



CALIFORNIA
HOSPITAL
ASSOCIATION

Cost Drivers in Healthcare

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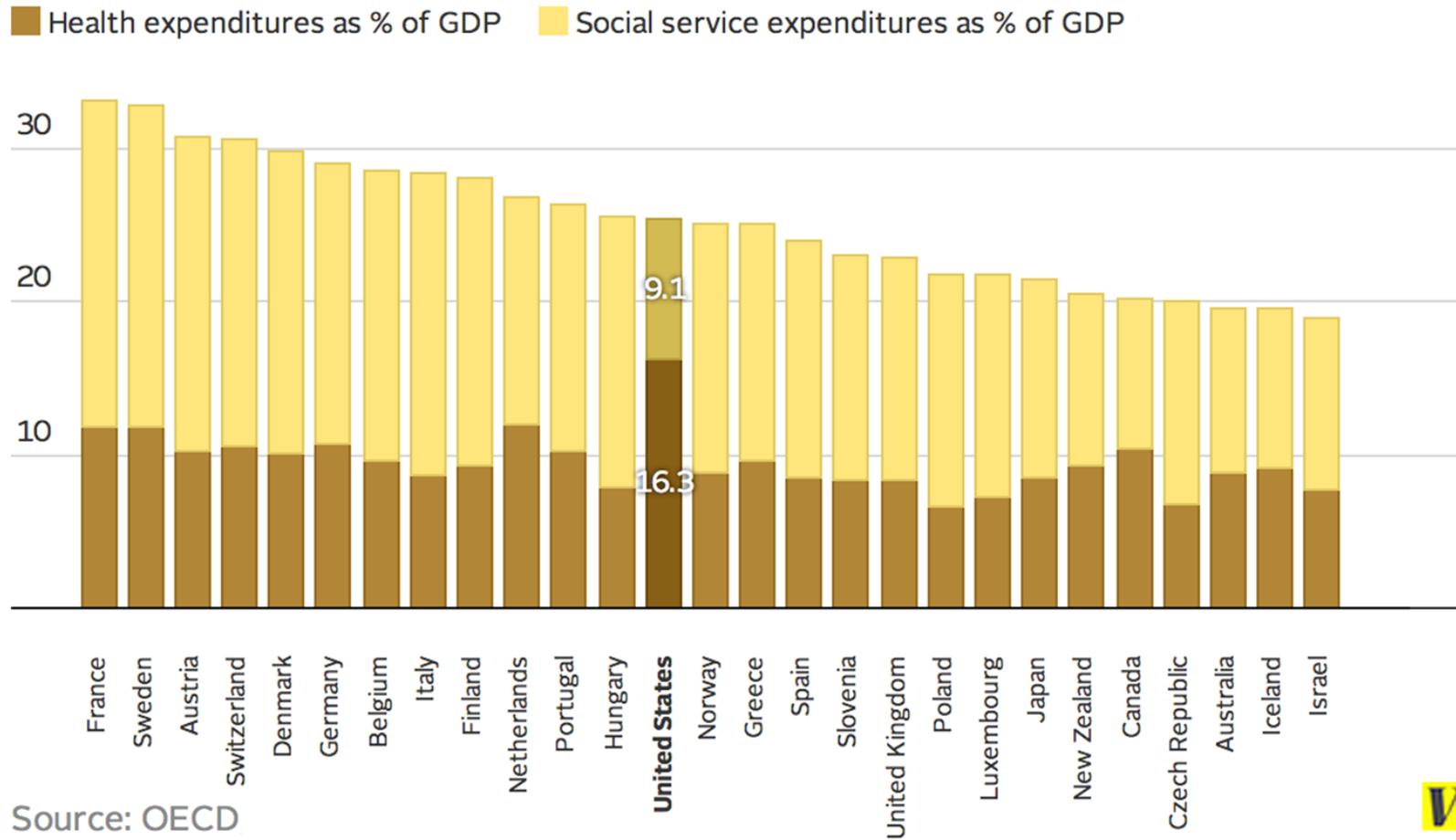
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Social Spending vs Health Spending

