

# Reference Based Pricing Driven by Data

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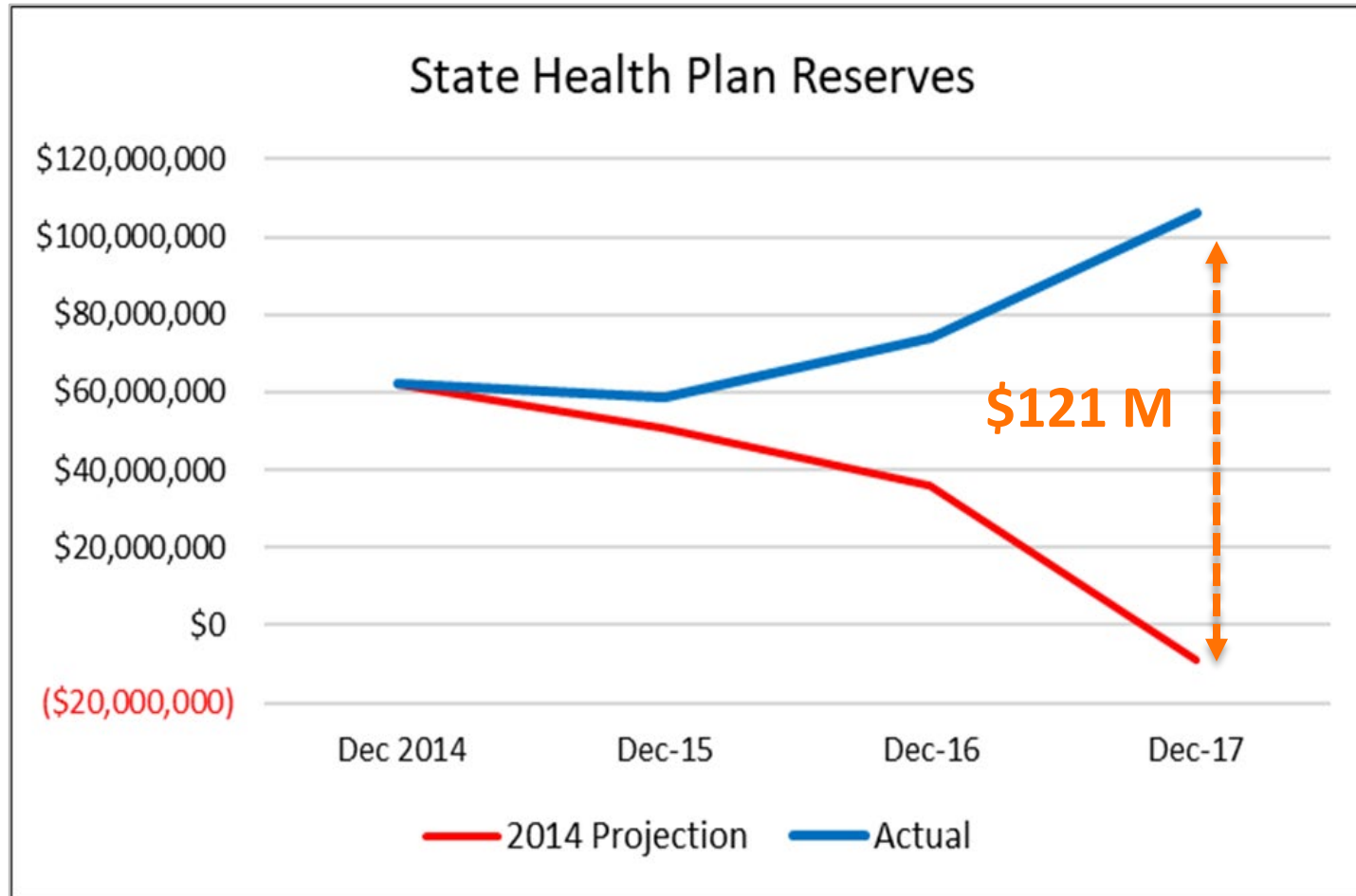
*May 3, 2023*



NATIONAL ACADEMY  
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[nashp.org](https://nashp.org)

# It all started in 2015 – MT State Employee Health Plan



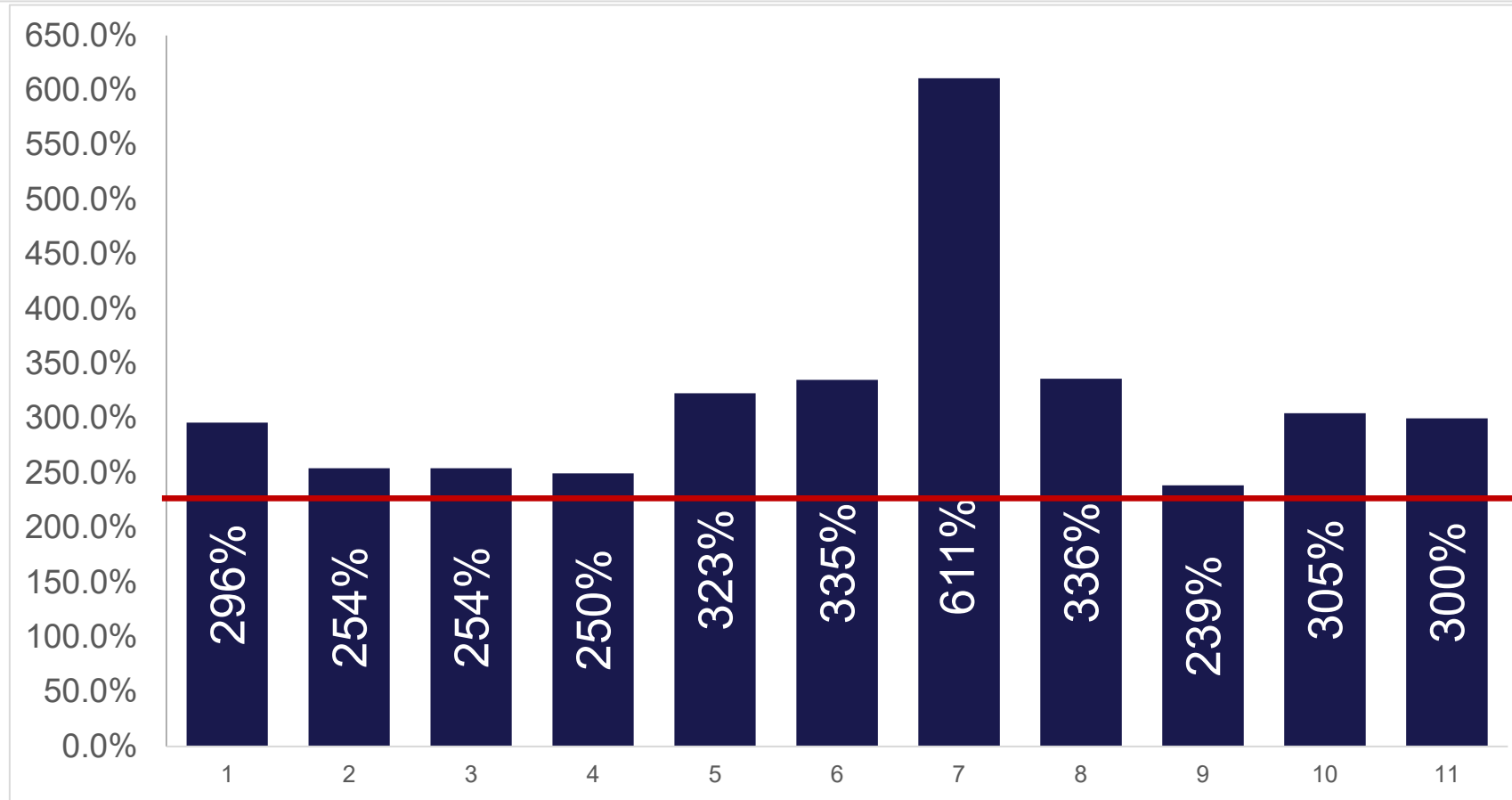
- Reference Based Pricing Contracts with all MT Hospitals
- Transparent, Pass Through RX Benefit. Eliminated High-Cost Pharmacy Chain
- On-site Primary Care Clinics
- New TPA, PBM, Consultant, Data Warehouse, Administration System
- No rate increases for 7 years (2017 - 2023)
- State Employee Pay Raises
- Lowered Health Plan Reserves to increase State Budget:
  - \$25 million (2017)
  - \$27 million (2021)
- Enhanced Plan Benefits

## Why use Medicare rates as the reference?

# Goal = Montana Hospital Reimbursement as Multiple of Medicare for ALL facility services

- Common reference to overcome variation in charge masters and differences in billing practices
- Largest healthcare payer in the world
- Medicare payments intended to be fair (DRG; APC)
- Payments adjusted for '*factors outside hospital control*': wage rates, case-mix severity, outlier and transfer cases, teaching intensity, interest expense, low-income shares....
- 2023 Hospital Medicare margins projected to be -10%; Breakeven for efficient hospitals. [MedPAC March 2023 Report to the Congress: Medicare Payment Policy](#)

