

HealthLeaders^{Media} FACT FILE

REIMBURSEMENT TRENDS

JUNE 2007

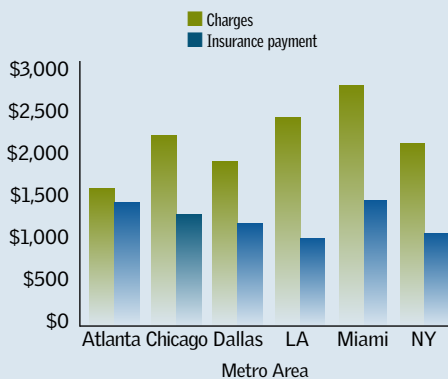
Reimbursement Trends

Perhaps no issue looms larger for providers and payers alike than reimbursement. An American Hospital Association report shows a growing payment shortfall from government payers relative to costs. Consumers are paying a larger part of the tab than ever before. And years of double-digit premium increases have prompted stakeholders to search for new reimbursement methods to help curb health-

care inflation. The latest reimbursement trend, pay for performance, is an attempt to rethink a payment system that historically has carried few rewards for performance. Some payers and providers view this new approach as an opportunity to align incentives to meet shared goals. Others, however, are considerably more skeptical—leaving the future of reimbursement as uncertain as ever. ■■

Payment variations across markets ...

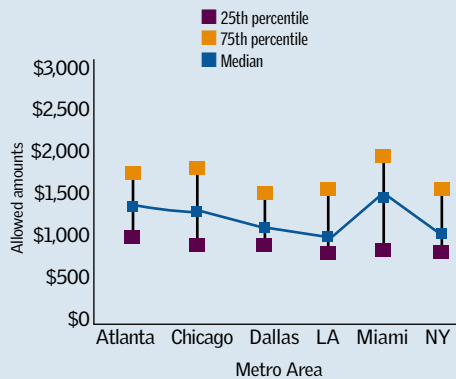
Gross charges vary widely from city to city, as does the discounting due to payer contracts. For example, the Medstat MarketScan databases reveal that payment rates for diagnostic colonoscopy range from \$1,053 in Los Angeles to more than \$1,500 in Miami.



SOURCE: Thomson Healthcare

... And within markets

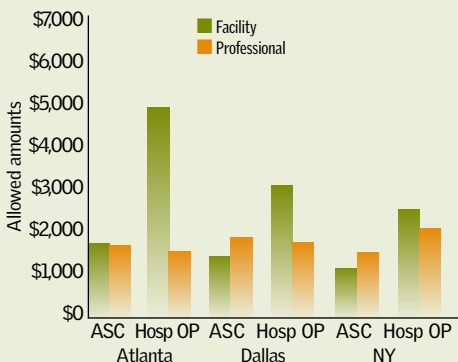
Payment rates also vary widely within markets. For example, the MarketScan data reveal that the bottom 25 percent of diagnostic colonoscopy payments in Chicago are less than \$887, while the top 25 percent are more than \$1,773.



SOURCE: Thomson Healthcare

Competition's many variables

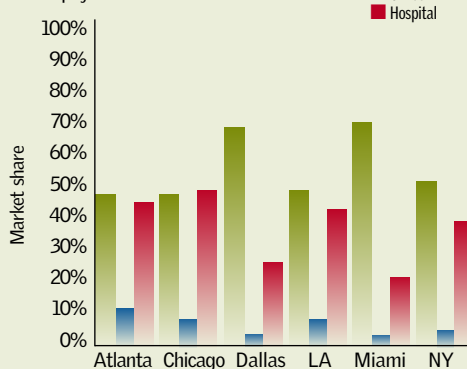
When weighing the cost of a procedure, payers and consumers must consider both facility fees and professional fees. But while professional fees vary only slightly across sites of service, the facility fees for procedures such as cataract surgery are considerably higher at hospitals than at ambulatory surgery centers.



SOURCE: Thomson Healthcare

Hospital, office or ASC?

With ambulatory surgery centers gaining market share, many hospitals are considering investments in new outpatient facilities. A sound business case must include revenue projections based on both volume and payment.



SOURCE: Thomson Healthcare

DSH Funding

Uninsured care is one of the most pressing issues facing hospitals. New York tops a state ranking of fiscal year 2007 federal Medicaid allotments for Disproportionate Share Hospital (DSH) funding—payments made by a state's Medicaid program to facilities serving a "disproportionate share" of low-income or uninsured patients.

State	DHS allotment (approx., in millions)
1 New York	\$1,512
2 California	\$1,032
3 Texas	\$900
4 Louisiana	\$731
5 New Jersey	\$606
6 Pennsylvania	\$528
7 Missouri	\$446
8 Ohio	\$382
9 South Carolina	\$308
10 Alabama	\$289
11 Massachusetts	\$287
12 North Carolina	\$277
13 Georgia	\$253
14 Michigan	\$249
15 Illinois	\$202
16 Indiana	\$201
17 Connecticut	\$188
18 Florida	\$188
19 Washington	\$174
20 New Hampshire	\$150
21 Mississippi	\$143
22 Kentucky	\$136
23 Maine	\$98
24 Arizona	\$95
25 Colorado	\$87
26 Tennessee	\$84
27 Virginia	\$82
28 Wisconsin	\$76
29 Maryland	\$71
30 West Virginia	\$63
31 Rhode Island	\$61
32 Minnesota	\$60
33 District of Columbia	\$57
34 Nevada	\$43
35 Kansas	\$38
36 Oregon	\$36
37 Arkansas	\$35
38 Iowa	\$31
39 Oklahoma	\$29
40 Nebraska	\$22
41 Vermont	\$21
42 Alaska	\$16
43 New Mexico	\$16
44 Utah	\$15
45 Idaho	\$13
46 Hawaii	\$10
47 Montana	\$9
48 South Dakota	\$8
49 North Dakota	\$7
50 Delaware	\$7
51 Wyoming	\$0.18

