

## NEWS RELEASE

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**FOR MORE INFORMATION**

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### **Business Foundation Identifies Factors Leading to Milwaukee's High Health Care Costs**

Milwaukee, WI...The Greater Milwaukee Business Foundation on Health, Inc. (GMBFH), known for its research on the cost, efficiency and quality of health care in the greater Milwaukee area, has released the results of its latest study concerning factors likely contributing to Milwaukee's high health care costs at a meeting on Wednesday in Brookfield with area providers, employers, other payers, business leaders and government officials. In addition, GMBFH offered specific recommendations to the attendees with the request that they work with each other and others in the broader community to collaboratively address the problem.

According to Jim Wrocklage, GMBFH's executive director, "The foundation initially asked Milliman to compare 2003 commercial hospital inpatient payment rates in Milwaukee to those of hospitals in eight other Midwestern cities, St. Louis, Cincinnati, Cleveland, Minneapolis, Kansas City, Detroit, Chicago and Indianapolis. The

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comparison indicated that average payment rates were higher in Milwaukee than in seven of eight of the comparison cities. In two cases, it was about 40% higher. Given Milwaukee's high cost position, the foundation then engaged Milliman to compare elements of the health care environment in three cities, St. Louis, Cincinnati and Detroit, to learn more about causes for Milwaukee's higher payment rates. These three cities experienced substantially lower inpatient costs than Milwaukee, and comparable health care and economic environmental information was available."

"The real story is not that Milwaukee inpatient hospital costs are high. Several other studies have already identified this problem. The real story is that we're starting to understand the causes," said Clark Slipher, the study's co-author and a consulting actuary at Milliman.

Milliman concluded there was no single factor substantially responsible for Milwaukee's higher inpatient hospital costs. The study identified that Milwaukee's relative cost position was predominantly the result of the *interaction and balance* of five factors which resulted in stronger upward price pressure from hospitals and less downward price pressure from health plans and other commercial purchasers (payers) in Milwaukee than was present in the other study markets.

The five identified factors in no priority of order were:

- Payer Market Concentration – Milwaukee's payers generally had smaller market shares (and likely less price negotiation leverage) than found in most of the study cities.

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- Hospital Risk Sharing – Payer contracts with hospitals in Milwaukee were more likely to shift risk for certain types of hospital operating cost increases to payers than in other cities.
- Hospital Operating Costs – Per unit hospital operating costs in Milwaukee were 14 to 26 percent higher, even after adjustment for wage rate differences among the other cities.
- Provider Configuration – Milwaukee’s provider systems tended to be more geographically concentrated than in the other study cities. Milwaukee tertiary hospital market shares were more widely distributed among all hospital systems than in the other cities.
- Governmental Cost Shift Burden – Milwaukee’s largest health systems had a greater burden for governmental payment shortfalls than the largest systems in other cities.

The balance of these factors in the comparison markets resulted in lower average inpatient hospital payment levels than in Milwaukee. Foundation officials believe that the identified factors in this study are likely to apply to outpatient hospital settings as well.

GMBFH recommends that the following actions be taken to reduce Milwaukee’s health costs to levels consistent with the lower cost Midwest cities by engaging all of the parties in the dialogue.

- Aggregation of Purchasing Power - Milwaukee area employers, payers and governmental entities take the steps necessary to increase their aggregate purchasing power.
- Redistribute Risk for Hospital Operating Cost Increases - Milwaukee area hospitals and other providers accept fixed price contracts that place the providers at risk for increases in operating costs, similar to the contracts in the low cost markets.

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- Reduce Hospital Operating Cost - Milwaukee area hospitals commit to verifiable reduction of per-unit operating costs to a level equal to the average of Midwest cities within three years and to the lowest quartile of Midwest cities within five years with a corresponding reduction of commercial fees.
- Increase Competition for Non-Tertiary Health Services - Competition among all health systems for regularly, utilized health care services including primary care physician visits, routine diagnostics and non-tertiary hospital services should be encouraged, particularly in those areas of the market with limited choices among health systems. However, GMBFH does not endorse increased competition for all hospital services. It opposes further expansion of lower volume, tertiary services to more hospitals within the Milwaukee area. GMBFH also encourages each Milwaukee area health system to evaluate the cost savings that would result from consolidation or closure of the tertiary programs that operate at volumes less than community averages.
- Equalization of Cost Shift Burdens - Payers, providers and government units, if necessary, must develop meaningful methods to more equally distribute the financial burden associated with governmental payment deficits and/or the delivery of care to the uninsured and indigent populations in our community.

Jim Wrocklage emphasized that the foundation board believes this study helps identify that Milwaukee's relatively high health care costs are associated with an interrelated, self-reinforcing set of factors. "No single 'magic bullet' solution exists, nor can any single entity act alone effectively to resolve the vicious cycle of escalating costs. Individual, rational actions of the various health care constituencies in this setting are more likely to perpetuate than resolve these issues. Therefore, a collaborative response across the region is needed," Wrocklage concluded.

