



**CALIFORNIA
HOSPITAL
ASSOCIATION**

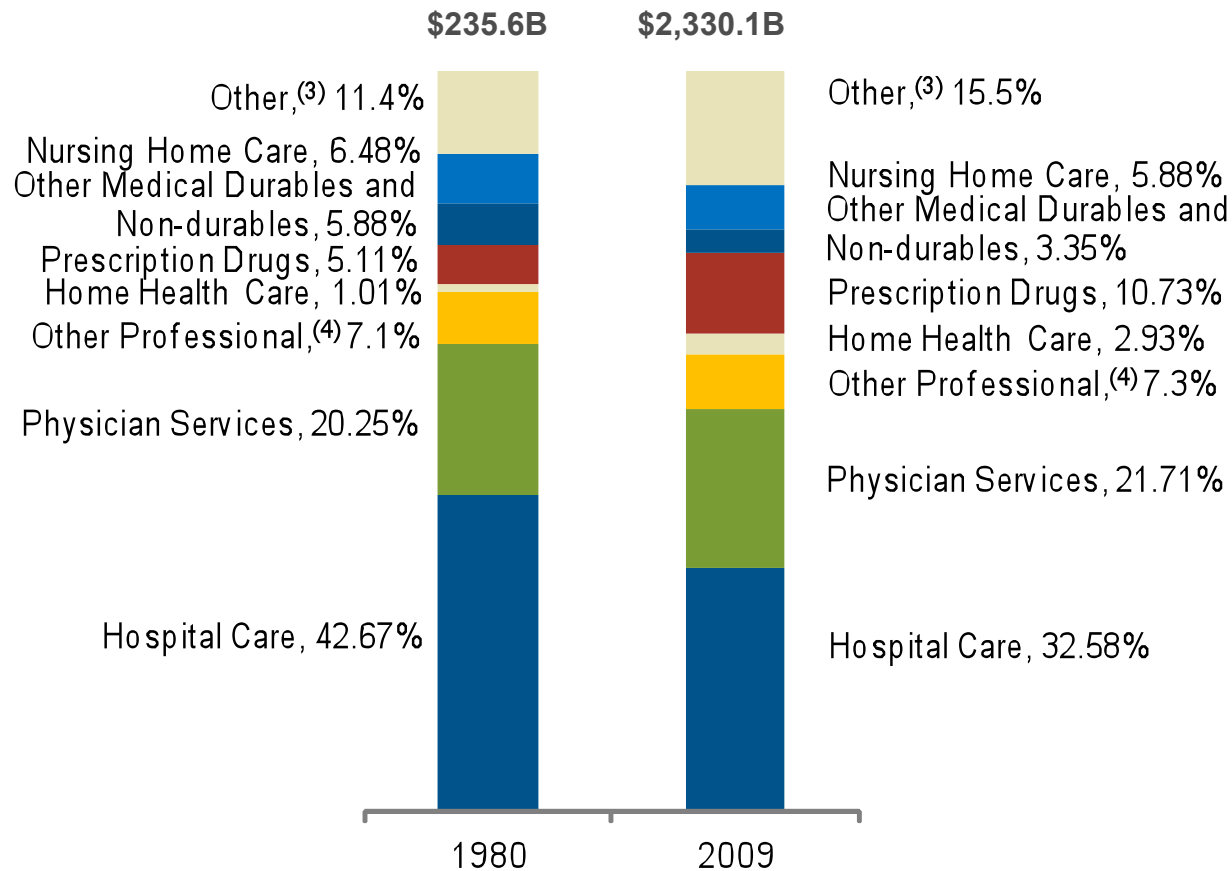
*Providing Leadership in
Health Policy and Advocacy*

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NATIONAL HEALTH EXPENDITURES BY CATEGORY



Source: Centers for Medicare & Medicaid Services, Office of the Actuary. Data released January 6, 2011.

(1) Excludes medical research and medical facilities construction.

