Indiana Market Assessment & Drivers of Health Care Costs November, 2004

prepared for the

Health Insurance for Indiana Families Committee

This project is funded by a grant from the
Health Resources and Services Administration
U.S. Department of Health and Human Services

Indiana Hospital&Health Association

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December 2, 2004

To: Health Insurance for Indiana Families Committee

From: Allison D. Wharry, IHHA Director of Health Policy

Re: Report Response

The Indiana Hospital&Health Association appreciates the opportunity to comment on the analysis provided to the Health Insurance for Indiana Families Committee regarding "Factors That Drive Health Care Costs in Indiana."

Hospitals, both as care providers and as major employers, share your concerns about the impact of double-digit increases in health insurance premiums on individuals, employer-based health plans, and government programs. Last year, we commissioned PricewaterhouseCoopers to study cost drivers in Indiana health care spending. They quickly determined that there is insufficient public data in Indiana for a thorough diagnosis of the problem. Since the Centers for Medicare and Medicaid Services ceased its state-level analysis of health care expenditures by all payers with its 1998 report, there are no commensurate expenditure data available.

Your consultants also were hampered by this lack of primary source data. However, in the section on hospital care, they chose to use hospital expense data from the American Hospital Association's Annual Survey as a proxy for CMS data. We assert that to do so is inaccurate and to base expenditure assumptions on it is inappropriate.

The distinction between expenditures and expenses is not insignificant. Expenditures in the context of the CMS data represent the amounts paid for care, supplies, or services by all purchasers (i.e., Medicare, Medicaid, other government programs, private health insurance, and individuals). Expenses, from the AHA Annual Survey, represent what hospitals spend on employee compensation, supplies, equipment, and overhead costs such as liability insurance, physical plant, education, etc.

What hospitals are paid and what it costs them to provide services are entirely different matters. For example, Medicare and Medicaid payments in Indiana do not even cover hospital expenses.

Your consultants also project expenditures on hospitals for 2004 by assuming the annual growth rate reported by CMS between 1996 and 1998 continued, thereby suggesting that Hoosiers would be spending “substantially more” of their health care dollars on hospital care in 2004 than the national average. There is no basis for such an assumption presented, and the consultants’ national estimate of 37.8 percent in Table 3 varies significantly from CMS’ own projections of 35.8 percent.

Finally, the Indiana Hospital&Health Association is also concerned about the report’s use of bed number as an indicia of over capacity. Indiana does not license hospital beds like many other states or like nursing home bed in Indiana. The number of beds is a self-reported number by hospitals to the American Hospital Association. Because of the flexible nature of hospital beds today and the fact that beds are not licensed, the Indiana Hopital&Health Association does not use this number a s an accurate indicator of the number of hospital beds in Indiana for any sort of analysis.

We understand that new CMS data on health care expenditure is due out shortly. We ask that the Committee be empowered at that time to review the new updated and appropriate data (and any other necessary data) to help the State fully understand the dynamics driving spending on Hoosier health care.

The following reports were prepared by

MATHEMATICA
Policy Research, Inc.

Indiana's Health Care Sector and Insurance Market Summary Report

Indiana's Health Care Sector and Economy

Indiana's Health Insurance Market Final Report

Employer Sponsored Coverage in Indiana

Factor's That Drive Health Care Costs in Indiana

FOREWARD

Hoosiers and people around the United States are paying more for health care than ever before. Increases in health care premiums have left some Hoosiers without insurance, underinsured, or on the verge of losing coverage. Employers face double-digit increases in premiums. Rising health care costs undermine the ability of individuals, businesses, and the state to purchase health care coverage.

There are approximately 45 million uninsured Americans. In Indiana, the percentage of Hoosiers without coverage is lower than the national average. The Family and Social Services Administration (FSSA) telephone survey reached more than 10,000 people and showed an uninsured rate of 9.2%. National studies put Indiana's rate at 12.9%. This means more than 600,000 Indiana citizens do not have health insurance.

The face of the uninsured has changed. It includes mostly working families and larger numbers of the middle class. Being uninsured has a great impact on individuals, families, communities and the economic vitality of the state. People without health insurance often have poorer health status, which affects their ability to work. Lack of health insurance is one of the leading causes of personal bankruptcy. Uninsured patients often delay care ultimately receiving costly emergency room treatment. Safety net hospitals and other institutions created to provide care for the indigent are struggling.

With great concern for these issues, the Indiana Family and Social Services Administration (FSSA) competed for and was awarded a $1.1 million State Planning Grant from the Health Resources and Services Administration (HRSA) in July 2002. The grant provided Indiana the opportunity to study its uninsured population and develop viable policy options for providing access to affordable coverage.