To that end, GMBFH will be hosting collaborative meetings with providers, employers, health plans, government units and other interested parties on Wednesday,

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July 12<sup>th</sup> and Tuesday, July 25<sup>th</sup>. Inquiries should be directed to Jim Wrocklage at 262-893-8997 or [gmbfhinc@aol.com](mailto:gmbfhinc@aol.com).

Also at the meeting, a study the foundation commissioned on physician costs specific to four medical specialties was presented by Merton D. Finkler, professor of economics at Lawrence University, Appleton. It showed these costs to be higher than all of the other cities in the study as well.

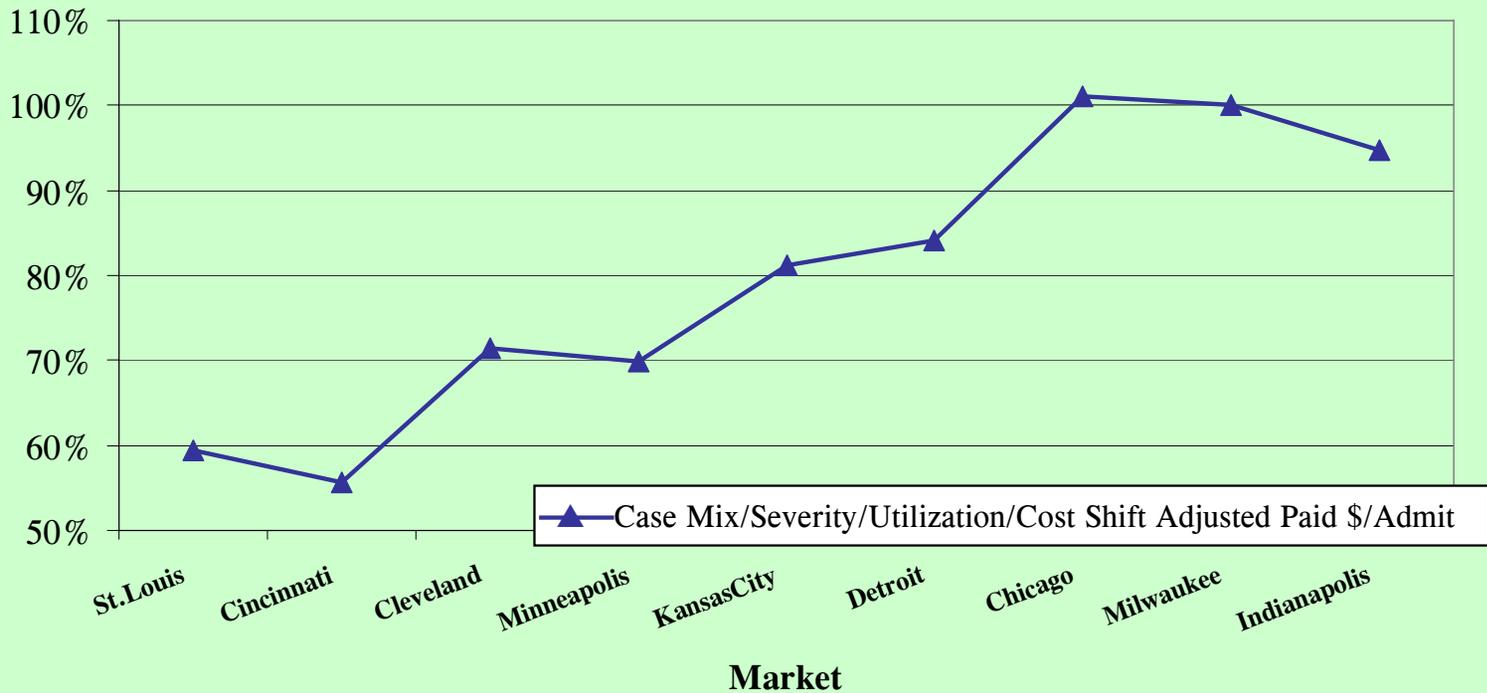
“The impact of continued high health care costs could have a devastating effect on future economic development in southeastern Wisconsin,” Wrocklage said.

The Greater Milwaukee Business Foundation on Health, Inc., was created as a private operating foundation in 2002. Its mission is to undertake studies, programs and activities that promote the general health of the greater Milwaukee community by advancing awareness of health and health care delivery issues affecting them. More information about the foundation, the board of directors, past and current initiatives and a copy of Milliman’s complete report to the foundation, *Factors Contributing to Higher Hospital Inpatient Payment Levels in Milwaukee*, can be found on its Web site:

[www.gmbfh.org](http://www.gmbfh.org).

# Hospital Inpatient Payment Comparison

2003 Case Mix, Severity, Utilization and Cost Shift Adjusted (Paid)



This graph contains information included in Milliman's report to the Greater Milwaukee Business Foundation on Health dated April 26, 2006. Please refer to the full report for a description of study methods, assumptions and limitations.