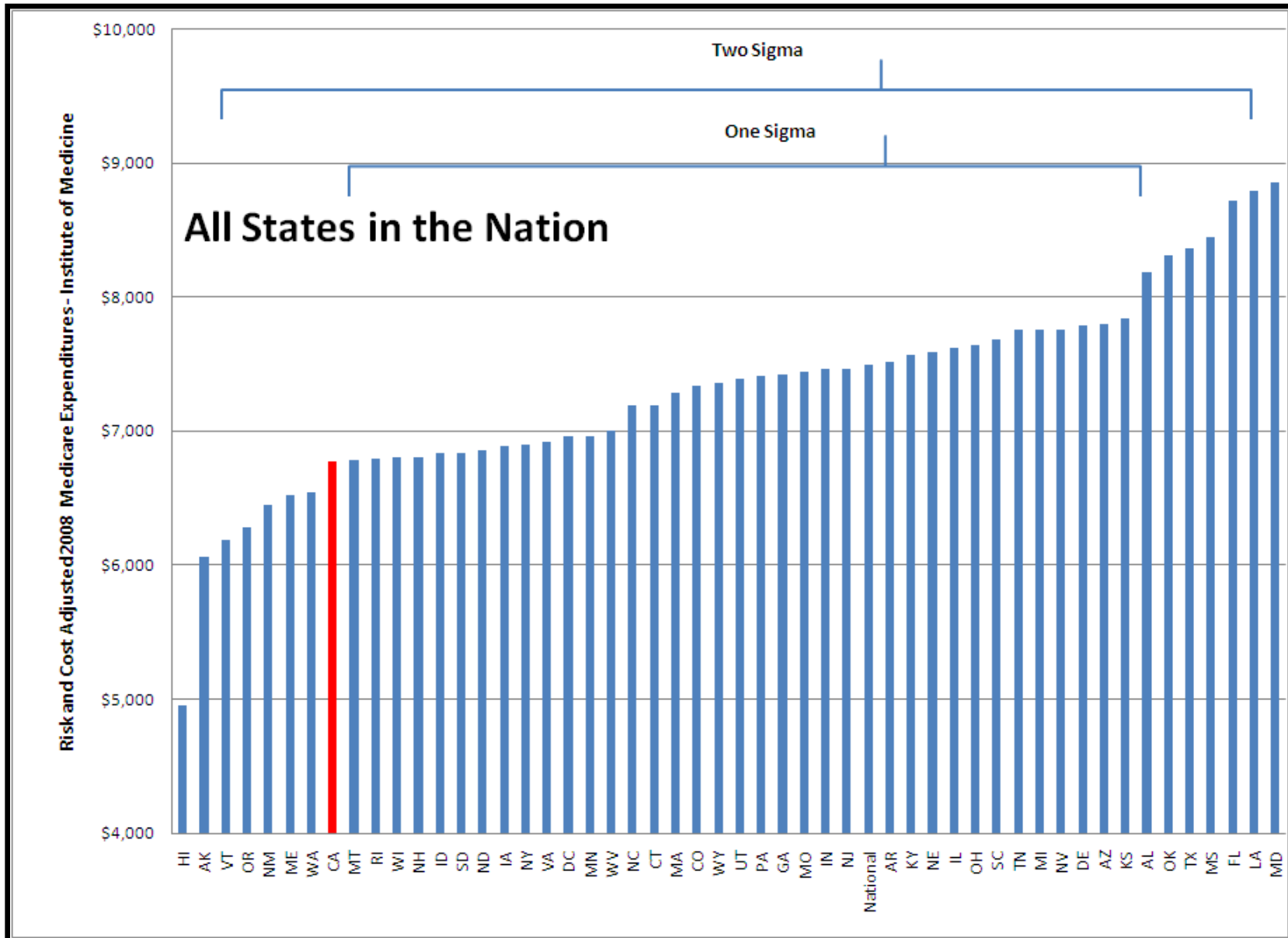
(2) CMS completed a benchmark revision in 2009, introducing changes in methods, definitions and source data that are applied to the entire time series (back to 1960). For more information on this revision, see <http://www.cms.gov/nationalhealthexpenddata/downloads/benchmark2009.pdf>.

(3) "Other" includes net cost of insurance and administration, government public health activities, and other personal health care.

(4) "Other professional" includes dental and other non-physician professional services.

