

PIERCING THE DARKNESS IN CONNECTICUT

A SUPPLEMENT TO THE NATIONAL PRICE TRANSPARENCY AND PHYSICIAN QUALITY REPORT CARD

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SOLUTIONS THAT MATTER. HEALTH CARE THAT WORKS.



Two years ago we published a report¹ that highlighted how states, armed with the right data assets and will, could help consumers find the information they want and need to compare the price and quality of their health care. In this year's Price Transparency and Physician Quality Report Card,² we note that most states continue to fail in that duty, notably Connecticut, which receives a double F. And yet, it is not that difficult. A few hours' drive from Connecticut, the state of Maine enjoys an A on price transparency and a C on physician quality transparency. The state of Maryland, which until last year received an F for price transparency, now has a B, and is on track to have at least a C on physician quality transparency in 2018. And they have accomplished their scores on a relatively small budget. It does not take millions of dollars to pierce the darkness, it just takes a willingness to see positive change happen. And in Connecticut the stakes could not be higher.

BACKGROUND

According to ongoing work from the Commonwealth Fund,³ Connecticut has some of the highest health insurance premiums in the United States, and those premiums have risen at twice the rate of inflation for over a decade. Worse, deductibles are now some of the highest in the country and in New England, and have risen at a rate of close to 10% annually, crushing lower and medium income families.

Meanwhile, private sector employment⁴ in the state has barely budged since the beginning of the century, and the unemployment rate,⁵ which historically has been lower than the US average, has now been higher since the beginning of this decade. And of course everyone living in Connecticut is aware of the number of companies that have decided to leave. And since wages have just kept up with inflation⁶ the net effect is that take-home pay has gone down as health care costs have continued to rise.

Some economists have argued that increases in health care costs are fine as long as the value of the care received improves, but how can one measure value without comparative information on price and quality?

THE LEAPFROG QUALITY SCORE—AN IMPORTANT LIGHT IN THE DARKNESS

The Leapfrog Group was founded in 2000 by some of the largest employers of the US at the time—General Electric (GE), General Telephone & Electric Corporation (now Verizon), General Motors (GM), United Parcel Service (UPS) and many others—in response to the call by the Institute of Medicine to improve the quality of health care. The goal was to encourage hospitals to voluntarily report on a small set of patient safety measures, positing that patient safety is a baseline for the quality of patient care. And it still should be.

¹ Piercing The Darkness, Altarum: <http://prometheusanalytics.net/deeper-dive/library/piercing-darkness-generalizable-approach-reliably-measuring-quality-care>

² Price Transparency and Physician Quality Report Card, 2017, Altarum: <https://altarum.org/publications/price-transparency-and-physician-quality-report-card-2017>

³ Employer-sponsored Health Insurance Premiums and Deductibles, Commonwealth Fund: <http://www.commonwealthfund.org/interactives-and-data/maps-and-data/employer-health-insurance-premiums>

⁴ Connecticut Department of Labor: <http://www1.ctdol.state.ct.us/lmi/privatesectoremployment.asp>

⁵ Connecticut Department of Labor: <http://www1.ctdol.state.ct.us/lmi/unemprateCTUS.asp>

