

A Path to Hospital Sustainability and Health Care Affordability in Vermont

Vermont Green Mountain Care Board

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Vermont Hospital Sustainability: Summary of Research Findings

The GMCB commissioned two studies of Vermont hospitals. They were presented to the Board in October 2021:

1. Berkeley Research Group presented a hospital quality and capacity planning review.
2. Health Management Associates presented on payment and cost coverage variation across payers for hospital services.

The following slides provide summary observations from these studies, and then recommendations informed by them.

Vermont Hospital Sustainability: Summary of Research Findings

1. The **financial health** of Vermont's hospitals, as assessed by operating margin, **declined** over six recent fiscal years (FY2015 to FY2020).
 - It is also important to view hospital finances through not only operating margin, but also through total margin given the significant revenue hospitals generate through non-operating sources.
 - Still, if left alone, this trend could lead to hospital closures, as has been occurring among rural hospitals across the U.S. If this occurs, it will harm health equity.

Vermont Hospital Sustainability: Summary of Research Findings

2. On average, **commercial reimbursement is significantly higher** than public payer reimbursement and higher than the cost of delivering a particular service.
3. This has created **significant affordability problems** for employers and for residents of the state with employer-based coverage.
 - 40% of Vermonters under 65 with private health insurance were underinsured in 2018. That percentage has no doubt risen since then.
 - Affordability is of particular concern to those with lower wages – another equity implication.

Vermont Hospital Sustainability: Summary of Research Findings

4. Several Vermont hospitals are operating at **very low occupancy** and some of these are located relatively close to another hospital.
 - Brattleboro, Northwestern, Southwestern and Springfield all have been operating at $\leq 40\%$ occupancy.
5. Projections of Vermont population demographics indicate that some hospitals will have **even more excess capacity** in the future, while a few will need to add capacity.

Vermont Hospital Sustainability: Summary of Research Findings

6. Vermont hospital's PQI composite score (which assesses the rate of potentially avoidable admissions) is below optimal levels, suggesting better care for patients with common chronic conditions is warranted.
 - There may be an opportunity to better meet the needs of these patients through additional community services and community-based care.

PQI = Prevention Quality Indicator

Vermont Hospital Sustainability: Short-Term Recommendations

1. The GMCB should study how much commercial hospital prices are rising annually on a per capita basis, and how much those prices are contributing to overall trend.
 - Connecticut provides one [example](#) of what the GMCB can do. CT includes analysis of consumer out-of-pocket spending.
 - Such analysis provides important contextualization for understanding the impact of hospital commercial prices.
2. The GMCB staff should consider **use of NASHP's [Hospital Cost Tool](#)** to better understand the finances of Vermont hospitals.

Vermont Hospital Sustainability: Short-Term Recommendations

3. The GMCB should use its regulatory processes to not only understand hospital prices, but also to **constrain price growth** beyond what it has done to date with the hospital budget review process. This would involve using GMCB regulatory authority to more aggressively constrain hospital commercial price growth as [RI has done](#) and DE will be doing.
4. Should there be consensus that Vermont lacks necessary access to primary care and/or mental health services, the GMCB could use its insurer rate review authority to set **primary care and/or mental health spend targets** for its commercial insurers as [other states](#) are doing.

Vermont Hospital Sustainability: Longer-Term Recommendations

- Ensuring long-term sustainability of Vermont's hospitals is intrinsically tied to ensuring long-term affordable quality care for Vermonters.
- For this reason, long-term recommendations are categorized as follows.
 1. delivery system reform
 2. payment reform
 3. public accountability
- While these recommendations are categorized as “longer-term”, near-term action is necessary to set them in motion, with the expectation that it will take multiple years to see them to fruition.

Vermont Hospital Sustainability: Delivery System Reform Recommendations

1. Hospital resources should be redeployed where appropriate to better address community need.

While the COVID-19 pandemic has illustrated the need for stand-by inpatient capacity, there is still opportunity to better leverage Vermont's hospital assets by:

- a. consolidating geographically redundant inpatient capacity;
- b. supporting the development of lower cost hospital-at-home programs;
- c. maintaining existing and needed outpatient capacity, e.g., ED, observation beds, outpatient mental health and substance use treatment, and
- d. creating new and/or expanded services offerings where there is evidence of significant unmet need, e.g., mental health and substance use treatment, chronic illness self-management programs, social services, primary care.

Vermont Hospital Sustainability: Delivery System Reform Recommendations

- There are multiple alternative configurations for certain Vermont's acute care hospitals, including micro hospitals, freestanding medical facilities (outpatient hospitals) and freestanding EDs.
- Decisions about how to redeploy some existing acute care hospital assets should be heavily informed by *how communities believe* their future needs can best be addressed.
- These *decisions cannot be made in isolation*, however. Many of Vermont's hospitals are in relatively close geographic proximity to one another and therefore a decision made in one community will impact surrounding communities.

Vermont Hospital Sustainability: Payment Reform Recommendations

- The current hospital payment system fails to serve Vermonters or hospitals well. Hospitals continue to be largely paid on a fee-for-service basis, that rewards increased service volume. A financial imperative to maintain or increase service volume is inflationary and not aligned with maximizing population health.
- There *has* been some movement to prospective budget-based hospital payment models, but not enough – especially in the commercial market
- Hospitals are also not well-served by the current payment model. Their rate increases from public payers do not always match inflation. In addition, future revenue is uncertain and subject to disruption, as COVID-19 revealed.

Vermont Hospital Sustainability: Payment Reform Recommendations

- A better way of paying hospitals would do as follows:
 - a. **provide hospitals with an all-payer global budget**, whereby hospitals would know their revenue for a 12-month period a priori for all of their major payers, and thus could exclusively focus on a) meeting community need and b) managing expenses (and not on revenue enhancement);
 - b. provide hospitals with financial accountability and rewards for improved quality and for improved community health,&
 - c. ensure regular, reasonable increases in payment rates from Medicare and Medicaid.

- Maryland has had [successful experience](#) with an all-payer hospital global budget. Rhode Island is currently considering a modified and more flexible approach to that of Maryland.

Vermont Hospital Sustainability: Public Accountability Recommendations

- A sustainable hospital system must also be an accountable one. Payment models can promote accountability if they build in meaningful incentives for accessibility, equity, and quality.
- Hospital performance accountability can be further enhanced through public transparency in the following forms:
 - **public reporting** of hospital performance incentives, including the performance measures and targets, and the associated financial incentives;
 - **public reporting** of hospital performance on a broader range of measures that reflect the range of services provided to its particular community, and the impact on equity, and
 - **annual public hearings** to discuss performance results and how to generate future improvements.

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