



Wisconsin Hospital Association

Wisconsin Health Care Leads as Cost Pressures Grow

By Eric Borgerding, WHA President and CEO



It's becoming a bit redundant to begin this annual column by noting the outstanding performance of Wisconsin's health care system, but excellence in any Wisconsin industry is good for all of Wisconsin. Once again the Agency for Health Care Quality, the gold standard in national quality ranking, has ranked Wisconsin health care as some of the very best in the country. According to the AHRQ, in 2018 our state has the fourth best health care in the country, and first in the Midwest.

Since AHRQ began issuing rankings, Wisconsin has been in the top four 10 of 12 years. Quality care delivers superior outcomes for patients and ultimately better value for employers. That's good news as WBA launches its new association health plan.

While Wisconsin hospital finances have remained relatively stable over the past few years, a snapshot of the data flashes "caution ahead" (comparing FY2015 to FY2017 for Wisconsin hospitals):

- » Experienced a 21% decline in operating margins;
- » More than half saw a decline in both operating and total margins;
- » 38 had a negative operating margin;
- » 33 had a negative total margin, including 13 rural Critical Access Hospitals.

Wisconsin's health system leaders point to three issues that most directly impact those finances and pose the greatest challenge to sustaining Wisconsin's superior quality care:

Workforce: Like most industries, health care is grappling with serious shortages in key areas. Unlike most industries, demand for health care's "product" is largely a function of demographics rather than typical economic cycles. Wisconsin's population is aging; our over 65 population is expected to double in the next 10 years.

This assures growing utilization of health care services and increasing demands on and for the health care workforce.

Despite advances in technology, health care is still a very labor intensive business. In 2017 Wisconsin hospital labor costs totaled nearly \$8.8 billion, up 7.3% in two years, and hospital supply costs (including drugs) totaled \$9.4 billion in 2017—up 16% in two years. It's not getting cheaper to deliver health care.

Health Insurance Coverage:

Uncertainty is the bane of health care leaders, and no aspect of health care has been less certain recently as health insurance, due largely to ongoing Obamacare battles in Washington, DC and Madison. For the past two years I've speculated in this column that repealing Obamacare would prove extremely difficult for Congress. I was wrong ... it's been impossible. In fact, certain aspects of repealing Obamacare became a pivotal issue in Wisconsin's Governor's race and others. We've all heard the saying "If you break it you own it." When it comes to Obamacare, if you break it, or don't fix it, you own it.

Political ramifications aside, the inability to either repeal and replace or just fix Obamacare has contributed to an upward spike in health insurance costs (Obamacare premiums +36% in 2018) and a commensurate uptick in Wisconsin's uninsured rate. In the "business" of health care, when people become uninsured, the care they still receive from Wisconsin's hospitals becomes "uncompensated." In 2017 hospital uncompensated care rose 11% to \$417 million—hundreds of millions in unpaid costs that must be shifted to Wisconsin employers and families.

The good news here is the Obamacare insurance market is showing signs of stabilizing. For the first time since 2014 there will be a net increase in the number

of insurers offering coverage on the exchange. Even more promising, premiums in Wisconsin are actually projected to DROP in 2019 by 4.2%—a 40 point swing in one year, in part due to some fixes adopted by Wisconsin.

Government Health Care Programs: Payment from Medicaid (state) and Medicare (federal) continue to fall far below what it actually costs hospitals to provide care. Critics of health care costs will often point to other elements of the economy and ask, for example, "Why is buying health care so much different than buying a car?" The simple answer is, auto dealers are not required by law to sell cars at 35% below their own cost (Medicaid), or for some customers, 100% below cost (see "uncompensated care" above). The difference between hospital cost and payment in Medicaid alone was \$1.1 billion last year, the equivalent of adding another 13% to hospital labor costs (keep that in mind when Wisconsin debates expanding Medicaid in 2019). Compounding this situation is the fact that the "payer mix" at many Wisconsin hospitals can be as high as 75% Medicaid/Medicare. Throw into that equation the unfortunate reality that these unpaid costs have to be shifted to everyone else and you can see why "selling" health care isn't quite like selling a car.

Established in 1920, WHA's mission is advocating for the ability of its members to lead in the provision of high quality, affordable, and accessible health care services, resulting in healthier Wisconsin communities. WHA is committed to serving member needs, keeping members informed of important local and national legislative issues, interpreting clinical and quality issues for members, providing up-to-date educational information and encouraging member participation in Association activities.