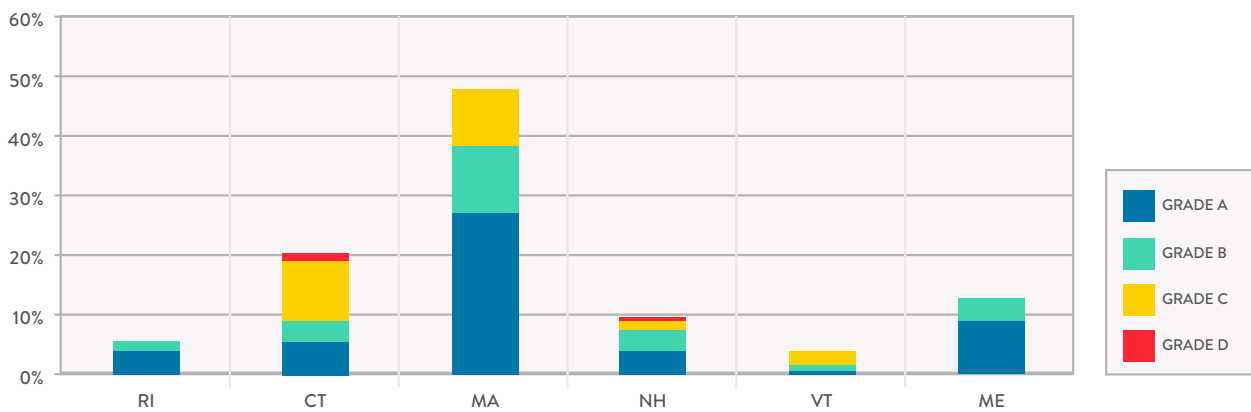
⁶ Connecticut Labor Market Information: <http://www1.ctdol.state.ct.us/lmi/wages/20161/0901000009/00-0000.htm>



In other words, there is no possible justification for a hospital to perform poorly on patient safety. After all, would anyone ever fly on an airline that had a “C” in passenger safety? Similarly, is there any reason why a patient should get care from a hospital that has a “C” in patient safety? And yet...

The recently released quality scores from the Leapfrog Group⁷ shed some light on how much value Connecticut residents are getting for the very high dollars they spend compared to their neighbors. Figure 1 below shows the percentage of all hospitals in New England (vertical axis scale) by state and broken down by overall Leapfrog Quality Score.

FIGURE 1. PERCENTAGE OF NEW ENGLAND HOSPITALS BY STATE AND GRADE



Connecticut has the second highest number of hospitals in New England after Massachusetts. However, contrarily to its neighbor to the North, more than half of Connecticut’s hospitals have a grade of C or D. That’s the highest proportion of poor grades in all of New England. In fact, Connecticut has 14 hospitals earning a grade of C or less, compared to 18 for the rest of New England. Rhode Island, while clearly a smaller state, and Maine, have no hospitals with grades lower than B. That’s 23 hospitals with an A or B grade compared to Connecticut’s 11 (out of a total of 25). By this measure, Connecticut residents are getting less value for their health insurance premiums than any other New England state apart from Vermont. But at least the premiums in Vermont are lower than in Connecticut.

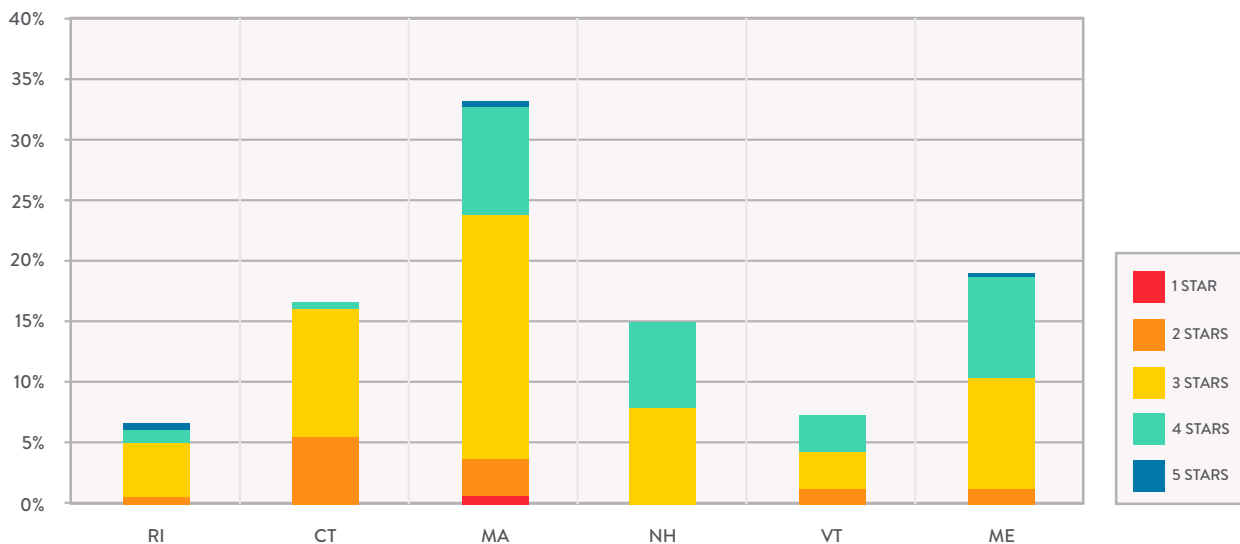
⁷ See: <http://www.hospitalsafetygrade.org/about-us/newsroom/display/626752>



