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August 12, 2022

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Green Mountain Care Board
144 State Street
Montpelier, VT 05620

Dear Members of the Green Mountain Care Board,

As the pandemic's economic impacts continue to reverberate across the state, providing access to affordable, high quality health care is Blue Cross and Blue Shield of Vermont's number one priority. Access is all too often crippled by Vermonters' ability to pay for the care they need. Hospitals are a vital component of Vermont's health care system, but the proposed hospital budget increases for FY2023 are unsustainable.

The hospital budget decisions, including the allowed unit cost increases for commercial coverage, are one of the primary factors driving insurance premium increases every year. While we appreciate the need to ensure the financial stability of these important institutions and their role in providing access to rural Vermonters, it is critically important that the hospital budget reviews focus on reducing health care costs in order to realign premiums with affordability and be barred against raising costs by nearly a third of a billion dollars in a single year.

As you review this year's request to increase Vermonter's health care liabilities, please consider these points:

Bond Ratings

A leading justification for hospital budget increases is to maintain favorable bond ratings. In the UVMHN narrative (page 16), a justification for the increase requested this year is to maintain the health network's A-category bond rating by meeting the target benchmarks set by the rating agencies (Moody's Investors Service, Fitch Ratings, and S&P) It is imperative that regulators ask critical questions about these assumptions.

In the Kaufman Hall insights article *Ratings Matter, Revisited*, credit analysts question ratings-driven financial decisions at not for profit hospital systems: "*While credit ratings are an essential benchmark for hospitals and health system boards, their primacy within an organization's overall strategy may require examination in light of the expanding role of hospitals in the wake of COVID and related clinical, social, and economic pressures."* As the facilities providing care

for the majority of Vermonters, and singlehandedly driving costs upward, our hospitals should balance the drive to maintain a high bond rating against their mission to deliver affordable care.

If UVMHN were downgraded by Wall Street rating agencies to a B-category rating[1], its interest rates would increase for future borrowing and to the extent their current loans are variable rate instruments[2] the estimated increase in debt service costs is $2.7 million more per year. Does this justify a $142.3 million increase on Vermonters' health insurance premiums to maintain their current rating? By nixing the race to maintain an A-category bond rating, UVMHN could eliminate the projected budget shortfall. Our health care system's priorities are out of sync with the state's goals of affordable accessible health care.

Further, UVMHN indicates the need for the $142.3M increase is also driven by market losses in their unrestricted reserves[3]. Vermonters surely should not have to pay for market losses related to UVMHN's investment portfolio. Additionally, an August 3 report from Fitch Ratings concluded that "hospitals with lower ratings likely saw some improvement for several reasons, including that many took immediate expense reduction efforts and recognized stimulus funding quickly," and that "hospitals in the "AA" category "were generally more conservative in their CARES stimulus recognition and often did not engage in significant expense reductions."

Performance Benchmarks

Benchmarks are a useful tool for our state's hospitals to gauge their performance against peer institutions but must use the appropriate comparison. In their narrative UVMHN chose stand-alone hospital rating agency benchmarks rather than the lower hospital system benchmarks. On page 16 of their narrative, the table displays a number of performance thresholds that the Network has established for itself. While those metrics are well aligned with the S&P standalone hospital medians—and those of the two agencies that do not differentiate between standalone facilities and health systems—the performance thresholds are far higher than the S&P "system" medians. As UVMHN has expanded considerably into a health network, their performance metrics should reflect the structure of the organization.

Furthermore, Vermont regulatory bodies have firmly established that other organizations operating in the Vermont health care market are expected to do so at far lower costs and greater efficiencies than national medians. For instance, a July 6, 2021 letter from the actuarial firm Oliver Wyman to former Commissioner Pieciak of the Department of Financial Regulation demonstrated that the *top end* of Blue Cross's mandated risk-based capital range is aligned with

[1] Blue Cross maintains a B++ rating recognizing the critical need for fiscal prudence and balancing access to care and affordability.

