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This document offers updated data and information related to Indiana's HB1004 submitted by Marilyn Bartlett, Senior Policy Fellow, and Maureen Hensley-Quinn, Senior Director, of the National Academy for State Health Policy (NASHP) on April 3, 2023.

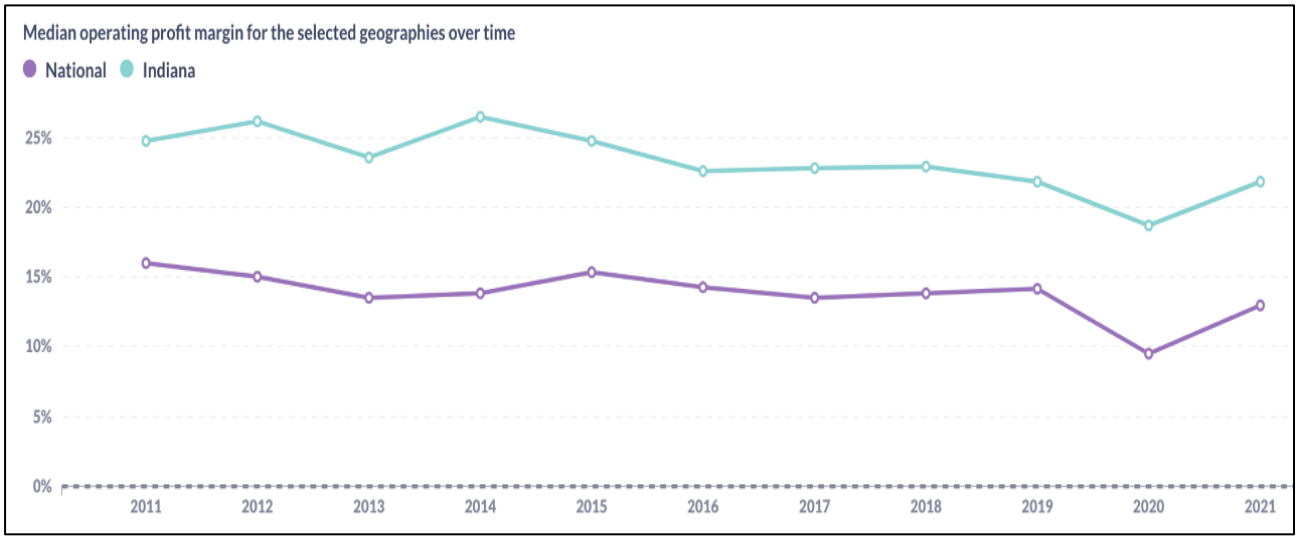
NASHP is a non-partisan forum of state policy makers that works to develop and promote innovative health care policy solutions at the state level. We approach our work by engaging and convening state policy makers, including legislators, to solve problems. We conduct policy analysis and research, and we provide technical assistance to states.

