

# **Greater Milwaukee Business Foundation on Health, Inc.**

## **The Cost Efficiency of Milwaukee's Healthcare 2001-2003 Executive Summary**

Consistent with its mission as a community-focused private operating foundation, the Greater Milwaukee Business Foundation On Health, Inc., (GMBFH) is committed to releasing periodic studies which analyze the costs and quality of health care delivered in our community and advance important community dialogue concerning relevant issues.

The primary objectives of the study are to:

- Identify actionable health conditions
- Compare provider efficiency
- Determine actions to manage costs and trends in the greater Milwaukee area

While our initial study released in February 2002 dealt with the cost of medical care only at the overall community level with no identification of specific providers of care, this study identifies specific providers of care at the individual hospital and related hospitals systems level. Although not individually identified, this report also includes a comparison of physician performance across the community.

Given the adjustments for severity of care at both the hospital and physician level and the use of episodes of care analysis at the physician level, we feel it is appropriate to classify this study as a measurement of cost efficiency rather than simply cost.

We do want to acknowledge the lack of outcome or quality measures in the overall analysis. As these become more available and better able to be combined with medical claims data, we will include them in our future studies.

GMBFH engaged both Mercer Human Resource Consulting and Milliman to provide the technical analysis of the \$3 billion in medical claims data collected for 2001- 2003 specific to 326,000 members. The data was voluntarily submitted by ten major health plans/claims administrators serving self-funded and insured employers in Milwaukee, Ozaukee, Waukesha and Washington counties.

We believe this is the largest, single, voluntarily collected database ever assembled in the state of Wisconsin.

### **Summary of Important Learnings**

- The study indicates that Milwaukee's cost for medical services after provider-negotiated discounts continues to be higher than other Midwest metropolitan areas, specifically, 27% more in 2003. This is down from the 31% in 2000 that was highlighted in our first study.

It should be noted that the 55% higher cost in Milwaukee continually cited by the media when referencing our previous report included the following additional cost drivers which are not comparable from city to city: total demographics, benefit plan design, morbidity/severity, large claims distribution and utilization. With the addition of these same cost drivers, the 2003 comparable is 39%.

The trend of Milwaukee's health care cost increase was less than other Midwest metropolitan areas during 2001, 2002 and 2003. Although this is encouraging, this does not mean that the current level of concern over health care cost should diminish. Without continuous pressure, either prices will rise or future efficiencies will not benefit the purchasers of healthcare whether they are individuals, employers or government entities.

- The importance of having significant data available for analytical purposes in one centralized repository, whether for public reporting or private improvement initiatives, cannot be overstated. Ad hoc collection and standardization of this information on a voluntary basis is difficult, costly and subject to uncontrollable time delays. Although the amount of data we collected was sufficient for making meaningful comparisons at the individual hospital level, even more data is necessary to allow for comparisons at the individual level across a majority of the practicing physicians in our community.
- The timeliness of data for analytic purposes is critical. The comparisons of performance portrayed are specific to 2003 and should not be acted upon without recognition that influencing factors could yield a differing result if similar data for 2004 were available. Although not as timely as we would prefer, the presentation of what is known specific to this time period should not be downplayed or disparaged because it advances the discussion of what is needed for future analysis.
- The comparison of hospital cost efficiency is based upon several adjustments including severity of case mix, allowed or negotiated amounts versus billed charges, avoidable hospital days, and a cost shift burden. We believe this is the first report in Wisconsin that compares hospitals and their systems side by side based on allowed or negotiated fees rather than on charges.

The implications of these cumulative adjustments are profound, but vary significantly depending upon whether they are viewed from the perspective of individual purchasers of healthcare versus that of the community as a whole.

- The cost efficiency of primary and specialty care physicians across the community varies as much as 60% after adjustment for case mix severity. Improved performance by those physicians that have an efficiency rating 20% less than the Milwaukee community norm results in an opportunity to reduce the profiled costs by 5.1%.

- The community will be best served in the future by health care studies that can integrate medical claims cost information and corresponding medical outcomes or other quality measures, as well as, patient satisfaction. The most useful provider comparisons will be based on measuring healthcare value, which is a function of negotiated cost, quality/outcome, and patient satisfaction.
- The following disease conditions that can be impacted by care management programs have either a higher cost or higher frequency in Milwaukee when compared to other communities: coronary heart disease, diabetes, lower back pain, and obesity. This is not unexpected, but again reinforces the need for a concerted, community approach rather than independent actions by individual employers and provider entities.
- Since all providers of care are likely to be affected by certain systemic issues such as the aging population and new technology that will tend to cause prices to trend higher, “coopetition” (cooperating on the following while continuing to compete on price) in the following areas might have salutary effects on Milwaukee’s higher prices:
  1. Improve the training, supply and productivity of the area healthcare workforce
  2. Improve the adequacy, accessibility and efficacy of primary care
  3. Improve the cost-efficacy of care through improved health informatics, quality and safety initiatives
  4. Reduce the burden of preventable chronic and acute illness and injury (e.g., tobacco, overweight, injury, low birth weight)
  5. Improve the sharing of expensive or redundant resources (e.g., Inland Empire, WA)
  6. Improve the cost-efficacy of physician practice in high-cost, high-volume, high variability areas of practice
  7. Reduce unneeded administrative and marketing costs (claims and billing simplification, as well as, image and luxury marketing)
- Some hospital and ambulatory providers shoulder a substantially higher burden of under- or un-reimbursed care for low-income families. They could reduce costs by changing their case mix or payor mix, but at the expense of reducing the care of the sick and the poor in our community. A community-wide strategy is needed to permit these organizations to remain competitive without reducing care to the neediest. Some alternatives might include:
  1. Markedly increase payment for the care of the medically indigent (Medicaid, GAMP, uninsured). This does not appear feasible in the short term.

2. Through legislative changes implement an Equalization Tax to account for the disparity in the indigent/charity care and Medicaid burden; or
3. Relieve the current healthcare providers of the responsibility to care for the medically indigent. This would presumably involve developing new, publicly funded hospitals and clinics for the medically indigent.

### **Conclusion**

We encourage the provider, business, and policy-making communities, as well as the residents in the greater Milwaukee metropolitan area to consider the implications of the various learnings contained in this report.

The foremost of these is acknowledging that Milwaukee's healthcare costs continue to be higher than other midwestern metropolitan areas and a concerted effort is needed to correct this. The second is that government health care programs need to pay their fair share. Third, the disparity in the indigent/charity care and Medicaid cost shift burden must be addressed. Fourth, a public-private voluntary centralized repository of health care data including cost, quality/outcomes and patient satisfaction measures must be supported. Fifth, we must address preventable health issues negatively affecting our community. Finally, options for greater cooperation for more effective and efficient care should be explored by the provider community.

By learning and acting together, we can improve the health of our citizenry and create the continually affordable, high quality healthcare our community needs and deserves.