HOSPITAL COMPARE BY MEDICARE— ANOTHER LIGHT IN THE DARKNESS

As a result of the Leapfrog Group’s efforts, Congress passed a law⁸ that was co-sponsored by Nancy Johnson (R-CT-5) and that linked increases in hospital payments to the reporting of a small set of quality measures. Eventually, those measures would be made public on Hospital Compare⁹ and include an overall assessment of the quality of patient care, specifically for Medicare beneficiaries. Today, across the US, about 5% of rated hospitals have one star, 25% have two, 40% have three, 25% have four, 5% have five. It is a pretty classic “bell curve” distribution, which is by design. So, when a state’s hospitals have a distribution significantly different than that, it is either worse than the national average or better than the national average. Consistent with the Leapfrog Group’s ratings, Connecticut is worse as depicted in Figure 2.

FIGURE 2. PERCENTAGE OF HOSPITALS IN EACH STATE AND BY NUMBER OF STARS



Compared to all the other states in New England, Connecticut has the least amount of four and five star hospitals. The vast majority are either three stars, which is average, or two stars, which is lower than average. In fact, alarmingly, Connecticut has the highest proportion of two star hospitals of any neighboring state. By this measure also, Connecticut residents are getting less value for their health care dollars than anyone residing in another New England state.

⁸ See: <https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/HospitalQualityInits/HospitalRHQDAPU.html>

⁹ See: <https://www.medicare.gov/hospitalcompare/search.html>



ALTARUM ANALYSIS—YET MORE LIGHT

As a national and independent nonprofit, Altarum has been working with states (including Connecticut), commercial insurers, and health systems to analyze the cost and quality of care. Most recently, Altarum has supported the state of Maryland¹⁰ in its efforts to develop a site to inform its residents on the price and quality of care for specific procedures. In addition, the states of New York and Colorado have leveraged Altarum's methods for their own price and quality of care efforts.

In a recent Health Affairs blog post,¹¹ we compared the average costs of routine procedures among three states, including Connecticut, and we also added a measure of quality, risk-standardized rates of complications (PAC Rate).¹² The table below shows that information, updated with the most recent data.

TABLE 1: COMPARISONS OF STATE AVERAGE COSTS AND QUALITY FOR FOUR COMMON PROCEDURES

| | | MARYLAND | NEW HAMPSHIRE | CONNECTICUT |
|------------------|---------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| HIP REPLACEMENT | PAC Rate | 42.3% | 30.0% | 30.3% |
| | Episode Price [IQR] | \$30,779 [\$24,960 – \$36,674] | \$34,215 [\$26,793 – \$41,377] | \$34,571 [\$30,843 – \$38,468] |
| KNEE REPLACEMENT | PAC Rate | 40.1% | 32.0% | 33.0% |
| | Episode Price [IQR] | \$29,059 [\$22,663 – \$33,840] | \$32,366 [\$23,444 – \$42,410] | \$36,411 [\$30,144 – \$40,725] |
| HYSTERECTOMY | PAC Rate | 54.3% | 46.4% | 43.5% |
| | Episode Price [IQR] | \$16,381 [\$13,895 – \$18,357] | \$19,038 [\$12,856 – \$22,830] | \$15,020 [\$11,666 – \$17,135] |
| VAGINAL DELIVERY | PAC Rate | 28.2% | 27.1% | 29.0% |
| | Episode Price [IQR] | \$10,841 [\$9,156 – \$12,174] | \$10,518 [\$8,132 – \$12,511] | \$14,050 [\$12,158 – \$15,692] |

PAC rates represent the number of procedures that had at least one complication during the time window specified for that procedure. One can and should be shocked that even for the more common procedures, at least 30% of patients experience a complication, even if some of those end up by being minor. Of course, complications also add to the total cost of the procedures. With average prices higher than the other states for three of the four procedures, this analysis confirms again the lower value received by residents in Connecticut than other comparable states.