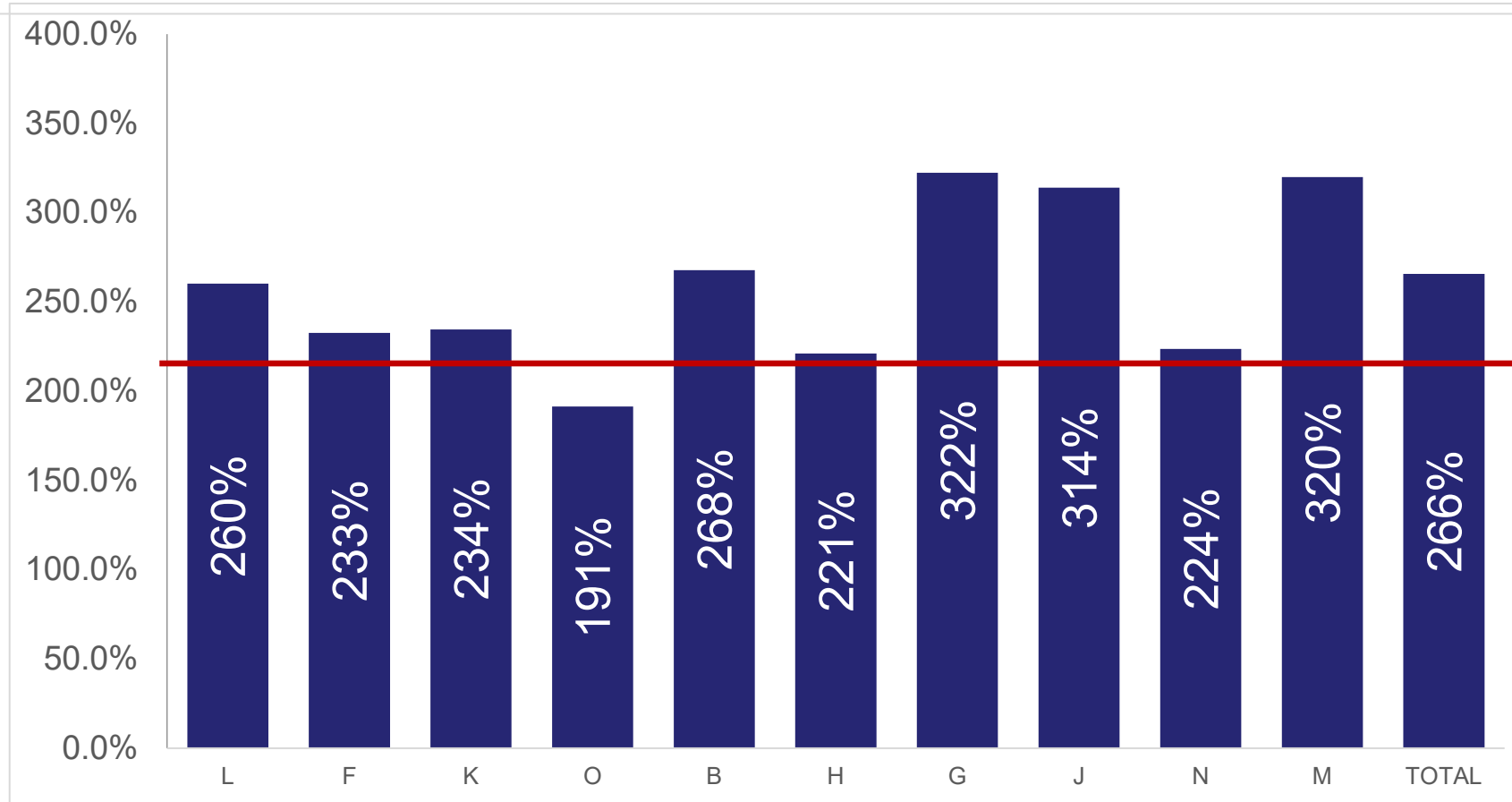
# Outpatient Cost Comparison



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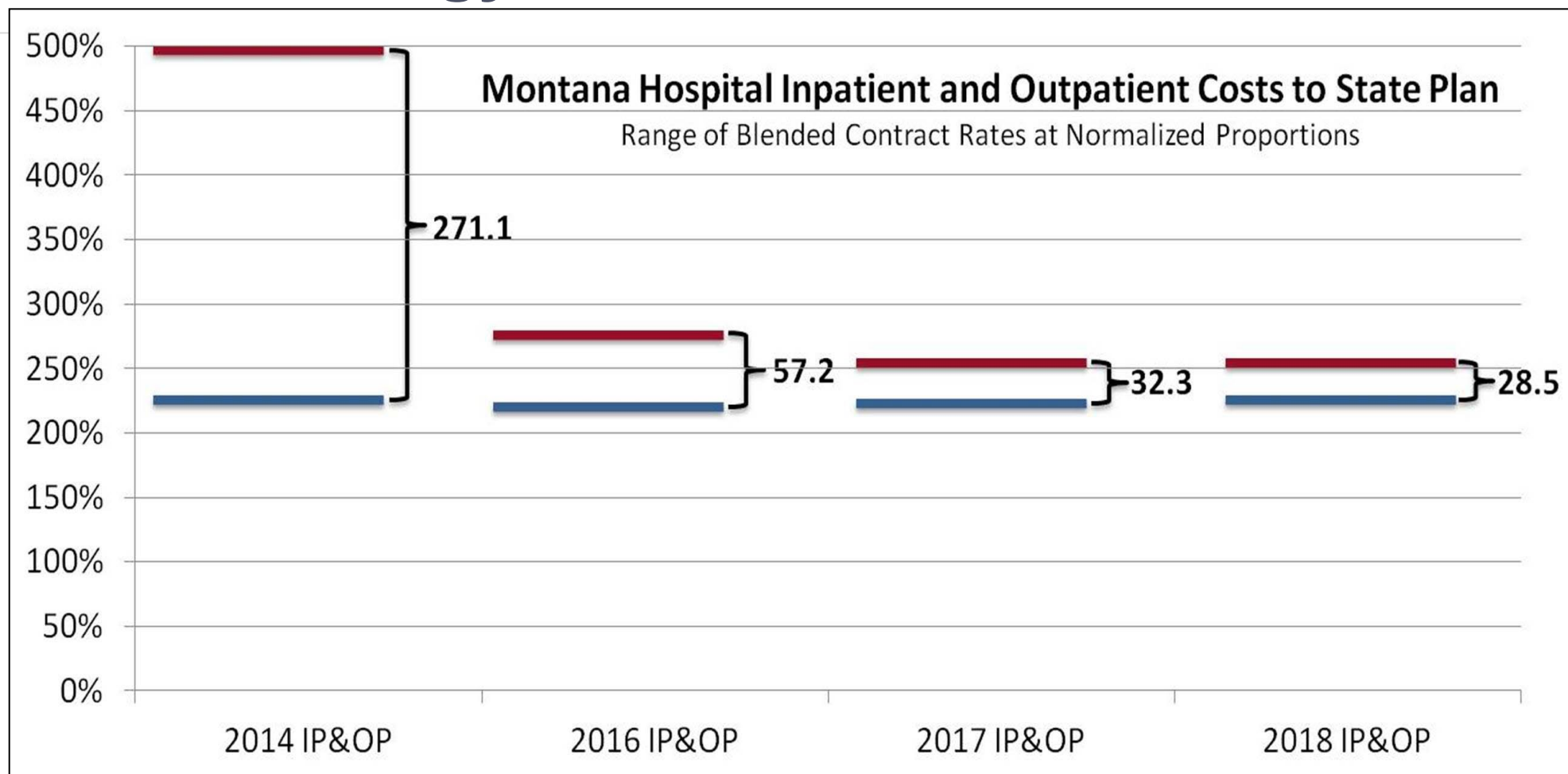
# Inpatient Cost Comparison



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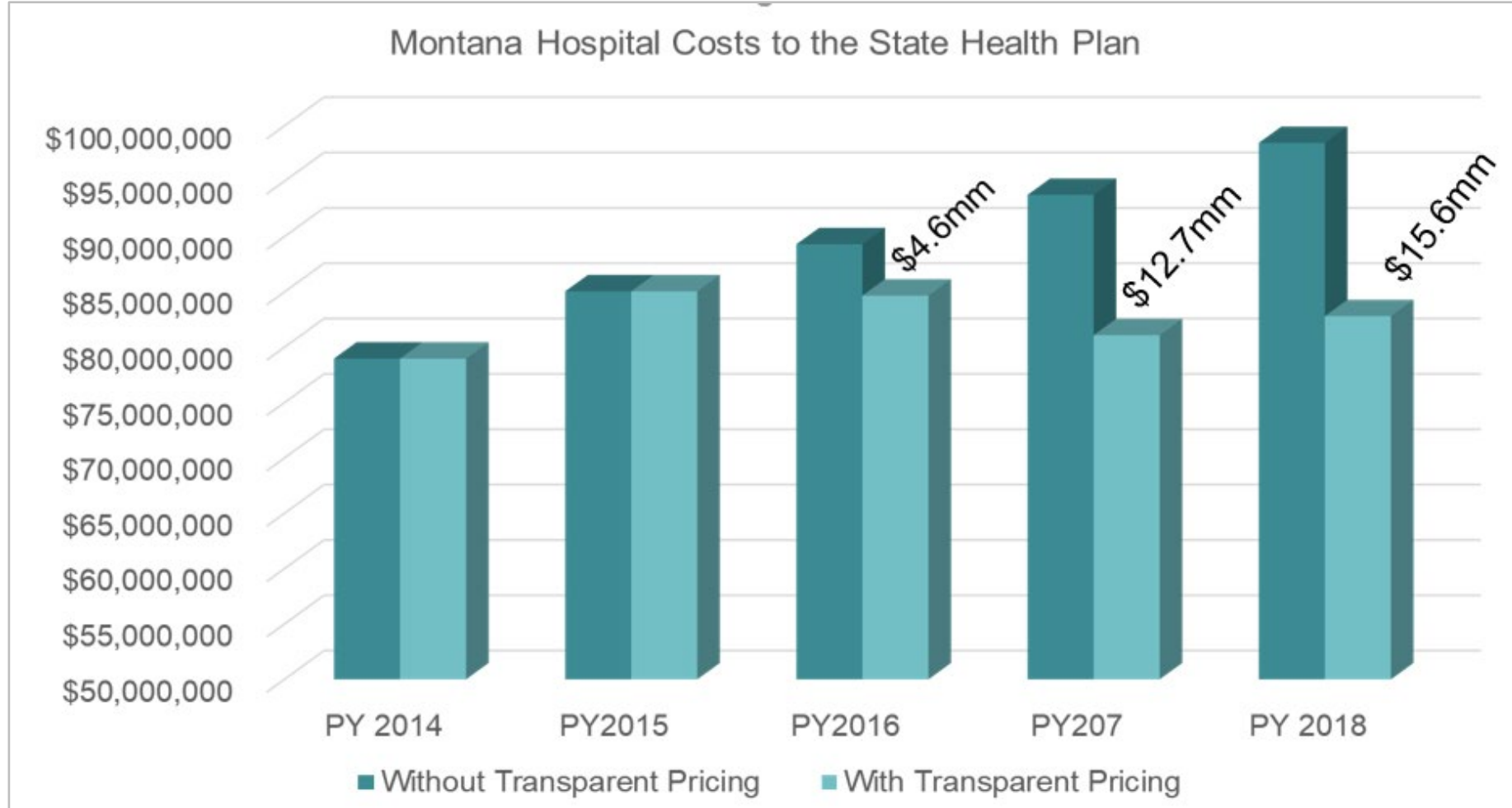
# Our Strategy