Source: American Hospital Association

CA SPENDS 90% OF NATIONAL AVERAGE



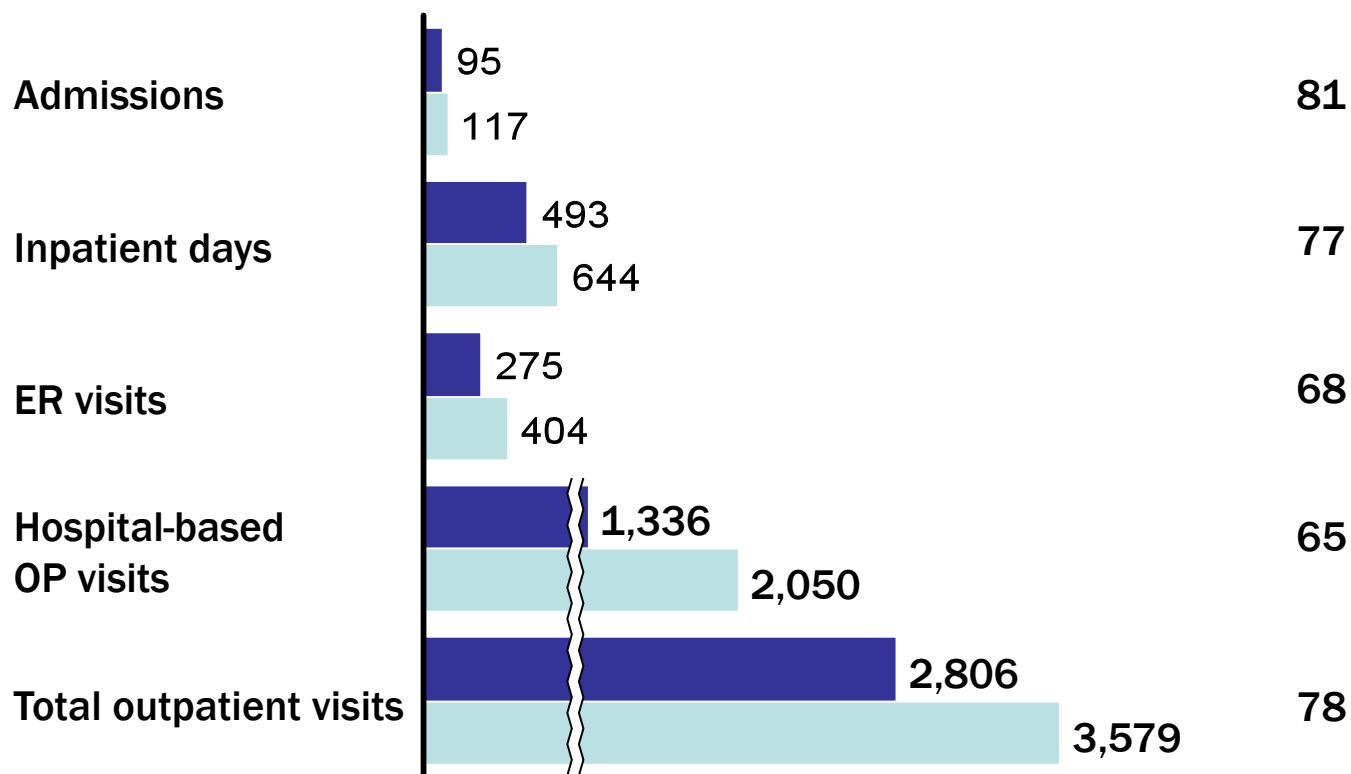
CALIFORNIA UTILIZATION RATES ARE ALSO LOW