SOURCE: Kaiser Family Foundation, www.statehealthfacts.org

Upcoming Topic:
Patient Satisfaction

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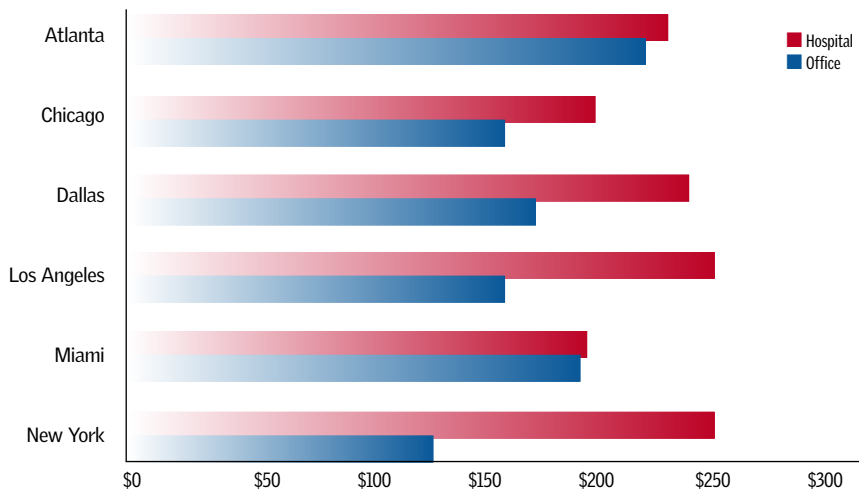
THE BENEFITS OF BENCHMARKING REIMBURSEMENT RATES

- » As new competitors emerge, benchmarked commercial reimbursement rates can provide a clearer picture of the ever-changing landscape.
- » Charge data, while more readily available, aren't an accurate predictor of the actual payments received by competing hospitals.
- » Benchmarked reimbursement data can level the playing field during contract negotiations, reducing the informational advantage that payers have historically wielded.
- » As healthcare consumers assume a greater share of the financial risk, they become smarter shoppers and seek out competitively priced hospitals.
- » As public scrutiny of rising healthcare costs increases, the environment favors those hospitals whose rates are most consistently in line with local, regional, and national benchmarks.
- » Hard data on payment trends for new services, in conjunction with volume projections, can lend sound support to the "what" and "when" of capital investment decisions.

SOURCE: Thomson Healthcare

ARE PRICES CONVERGING?

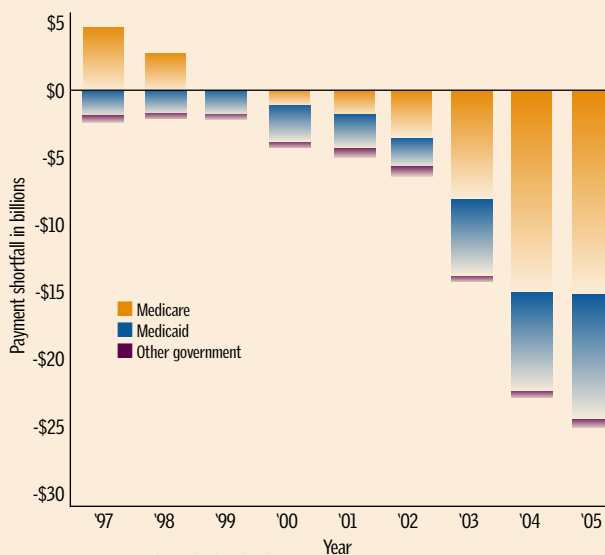
As the commoditization of certain procedures increases, office-based competition begins to drive hospital prices down. The outpatient mammogram is among the most competitively priced procedures, and data from the Medstat MarketScan databases reveal that in some markets, the payments received in office and hospital settings are converging.



SOURCE: Thomson Healthcare

FALLING SHORT

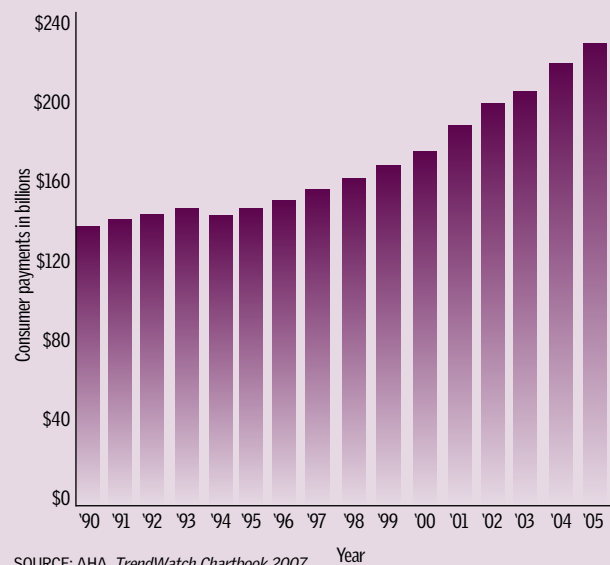
Hospitals are experiencing a growing payment shortfall from government payers relative to costs, according to a new American Hospital Association report.



SOURCE: AHA, TrendWatch Chartbook 2007

CONSUMERS' GROWING SHARE

As payments from traditional payers fall short, providers are increasingly looking for reimbursement from another source: patients. The American Hospital Association reports that consumer out-of-pocket payments for health expenditures have grown steadily for the past decade.



SOURCE: AHA, TrendWatch Chartbook 2007