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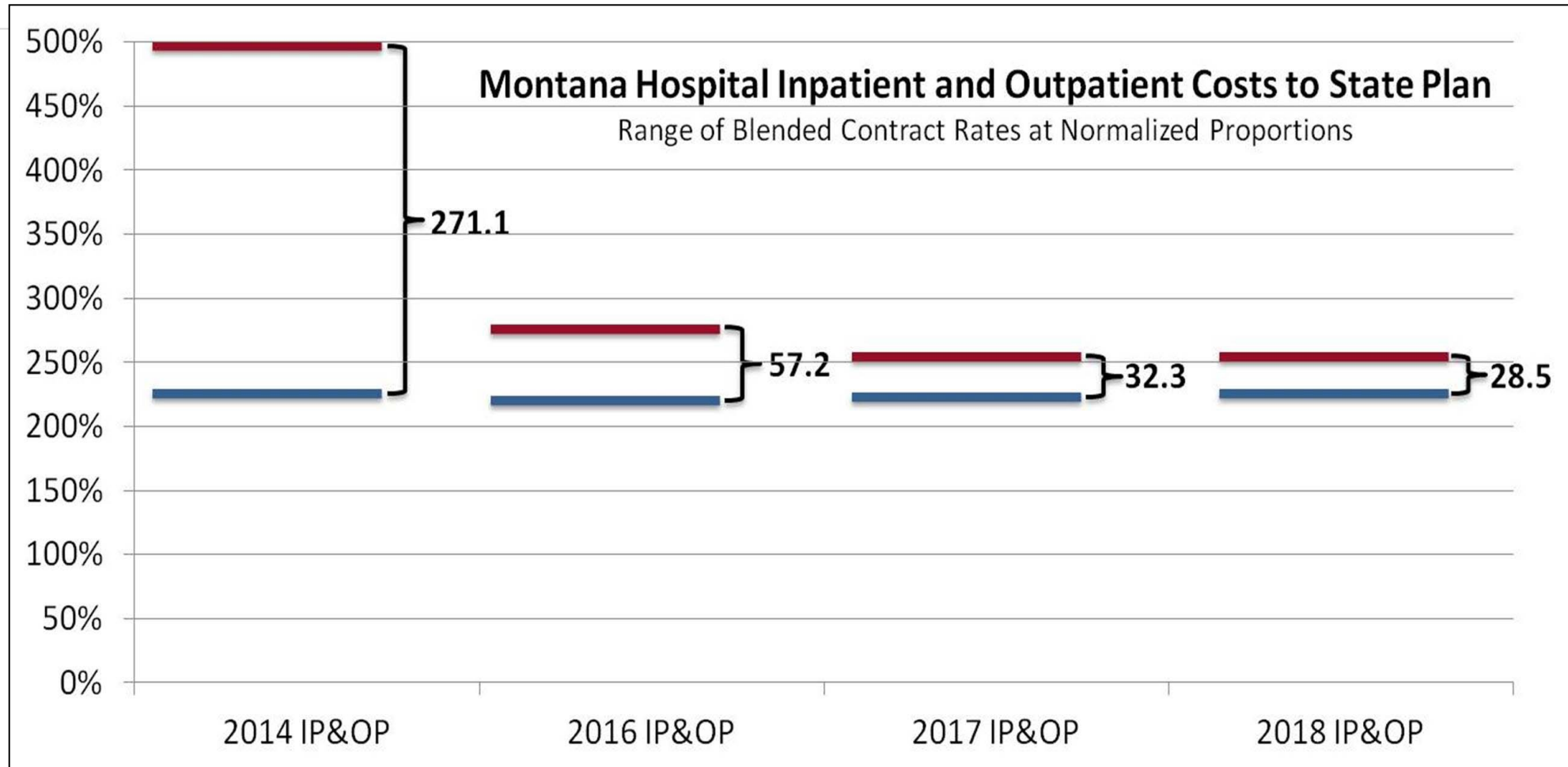


# Control over price trend



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# Our Strategy



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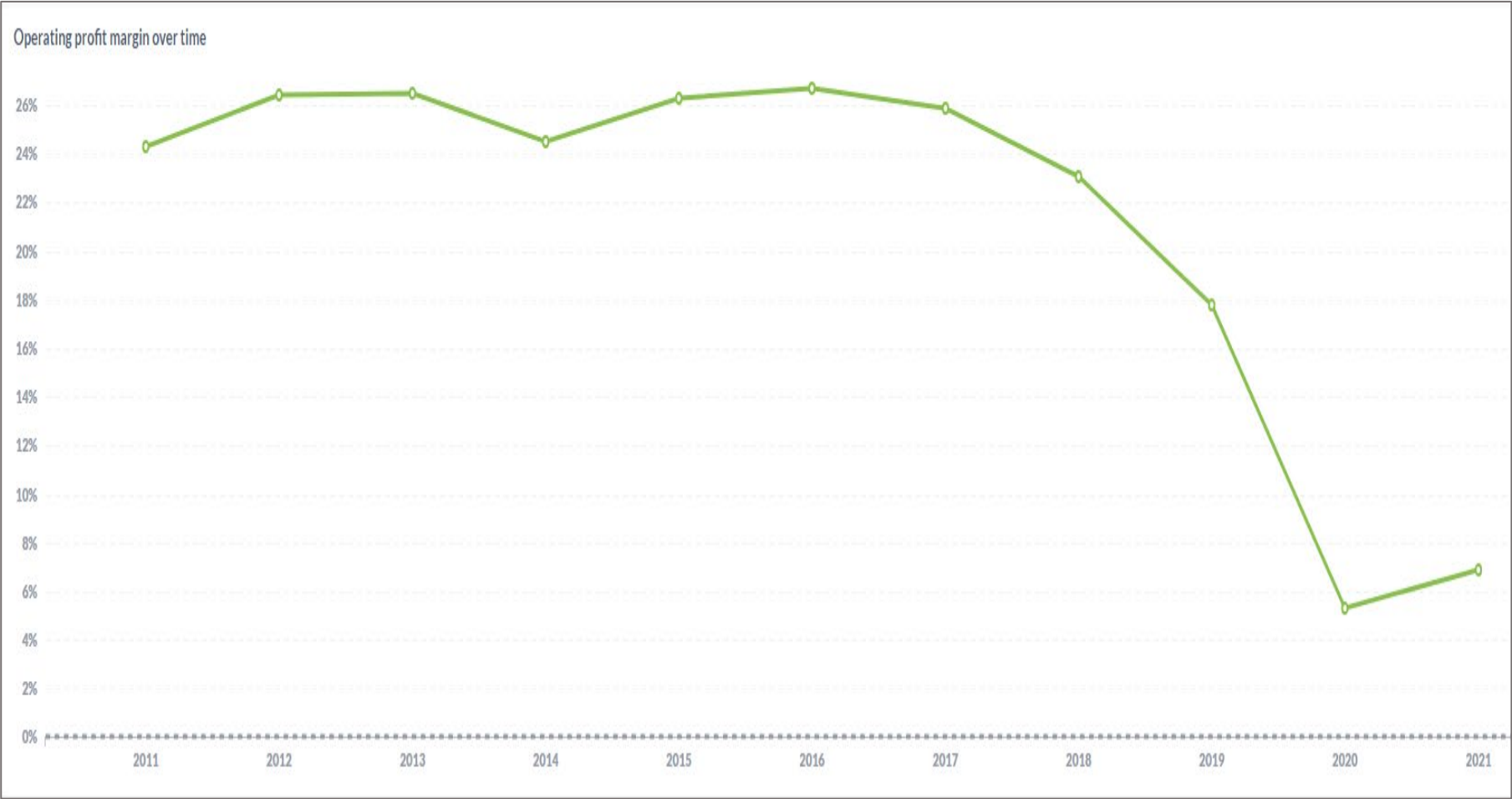