Utilization rates in 2008¹

Number of encounters/days per 1000 population

CA utilization as percent of U.S. average

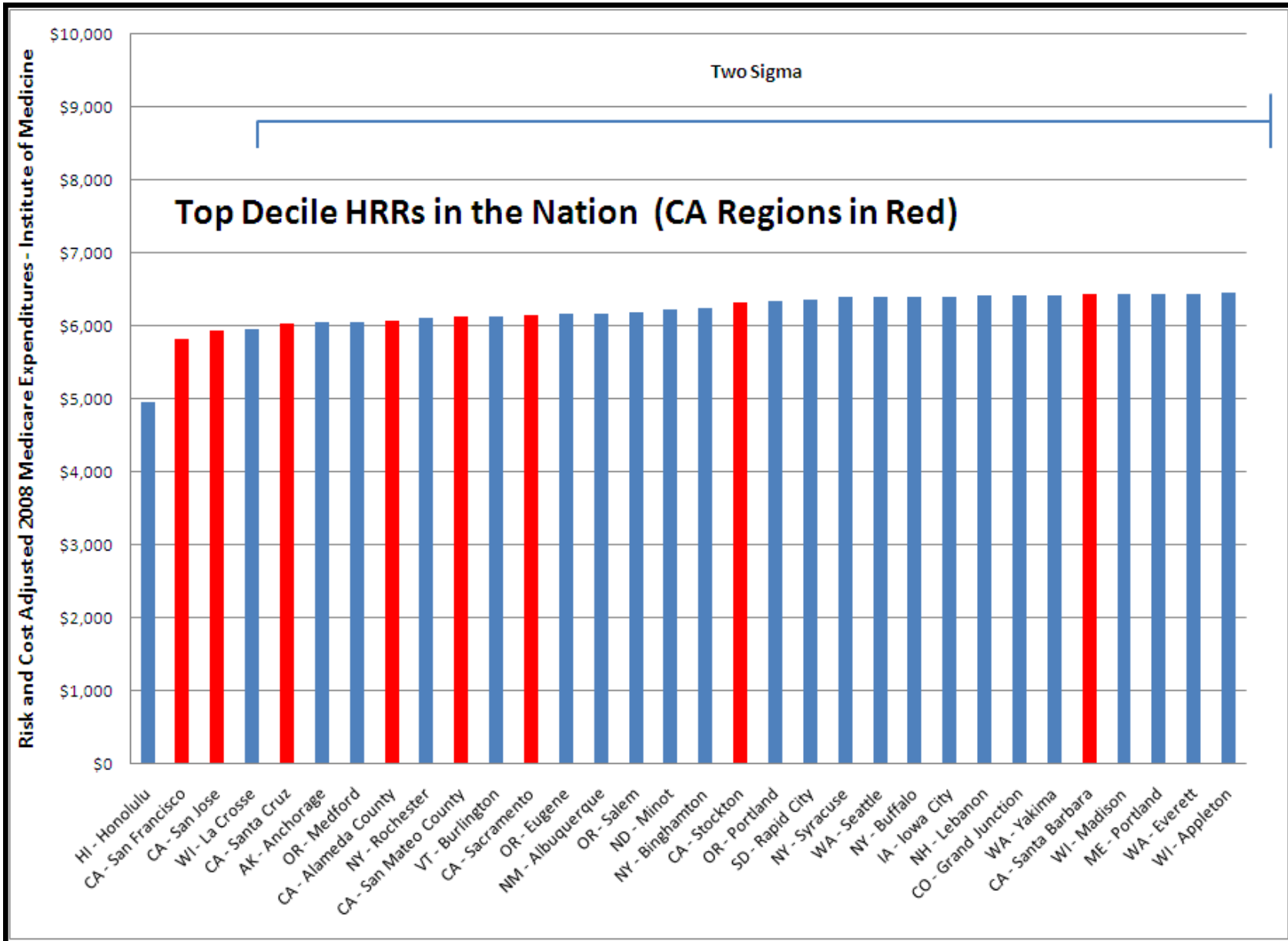
Percent



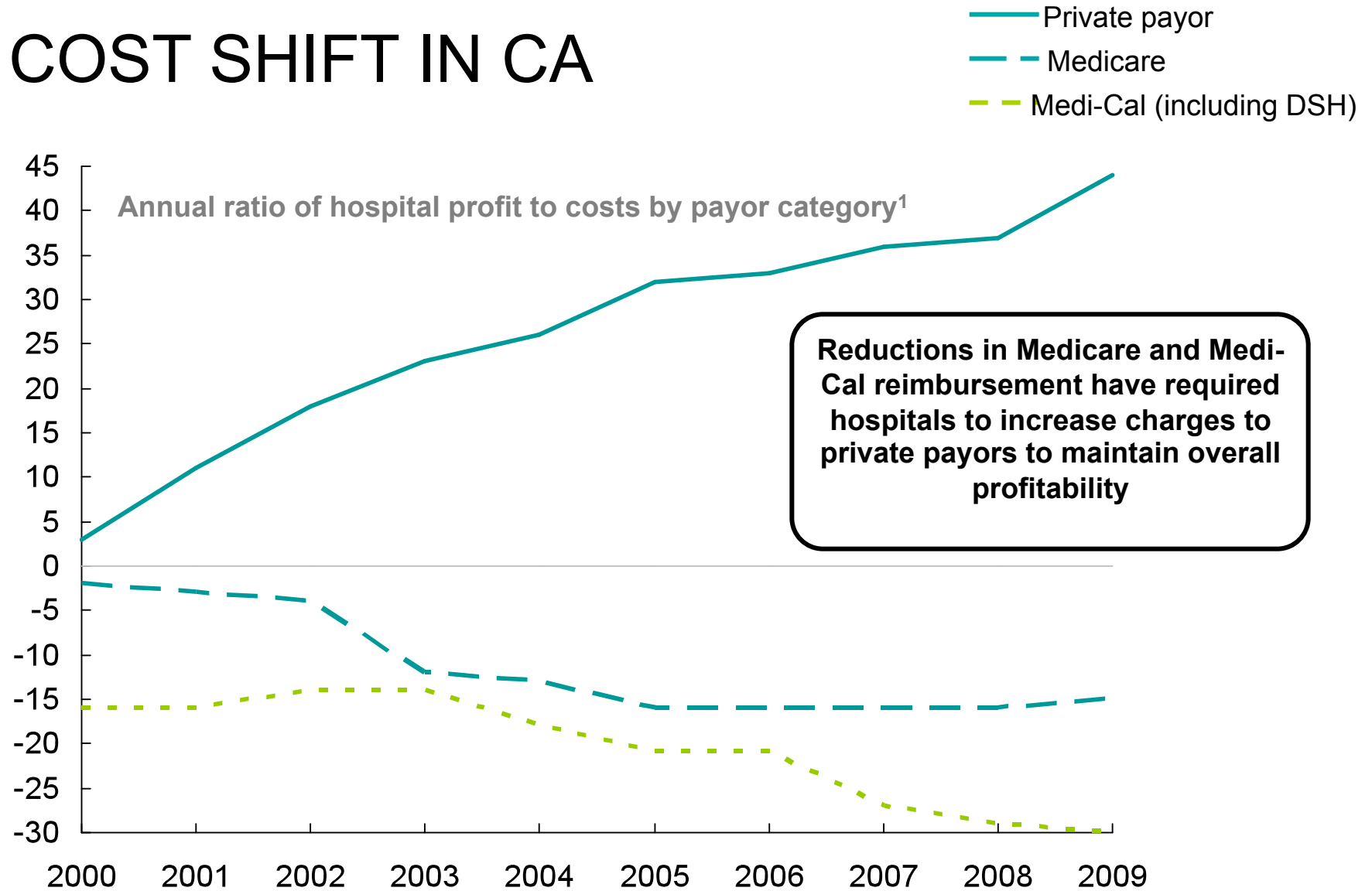
¹ Data are for total population of community hospitals (85% of all hospitals). Federal hospitals, LTC hospitals, psychiatric hospitals, institutions for the mentally retarded, and alcoholism and other chemical dependency hospitals are not included.

