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 Monitoring Project**

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MASSACHUSETTS HOSPITAL COSTS: WE'RE STILL NUMBER ONE

The Access and Affordability Monitoring Project's February 1 report on *The World's Most Expensive Hospitals: One-fifth of Massachusetts Hospital Costs Appear Unjustified* found that:

- * Massachusetts acute hospital costs in 1989 were highest in the nation, \$1.75 billion greater than they would have been had we spent at the national per capita average.
- * This forty percent excess equaled almost \$300 for each state resident.
- * Two-thirds of the 1989 excess, or almost \$1.2 billion, was not justified by durably appropriate and legitimate explanations. We took into account service to out-of-state patients, research, training, age, higher rates of outpatient department/emergency room care, higher wages, and lower profit margins and case mix.
- * One dollar in five spent on hospital care in this state was therefore not justified.
- * Blue Cross premium rates in the Boston area in 1989 were fully 25 percent greater than the average for the six other metropolitan areas for which comparable data were available. This is another bottom line measure of the cost of health care.

We have been asked to comment on the executive summary of the report on hospital charges released today by the Massachusetts Hospital Association, and on the accompanying MHA press release. The MHA's unpublished consultant report was prepared by the Codman Research Group of New Hampshire and is titled "Comparative Analysis of Inpatient Utilization & Charges in Massachusetts.

We welcome the MHA's efforts to secure new evidence and new analysis on hospital costs in Massachusetts. But we have several concerns about both the methods and findings of the Codman report, and we see no reason to modify any of the conclusions drawn in our own report. This is why:

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1. The Codman report used data from 1984-1986 and 1988. These do not reflect the inflationary effects of the 1988 Massachusetts hospital payment law, Chapter 23, on both charges and rates of hospital admissions.
2. The Codman report considers only charges, the bills hospitals mail out. But the report and the accompanying MHA press release use the terms "charge" and "cost" as if they were interchangeable. This is a serious flaw. The two are very different.

Hospitals are rarely paid their charges because of the varying discounts payors receive. Further, charges have dissimilar relations to costs in different states and in different years; they can be a "rubber yardstick." The appropriateness of comparing charges across states therefore requires documentation. Using charges makes "apples-oranges" comparisons all too possible, especially when making comparisons to our state, where charges have been regulated since 1983.

Charges are an especially flawed measure for Medicare patients because Medicare has never paid hospital charges and, since 1983, has paid by increasingly standardized DRGs, which bear no relation at all to charges.

The analyses in our own report looked at actual 1989 cost: how much it cost hospitals in different states to provide care. We relied on data provided by hospitals to the American Hospital Association.

3. How much does it actually cost to provide care in different states? As a partial correction to the Codman data, we used each state's cost-to-charge ratio to convert charges into actual costs of providing hospital care. We took the Codman report's 1984-1986 charge data for Medicare inpatients and adjusted them to reflect each state's 1986 overall hospital cost-to-charge ratio. Massachusetts then becomes second-highest, after Illinois, not sixth.
4. Similarly, when we took the Codman report's 1988 adjusted charge data for non-Medicare patients and adjusted them further to reflect each state's 1988 overall hospital cost-to-charge ratio, Massachusetts again becomes second-highest, after New York, not fifth. And the Codman report's New York charge estimate may be inaccurate, because it is derived from the average of certain other states.
5. Taking the five high-cost states that appeared in both the Medicare and under-65 groups in the Codman report, and using the cost-to-charge ratio to adjust the Codman charge figures, Massachusetts ranked second overall, behind New York. As just noted, the New York data may be flawed. Thus, by performing just one essential adjustment to the Codman report's charge data, to convert them to actual costs, Massachusetts moves from the middle of the pack to second-- and possibly higher.

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6. The Codman report offers selective looks at pieces of the Massachusetts cost problem. For example, it contrasts different measures of Massachusetts charges to those in seven different comparison groups.
7. The methods used in the Codman report exclude outpatient costs, which the MHA itself has repeatedly asserted to be associated with a large share of the Massachusetts cost excess.
8. The MHA continues to ignore the comparison of Boston and New Haven hospital cost per capita made by Wennberg and his colleagues, which found that Boston's costs were double those of New Haven, even though both cities relied heavily on fine teaching hospitals. That research suggests that elaborate and costly practice patterns may be a key factor in Boston's high costs. The Codman report found consistent practice patterns statewide here, which suggests that this is more than a Boston problem.
9. It would be useful to know which factors the Codman report uses to adjust charges per capita in different states, other than age, sex, and place of residence. The report's summary implies that other factors were used, but these are not named.
10. For Medicare patients, the Codman report examines 1986 charges per capita for six types of surgical cases. The summary suggests that these diagnoses were not selected randomly. The finding of low surgery rates is very surprising, since overall Massachusetts surgery rates in 1986 were fully 20 percent above the national average. Similarly, how were the medical cases selected? This is very important, because Massachusetts hospitals may charge below cost for some types of treatment but well above cost for other types of treatment. Therefore, charges for individual diagnoses are artificial and do not lend themselves to inter-state comparisons. Moreover, pre-selected diagnoses may not be representative of a state's overall experience.

For all these reasons, we stand by the findings and methods of our report. Its bottom line numbers document the extraordinarily high costs of hospital care in Massachusetts. Its results square with the actual experience all who must pay for health care in our state. By contrast, the Codman report flies in the face of the actual experiences of those who pay for health care in Massachusetts. Costs here are clearly high. Instead of disputing that, let us analyze why, and work to reduce them. We can hold down insurance premiums and use some of the savings to pay for needed health care for people who are unprotected today.