Indiana Hospital Financial Performance

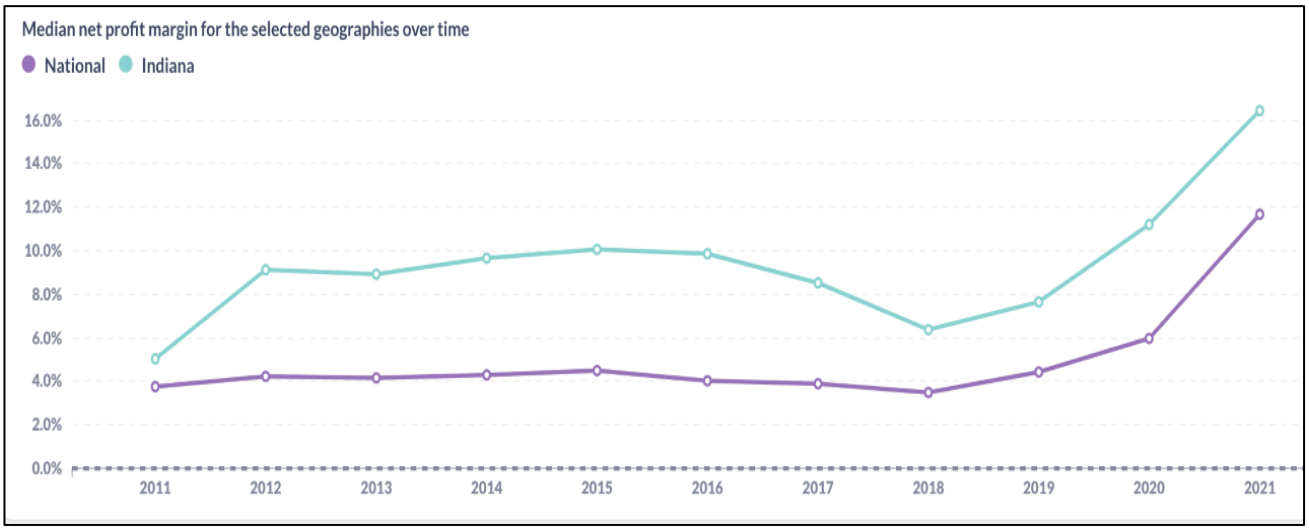
To complete the analyses shared in this testimony, NASHP used several hospital and health system financial data sources, including the Hospital Cost Tool that shares cost metrics for over 4,600 hospitals by using annual Medicare Cost Reports that are completed and attested to by hospitals and are submitted to the federal government; as well as quarterly financial reports submitted by health systems to their bond holders that are publicly available through the Electronic Municipal Market Access website.

Data from several sources, show Indiana hospital prices are high, with Indiana hospitals generating profit margins well above national medians.

Medicare Cost Reports show the median Indiana Hospital Operating Profit Margin consistently 9% to 10% higher than the National Median for Acute Care and Critical Access Hospitals.



Net Profit Margin trend shows median Indiana Hospital returns higher than the National median in every year, reaching a high of 16.4% in 2021.



Another important data point to consider is the breakeven point, which is the reimbursement amount a hospital needs from commercial payers to cover their costs without profit, as compared to the amount the hospital receives. In 2021, the Indiana hospitals' median breakeven was 130% of state's Medicare rate. According to the RAND study, employers in Indiana are paying 330% of the Medicare rate, which is over two times the breakeven point. The breakeven point considers all profits and losses on other payers, such as Medicaid, Medicare, etc.

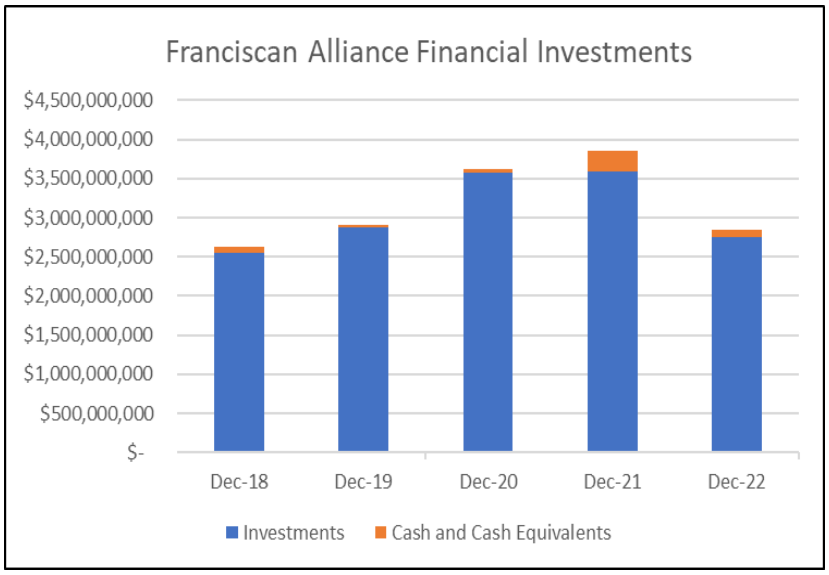
Uncompensated Care (Charity Care, Bad Debt, and Uninsured patients) only counted for 2% of Indiana Hospital Revenue.

