



**House Health and Insurance Committee
Testimony in Support of HB1320**

April 24, 2019

Good afternoon, Madam Chair and Committee Members:

My name is Robert Smith. As the Executive Director of the Colorado Business Group on Health, I am here in unequivocal support of HB1320.

As you may recall, CBGH is a non-profit coalition of public and private employers working to address the wide and generally inexplicable variation in both the quality and the price of health care across and within Colorado communities.

As context for why I support this bill, I will preview for you the results of a multi-state study of hospital pricing by the Rand Corporation that will be released on May 9th.

Because Medicare adjusts payments to each hospital's economic circumstance, Medicare payment facilitates an apples-to-apples pricing comparison. Using Medicare as a reference, the Rand report – covering commercial payments from 2015 to 2017 for 22 states – will show four things...

1. With payments that are 2.5 times higher than Medicare, Colorado hospitals were the 7th highest paid of the states. Having said that however...
2. Across Colorado, overall prices range from 200 to 400 percent of Medicare - making a couple of our regions among the most expensive in the US. One health system's out-patient prices are 450% of Medicare. And in one region, a hospital's pricing for emergency services was 900% of Medicare's adjusted payments!
3. Hospital prices increased *faster in Colorado than in all but one other State*.
4. Hospital operating margins were 9.4% here compared to the national average of just under 2%, making even our "non-profit" hospitals among the most profitable in the country.

This kind of pricing explains, for me, several inter-connected market dynamics:

1. It explains why cost-shifting to employers is not only continuing *but increasing* in Colorado when both national and State studies indicate that *it should not be*. (e.g, MedPAC¹ economists determined that high payments lead to hospitals to have less control over their costs.)
2. It explains how our non-profit hospitals can afford to have adjusted expenses per patient day (at \$3800) that are 50% higher than expenses of non-profits nationally (at \$2500)²
3. It explains why an industry with an occupancy rate of 63% in 2016-17 could afford 5 new and 5 replacement hospitals, could build free-standing Emergency Departments across the Front Range, and could purchase hundreds of physician practices.

¹ MedPAC is the "Medicare Payment Advisory Commission" that annually examines the adequacy of Medicare payments to hospitals in a report to Congress.

² See "Becker's CFO Report" in sources listed below.

4. And it probably explains why hospital quality nationally is going down as hospitals consolidate and why Colorado hospitals were the 8th most penalized in the country by Medicare in 2018 for hospital acquired complications. High quality tertiary and quaternary care requires high volumes.³

In short, we support this bill because Colorado employers and employees, who pay a premium at hospitals that are tax exempt, deserve to know that *at least some* of those payments are being invested in ways that address their communities' needs and social determinants.

I want to close by recognizing, and expressing our appreciation for, the vital role that the Department of Health Care Policy and Financing plays in bringing light to bear on the irregularities and vagaries of the health care market. Beyond that, HCPF has provided a roadmap for the State to a more efficient and effective health care market place and continues to provide impartial, objective data and strategies that can help employers purchase care with greater insight and more proactively.

Thank you for your time and attention.

Robert J. Smith
Executive Director
The Colorado Business Group on Health

Sources:

Becker's CFO Report, "**Average hospital expenses per patient day across 50 states**," January 2019
<https://www.beckershospitalreview.com/finance/average-hospital-expenses-per-inpatient-day-across-50-states.html>

