

Statement of The Hospital & Healthsystem Association of Pennsylvania

Senate Majority Policy Committee

Presented by
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Chairman Corman and members of the Committee, I am Carolyn F. Scanlan, President and Chief Executive Officer of The Hospital & Healthsystem Association of Pennsylvania (HAP). HAP represents and advocates for the more than 250 acute and specialty care hospitals and health systems in the commonwealth, as well as for the patients and communities they serve. I appreciate the invitation to present the hospital community's views on health care costs.

As this hearing is occurring during *Cover the Uninsured Week* (April 27–May 3), hospitals are pleased to be part of a discussion on what can be done to extend health care coverage to uninsured Pennsylvanians. Hospitals have a long history of supporting improved access to appropriate and necessary health care, and provide care for anyone who walks through our doors, regardless of coverage. Hospitals are constantly working to meet the access challenges that Pennsylvanians have through different health care options.

HAP's testimony examines the following issues:

- Overview of hospitals in Pennsylvania.
- What drives health care and insurance costs.
- Access to health care.
- Ensuring openness and accountability.
- What should be done.

Overview of Hospitals in Pennsylvania

There are 255 licensed hospitals in Pennsylvania that:

- Admitted more than 1.8 million people; treated nearly 36 million people in an outpatient setting; and evaluated 5.6 million people in their emergency departments.

- Provided nearly 275,000 full- and part-time jobs, and a payroll exceeding \$11.0 billion, and

contributed to the economic vitality of their communities, in that they created more than 274,000 additional jobs statewide and \$9.9 billion in additional wages.

- Health care and related jobs comprise a growing percentage of the state's total employment, representing 15 percent in 2007, as compared to manufacturing which was 11.7 percent.

- Contributed \$71 billion to the state's economy (total annual direct and ripple effect).

Pennsylvania hospitals have worked to ensure appropriate utilization of the health care delivery system. As

a result, acute care bed capacity has declined 10 percent (1997-2006). According to the Pennsylvania

Department of Health:

- The number of licensed acute hospitals has declined 18 percent since 1997, while the number of specialty, non-acute hospitals has increased 20 percent.
- Acute care hospital patient days have declined 4 percent, and acute care lengths of stay have declined 11 percent. In contrast, outpatient visits have increased 29 percent, and outpatient surgeries have increased 4 percent (1997-2006).
- Hospital spending as a percentage of total personal health care spending, in Pennsylvania, has declined during the past ten years—the hospital portion of the health care dollar now stands at 36 percent, as compared to 43 percent during 1995.
- Pennsylvania hospitals and health systems have experienced increased costs (such as pharmaceuticals, technology, workforce, and medical liability) during the last ten years, resulting in greater rates of growth in operating expenses from a 1.9 percent increase during 1996-97 to 7.7 percent growth in 2005-06.
- In 2007, almost one-fourth of Pennsylvania hospitals still had a negative total margin, and 52 hospitals had a negative operating margin. Over a three-year period, the majority of Pennsylvania hospitals still remain at or below the margin (4-6 %) that economists view as the minimum level to assure ongoing financial stability. A disproportionate number of the hospitals with operating losses were small, community hospitals serving rural areas.
- Uncompensated care in Pennsylvania continues to grow, reaching \$678 million in 2007, which is a 12.2 percent increase from fiscal year 2006.

Pennsylvania's hospitals continue to face many challenges, including:

- Recruitment of new physicians and other health care professionals.
- Accessing adequate capital resources to make improvements to aging physical plants or to initiate new construction.
- Enhancing health information technology and systems to improve care.
- Purchasing the technology needed to improve or establish clinical and patient safety initiatives.

What Drives Health Care and Insurance Costs?

The acceleration in health insurance premiums and health care costs can be attributed to a number of factors. First and foremost, increases in health care costs are not always the driver in increasing health insurance premiums, and both areas need to be examined. Also, while the following list is not exhaustive, it provides a sense of the complexity of the problems. Additionally, some cost factors can be viewed as having a traditional or historic effect on costs, some can be seen as relatively new contributors, and some are taking on a more prominent role in underlying health insurance cost trends. These factors represent a national perspective; as a result, Pennsylvania's health care system may be influenced in different ways.

- General price inflation.
- New, expensive medical technology, and the demand from consumers that technology be used for treatment and diagnostic purposes.
- Pharmaceutical costs related to research, marketing, and utilization of newer and potentially more effective drugs;
- Demographic changes witnessed by an aging population.
- Heightened pressure from consumers demanding choice in the health care and health insurance marketplace.
- Cost-shifting from government payers to private payers.
- Litigation and risk management.
- Government mandates and regulations.

Clearly, an aging population, both nationally and in Pennsylvania, along with advancements in the pharmaceutical industry and medical technology arena, could be considered to be relatively recent contributors to the overall cost of health care, and thus, health insurance. It is difficult to imagine a set of policies that state lawmakers could develop that would keep people from growing older or forcing medical researchers from developing the latest advancements in diagnostic equipment or life-saving drugs. Consumers have come to expect improvements in health care and these advancements come with a cost.

