

Testimony of VAHHS on S.244 February 10, 2016

Senate Committee on Health and Welfare

Jill Mazza Olson, MPA

Vice President of Policy and Legislative Affairs, Vermont Association of
Hospitals and Health Systems

Whose “cost” does this bill address?

By our reading, this bill is aimed at the costs incurred by the hospital and not issues like:

- Charges
- Reimbursement
- Out-of-pocket costs for individuals

Specifically, S.244 requires all hospitals to implement a “cost accounting” system although it doesn’t use that term

What is “cost accounting?”

- Cost accounting is the process of assigning a cost down to the procedure level
- Cost accounting seeks to consider all elements of patient care (staff, facility, equipment, supplies) and assign some value for all those elements to each individual procedure—
 - How much does treating a broken leg in the emergency department cost?
- Cost accounting is a tool that may help a hospital reduce costs -- but by itself it is an expense
- Cost accounting tools are internal tools

Broad categories of hospital costs

- Staff
- Facility
- Equipment
- Supplies (including implants)

Some strategies to reduce costs

- Remove unnecessary variation between physicians on resource use
- Reduce or eliminate services
- Re-negotiate contracts with suppliers and other contractors
- Reduce utilization

How does cost accounting fit into the current environment?

- Vermont hospitals have to aggressively reduce costs to manage in Vermont's **unique** regulatory/hospital budget process environment
- Medicare reimbursement policy is heading in a similar direction – whether Vermont participates in the all-payer model or not

What's Happening at the University of Utah?

- Strong focus on cost-accounting – human and technical resources
- Extensive database (200 million rows and counting) that allows for comparing costs and outcome between physicians
- Why now? - Expected changes to Medicare payments
- Many familiar strategies to reduce costs, many of which the CURRENT Medicare payment system encourages – such as reducing physician resource use variation
- Measuring success in “cost per discharge” leaves out a critical factor: utilization - a system that successfully reduces hospital utilization will have HIGHER costs per discharge as fixed costs like the facility and the equipment are assigned to fewer patients

VAHHS Comments on S.244

- Understanding and reducing hospital costs is essential in the CURRENT federal and state regulatory environment (regardless of the outcome of the all-payer model)
- We don't know of any hospital anywhere that has “real-time, accurate costing data for each aspect of a patient's interaction with the hospital”
- Concerned about a one-size-fits-all approach