

Research  
Report

# Hospital Value in Montana

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**MHA** MONTANA  
HOSPITAL  
ASSOCIATION

**PYA** STUDY SUPPORTED BY PYA, P.C.

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# Introduction

PYA, P.C. (“PYA”) was engaged by the Montana Hospital Association (“MHA”) to complete a research study and issue a corresponding report evaluating the performance of Montana hospitals in the dimensions of cost-efficiency and quality.

- Study Description: Examination of overall healthcare value by investigating Montana hospitals’ performance on well-recognized quality and cost of care metrics.
  - Includes “What’s driving the cost of health care and how to change course”
  - Concludes with some potential solutions through a legislative game plan.

## Report: Hospital Value in Montana

### Overview

Healthcare value is measured by **quality** and **total cost of care**. PYA conducted research, as described more fully within, to better understand how Montana’s quality and total cost of care results compare to its peers across the country.

PYA identified and relied upon multiple sources of publicly-available and reliable data regarding Montana’s quality and total cost of care to prepare this report. In our research, PYA identified limited sources of commercial data (as these payers generally do not release such information) but several reliable sources on the Medicare population. Montana’s performance in the Medicare population should be indicative of its performance across other non-Medicare populations. Our sources are found throughout the Reports and a full list of data sources can be found at **Appendix A**.

### Observations

#### Quality

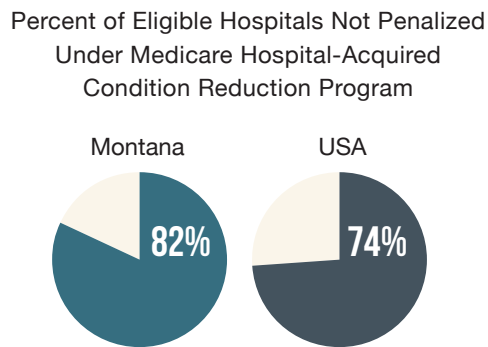
To demonstrate the quality of care provided by Montana hospitals, PYA relied on such reputable sources as CMS’ Hospital Compare, Kaiser Health News, and the Lown Institute Hospital Index. These sources report that Montana hospitals deliver high-quality care with Medicare quality program scores exceeding the national performance in several recognized quality measures. For example, CMS instituted the Hospital Value-Based Purchasing Program to reward acute-care hospitals with incentive payments for the quality care provided to Medicare beneficiaries.

Montana hospitals had the nation's **5<sup>th</sup> highest average score on the 2020 Medicare Value-Based Purchasing Program measures.**

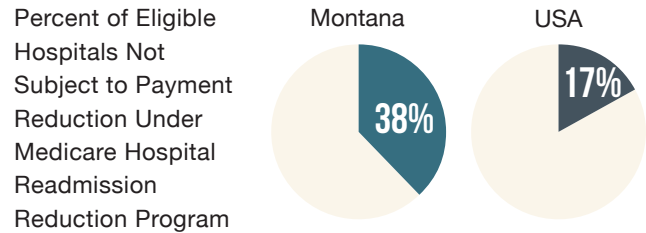
The federal government reduces Medicare payments to hospitals that have high rates for readmissions and high numbers of infections and patient injuries. Per **Figures 1 and 3**, Montana hospitals performed better than the national average in 2021 on both readmission rates and hospital-acquired conditions.

The Lown Institute evaluates hospitals' performance based on: 1) how well they treat their patients (Patient Outcomes index); 2) their commitment to providing high-value care (Value of Care index); and 3) their investment in community health (Civic Leadership index). In turn, they combine these three dimensions into an Overall Composite Score. The Lown Institute utilizes data from the Medicare Provider Analysis and Review ("MEDPAR"), the American Hospital Association, and CMS' Hospital Compare. Montana hospitals performed above the national averages based on overall star ratings and the Overall Composite Score. (See **Figures 2 and 4**)