[2] Based on a review of their financial statement disclosures, only a portion of their debt have variable rates.

[3] UVMHN indicates that in order to avoid realizing asset losses when liquidating their reserves, it will instead bolster days cash on hand by adding to the commercial rates paid by Vermonters.

the *25th percentile* of comparative companies nationally for this same financial metric. Vermont hospitals should be held to the same standard—financial metrics should be aligned with the lowest quartile of national benchmarks, not the median.

Hospital Inefficiencies

Hospital expenses must be scrutinized in the current fiscal environment as all employers are forced to cut unnecessary costs and economize. Comparative financial analysis of rural Academic Medical Centers using American Hospital Directory data (see attached table) indicate that UVMMC is being run inefficiently from both a financial and an administrative perspective. We have seen several analyses of this data, and while date ranges and the hospitals included change based on the statistician, each variation has shown the same directional conclusions. The data indicates that the University of Vermont Medical Center should increase its operating efficiency. Compared to peer Academic Medical Centers, this hospital:

- has 15% more employees than the average
- has 47% more employees per bed than the average
- has 36% fewer discharges per employee than the average
- utilizes 56% more employee hours per discharge than the average
- spends 42% more on Personnel Expenses as a percentage of operating revenue than the average
- UVMMC patients present with a 11% lower case mix index than peers

The University of Vermont Medical Center must restructure its present cash position instead of relying on commercial rate increases. As part of the GMCB's hospital sustainability efforts, reviewing all of our hospitals' metrics in comparison with their appropriate peers may offer insight into areas for realignment of resources and efficiency improvements.

Utilization Calculation

UVMHN discusses several programs they have implemented with the purpose of enhancing revenue. Many of these are designed to increase utilization—for example, by increasing in-house pharmacies in every primary care practice to maximize drug income, expanding service lines to compete with neighboring hospitals, reducing wait times, and ensuring greater availability of beds and operating theatres. The health system makes a convincing argument that the population it serves is both growing and getting older, both of which will have the impact of increasing utilization (see the discussion on pages 22-24 of the narrative). However, anticipated increases in utilization do not make an appearance in UVMHN's calculation of the necessary commercial rate increase.

Utilization increases must be factored into the calculus that determines the portion of the additional revenue to be generated through commercial price increases. As additional revenue is generated through higher utilization, the need to redundantly increase prices is mitigated.

We recommend that the Board take the Health Network at its word when considering increase in population and per capita cost growth. The chart on page 24 of the narrative indicates that the "utilization adjusted UVMHN population" is expected to increase by about 5% from budget 2022 to budget 2023.[4] This population growth, UVMHN argues, fuels growth of 5% of NPR, amounting to $81,253,711.[5] And yet this additional $81 million of revenue driven by utilization increases does not factor into the arithmetic on pages 9 and 10 of the narrative demonstrating the required commercial rate increases. If increased utilization were properly reflected in the calculations, the total commercial rate increase for the Health Network plummets from $142,261,798 (about an 18.9% increase across the Health Network) to $61,008,087[6] (about an 8.1% increase). We strongly urge the Board to use 8.1% as a starting point before considering the remaining points we raise in this letter.

Similarly, other facilities should be required to reflect changes in the utilization of services in their calculations of required commercial rate increases.

340B and Pharmaceutical Drug Sales

Hospitals continually cite rising drug costs as a factor contributing to the need for budget increases, yet these costs are entirely passed-through to patients and their commercial health premiums. The cost of drugs is a leading driver in Vermont's health care spend–both retail drugs and those obtained in the hospital setting.

All hospitals, and especially those with a 340B program, generate a robust income stream for their bottom line from the mark-up they benefit from, while consistently driving up out-of-pocket and premium costs for Vermonters.