Indiana Health System Financial Condition

Due to federal COVID relief payments and a strong stock market, health systems saw significant financial gains through 2021. While there are no more anticipated federal relief funds, the utilization of services has increased, including out-patient services and "non-emergent" surgeries, which increase patient revenue for hospitals. Hospitals have reported higher operating costs (labor costs and inflationary impacts) and significant stock market losses (realized and unrealized).

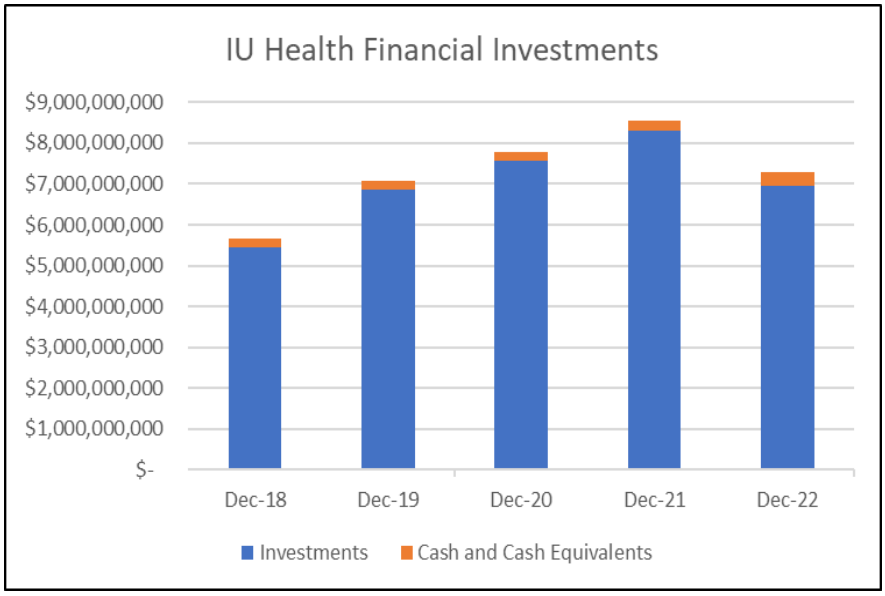
Current data from municipal bond filings reveal five large Indiana Health System have maintained strong financial positions through December 2022. Notably, 2022 negative net profit margins resulted from investments losses (realized and unrealized), and not operating losses. Three of the five health systems show positive operating margins, while two show -3% operating margins.

Despite significant stock market losses, all five systems that NASHP examined (Franciscan Alliance, Indiana University Health, Ascension Health, Community Health and Parkview Health) have higher Cash, Cash Equivalents and Financial Investment balances than reported pre-COVID. The five Health Systems had a total of $1.9 billion in Cash and Cash Equivalents and $32.4 billion in Financial Investments.



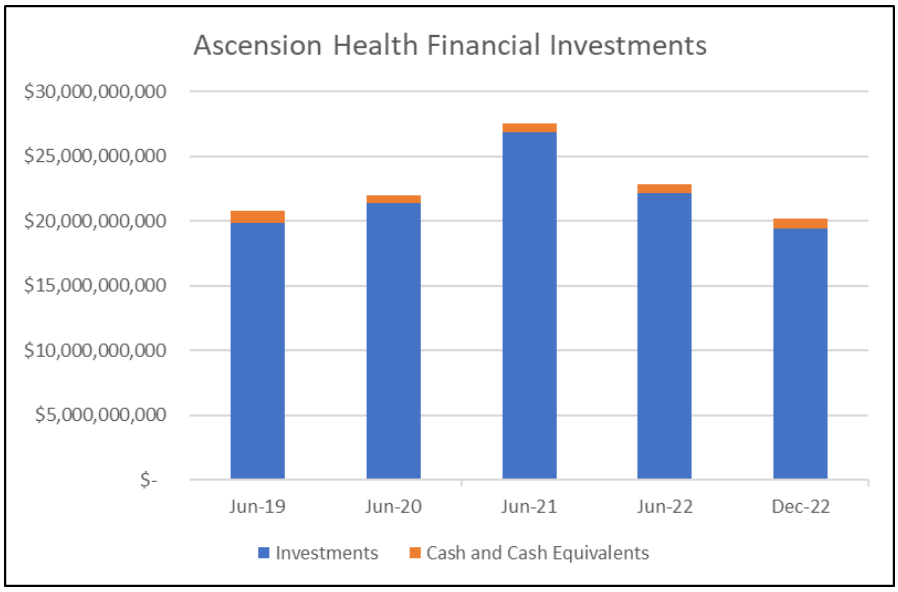
Dec 2022 Franciscan Alliance Financial Status