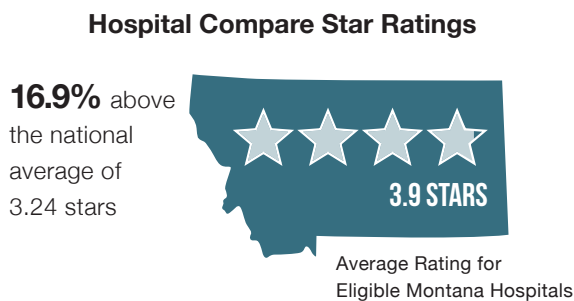
**Figure 1: Source 1 in Appendix A**



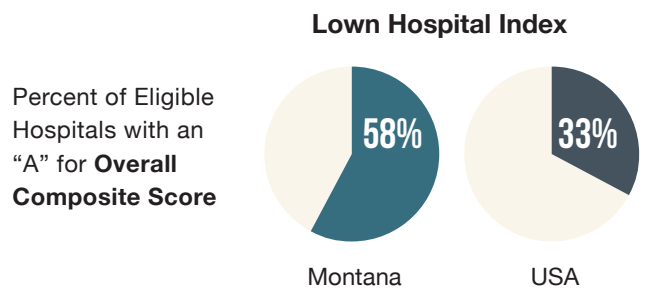
**Figure 3: Source 1 in Appendix A**



**Figure 2: Hospital Compare Star Ratings**



**Figure 4: Lown Hospital Index**



**Source 2 in Appendix A for Figure 2 & 4**

## Total Cost of Care

In addition to the quality measures highlighted above, PYA also researched several sources to determine how Montana’s hospitals fared in controlling the total cost of care. Because hospital care consumes nearly half of the healthcare dollar, hospitals have a substantial influence on the overall cost of care. Our research finds that Montana hospitals deliver efficient care. Examples include the following:

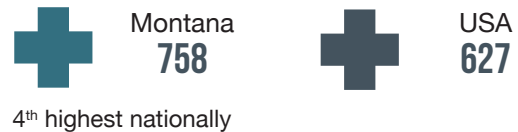
- Montana’s overall rate of acute hospitalization for the Medicare population is approximately **20% less than the national average** (See **Figure 5a**); in contrast, Montana uses the less expensive hospital outpatient settings compared to the national average (See **Figure 5b**)
- CMS also publishes data on the Medicare Spending per Beneficiary (“MSPB”) by state. From **Figure 6**, Montana hospitals experienced the nation’s lowest MSPB rate.
- Finally, 75% of Montana hospitals scored an A on the Lown Institute’s Value of Care index compared to the national average of 39% of hospitals (see **Figure 7**).

**Figure 5a: Medicare Acute Stays per 1,000 Enrollees (2018)**



Source 3 in Appendix A

**Figure 5b: Medicare Outpatient Services per 1,000 Enrollees (2018)**



Source 4 in Appendix A

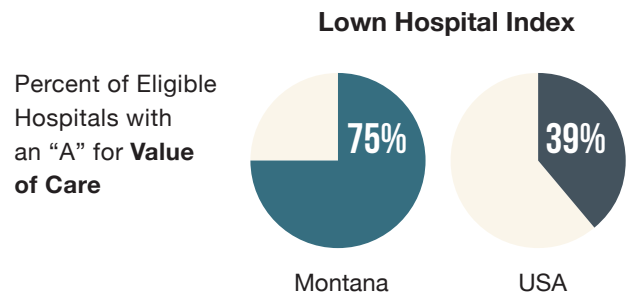
**Figure 6: Top Five States for Medicare Spending Per Beneficiary (“MSPB”)**

### Top 5 States for MSPB

State	MSPB
Montana	0.88
Minnesota	0.89
Oregon	0.89
Alaska	0.92
Washington	0.92

Data as of December 31, 2019 (most recent offered by data.cms.gov)

**Figure 7: Lown Hospital Index**



Source 2 in Appendix A

## Conclusion

The data demonstrates Montana hospitals provide high quality care in an efficient manner. Now, to realize greater savings, Montana hospitals are focusing on health, not just healthcare. By improving overall population health, Montana will reduce the need for high-cost services and improve the quality of life for all Montanans.



# What's Driving the Cost Of Healthcare? How Do We Change Course?

## Background

Faced with economic challenges, Montanans – along with the rest of the country – are asking these hard questions. New federal regulations now require providers and payers to publish their prices and negotiated payment rates, which should foster greater competition in the market.

While greater competition will provide some relief, the complexity of our healthcare system requires a broader approach. Rising healthcare costs are primarily attributable to the four Ps: Payers, Providers, Pharmacies, and Patients. The financial impact from each of these healthcare sectors can be broken down based on the components of the healthcare dollar.

Curbing these costs requires proper attention in all four sectors.

## THE FOUR Ps



(Cents reflect the percentage of overall healthcare spending attributed to each category.)