In some cases, the mark up is significant. Recently, UVMMC charged $1.5 million for an infused drug that would have cost just over $500,000 had it been obtained through a specialty pharmacy and billed through the pharmacy benefit. While Blue Cross currently does not force hospitals to utilize specialty pharmacies for certain intravenously administered drugs, the recently passed Act 131 will prohibit insurers from ever requiring that certain drugs be supplied through a lower priced specialty pharmacy channel versus being billed as an outpatient medical service, even when substantial savings to Vermont premiums would result. This single instance

[4] 726,128 divided by 691,589, as shown in the two rightmost columns of the table on page 24, equals a 4.99415% increase.

[5] $81,253,711 is 4.99415% times $1,626,977,407.

[6] $142,261,798 is the sum of the commercial increases requested for UVMMC, CVMC and Porter on page 9 and 10 of the narrative. $61,008,087 is $142,261,798 minus $81,253,711.

of the hospital charging three (3) times the average pharmacy cost for drugs sold through hospitals is only one example of many overcharges related to hospital outpatient drugs. Additionally, Vermont hospitals collectively are banking on $45.5 million in income from the 340B program for 2023.

Patients and employers are significantly harmed by these policies as it drives the cost of care upward. Vermonters must insist on transparency in drug income at Vermont hospitals, and directly benefit from 340B savings through lower drug costs to patients. Instead of contributing to the astronomical drug prices and exacerbating the impact on Vermonters' access and affordability, hospitals must be part of the solution in the fight against rising pharmaceutical costs.

Cost Shift from both Public and For-Profit Payers

In addition to consistent unit cost increases, local Vermont businesses and their employees are forced to bear the heavy weight of the Medicaid and Medicare cost shift as their premiums increase to supplement inadequate government funding.

A recent CMS press release[7] announced that the Medicare reimbursement is increasing by 4.3% rather than the 3.5% used in the UVMHN budget submission. Updating this assumption will save approximately $1.8 million for commercial payers. Assumptions used in all of the hospital budgets should be updated:

- RRMC – "We are anticipating an inflationary market basked update from of approximately 3%. This is offset by in reinstitution of 2% sequestration"
- NMC – "We have included a 2.3% increase in Medicare reimbursement based on preliminary rules and recommendations from our auditing firm."
- SVMC – "Included in the budget is an increase in non ACO Medicare reimbursement of 3.2% for FY 2023;"

It appears that Vermont commercial payers are being asked to additionally bear a more nebulous cost shift wrought by out of state, for-profit payers. Please ask hospitals (as mentioned on page 1 of Southwestern Vermont Medical Center's narrative) how the delta from their negotiations with for-profit payers are impacting their budget requests for Vermont's individuals and employers. Allowing large multi-state commercial payers who are not regulated by the GMCB to benefit from a different playing field that maintains lower hospital prices, while Vermont residents with local health insurance coverage are forced to pay the higher rates is antithetical to our health care goals as a state.

[7] Based on the "Medicare Rate Increase" portion of the schedule, the Medicare ACO Rate Increase is not available.

Affordability

The All Payer Model construct that was agreed to as a state sets an annual increase of no more than 3.5% on the total cost of care. The very institution responsible for Vermont's lone Accountable Care Organization is requesting a 19.9% commercial rate increase. This places Vermont in a tenuous position at a crucial moment in health care reform. As a small state, we simply can't afford to be that far above the total cost of care goals. The Board must drive our hospitals to create a more efficient system that is affordable to all.

Blue Cross agrees with the Board that affordability of health care is of primary importance in 2023. We strongly encourage the Board to settle on budget numbers for our largest hospitals that land somewhere between the All Payer Model's stated goal that the total cost of care rises no more than 3.5%, to at the highest end, the cumulative 8.6% that the Board directed hospitals to budget within for 2023 and 2024. As regulators and thought leaders, we are asking that the Board hold Vermonters at the center of their actions and to prioritize families over hospital growth.

Continual Hospital Growth

It is time to ask whether a small rural state like Vermont can support an academic medical center that has all the bells and whistles. The Burlington facility is expanding service lines to compete with Dartmouth, which is less than 100 miles to the south. Two academic medical centers within a hundred miles of each other don't need to both focus on the treatment for the same rare diseases. Similarly, tiny hospitals do not need to invest in growing their niche service lines (such as spinal fusion). We have seen how referring predominantly in-house for every medical service exacerbates wait times; on the other hand, when referrals are made to an outside facility the next county over, patients are seen considerably more quickly and often at a lower cost.