It also should be noted that when government payers—Medicare and Medicaid—do not fully pay for the cost of care, these costs cannot be eliminated and are shifted to other payers. We have to be careful not to

establish additional programs that provide a broad range of benefits but underfund that care, which will only further exacerbate the cost shift to the private sector.

Access to Health Care

Pennsylvania faces the potential for a significant shortage of physicians. Physician workforce levels in Pennsylvania are not nearly sufficient to meet the increase in demand for physician services that will result from our aging population.

Thus, Pennsylvanians increasingly face challenges to access to health care services:

- Too many individuals, especially low income families, lack access to a primary care physician.
- Hospital emergency department care is costly and episodic.
- Access to primary care during non-traditional office hours is too limited.
- Health care needs to begin with increased prevention and wellness services.

According to The Association of American Medical Colleges, Pennsylvania ranks 33 among the 50 states in retaining physicians who completed their graduate medical education in the state and then remain practicing in the state. In addition, one of every five physicians in active practice in Pennsylvania is under the age of 40, and almost one of every four physicians in active practice is over the age of 60 years.

The Pennsylvania Department of Health Special Report on the Characteristics of the Physician and Physician Assistant Population in Pennsylvania is based on questions physicians must answer to obtain license renewal. The response rate is more than 96 percent. The data showed that the number of physicians engaged in direct patient care fell from 26,328 to 24,696, a decline of 6.2 percent, between 2004 and 2006, and that the average age of physicians engaged in direct patient care is 49.3 years of age, up from 48.7 during 2004.

Hospitals are the safety net for the under-insured and uninsured, providing care for anyone who walks through their doors, regardless of coverage. They are constantly working to meet the access challenges through different health care options. Hospitals believe that the goal of extending coverage is critical for patients who deserve the right care, in the right setting, at the right time. But availability of practitioners and services can limit access to care, just as lack of health coverage does. Our focus is on meeting the diverse needs of the adult uninsured population through a coverage program that is fiscally sustainable for the commonwealth, and which affords access to practitioners and needed health care services.

Pennsylvanians enjoy one of the highest rates of persons with health insurance in the country. Over the years, steps have been taken by the General Assembly to provide coverage to 1.9 million persons under the Medical Assistance program, over 170,000 children through the state's Children's Health Insurance Program (CHIP), and another 55,000 individuals through the adultBasic program, established under the state's tobacco settlement plan. Pennsylvania hospitals and health systems have supported all of these initiatives.

Taking the next step is significant, with many complex considerations. Stakeholders in this process want to be sure that lawmakers have been thorough in their analysis of all plans, are realistic in crafting benefits, and are prudent in approaching the financing to avoid underfunding or straining the ability to fulfill existing commitments to those in need of care.

HAP and the hospital and health system community have identified four principles that they see as critical to any plan:

- *Recognize the Diversity of Pennsylvania’s Uninsured Adult Population*—Any program for uninsured adults needs to address the diversity of the adult uninsured population, from the chronically ill to younger and healthier adults, the same way that the private insurance market offers various benefit packages to meet patient needs.
- *Optimize Coverage Options in Both the Public and Private Sectors*—The employer health care coverage system provides choice and access to health care providers throughout the commonwealth. In addition, the successful adultBasic program gives Pennsylvania the potential to leverage additional federal matching funds, and could be revised to offer a choice of plans, build on reasonable benefit packages, and improve the efficiency and effectiveness of care.
- *Create Incentives for Smaller Employers to Support Employee Health Coverage*—In addition to creating incentives to help smaller employers obtain and maintain employee health insurance, more options are needed in the small employer market that allow for innovative benefit and product design, including a structure to enable small employers to more efficiently purchase insurance.
- *Provide for Sustainable Financing Sources*—To achieve the goals of improving health care coverage for adults without insurance while creating an affordable program for the commonwealth, employers, and individuals, requires sustained financing so that the program can fulfill its objectives over the long-term.

All Pennsylvanians should have access to health care. Hospitals have and continue to stand ready to serve those in need.

Ensuring Openness and Accountability

As health care becomes more complex and high-tech and more people take control of their health care

spending, they are seeking more resources about the health care delivery system to help them make informed choices—about the quality and safety of care, the cost of care, and health care insurance options. The health

care delivery system is extensive, encompassing not only hospitals, but long-term care facilities, ambulatory

surgical centers, physicians, and other outpatient diagnostic and care facilities. There also are many health insurance options—preferred provider organizations, HMOs, point of services plans, and health savings accounts—to name a few. Pennsylvania hospitals and health systems are committed to accountability and transparency of care, and this should include data to evaluate both the delivery and financing of care.

In today's environment, there are limited-service providers that choose to treat healthier, well-insured

patients rather than the uninsured and publicly-supported patients (Medicaid, Medicare, CHIP, and

adultBasic). The needs of communities to have access to necessary, but less profitable services (e.g., obstetrics, trauma care, intensive care, etc.), are dependent on hospitals being able to provide these services. These are broader societal responsibilities that must be considered.

