

# Greater Milwaukee Business Foundation on Health, Inc. GMBFH

## FOR MORE INFORMATION

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## Greater Milwaukee Business Foundation on Health study reveals area hospital commercial payment levels compare favorably with national index over last twelve years

Milwaukee – December 15, 2015 – The Greater Milwaukee Business Foundation on Health, Inc. (GMBFH), known for its research on the cost, efficiency and quality of healthcare in southeast Wisconsin, released the results of a study at a meeting of providers, insurers, business and community leaders today. The study revealed that from 2003 through 2014, the increase in average southeast Wisconsin hospital commercial payment levels was less than 50 percent of the rate of increase in the national Hospital Component of the Consumer Price Index (CPI).

The study, conducted by the consulting firm, Milliman, analyzed several key factors influencing southeast Wisconsin commercial payer hospital payment levels. The current study updates previous studies released in 2009, 2011, 2012 and 2014. All five studies examined the same factors and utilized the same methodologies to allow for a comparable analysis. The factors and highlights of the most recent study include:

- **Hospital Commercial Payment Comparison:** The average southeast Wisconsin hospital commercial payment levels increased approximately 45 percent (3.4 percent annually) from 2003 through 2014. This increase was less than half of the 93 percent total increase in the national Hospital Component of the CPI for the same period.

However, in 2014 (compared to 2013), the average southeast Wisconsin hospital commercial payment level increase of 6.5 percent was higher than the Hospital Component of the CPI of 5 percent for the first time since 2005, with five of the six health systems exceeding the increase in the Hospital Component of the CPI.

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The total increase in individual health system hospital commercial payments from 2003 through 2014 ranged from 18 percent to 80 percent. No area health system had an aggregate increase greater than the Hospital CPI from 2003 through 2014.

- **Hospital Operating Costs:** For the years 2003 through 2014, area hospital per-unit operating costs (the day-to-day expenses of running a hospital) increased at a substantially lower rate than national indices, particularly in recent years. The study found that average southeast Wisconsin hospital per-unit operating costs increased 18 percent from 2003 through 2014 – approximately 1.5 percent annually. This compares with increases in the Hospital Producer Price Index (PPI) and the CMS Hospital Market Basket of 39 and 52 percent, respectively, from 2003 through 2014.

From 2008 through 2014, southeast Wisconsin hospital per-unit operating costs have increased only one percent and per-unit costs actually decreased by 0.8 percent from 2013 to 2014.

From 2003 through 2014, every health system had aggregate per-unit hospital operating cost increases lower than the corresponding change in the CMS Hospital Market Basket index, while five of the six health systems had aggregate operating cost increases at or below the corresponding change in the Hospital PPI – one had an aggregate per-unit increase slightly above the 39 percent national Hospital PPI figure.

- **Hospital Cost Shift Burden Distribution:** The cost shift burdens (the difference between operating costs and payments including bad debts) from patients who are not covered by commercial insurance varied significantly among health systems – with one health system accounting for 41 percent of total southeast Wisconsin market burden, while two other health systems accounted for only six percent each of the total market burden.

The total southeast Wisconsin hospital governmental cost shift burden (Medicare and Medicaid) increased 18 percent from 2013 to 2014. Total governmental cost shift burdens exceeded \$1 billion in 2014. Governmental cost shift burdens accounted for 27 percent of the commercial cost for hospital services in 2014, compared to 24 percent of commercial hospital costs in 2013. The total southeast Wisconsin hospital non-governmental cost shift burdens (bad debt and charity care) decreased seven percent from 2013 to 2014. These cost shift burdens accounted for 9.4 percent of the commercial cost for hospital services in 2014, compared to 10.6 percent in 2013.

- **Health System Commercial Market Concentration:** Earlier studies found the average level of commercial market share concentration (the relative market share of the predominant health system in each zip code) generally increased from 2004-2007 and then declined, beginning in 2008 and continuing through 2012.

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This latest study found the average level of commercial market share concentration has essentially remained unchanged from 2012 to 2014. While the overall averages of commercial market share concentration showed modest changes over the study period, underlying market changes have been significant. The predominant health system in 41 percent of the zip codes experienced a market share reduction of at least 10 percent between 2003 and 2014, while predominant health system in only 17 percent of the zip codes experienced a market share increase of at least 10 percent during the same time period, suggesting a continuation of the increased levels of competition identified in the earlier studies.

“The results of study included a couple of interesting departures from previous studies we have done. 2014 was the first year since 2005 that the average southeast Wisconsin hospital commercial payment level increase was higher than the Hospital Component of the Consumer Price Index. Secondly, and maybe related, there was a significant increase in the governmental cost shift burden from 2013 to 2014 experienced by the area’s health systems, perhaps as a result of the implementation of the Affordable Care Act,” said Ron Dix the Foundation's executive director. “Time will tell if these are one year aberrations or the beginning of a trend,” added Dix.

#### **About the Greater Milwaukee Business Foundation on Health**

The Greater Milwaukee Business Foundation on Health is a private operating foundation created in 2002. The mission of GMBFH is to undertake studies, programs and activities which promote the general health of the persons residing in the greater Milwaukee area and advance their awareness of health and healthcare delivery issues. GMBFH is not a grant making foundation. Instead, it works collaboratively with established organizations to improve health and healthcare delivery in the greater Milwaukee area.

For more information about the foundation, its board of directors, past and current initiatives and copies of the complete reports, visit the website: [www.gmbfh.org](http://www.gmbfh.org).