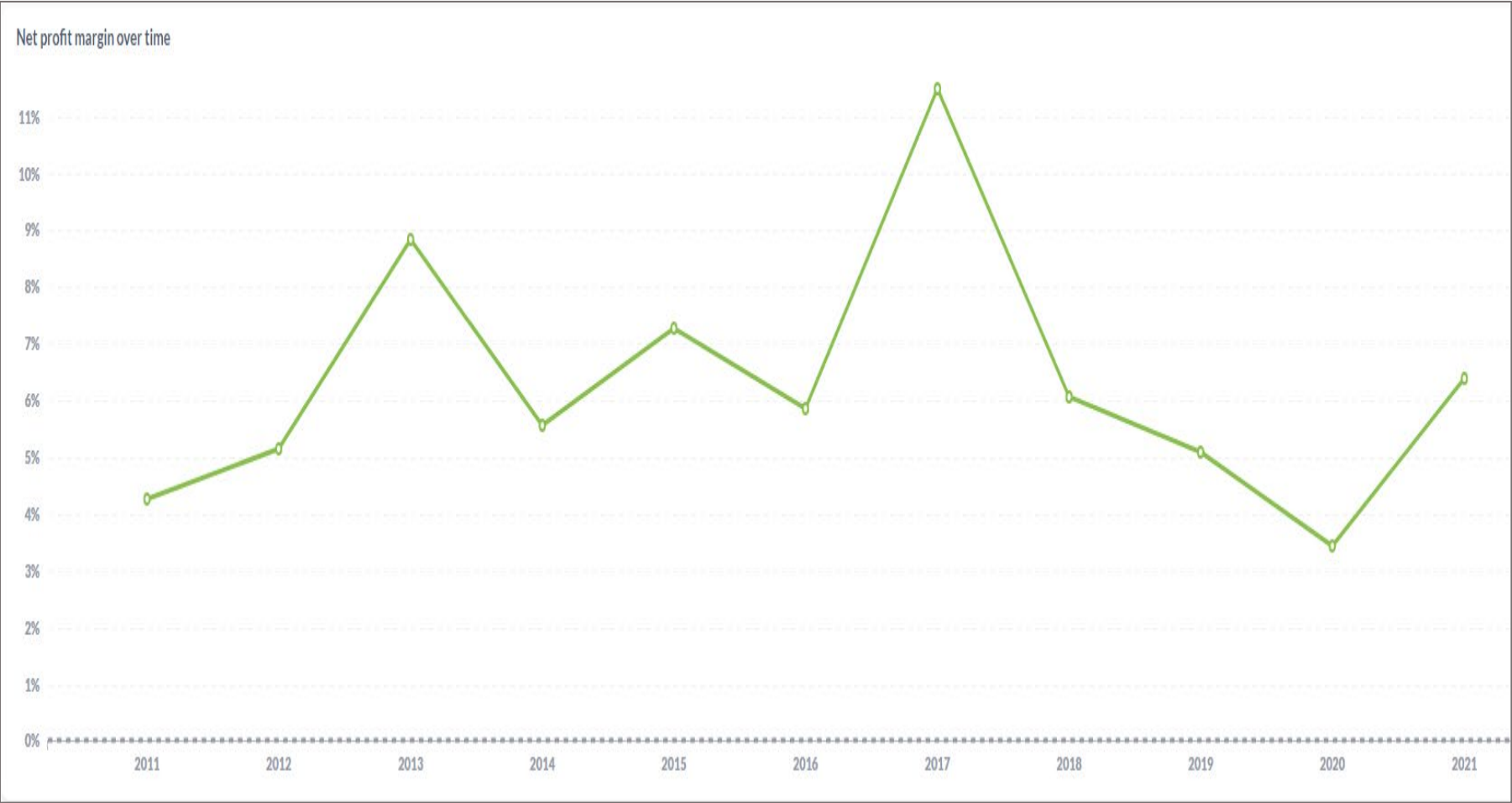
# NASHP Hospital Cost Tool

- **Online tool health purchasers, including state officials, can use to better understand and address hospital costs and prices**
- **Identifies financial data and benchmarks using Medicare Cost Reports**
  - Hospital specific
  - 11 years of data – 4,600 hospitals (Acute Care and Critical Access). 2011-2021 reporting years.
  - MCRs provide hospital level data and are the only national, public source of hospital costs
  - HCRIS Data Base
- **Developed by the National Academy for State Health Policy (NASHP) alongside Rice University, with support from Arnold Ventures. Dashboard by Mathematica.**

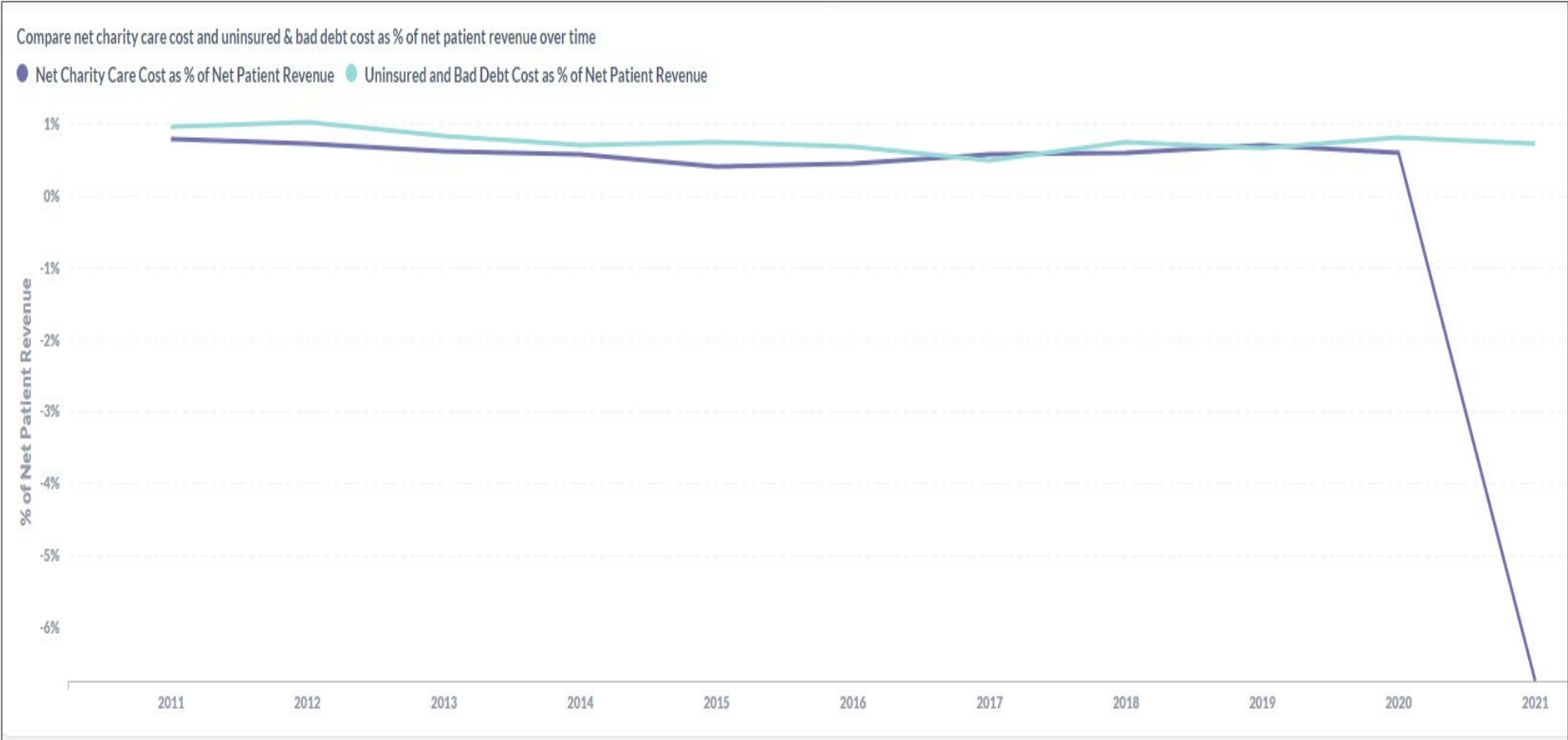
# UVMedical Center – Operating Profit Margin