Source: Kaiser State Health Facts

CA AS BEST IN NATION

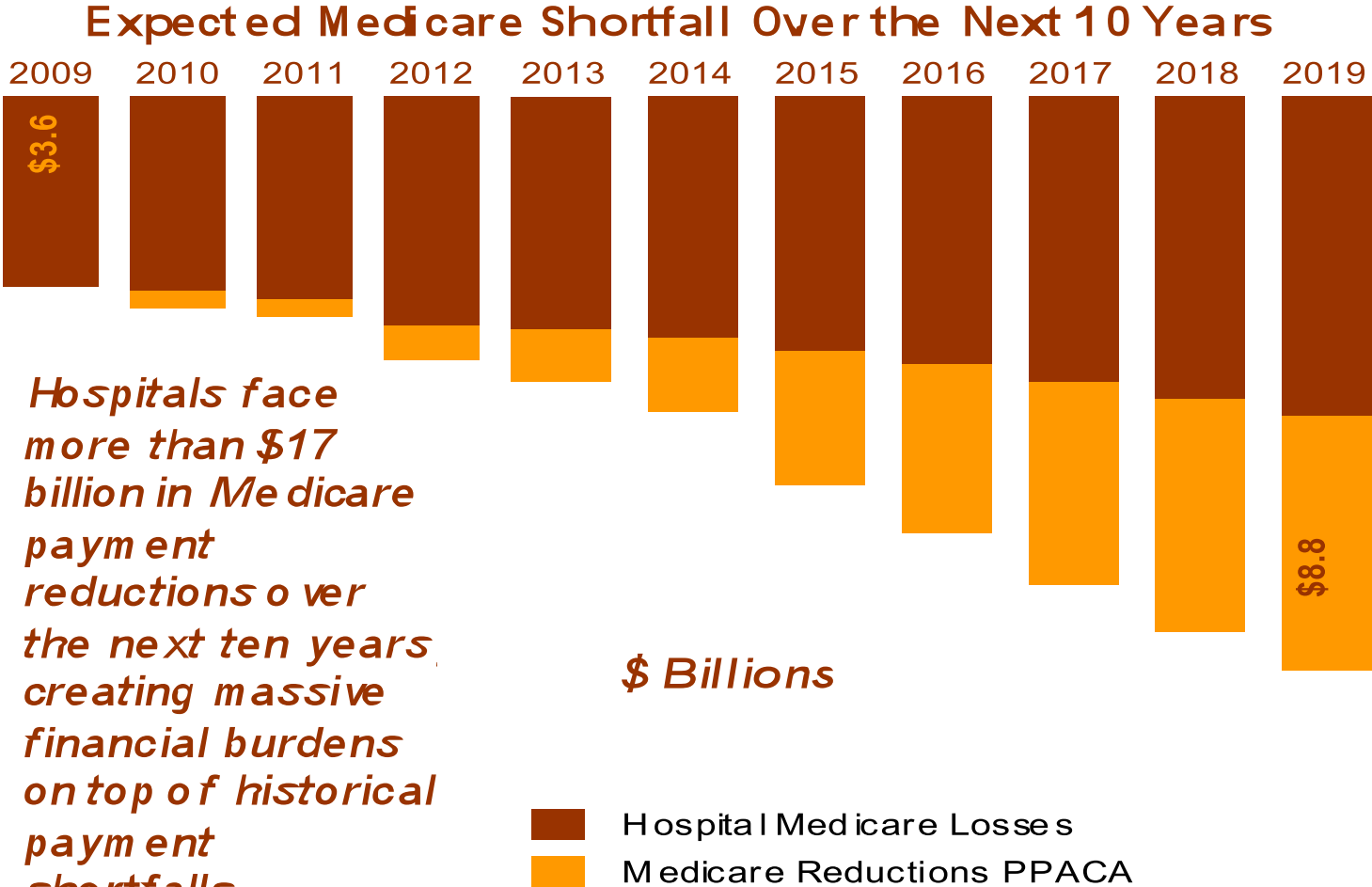


COST SHIFT IN CA



¹ Profit-to-cost ratio calculated by payor category in each year using the formula: $(\text{Net Patient Revenue} - \text{Hospital Costs}) / (\text{Hospital Costs})$

IMPLEMENTING REFORM WILL CREATE FINANCIAL CHALLENGES FOR HOSPITALS



CALIFORNIA HEALTH BENEFIT EXCHANGE

Some concerns:

- ❖ Market “outside” Exchange could be vulnerable
- ❖ Could lead to “adverse selection”
- ❖ Exchange success requires a robust risk pool
- ❖ Consumers may be at risk
- ❖ Exchange should not be involved in rate setting for providers
- ❖ Rates below cost could result in further cost shift

ACA implementation will pose further challenges for California

Unique challenges of ACA implementation in California

Already high levels of cost-shifting, given low Medi-Cal payment rates and high uninsured population

High level of Medicare Advantage penetration, where dramatic cuts will take place near-term

Insurance Exchange where many changes (rate compression, outside activity) will take effect and may cause disruption

\$17 billion in cuts to hospital Medicare FFS payments through 2019

Severe State budget crisis and high levels of unemployment continue in California

The potential dangerous cycle that could be triggered

1 Federal and state governments further reduce Medicare and Medi-Cal reimbursement rates



3 High premiums cause further employer "dropping" and rise in subsidized individual coverage and uninsured, further burdening federal and state government budgets



Medical costs

- Medicaid/Medicare
- Private payors

2 Cost shifts from public to private payors, significantly increasing commercial premiums



Leads to significant risk pool deterioration in insurance market and destabilization of overall payment and delivery system