The U.S. is an anomaly in health and social spending patterns

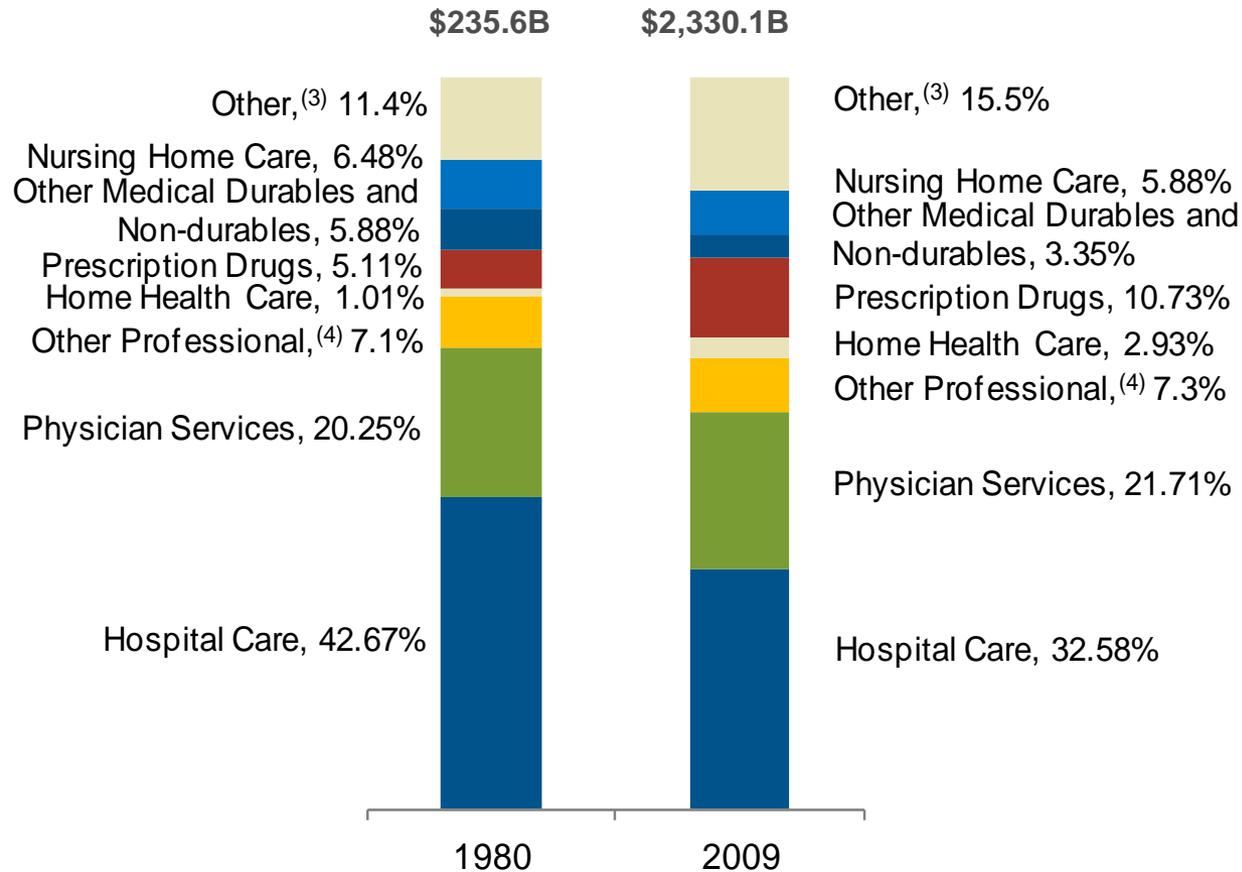


Source: OECD





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>.

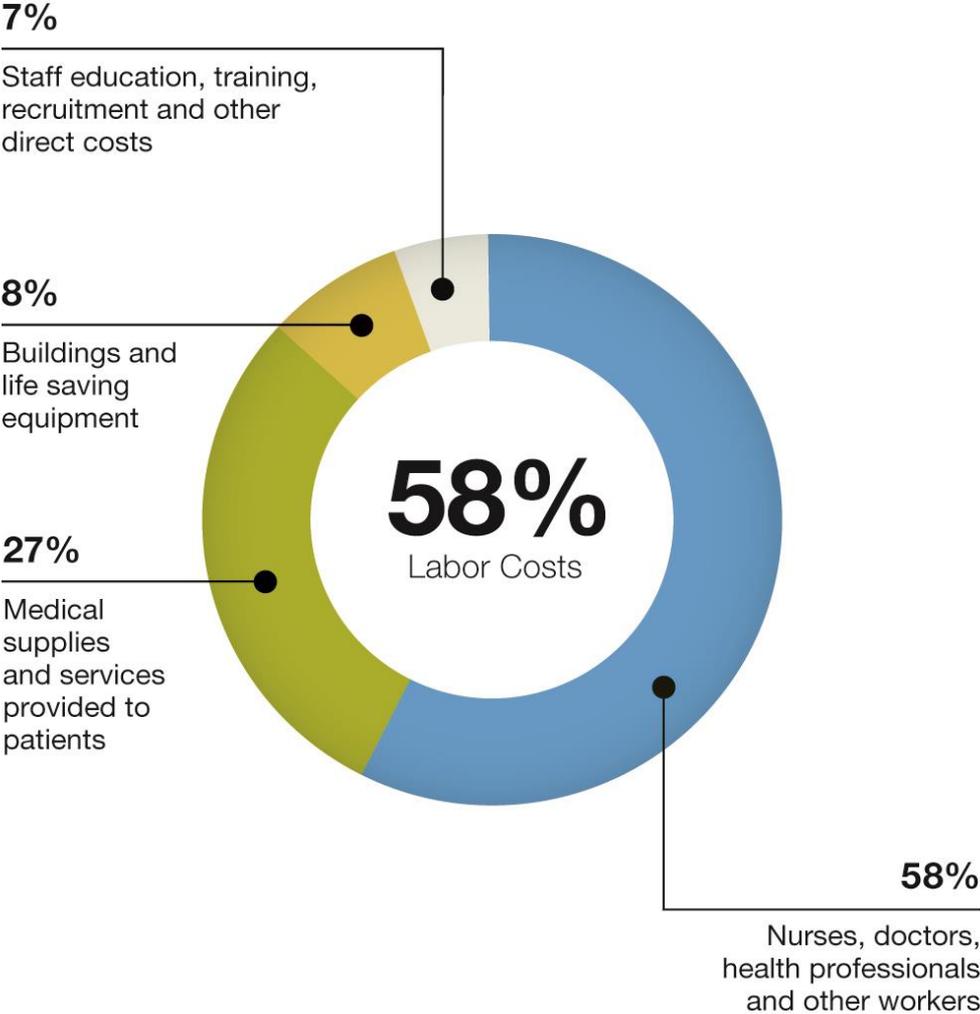
(3) "Other" includes net cost of insurance and administration, government public health activities, and other personal health care.