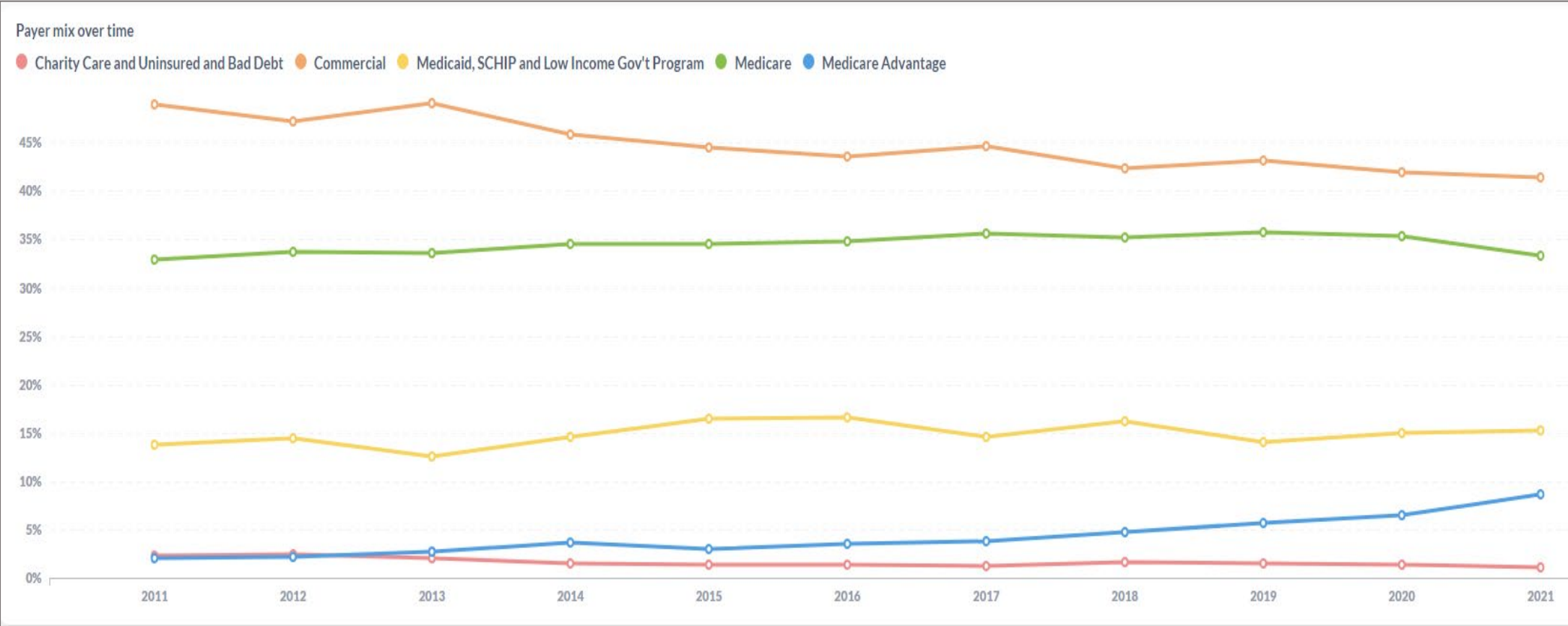
# UVMedical Center – Net Profit Margin



# UVMedical Center – Uncompensated Care



# UVMedical Center – Payer Mix

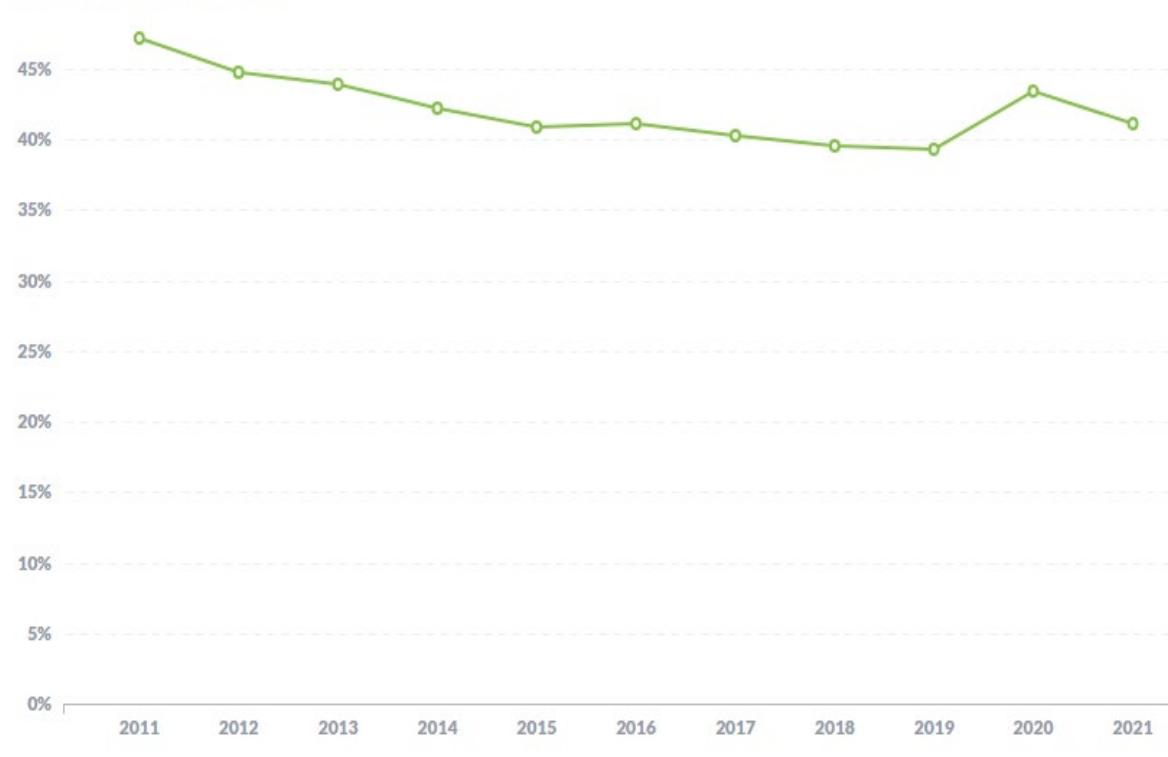


NASHP Hospital Cost Tool, <https://tool.nashp.org/>



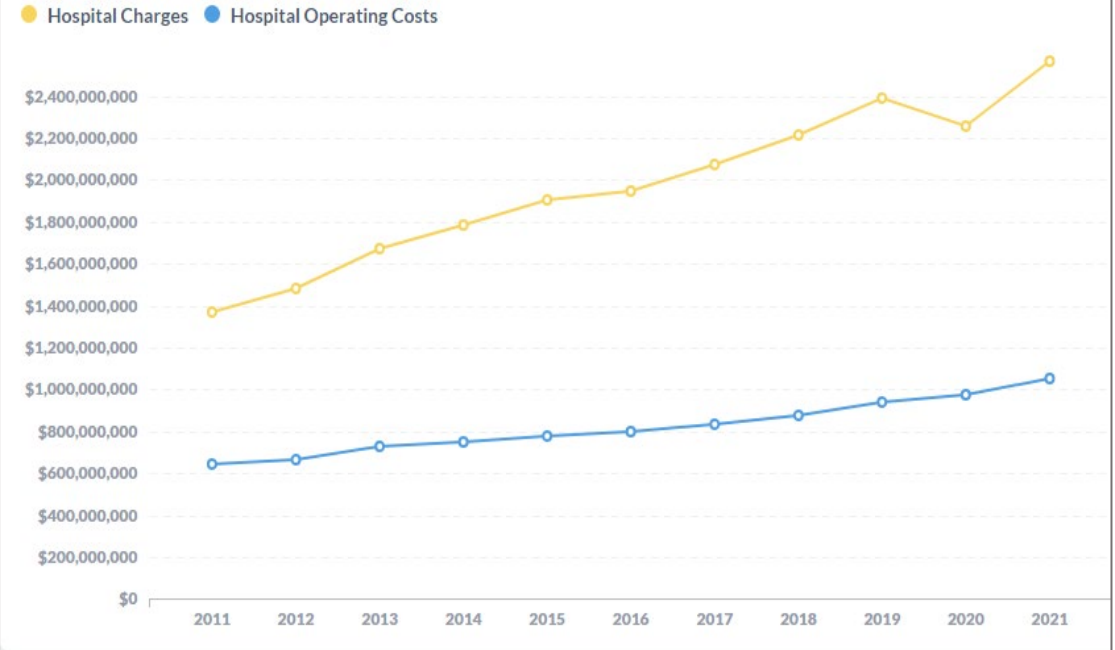
# UV Medical Center – Hospital Costs & Charges

Cost-to-charge ratio over time



Costs = Avg Annual Increase 6%  
Charges = Avg Annual Increase 9%

Hospital operating costs and charges over time



# Labor Metrics

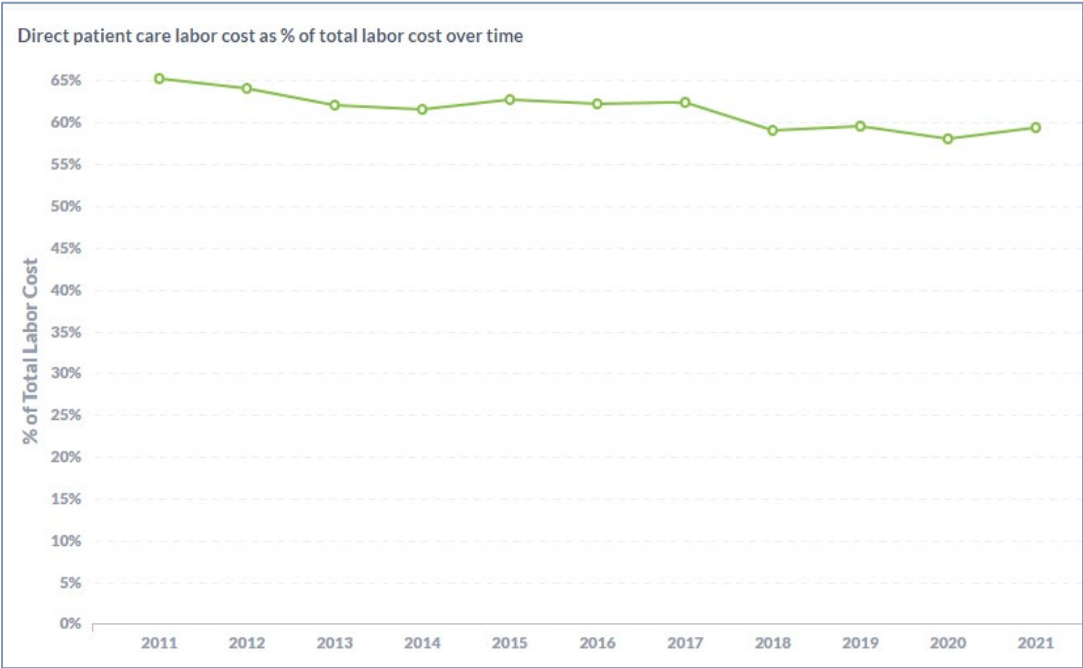
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- **Direct Patient Care.** *Nursing and other patient care staff. Excludes physician.*
- **Overhead.** *Housekeeping, Dietary, Maintenance*
- **Administration.** *Executive, Administrative, Management*
- **Home Office.** *Allocated Staffing, Shared Admin Services*