The Indiana State Planning Grant work was guided by the Heath Insurance for Indiana Families committee, a bi-partisan group that included public and private officials, representatives from small and large businesses, insurers, physicians, hospitals, the Indiana University School of Medicine, safety net providers, and advocates that developed options to address the needs of uninsured Hoosiers.

State Planning Grant funds were used to support data collection to aid committee members in their deliberations. The data collected was unparalleled in its scope and depth in providing information on the uninsured and the Indiana health care system.

The following reports were received by the committee. The contents are not endorsed or recommended by the committee.

I. 10,000 Person Household Survey

Over 10,000 Indiana residents were surveyed between February and April 2003 to understand key characteristics of the uninsured. The survey identified who the uninsured

are, where they live, where they receive care, their age, race, employment and health status.

II. Focus Groups of Businesses, Uninsured, Brokers, and Providers

The purpose of the focus groups was to gain insight from those affected by this issue and to understand the local dynamics of how people access care or experience barriers. Forty-seven focus groups were conducted throughout the state with more than 350 individuals. The stakeholder groups included uninsured and underinsured individuals, physicians, hospital administrators, businesses, insurance brokers, and community group. They were asked about cost, the consequences of no coverage, what should be in a basic plan, and their experience with government health programs.

III. Assessment of Indiana Health Funding

This report attempts to catalogue the major funding sources, eligibility requirements, and restrictions on funding. It also examines Indiana's current financing mechanisms and outlines additional opportunities for leveraging federal dollars. The report lays out issues that must be considered in determining whether the options presented are feasible.

IV. Safety Net Assessment

This report is intended to broadly identify and assess the major providers of safety net services in Indiana. It reviews the availability of primary, specialty, mental health, hospital and dental health care services and their financing. The information in the report was derived, in part, from the results of a survey of the Indiana Step Ahead Councils, as well as from interviews with the Indiana Primary Health Care Association (IPHCA), the Rural Health Association, and others. The report also discusses the Indiana Medicaid program and its significance to safety net providers.

V. Assessment of National & State Efforts to Address the Uninsured

This report focuses on the variety of options most commonly used by other states to expand health coverage. The report examines public program expansions, health insurance market reforms and initiatives, tax-based reforms, community-based programs, and strengthening the safety net.

VI. Indiana Market Assessment and Drivers of Health Care Costs

This report examines Indiana's demographic and economic changes that have affected the affordability and structure of private health insurance. The report provides an overview of Indiana's health care sector, the economic impact of cost reduction, Indiana's health insurance market, employer coverage, and cost drivers.

VII. Indiana Market Assessment & Drivers of Health Care Costs

A. Indiana's Health Care Sector and Insurance Market: Summary Report

This report examines Indiana's demographic and economic changes that have affected the affordability and structure of private health insurance. The report provides an overview of Indiana's health care market place including its impact on the overall economy. The report compares Indiana to neighboring states and identifies cost drivers.

B. Indiana's Health Care Sector and Economy Report

Understanding the impacts of rising health care costs on the economy is important, but it can be difficult to measure. In this report, health care services are considered as a source of employment. Finally, this report includes two analyses: a simulation of the impacts of rising health care costs in Indiana, and estimation of the possible impact of greater insurance coverage on hospital uncompensated care.

C. Indiana's Health Insurance Market

This report reviews the literature on state regulation of the small group and individual health insurance markets and describes three types of small-group insurance regulation.

D. Employer Sponsored Coverage in Indiana

This report reviews coverage rates overall (including both private- and public-sector workers and their families), as well as rates of employer offer, eligibility and take up. This report considers aspects of employer-based coverage that have cost implications.

E. Factors That Drive Health Care Costs in Indiana

This report examines trends in health care spending in Indiana for various types of services, changes in service utilization and price data. Several factors that may drive cost increases are considered, including changes in demographics, health insurance, service supply, and population health status.

VIII. Actuarial Analysis of Policy Options

This analysis estimates the number of people eligible and enrolling in the program at various income eligibility levels up to 250 percent of the Federal Poverty Level (FPL). The report also estimates the cost of coverage under three alternative benefits packages. The actuarial analysis of alternative benefits packages addresses the selected expansions in eligibility, program costs under alternative benefits packages, minimizing crowd-out, the impact of premium contribution requirements, and buy-in.

ACKNOWLEDGMENTS

The final report of the Health Insurance for Indiana Families represents the work of many individuals who donated their time, expertise, and energy to oversee the data collection efforts and to develop policy recommendations. The committee and subcommittees met monthly for more than two years and their efforts are sincerely appreciated. Additionally, we would like to thank members of the FSSA Technical Assistance Group which included Kathy Moses, Kari Kritenbrink, Joe Shelton, Judy Tonk and Michelle Geller.

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http://www.in.gov/fssa/dfr/3021.htm