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

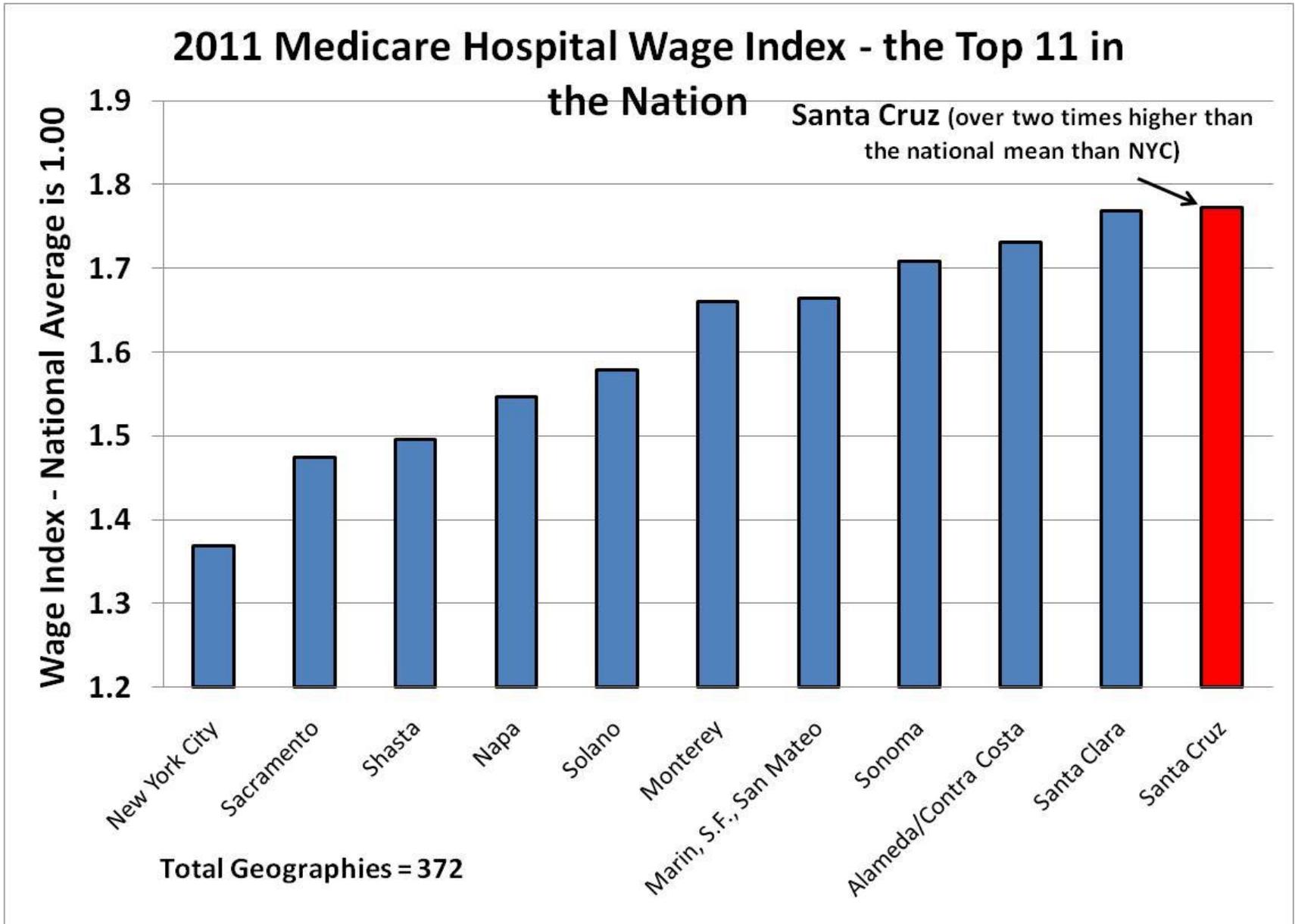
Source: American Hospital Association



Hospital Spending



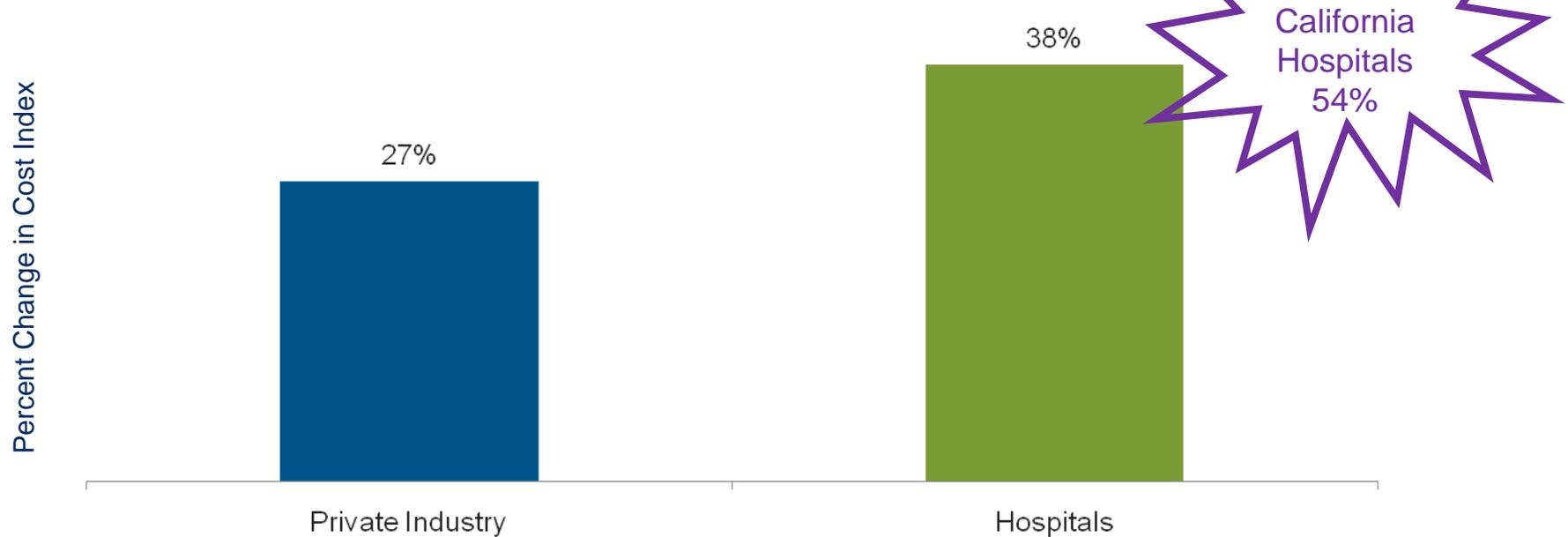
California Hospital Wages





Shortages of Workers Drive Up Labor Costs for Hospitals

Percent Change in Employment Cost Index,⁽¹⁾ All Private Industries and Hospitals, March 2001 to March 2010



Source: Bureau of Labor Statistics. (2010). *Employment Cost Index Historical Listing Current-dollar March 2001 – December 2010*. Access at <http://www.bls.gov/web/eci/echistrynaics.pdf>.