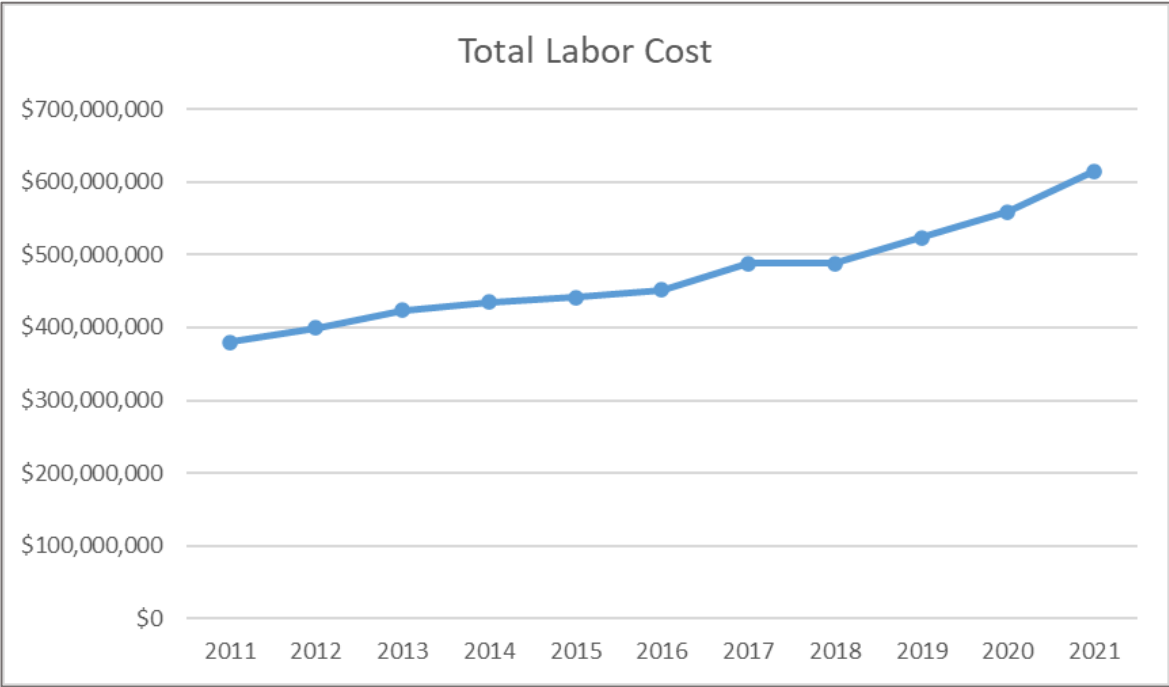
## Research Projects Underway

FTE, Hourly Rates, Staffing Ratios, Contracted vs Staff, Exec Comp

# UVMedical Center – Direct Patient Care Labor



Includes Hospital Staff and Contracted Labor



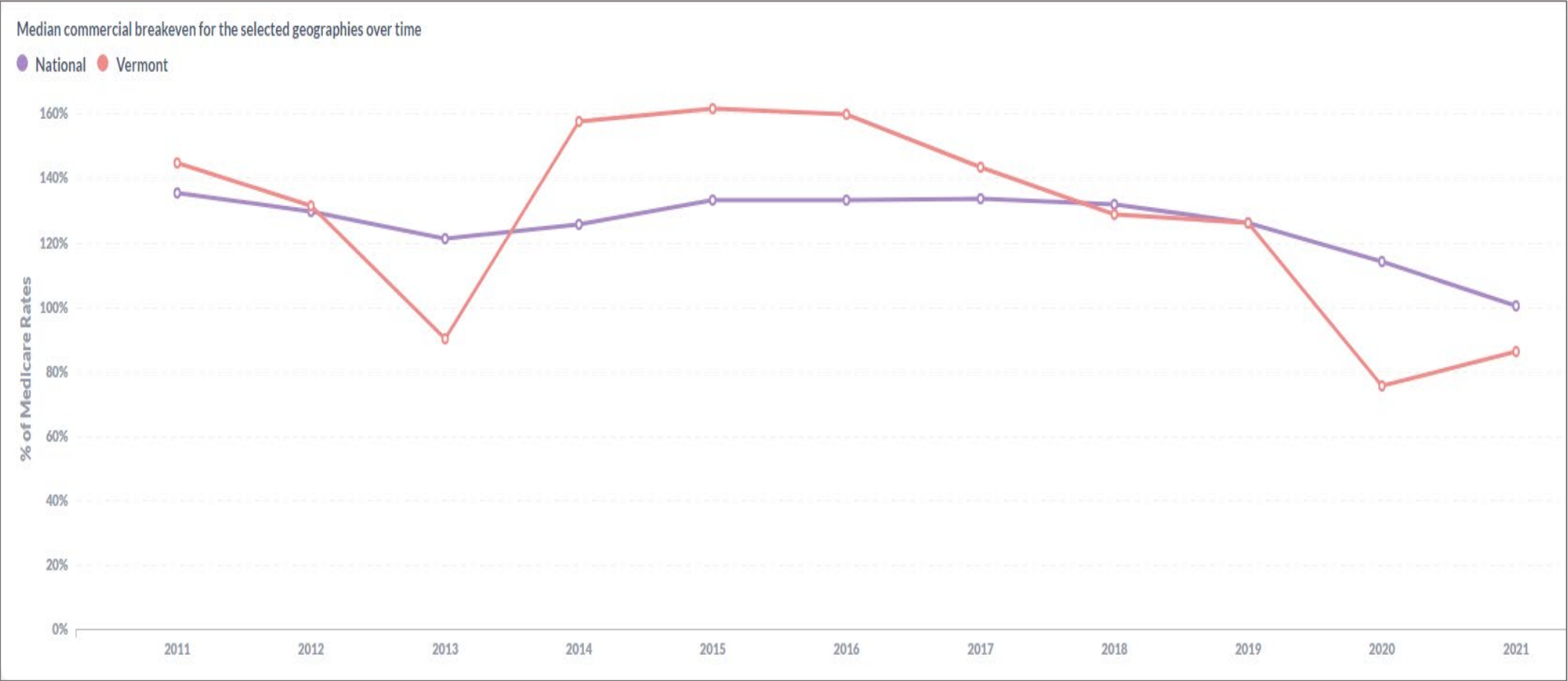


# Breakeven Analysis

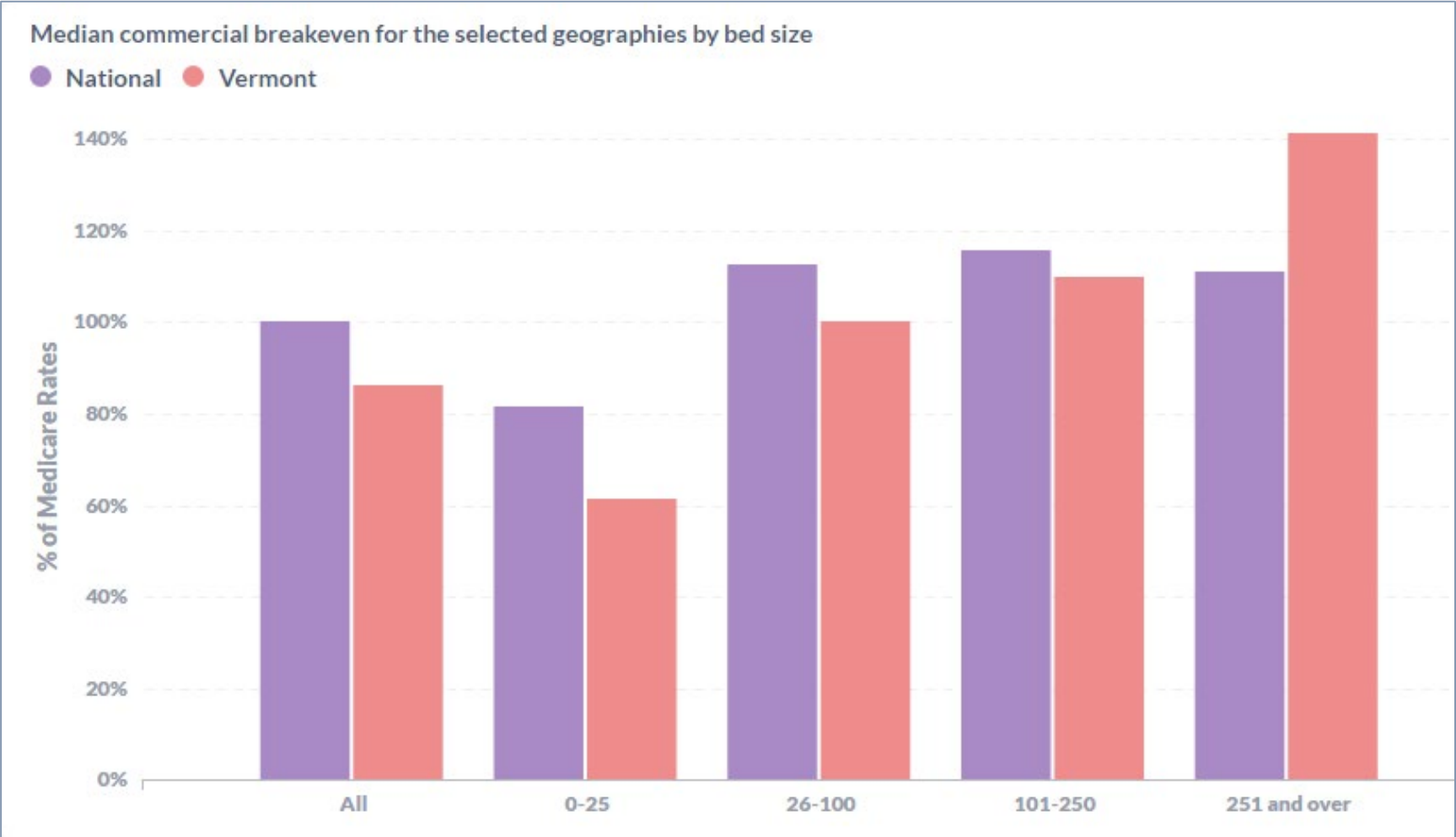
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- **NASHP's Hospital Cost Tool** calculates a hospital's breakeven point: **Revenue = Expenses**
- **NASHP Commercial Breakeven** – how much a hospital needs to be reimbursed by commercial payers in order to cover commercial patient hospital costs, losses from other payers, charity care, uninsured, all Medicare disallowed costs, and other income/other expense.
- **Physician Direct Patient Services** not included, Billed and Reimbursed through other methods.
- **Breakeven and Price** expressed as multiples of the individual hospital's Medicare rates for comparability purchases