As a system we must challenge the mindset of growth at all costs. We must stop encouraging the expansion in our largest hospitals and barring smaller, more nimble facilities from providing excellent care at a lower cost. Let's encourage the creation of centers of excellence, where the highest quality, the lowest cost, and the shortest wait times are key metrics.

Many have argued that this is the most difficult economic climate our health system has seen. With a clash of workforce shortages, inflation, and supply chain disruptions, there are real and profound challenges facing our hospitals. Equally as challenging, Vermonters are struggling to put gas in their car and food on their table, and the cost of health care is becoming increasingly onerous with each passing year. The Green Mountain Care Board has a statutory duty to restrain health care costs. Please keep Vermonters—not the hospitals—at the center of this discussion and ask not what the hospitals would like to continue to grow, but instead ask what reductions Vermonters need to be able to access health care in this small rural state.

Sincerely,

Sara Teachout
Corporate Director, Government and Media Relations

AMERICAN HOSPITAL DIRECTORY

Comparative Financials of Select Rural Academic Medical Centers

(2021 Data)

Comparative Rural Academic Medical Centers	Acute beds	Emp	Emp per bed	Discharges	Case Mix Index	Discharges per Emp	Patient Days	Hours per Day	Average Length Stay	Net Income	Investment Income	Cash on Hand	Days Cash	General Fund Investment	Personnel Exp % of Operating Rev
Dartmouth	401	3,912	9.8	18,506	2.4728	4.7	116,216	70	6.28	$253,793,045	$171,910,646	$232,829,236	55.7	$ 931,656,047	36.4%
Maine Medical Center	616	7,336	11.9	27,258	2.3204	3.7	175,352	87	6.43	$117,265,328	$360,125	$2,644,488	14.8	$ 6,947,483	59.5%
UVMMC	**458**	**7,074**	**15.4**	**19,751**	**1.9927**	**2.8**	**127,451**	**115**	**6.45**	**$72,411,802**	**$705,000**	**$197,882,000**	**48.8**	**$ 623,749,000**	**64.7%**
Geisinger Medical Center	526	6,882	13.1	29,671	2.0878	4.3	151,253	95	5.10	$280,483,639	$102,656,066	$129,094,848	37.8	$493,287,844	28.7%
Albany MC	748	5,214	7.0	35,219	2.2210	6.8	203,266	53	5.77	$82,197,555	$6,491,727	$292,542,164	139	$ 153,527,715	34.3%
UMASS MC	651	7,043	10.8	34,974	2.0691	5.0	232,898	63	6.66	$64,401,402	$45,223,507	$190,588,584	42.4	$ 172,611,727	44.1%
Rhode Island Hospital	648	6,428	9.9	32,094	2.0780	5.0	202,420	66	6.31	$55,815,378	$8,063,684	$158,204,019	35.6	$ 340,294,147	56.3%
The Nebraska MC	616	7,048	11.4	24,138	2.4948	3.4	175,951	83	7.29	$107,551,488	$32,383,604	$5,113,271	132.0	$ 21,264,813	65.7%
University of Missouri	582	5,472	9.4	18,887	2.0914	3.5	135,302	84	7.16	$33,961,609	($6,411,650)	$356,855,366	122	$ 175,718,183	36.0%
University of New Mexico	473	6,103	12.9	22,439	2.3403	3.7	169,108	75	7.54	$344,283,421	$4,955,458	$510,912,573	137	$71,763,815	49.6%
Averages w/o UVMMC	**585**	**6,160**	**10.5**	**27,021**	**2.2417**	**4.4**	**173,530**	**74**	**6.42**	**$148,861,429**	**$40,625,907**	**$208,753,839**	**79.5**	**$ 263,007,975**	**45.6%**