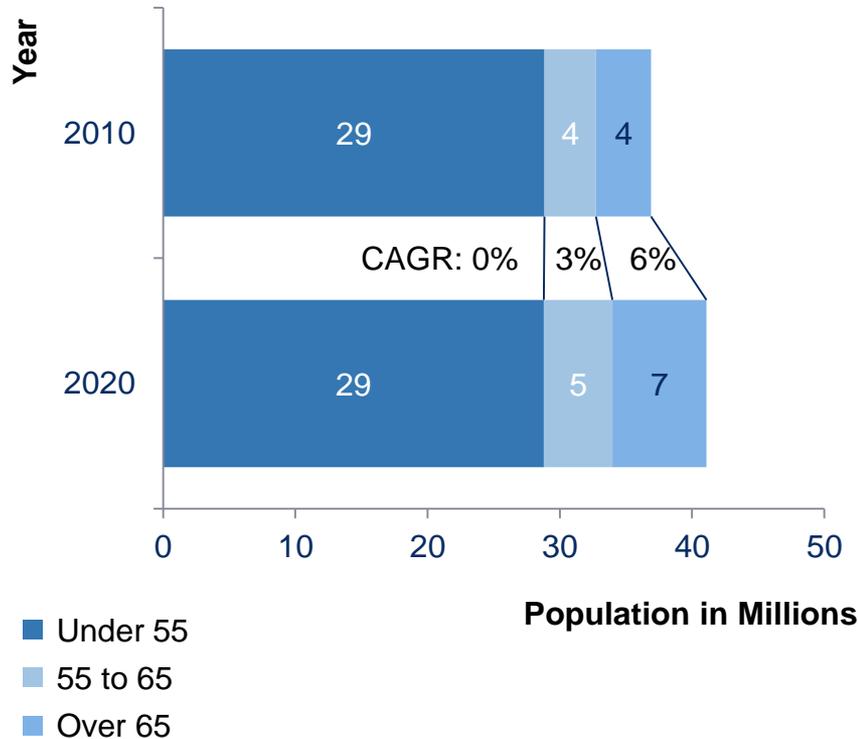
⁽¹⁾ The ECI is a measure of the change in the costs of labor.

Source: American Hospital Association

Aging



**Population Distribution
2010-2020**

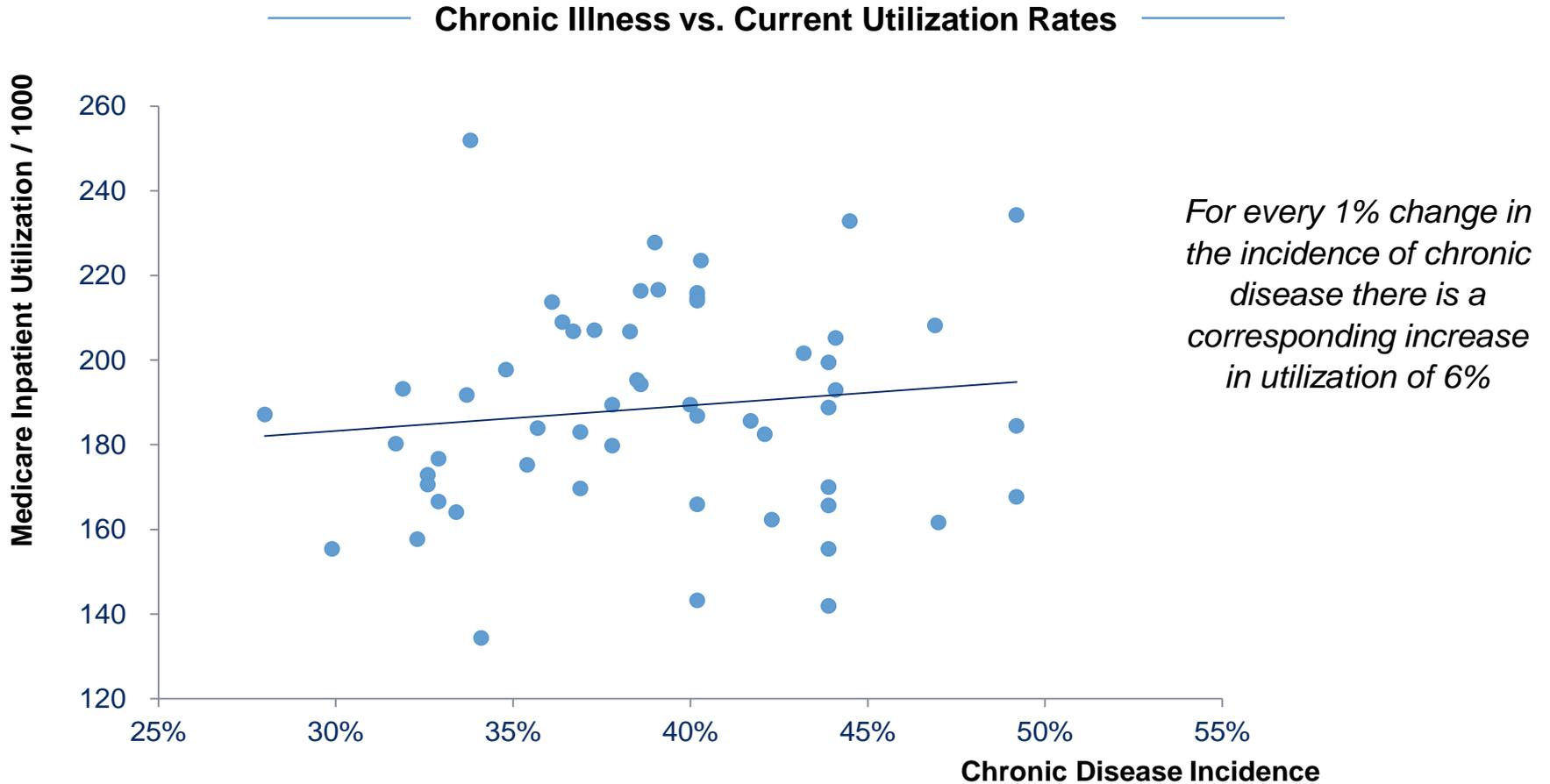


Virtually all projected growth in the state will be driven by seniors (aged 55+)