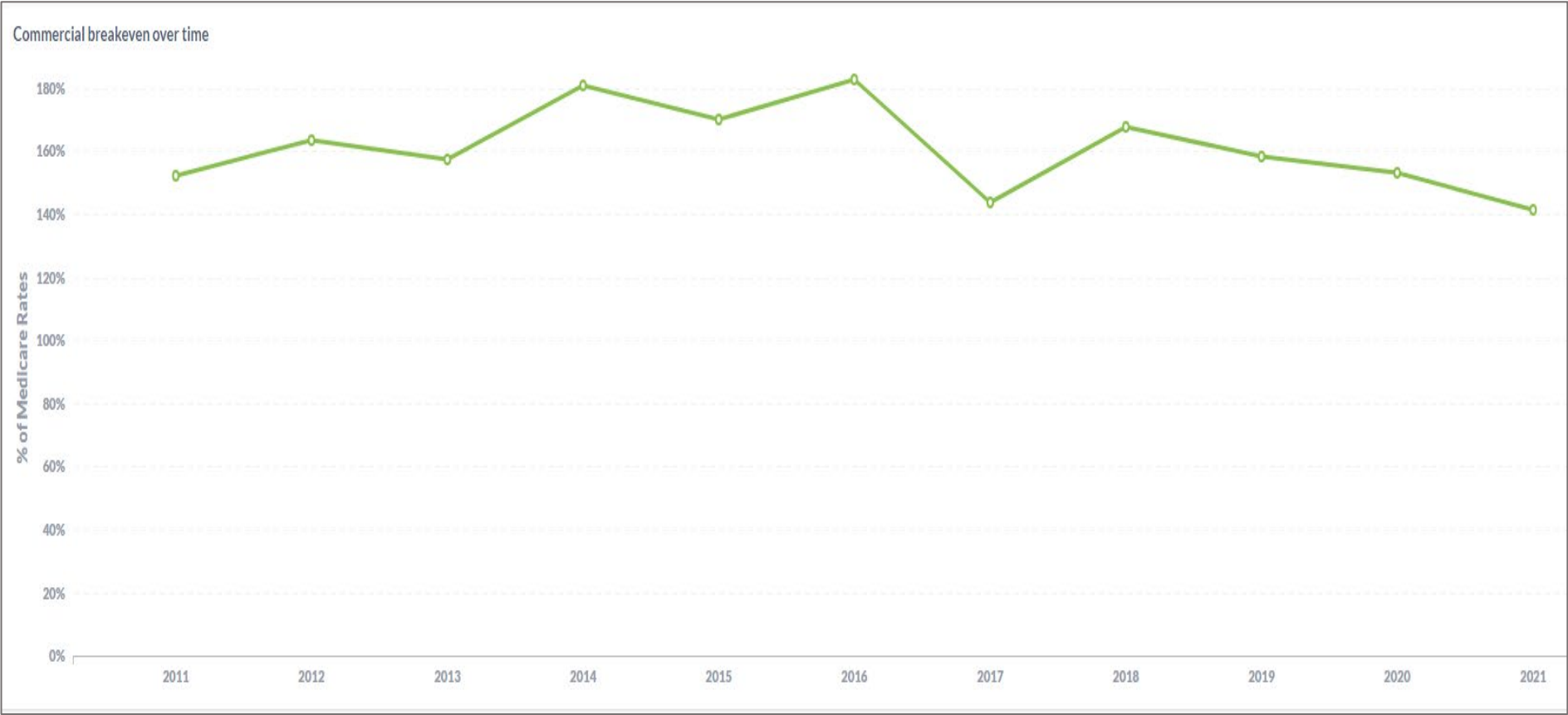
# Vermont Hospitals – Median Commercial Breakeven



# Vermont Hospitals – Commercial Breakeven 2021



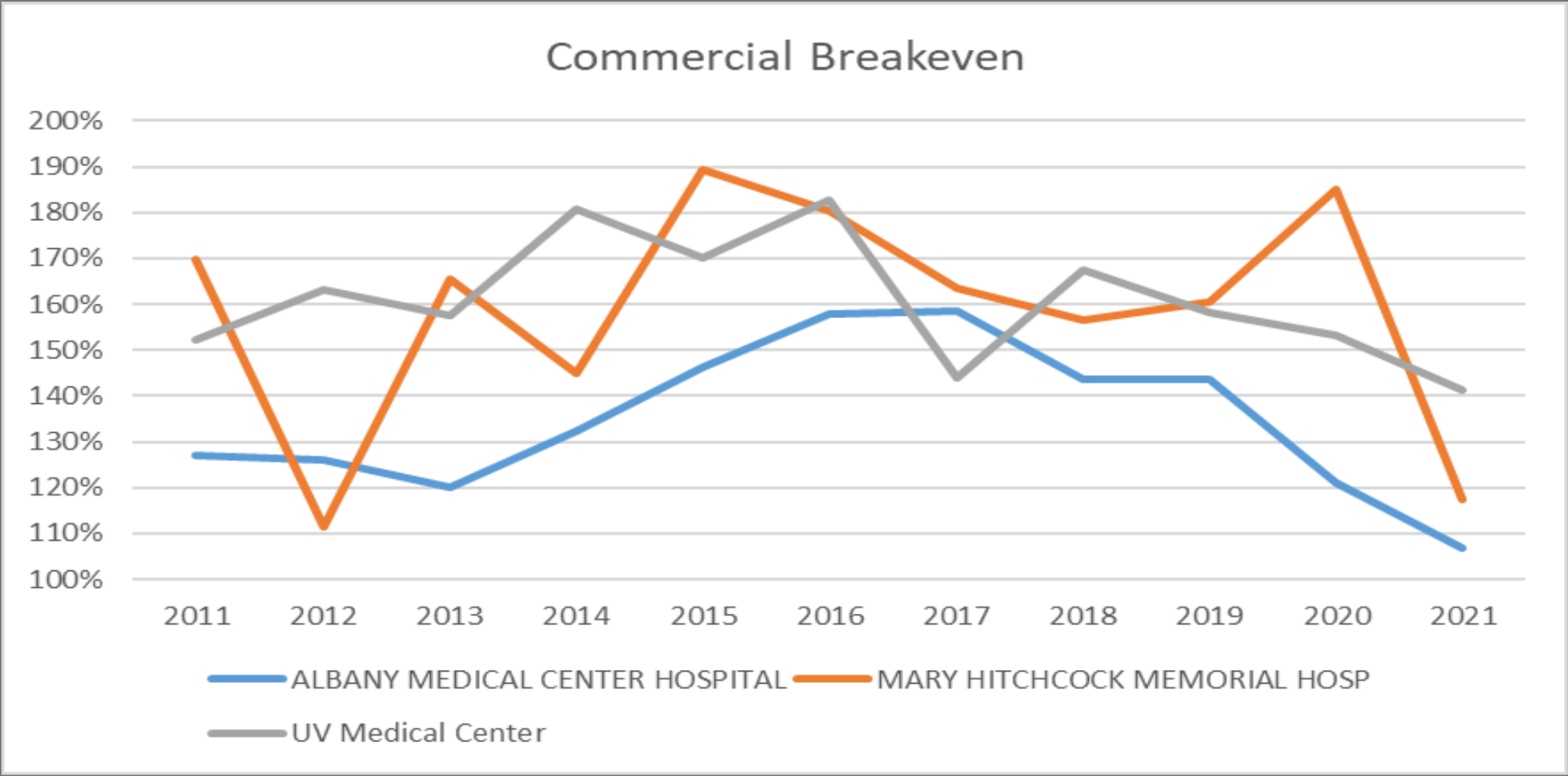
# UV Medical Center – Commercial Breakeven



NASHP Hospital Cost Tool, <https://tool.nashp.org/>



# Comparing Breakeven Levels



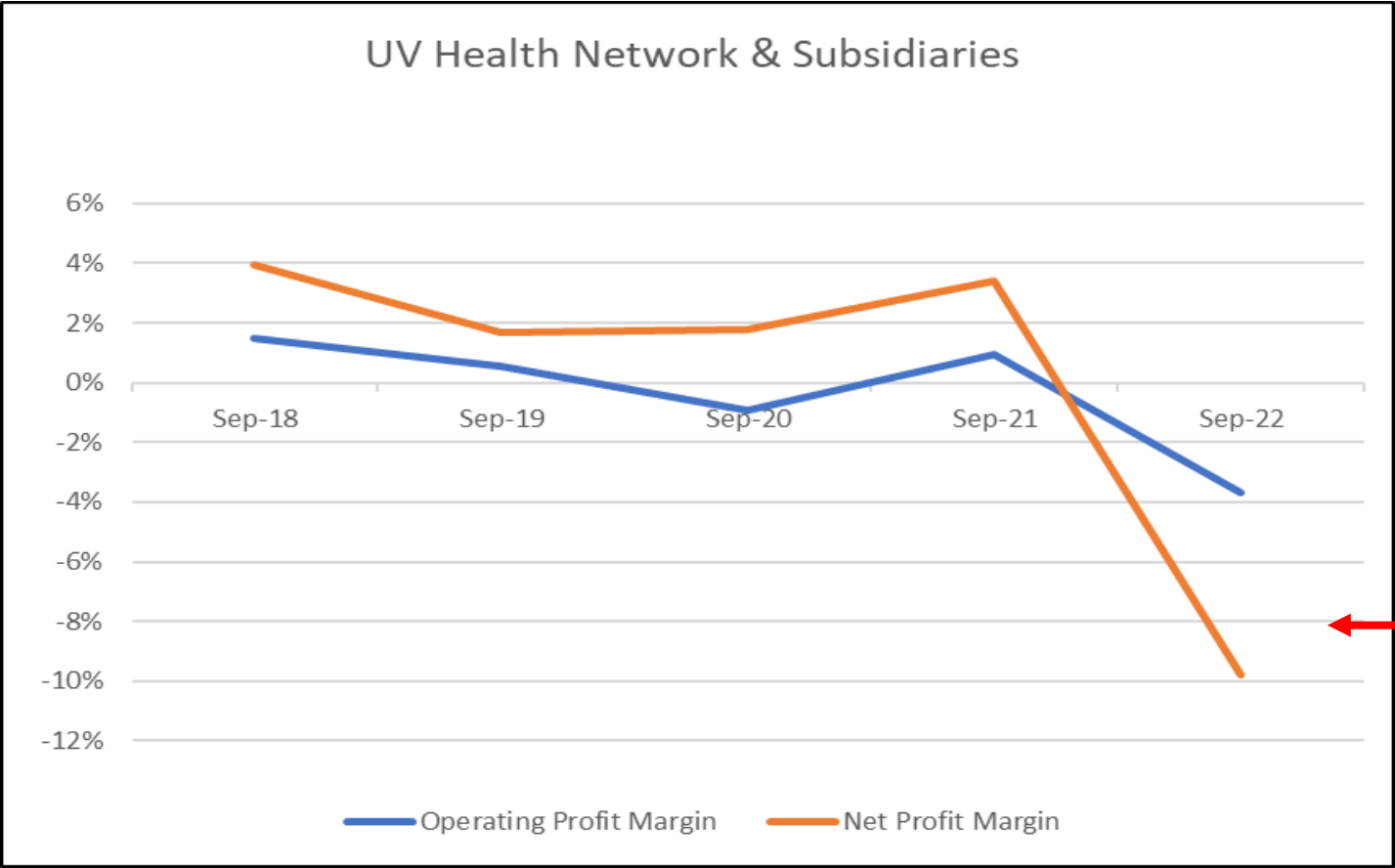
# University of Vermont Health Network (UVHN)