- $289 million received in COVID-19 funding
- $2.85 billion in Cash and Financial Investments
- ($535 million) Unrealized Investment Losses
- $216 million increase in Property & Equipment
- -3% Operating Margin



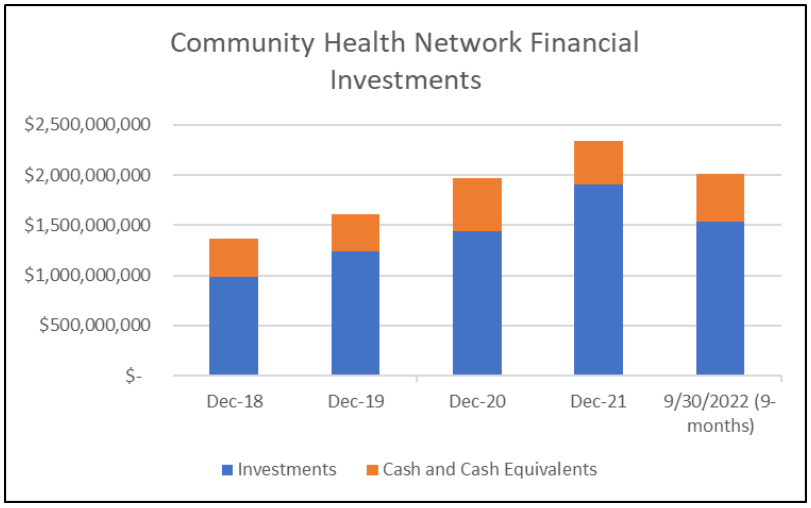
Dec 2022 Indiana University Health Financial Status

- $356 million received in COVID-19 funding
- $7.3 billion Cash and Financial investments
- ($1.3 billion) Unrealized Investment Losses
- $380 million increase in Property & Equipment
- 1% Operating Margin



<u>Dec 2022 Ascension Health Financial Status</u>

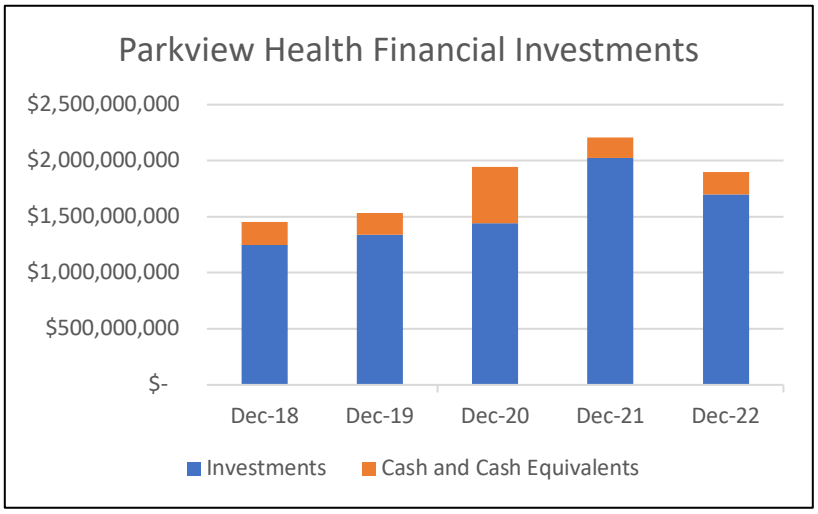
- $1.8 billion received in COVID-19 funding
- $20.2 billion Cash and Financial Investments
- ($3.4 billion) Unrealized Investment Losses
- $21 million increase in Property & Equipment
- -3% Operating Margin