Utilization – Aging Population

Beyond coverage shifts, aging will also drive a significant increase in the utilization of inpatient services



Chronic Illness

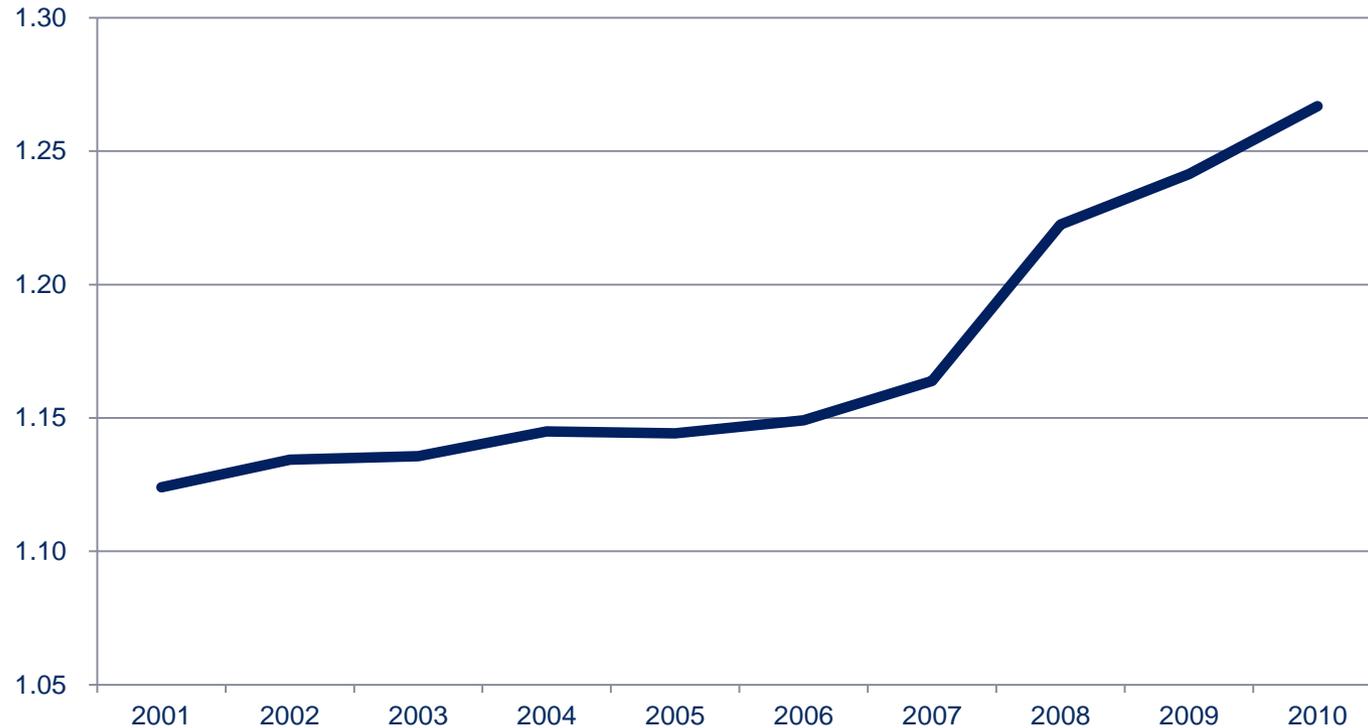




Hospitals will Continue to Treat Sicker Patients That Require Specialized Care

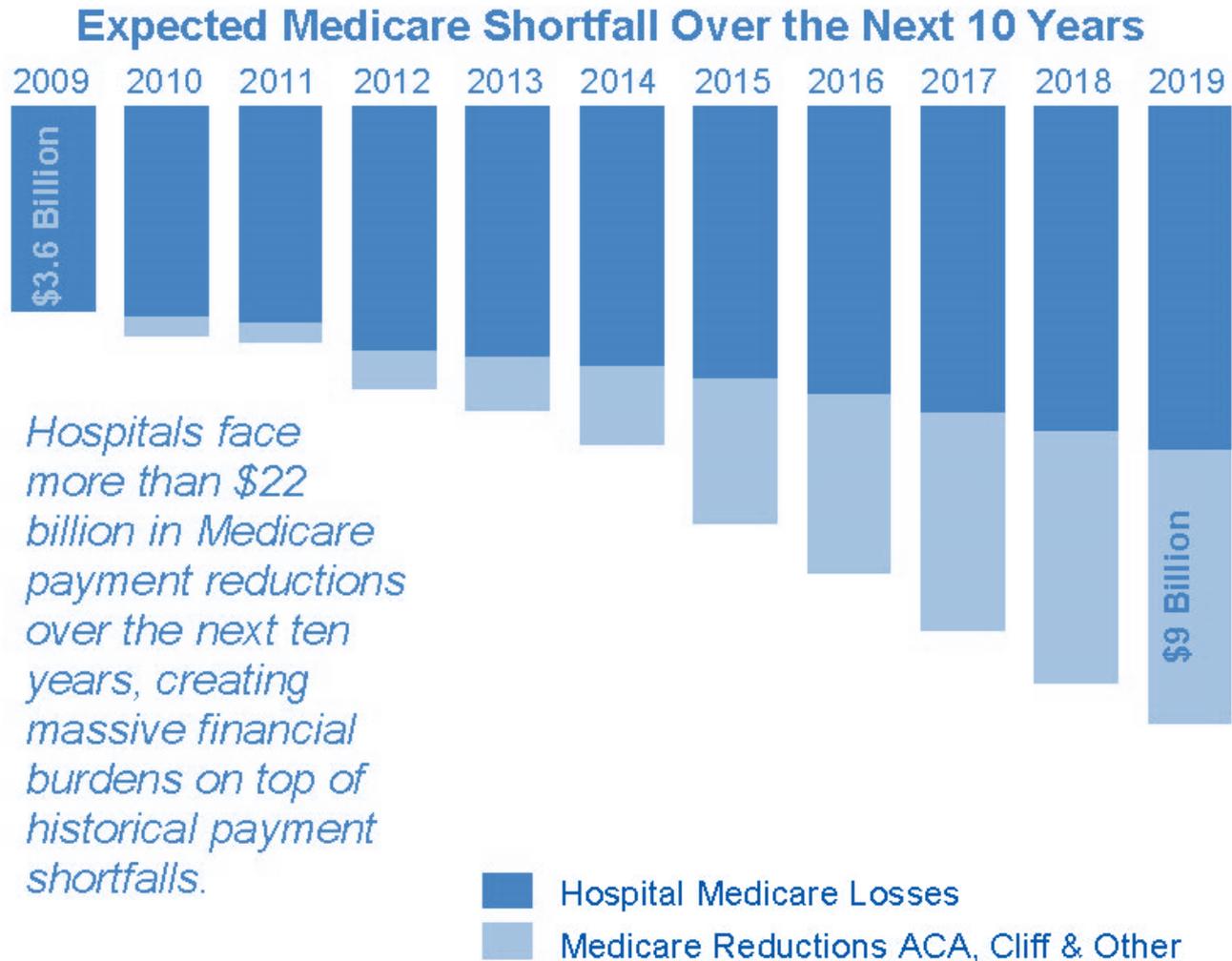
Inpatient Case-mix Index (CMI) for the years 2001-2010