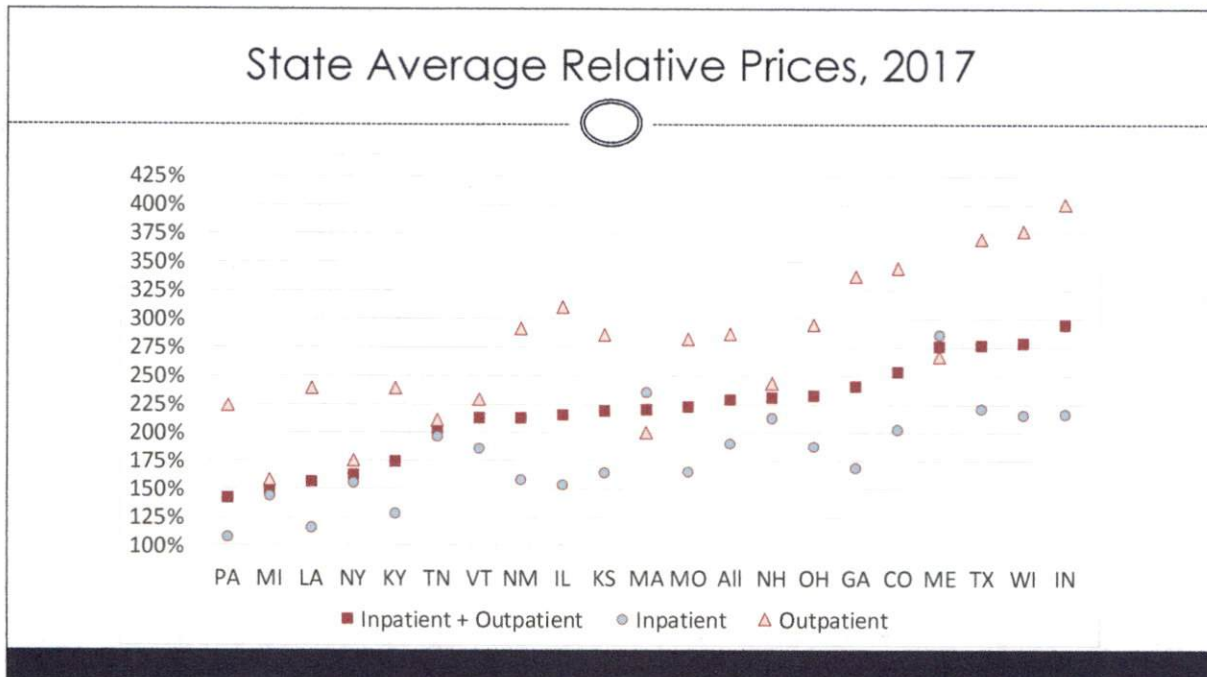
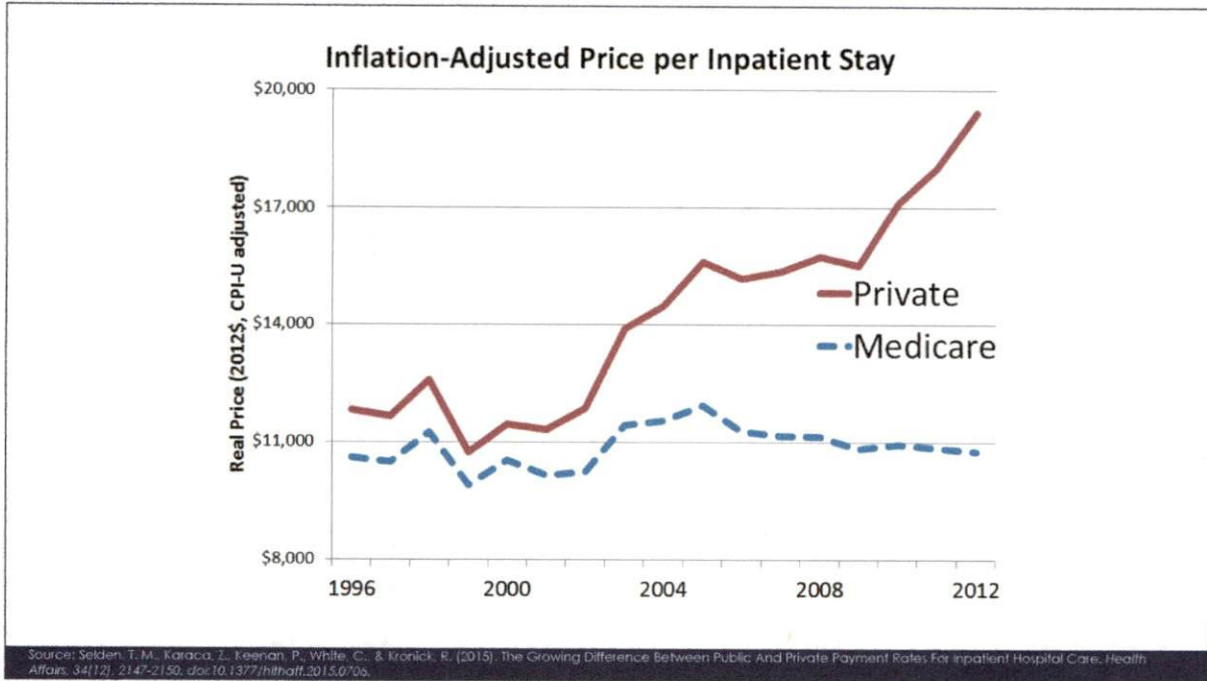
Denver Post, "**Coloradans pay more as hospital building spree leads to empty beds and profits nearly twice the national average**," October 2018
<https://www.denverpost.com/2018/10/04/colorado-health-care-costs-escalate/>

Denver Post, "**Colorado hospitals under scrutiny**," April 2018
<https://www.denverpost.com/2018/04/27/colorado-hospitals-infections/>