Source 5 in Appendix A

## Payers (Including Insurance Companies and Third-party Administrators)

- In Montana, the payer market is highly concentrated, with two payers controlling approximately 80% of the commercial business.
- Highly concentrated markets reduce competition and allow commercial payers to potentially influence prices negatively for what they pay providers and for what they charge employers and individuals.
- Payers realize high levels of profitability in comparison to Montana hospitals. **Figure 8** highlights the 2020 profits for four national health insurers that serve the state of Montana. The average 2020 profit for these payers is 6% while the average 2019 operating margin for a sample of 48 Montana hospitals is only 2.1%. (See **Figure 9** for more detail.)

**Figure 8: Health Insurers’ Profits**

### Health Insurers’ Profits in 2020

Insurer	2020 Profit	2020 Revenue	Profit %
United Health	\$15.4B	\$257.1B	6.0%
CVS/Aetna	\$8.5B	\$160.1B	5.3%
Anthem	\$4.6B	\$121.9B	3.8%
Health Care Service Corporation*	\$4.0B	\$44.1B	9.1%

**Source 6 in Appendix A**

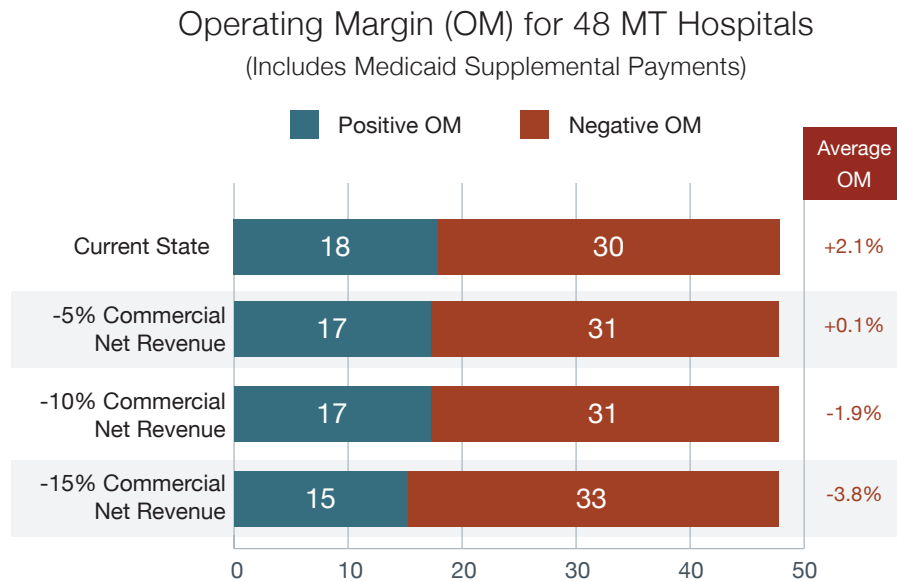
**\*Source 7 in Appendix A**

**Conclusion:** While payers’ 2020 profits generally increased with COVID-19, hospitals have experienced lost revenue and higher expenses.

## Providers (Including Hospitals, Physicians, Etc.)

- For nearly all services, Medicare and Medicaid payments are less than providers' cost of delivering care.
- Providers operate on thin margins, relying on reasonable commercial rates and Medicaid supplemental payments to keep their doors open. (See **Figure 9** for operating margins for 48 Montana hospitals.)

**Figure 9: Operating Margin**



Source 8 in Appendix A

**Conclusion:** Any form of price controls would upset these market dynamics and drive down provider margins, threatening local access to care.



# Pharmacy (Including Drug Manufacturers and Pharmacy Benefit Managers)

- Drug costs continue to climb at an accelerated rate. While general inflation has climbed approximately 7.5% over the last three years, the prices of drugs have increased at twice that rate.
- There is limited transparency or regulatory oversight of drug prices.
- Average profit margins from 2010-2018 for the top 35 pharmaceutical companies was double that of the top Standard & Poor (“S&P”) companies, which significantly eclipses the margins in other healthcare sectors. See **Figure 10** for more details.

**Figure 10:**

	Total Revenue	Net Income Margin
Top 35 Pharmaceutical Companies	\$16.5T	13.8%
Top S&P 500 Companies	\$130.5T	7.7%

*Source 9 in Appendix A*

**Conclusion:** Without some way to curb skyrocketing pharmacy costs, the price of healthcare will continue to climb.

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## Patients

- Patients do not have a financial incentive to avoid unhealthy behaviors or otherwise control their utilization of healthcare services.