<u>Sep 2022 Community Health Network Financial Status</u>

- $143 million received in COVID-19 funding
- $2.0 billion Cash and Financial Investments
- ($256 million) Unrealized Investment losses
- ($19 million) decrease in Property & Equipment
- 1% Operating Margin

Dec 2022 filings not submitted as of 4/1/23



Parkview Health Financial Status

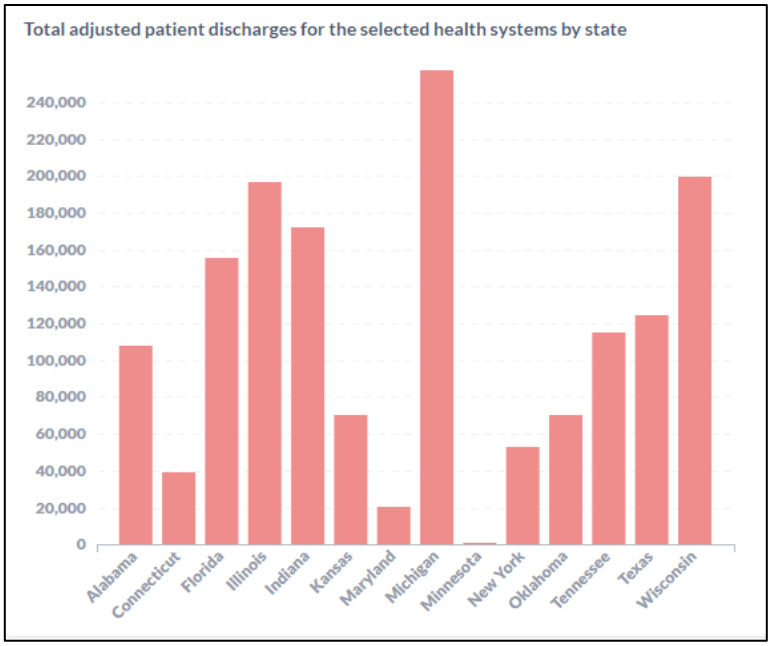
- $166 million received in COVID-19 funding
- $1.9 billion Cash and Financial Investments
- ($205 million) Unrealized Investment losses
- $50 million increase in Property & Equipment
- 2% Operating Margin

Financial data indicate hospitals and health systems in Indiana are not just financially sound, but that many could participate in cost containment efforts that strive to make coverage and care more affordable for Indiana businesses and residents.

Ascension Health in Indiana

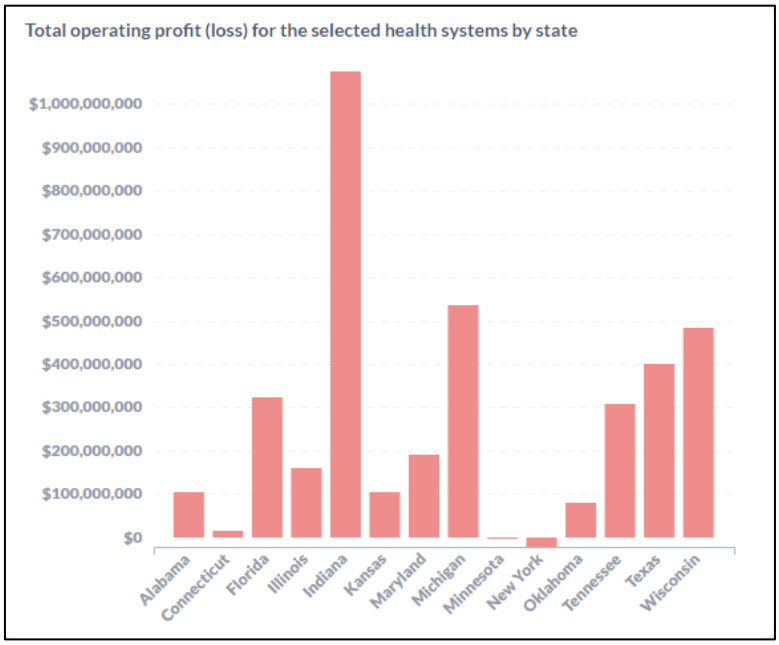
Medicare Cost Reports show the 16 Ascension owned hospitals in Indiana generated an average of 18% Operating Profit Margin and an average of 12% Net Profit Margin from 2011 through 2021.