¹⁰ See: <http://wearthecost.org/index.html>

¹¹ See: <http://www.healthaffairs.org/doi/10.1377/hblog20171023.671259/full/>

¹² For complete description of the methods, see: <http://prometheusanalytics.net/deeper-dive/risk-standardized-pac-rates-rspr>



ILLUMINATING A LOCAL DEBATE

Connecticut's headlines have been dominated by the inability to pass a budget, by passing storms, and by a tempest between Hartford Health Care (HHC) and Anthem. The budget, along with the storms, has passed, but the tempest persists in the absence of any light to guide consumers and policymakers. And yet there is some light as we have explained above, and even more as we will expose below. Those needing some context about this battle can refer to a blog entry,¹³ but suffice it to say that HHC is looking to increase the price per service it charges to every Anthem plan member, and Anthem is resisting the increase. Presumably, when hospitals and health systems seek higher fees it is because they deliver higher quality so that, in the end, consumers at least get some incremental value for the premium increases and added out-of-pocket expense they will have to pay. Here is a quick comparison of the hospitals in and around Hartford using the Medicare stars and Leapfrog score:

TABLE 2: COMPARISON OF LEAPFROG AND HOSPITAL COMPARE SCORES FOR HARTFORD HOSPITALS

| | U CONN DEMPSEY | ST. FRANCIS | HARTFORD HOSPITAL |
|------------------|----------------|-------------|-------------------|
| LEAPFROG QUALITY | A | A | C |
| HOSPITAL COMPARE | ☆☆☆ | ☆☆☆ | ☆☆ |

The scores speak for themselves.

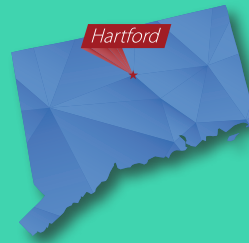
Pulling from our own analyses, we will now compare Hartford Hospital to the Connecticut state average for the same procedures as in Table 1. Note that the prices reflected in the table are for commercially insured plan members and exclude Medicaid and Medicare. The numbers for Hartford Hospital are also adjusted for the severity/sickness of the patients they treat.

TABLE 3: COMPARISON OF HARTFORD HOSPITAL TO CONNECTICUT AVERAGE

| | CONNECTICUT | HARTFORD HOSPITAL | VARIANCE |
|------------------|-------------|-------------------|----------------|
| HIP REPLACEMENT | \$34,571 | \$40,651 | \$6,080 +18% |
| KNEE REPLACEMENT | \$36,411 | \$40,414 | \$4,003 +11% |
| HYSTERECTOMY | \$15,020 | 20,550 | \$5,530 +37% |
| VAGINAL DELIVERY | \$14,050 | \$14,522 | \$472 +3% |

For all four procedures, Hartford Hospital's prices are higher than the state average, varying from a low of 3% for deliveries to 37% for hysterectomies. The combination of higher prices and lower than average quality shown in Table 2 suggests a general lack of value for patients getting care at that facility.

¹³ See: <http://prometheusanalytics.net/blog/revolution-works>



CONCLUSION

Over the years, hospitals and health systems have become accustomed to asking for money without having to provide any justification. And when pressed for a reason, they have claimed poverty (as evidenced by low margins), an unfair burden of managing the sickest patients or the uninsured, and the high cost of new technologies. In the past, some of these arguments have been true, in particular the burden of caring for the uninsured. And some facilities do, in fact, care for patients that have more severe cases and that are referred to them by others.