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- Hospitals
- Nursing Homes
- Long-Term Care and Rehab Facilities
- Foundations
- Imaging Centers
- Physician Services
- Medical Transports
- For-Profit Investment Company
- Prof Liability and Gen Liability Coverage
- Home Care and Hospice Services
- ACO
- Health Network Ventures Holding

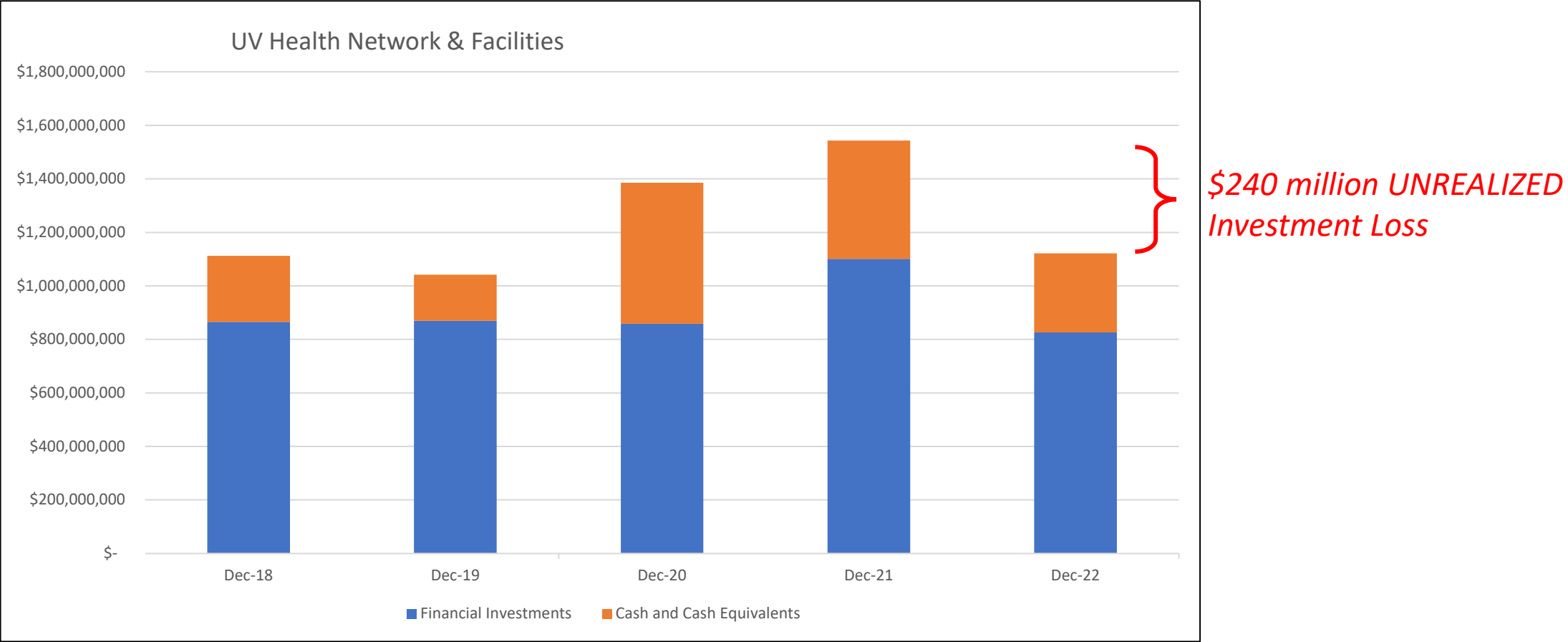
- UV Medical Center (UVMC)
  - UVHN Specialty Care Transport
  - UVMC Skilled Nursing
  - UVMC Foundation
  - UVMC Executive Services
  - Medical Center Condominium Assn

# UVHM Profit Margins



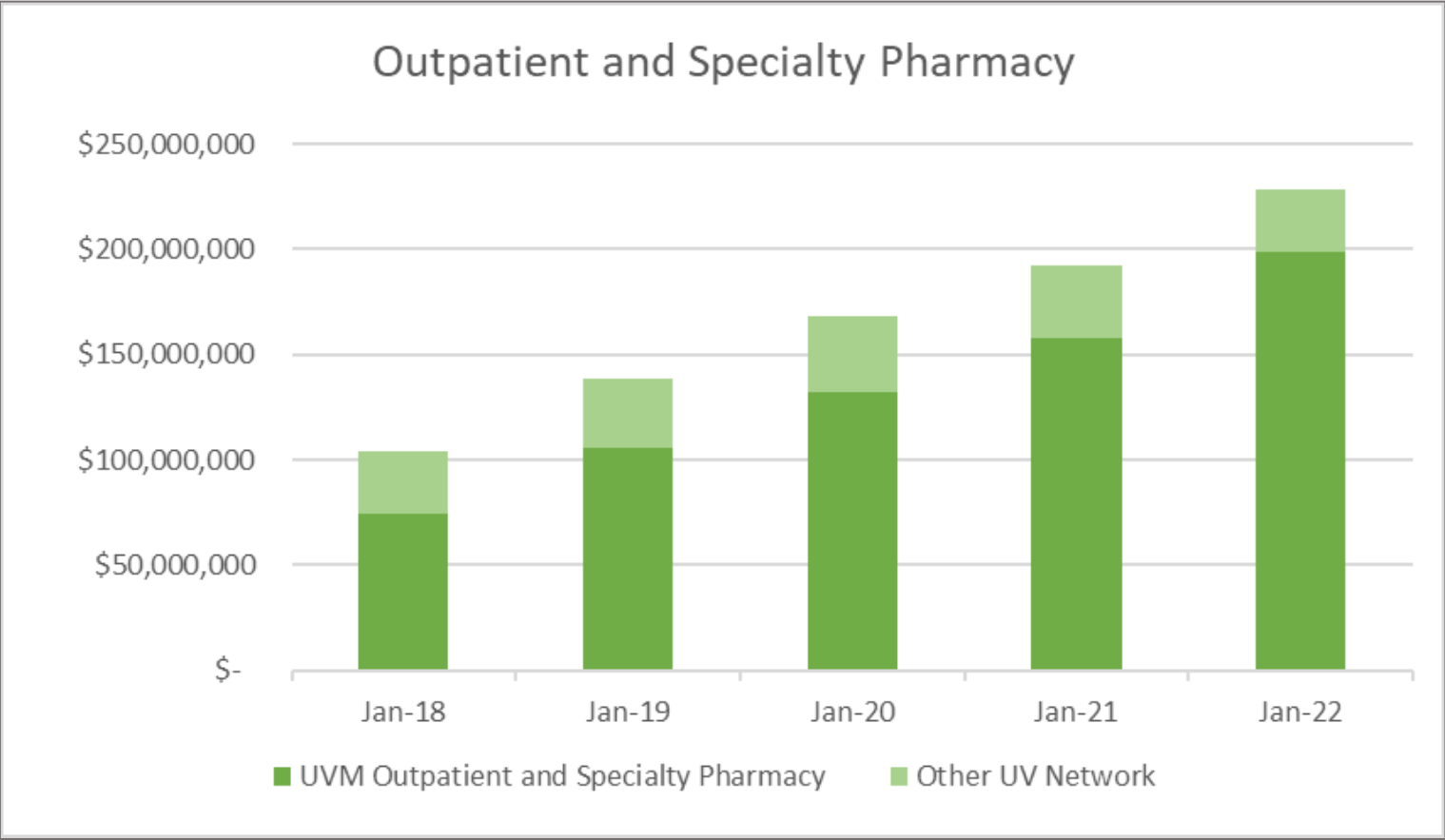
2022 = -10% Net Profit Margin  
(-9% from UNREALIZED investment losses)

# UVHN Financial Assets





# 340B Drug Program



“UVMHN’s extremely high reliance on net income from the 340B drug program..”

*Moody’s Investor Services, May 2022*

# Thank you!

Hospital Cost Tool and Calculator

<https://www.nashp.org/policy/health-system-costs>

<https://www.nashp.org/hospital-cost-tool/>

Electronic Municipal Market Access – MSRB

<https://emma.msrb.org>



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