CMI



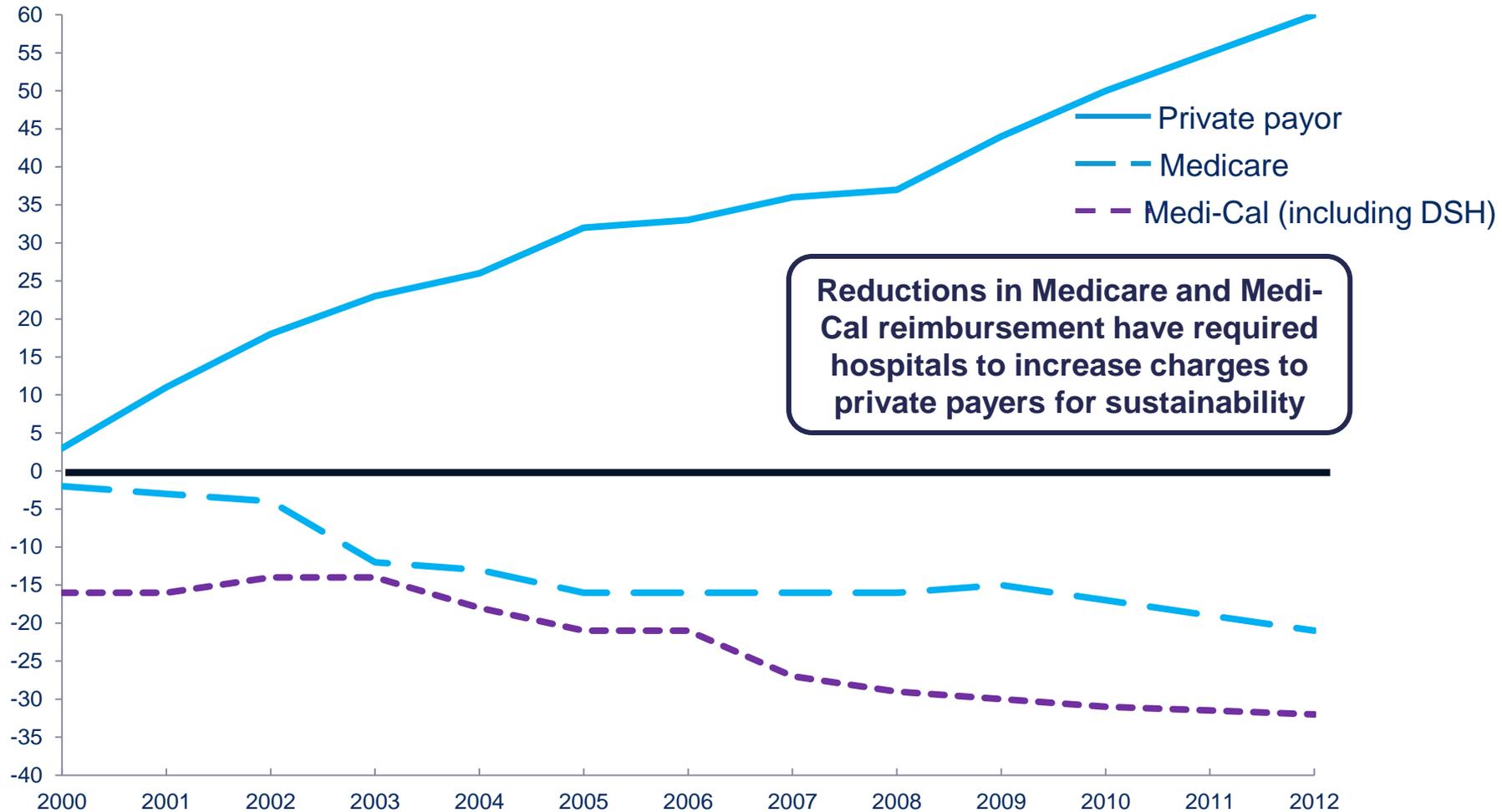


Implementing Reform Will Create Financial Challenges For Hospitals





Shifting Costs

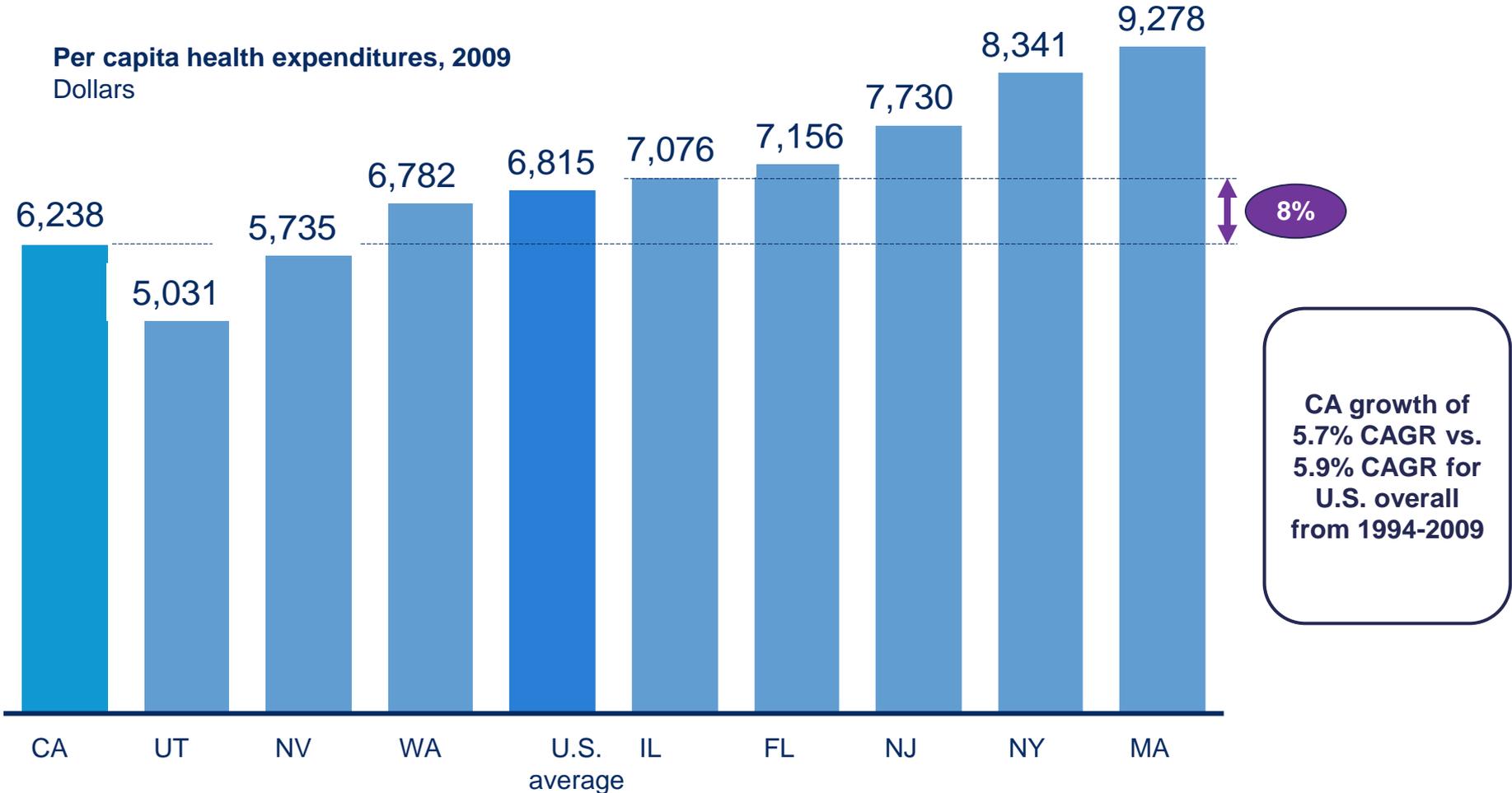


Estimates



California State Expenditures Are Historically Low

California per capita costs historically below many other states, 8% below the U.S. average, and growing at slower rate