Strengthening licensure and delivery system accountability is essential to ensure that the same rules apply to all facilities providing health care. Licensure needs to incorporate new types of facilities. There must be equitable requirements for licensed health care facilities, regardless of ownership or setting. Facilities that are providing the same or similar services should adhere to the same or similar standards of accountability for quality and safety; reporting and transparency; reimbursement; and provision of care to the uninsured, Medicaid, and other publicly supported patients.

Appropriately structured state oversight of health insurers also is essential for financial protection of subscribers in accessing health care, to foster greater competition, to ensure that coverage is affordable, and to enable insurance plans to be responsive to employer and employee health benefit needs.

What Should be Done?

To ensure access to affordable health care for all Pennsylvanians, we must strengthen our health care delivery and financing system by implementing the following:

- To ensure that consumers have all the resources they need, a fair and appropriate competitive system of delivery and financing of health care must exist across the entire health care spectrum. This means all partners in the delivery and financing of the health care system need to be accountable and transparent with their information, and meet similar standards of care where appropriate.
- Pennsylvania needs to optimize coverage options in both the public and private sectors. The employer health care coverage system needs to be supported so that it continues to provide choice and access to health care providers throughout the commonwealth. In addition, there needs to be consideration of revisions to our state's successful adultBasic program to leverage additional federal matching funds, offer a choice of plans, build on reasonable benefit packages, and improve the efficiency and effectiveness of care.
- Broadening and strengthening licensure and delivery system accountability is essential to ensure that the same rules apply to all facilities providing health care. Licensure needs to incorporate new types of facilities. There must be equitable requirements for licensed health care facilities, regardless of ownership or setting. Facilities that are providing the same or similar services should adhere to the same or similar standards of licensure for quality and safety; reporting and transparency; reimbursement; and provision of care to the uninsured, Medicaid, and other publicly supported patients.

- There needs to be appropriately structured state oversight of health insurers. This is essential for financial protection of subscribers in accessing health care, to foster greater competition, to ensure that coverage is affordable, and to enable insurance plans to be responsive to employer and employee health benefit needs.
- Pennsylvania must become “physician-friendly.” Recruitment of new physicians is going to require

a coordinated effort by hospitals, physician organizations, health insurers, and the commonwealth to ensure Pennsylvania has an adequate supply of physicians for the future and to promote the state as an attractive practice setting for physicians. Pennsylvania should provide incentives for new physicians to remain in Pennsylvania by providing a loan forgiveness program, and should take the steps needed to retire the Mcare Fund and its unfunded liabilities, as well as to extend Mcare abatement.

- Pennsylvania also can be a leader among states in the delivery of high-quality health care services

through the use of health information technology. Younger physicians want to be able to use health information technology, such as electronic medical records and computerized order entry systems to make the delivery of medical care more efficient and safer. Consideration should be given to providing financial support to assist those communities and providers needing such help to make these important investments.

- The Pennsylvania Health Care Cost Containment Council’s purpose should be reauthorized. Its purpose should be updated to reflect the changes in health care delivery and financing that have occurred since its inception in 1986. This central data repository is critically important for providing useful and actionable information to the public, payors, government, insurers, and health care providers.

Conclusion

I would like to close with a point that is often overlooked. A focus on costs of health care or costs of health insurance as the only problems overlooks the value that patients and society in general derive from improved health. While addressing costs are undoubtedly an important part of any health care debate, they should not be considered absent the context of the benefits achieved in improving health and the quality of life.

A study by MEDTAP, an international consulting group, concluded that health benefits have clear, quantifiable, economic value. In the past 20 years, each additional dollar spent on health care services has produced health gains valued at \$2.40 to \$3.00. Without these improvements in health and the associated investment, the U.S. would have spent \$634 billion less on health care in 2000, but we would have experienced:

- 470,000 more deaths.
- 2.3 million more people with disabilities.
- 205 million more days spent in the hospital.

Hospitals are community assets. Unlike businesses and industries that have the option to pull up stakes and move operations to another county, state, or country, hospitals do not uproot for “better economic opportunities” elsewhere. Hospitals focus on the provision of health care in their community/region. Given this very different dynamic, they need to be supported accordingly.

As you know, when local governments and/or the state is looking to entice a prospective business or industry to an area, quality health care is at the top of the considerations list, along with tax structure and educational opportunities. Hospitals are critical community resources and a key factor in the consideration of new business start-up and expansion initiatives.

In cities and towns throughout Pennsylvania, hospitals are the cornerstone of the health care delivery system. Hospitals are there when Pennsylvanians give birth or die, are injured, or live with a chronic illness. Hospitals are there when disaster strikes and when there are no other places to turn—each day responding to the health care challenges in their communities. Hospitals provide care to all whom need it, whether well-insured, underinsured, or uninsured.

Thank you for this opportunity to testify and to provide the hospital perspective on this issue. I welcome your questions.

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