However, the burden of caring for the uninsured has significantly decreased thanks to the expansion of insurance coverage achieved through The Affordable Care Act, and there are ways to adjust measures of price and quality based on the severity of patients for which a facility cares. The “poverty” argument however, merits further discussion.

First, some articles have clearly debunked¹⁴ the notion that nonprofit hospitals charge less than for-profit ones or make less money. In addition, they benefit from implicit subsidizations because they do not pay federal or local taxes.¹⁵

Second, a close look at margins over time of many nonprofit hospitals shows a consistent pattern of low margins, irrespective of the growth in revenue. The table below illustrates this point for one of the largest hospitals in Connecticut—Yale New Haven—but note that these results are highly consistent with those of all large nonprofit health systems in the United States.

TABLE 4. CHANGES IN REVENUE AND EXPENSES 2011-2015, YALE NEW HAVEN HOSPITAL

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | \$1,517,592,283 | \$1,770,512,384 | \$2,360,857,530 | \$2,411,927,796 | \$2,558,344,913 |
| Growth in Revenue | | 16.7% | 33.3% | 2.2% | 6.1% |
| Expenses | \$1,441,681,151 | \$1,679,165,431 | \$2,240,229,435 | \$2,303,803,250 | \$2,419,780,683 |
| Growth in Expenses | | 16.5% | 33.4% | 2.8% | 5.0% |
| Net Income | \$75,911,132 | \$91,346,953 | \$120,628,095 | \$108,124,546 | \$138,564,230 |
| Net as % of Revenues | 5.00% | 5.16% | 5.11% | 4.48% | 5.42% |

¹⁴ See: <http://thehealthcareblog.com/blog/2017/04/25/the-fairy-tale-of-a-non-profit-hospital/>

¹⁵ The state of CT has been assessing a tax on nonprofit hospital revenues: <http://www.courant.com/opinion/editorials/hc-ed-hospital-tax-proposal-is-extortionate-20170328-story.html>



A further investigation of these numbers¹⁶ reveals that salaries and other wages stay constant at about 33% of all expenses. The rest, presumably, are supplies, equipment, and other expenses related to providing care. In all industries there are economies of scale that stem from various advantages due to being bigger. For example, larger organizations can benefit from greater supplier discounts than others. Further, fixed expenses are spread over a larger base. And yet, seemingly, in health care, business and economic theories are suspended, which, prima facie, is absurd.

Of course, there can be two other explanations:

1. Management is incompetent—in other words, irrespective of how much revenue grows, the managers of these organizations are incapable of finding any economies of scale. We dismiss this explanation because hospital managers have shown great competence in managing their assets. For example, between 2011 and 2015, Yale New Haven Hospital’s net assets doubled, growing to \$1.2 billion. That requires great skills.
2. Margins are managed to a number—think of the headlines if nonprofit hospital margins grew to 15% or 20% while continuing to demand higher fees. There would likely be a clamoring by communities for these hospitals to be taxed or to decrease their prices. In other words, having low margins is by design and not because economies of scale can’t be realized.

The truth behind these numbers is that expenses in most hospitals and health systems could be managed far more effectively than they are today, but they are not—and that is by choice. And that choice allows these hospitals to cry poverty and continue to ask for higher prices, even when they fail to deliver any incremental value for the incremental price, especially in Connecticut.

The evidence presented in this Brief, in our opinion, seems to make it impossible for hospitals in Connecticut to continue to ask for price increases that are greater than the rate of inflation. And that’s especially true for Hartford Hospital given its low quality scores and already high prices relative to the state average.

Connecticut fares worse than its New England neighbors on publicly available quality measures, and already has some of the highest premiums. Connecticut residents are simply not getting the value they deserve for the health care dollars they are spending. And the only way that will change is for local and state leaders to hold hospitals and health systems accountable for getting far better quality scores, and for private and public payers to hold the line on any demands for higher prices. In addition, Connecticut’s government must accelerate the pace towards comprehensive price and quality transparency because the people it serves deserve better than a double F.

¹⁶ See full financial information at: <https://projects.propublica.org/nonprofits/organizations/60646652>



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