000</td>
<td>90,100,000</td>
<td>476,300,000</td>
</tr>
<tr>
<td>Total</td>
<td>$82,855,000</td>
<td>$98,455,000</td>
<td>$130,455,000</td>
<td>$126,959,000</td>
<td>$122,591,000</td>
<td>$120,791,000</td>
<td>$682,106,000</td>
</tr>
</tbody>
</table>

- Average annual BBA impact from 1998 to 2003 is $29,639,000 for Hawaii which is about 2% of total net patient revenues
- Act 294, SLH 1998 for Medicaid long term care payment was implemented in 2003 which negatively impacts the hospital-based and certain freestanding nursing facilities and has a positive impact on the majority of the freestanding nursing facilities

1) These costs are still being determined as the programs are developed, however, the costs are anticipated to be significant
Summary of the Financial Impact on Hawaii’s Hospitals and Nursing Facilities (cont’d)

- Increases in premiums charged by health insurers does not necessarily translate into increased payments to providers
- Increases in rates charged by the facilities does not necessarily translate into increased patient revenues
- Increases in payments from non-government payors is not likely
- Although the hospitals and nursing facilities have taken steps to control costs, certain cost increases are not within the facility’s control:
  - Increases in personnel costs due to contract negotiations and shortages
  - Increases in the cost of pharmaceuticals and medical supplies
  - Increases in insurance premiums (especially after September 11)
  - Increases in costs due to corporate compliance programs, HIPAA and other regulations
- The total impact of the costs for medical education, community programs, bad debt/charity care and BBA impact on Medicare payments average $143,300,000 per year

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfunded Costs</td>
<td>$82,855,000</td>
<td>$98,455,000</td>
<td>$130,455,000</td>
<td>$126,959,000</td>
<td>$122,591,000</td>
<td>$120,791,000</td>
<td>$682,106,000</td>
</tr>
<tr>
<td>BBA Impact</td>
<td>14,390,000</td>
<td>27,863,000</td>
<td>32,288,000</td>
<td>35,008,000</td>
<td>34,163,000</td>
<td>34,124,000</td>
<td>$177,836,000</td>
</tr>
<tr>
<td>Total</td>
<td>$97,245,000</td>
<td>$126,318,000</td>
<td>$162,743,000</td>
<td>$161,967,000</td>
<td>$156,754,000</td>
<td>$154,915,000</td>
<td>$859,942,000</td>
</tr>
</tbody>
</table>

- Impact calculated includes BBA relief approved by Congress in November 1999 and December 2000
Implications

- Medicare is the main payor of hospital and outpatient services for the elderly
  - Medicare payments have decreased due to BBA
  - All Medicare prospective payment system (PPS) payment methodologies have been implemented

- Medicaid is the main payor of nursing facility services for the elderly
  - Medicaid nursing facility payment has changed due to Act 294
  - The impact on the number of beds that will be available has not been determined

- Elderly population is growing and will be a larger percentage of the population

- As the elderly population grows, more inpatient, outpatient and nursing facility services will be paid for by Medicare and Medicaid

- Medicare and Medicaid payment typically does not cover costs and both programs continue to look for ways to control payment amounts

- As costs increase, payments may not keep up resulting in lower payments and higher costs

- Under PPS, the payment amount is fixed. The provision of more services does not result in increased payment

- As the elderly utilize more services, the payments may not keep pace with the utilization levels required to maintain quality care

- Providers are also not able to obtain increased payments from other payors that are also looking to reduce their costs to minimize increases in insurance premiums
Impact on Community and Industry

- Reduced access to quality care
  - Closing of services, clinics, hospitals or nursing facilities
  - Increased use of emergency care which results in higher acuities and costs
  - Reduction or elimination of services or service sites (clinics)
  - Reduction or elimination of community programs

- Reductions in FTEs (BBA impact equates to over 600 FTEs) and salaries (BBA impact equates to 4% of total annual wages)
  - Reductions in state income taxes collected
  - Higher bad debt and charity care due to unemployment
  - Higher health insurance premiums for employers
  - Higher welfare and unemployment payments
  - Increased difficulty in attracting qualified employees and physicians
Impact on Community and Industry (cont’d)

- Reductions in operating/capital costs
  - Reductions in GET collected
  - Reductions in employment at suppliers, vendors, contractors, etc.
    - Reductions in state income taxes collected
    - Reductions in GET collected

- Decreased bond ratings due to the poorer financial results
  - Increased interest costs
  - Reduced access to funds

- Reductions or delays in capital expenditures (i.e., technology)

- Reductions or limits in the amount provided for medical research
  - Reduced ability to attract federal grants
  - Reduced incomes taxes and GET to state
  - Reduced funding for School of Medicine