For example, “healthier eating could save the United States more than \$50 billion a year in healthcare costs associated with heart disease, stroke, type 2 diabetes and related illnesses...”  
**(Source 10 on Appendix A)**

- Patients seldom access price information needed to make wise healthcare purchasing decisions.

**Conclusion:** New incentives and tools are needed to empower patients to make rational healthcare decisions.

# Potential Solutions: Legislative Game Plan

The following are examples of relatively low-cost legislative initiatives to reduce healthcare costs

## Solve for **access**

- Pass a telehealth payment parity law – lack of adequate reimbursement is the biggest obstacle to widespread use of telehealth.
- Create meaningful provider recruitment incentives – statistics show Montana only has enough primary care providers to meet 35% of our citizens' needs.

## Solve for **safety**

- Enact seat belt primary offense law – despite high rate of motor vehicle deaths, Montana is one of a handful of states without a primary offense law. During the first six months of 2020, Montana experienced 85 deaths, a 15% increase from the same time period in 2019. The national average was a 1% increase. **(Source 11 in Appendix A)**

## Solve for **mental health**

- Create and fund State Mental Health Hotline and/or sponsor Mental Health First Aid Training – with the second highest rate of suicide in the nation, Montana should follow Colorado's and Utah's lead in establishing these programs.

## Solve for **high drug costs**

- Regulate pharmacy benefit managers and assure alignment with regulations across other healthcare sectors. Regulations to include transparency, maximum allowable costs, contract reform, and prohibition on gag-clauses.

## Solve for **innovation**

- Tax unhealthy behaviors to fund health innovations – including marijuana tax, alcohol tax, cigarette/e-cigarette tax, traffic violation fines.

## Appendix A: Data Sources

1. Health News, “Look Up Your Hospital: Is It Being Penalized By Medicare?” <https://khn.org/news/hospital-penalties/>
2. Lown Institute Hospital Index, “Rankings”, <https://lownhospitalsindex.org/rankings/>
3. Kaiser Family Foundation, “Medicare Service Use: Hospital Inpatient Services”, <https://www.kff.org/medicare/state-indicator/medicare-service-use-hospital-inpatient-services/?currentTimeframe=0&sortModel=%7B%22collid%22:%22Acute%20Stays%20per%201,000%20Enrollees%22,%22sort%22:%22asc%22%7D>
4. Kaiser Family Foundation, “Medicare Service Use: Hospital Outpatient Services”, <https://www.kff.org/medicare/state-indicator/medicare-service-use-hospital-outpatient-services/?currentTimeframe=0&sortModel=%7B%22collid%22:%22Persons%20Served%20per%201,000%20Enrollees%22,%22sort%22:%22desc%22%7D>
5. America’s Health Insurance Plans, “Where Does Your Healthcare Dollar Go?” AHIP 2020
6. Fierce Healthcare, “COVID-19 costs, care deferrals came back to bite insurers in Q4 2020”, February 22, 2021, <https://www.fiercehealthcare.com/payer/covid-19-costs-care-deferrals-came-back-to-bite-insurers-q4-2020>
7. National Association of Insurance Commissioners, Heath Care Service Corporation’s Annual Statement, December 31, 2020.
8. MHA staff, American Hospital Association (AHA) Data Financial Analysis
9. JAMA, “Profitability of Large Pharmaceutical Companies Compared With Other Large Public Companies”, March 3, 2020, <https://jamanetwork.com/journals/jama/fullarticle/2762308#:~:text=For%20pharmaceutical%20>
10. WebMD, “Unhealthy Eating Costs U.S. \$50 Billion a Year”, December 19, 2019 <https://www.webmd.com/diet/news/20191219/unhealthy-eating-habits-cost-us-50-billion-a-year-study#:~:text=Unhealthy%20Eating%20Costs%20U.S.%20%2450%20Billion%20a%20Year&text=THURSDAY%2C%20Dec.,according%20to%20a%20new%20study>
11. National Safety Council, “Injury Facts” <https://docs.google.com/spreadsheets/d/e/2PACX-1vTJmtOEZAVf8phSL2dqaeYr1xtwXw02wyqrq7JoJ7uLYZh8U0acMj1iwUBu3WqXpbtLbFr7hLZlISNh/pubhtml>