SOURCE: National Health Expenditure Accounts 1998-2009 Issued 2011



California State Expenditures Are Historically Low

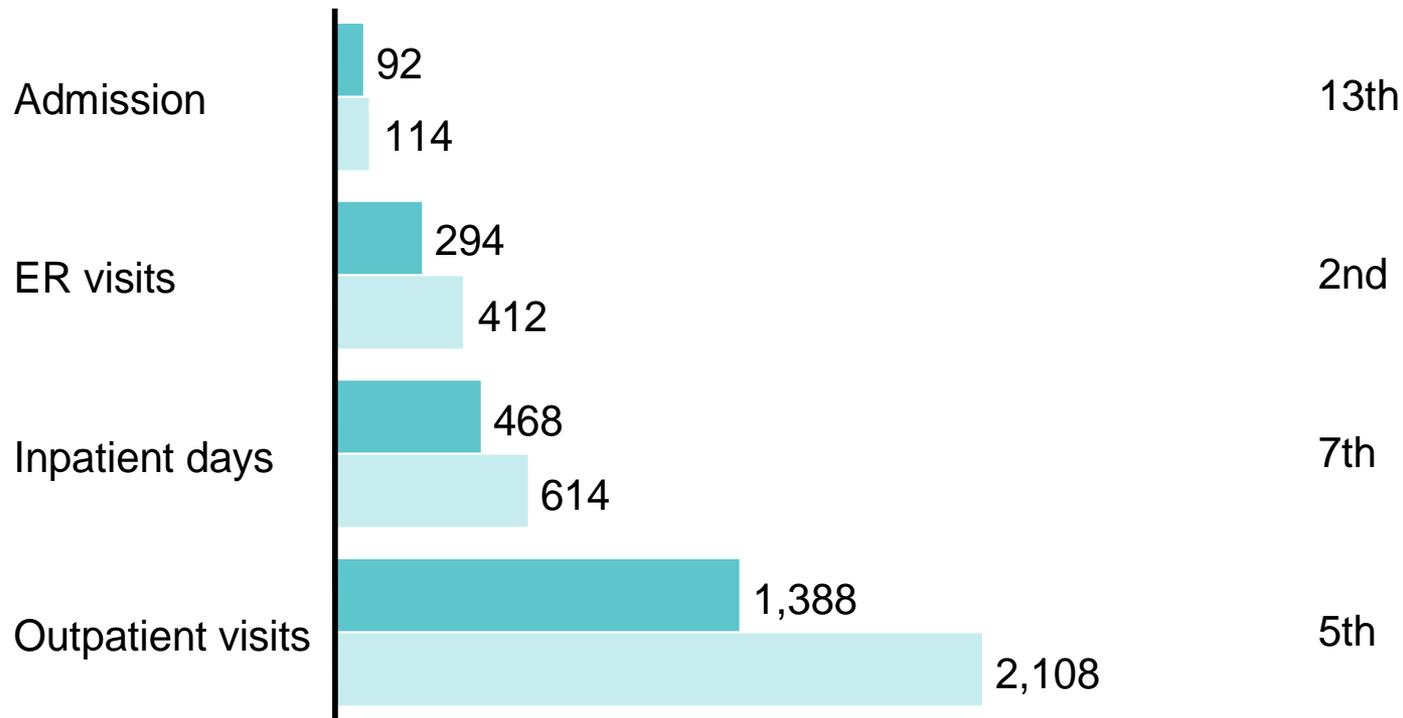
Consistently lower utilization levels have been a major contributor to California's healthcare cost advantage