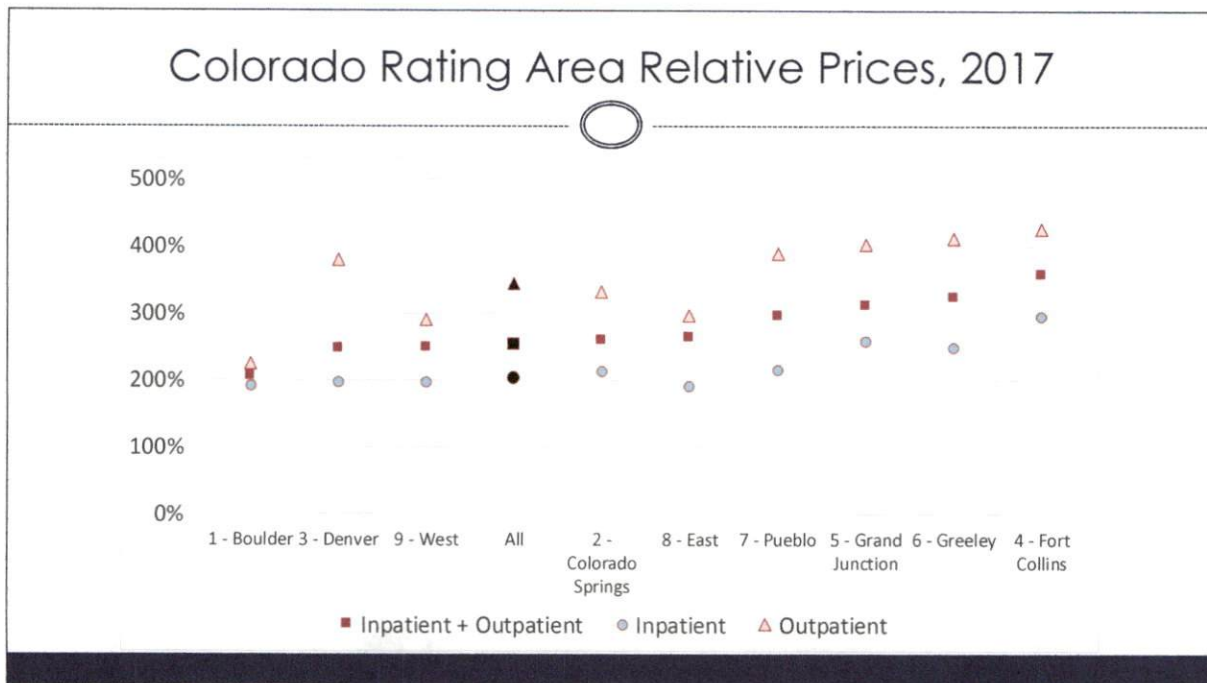
Denver Business Journal, "**Cost-Shift Crisis: Colorado business being disproportionately hit with rising hospital charges**," July 2018
<https://www.bizjournals.com/denver/news/2018/07/26/cost-shift-crisis-colorado-hospital-charges.html>

³ High quality is neither assured or even reflected by high prices in health care. About half the literature shows no quality-price relationship and about half suggests that high prices reflect low quality because of low volumes.

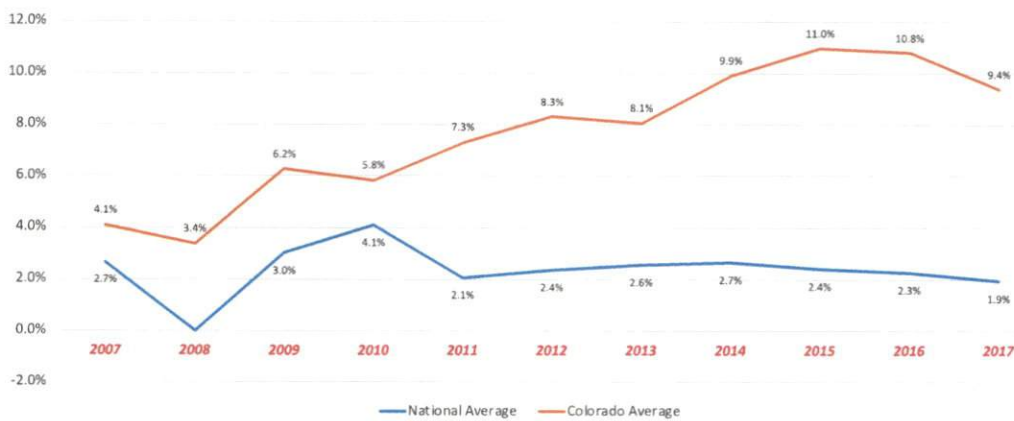
From the Rand Corporation's 2019
National Employer-led Transparency Study
 Previewed April 5, 2019
 (Full report to be released May 9th, 2019)



Colorado Rating Area Relative Prices, 2017



Hospital Operating Profit Margins: CO vs US



RAND Corp. Hospital Database <http://hospitaldata.rand.org/>

File Names: rand_hcris_cy_hosp_a_2018_09_01.csv.zip, rand_hcris_cy_st_a_2018_09_01.csv.zip, rand_hcris_cy_natl_a_2018_09_01.csv.zip