Furthermore, the 2021 Medicare Cost Reports revealed 15% of the 106 Ascension hospitals are in Indiana. These hospital generated 14% total Ascension revenue and 40% of Ascension hospitals total profit, confirming the Indiana hospitals more than offset losses of other Ascension hospitals.



Ascension Health 2021

Indiana adjusted patient discharges totaled 172,000 from 16 hospitals.

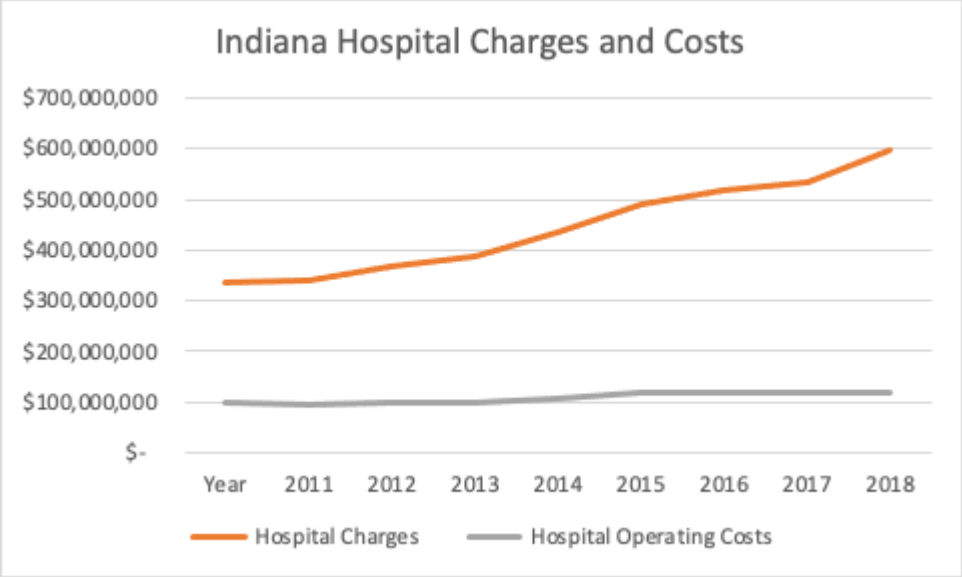


Indiana Ascension Health hospitals generated over $1 billion in Operating Profits, the highest of any other state.

Commercial Hospital Payments as a Multiple of Medicare

Standard health plan network contracts utilize a discount off charge master rates to calculate hospital payments. Charge master rates are set by the hospital and is like the “list price” or “manufacturer retail sales price”. Operating costs are the costs incurred by the hospital to provide patient services and will exclude research projects and other services not directly related to patient care. The following chart illustrates the trend in hospital operating costs compared to hospital operating charges for Indiana acute care hospitals.

Indiana employers ask why they are paying a discount off an ever-increasing charge amount, with little transparency into the charge amount or the negotiated discount, and with no relationship to costs.



Reference Based Contracting and Pricing
Notably, when Marilyn Bartlett was the administrator of Montana's state employee health plan, we moved to contracted reference-based pricing, using Medicare rates as the reference point. This provision is included in HB 1004.

As a result of transitioning to reference-based pricing, Montana's state employee health plan saved millions and employees were able to get salary increases and their health plan premiums (contributions) have remained flat since 2016. And importantly, in using a multiple of Medicare there was predictability for the first time in how much reimbursement rates would increase for health plans.

Further the data available on IN hospital breakeven points (median of 135% Medicare Rate) supports that hospitals will be able to continue providing their essential services and continue to have some profit so they can further invest in technology, etc. Plus, as evidenced in the recent financials, hospitals and health systems have varied revenue sources, which is important. Creating a ceiling for patient reimbursements does not limit the hospitals/health systems other revenue base, including Ascension's $21.2 billion in investments.

In conclusion, NASHP is prepared to provide Indiana with data and technical assistance necessary to support its efforts to ensure future health care affordability.