■ California
■ U.S.

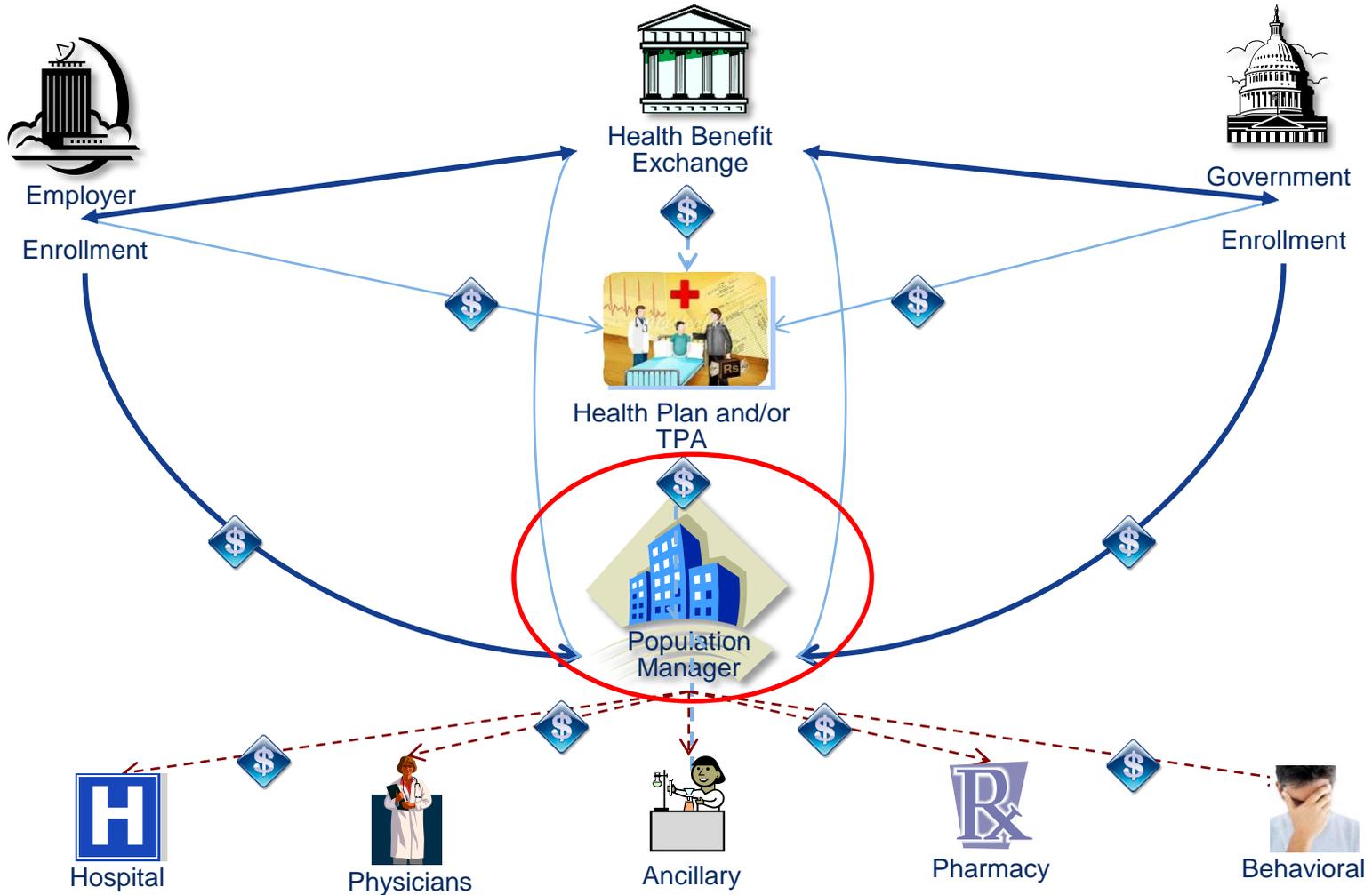
Utilization rates in 2010¹

Number of encounters/days per 1,000 population

California ranking²



From Providing Care to Managing Health





Summary – Drivers of Hospital Costs

- Inadequate levels of social resources and community supports
- Labor shortages and high-cost of California workers
- Aging population increasing chronic disease
- Increasing complexity of patients treated in hospitals
- Government program under-funding leads to cost shift and lack of access to primary services – more emergency department use and increased hospitalization



Solutions – Lowering Healthcare Spending

- Appropriate levels of social support will reduce healthcare costs
- Eliminate staffing ratios to ease labor supply and lower costs
- Increase care management and population health principles
- Ensure access to primary care and reduce unnecessary emergency room use or hospitalization
- Adequately fund government programs to reduce the shift