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House Committee on Health Care
Re: Support for House Bill 2679, Hospital Rate Review

Chairman Greenlick and Members of the Committee:

Good Afternoon, my name is Felisa Hagins and I am the Political Director for Service Employees International Union, Local 49. On behalf of our 65,000 members for SEIU 503 & SEIU 49 in Oregon, I am pleased to provide testimony in support of House Bill 2679 establishing a hospital rate review commission.

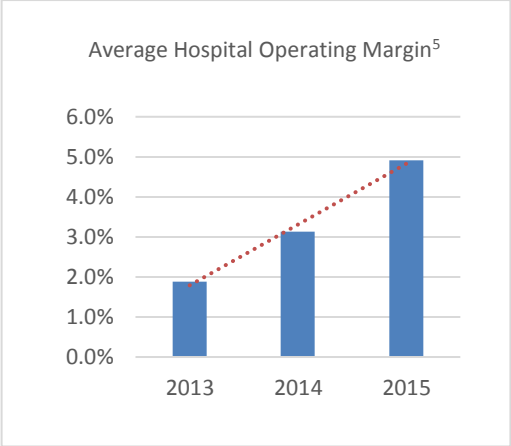
Today, many healthcare workers struggle to afford their own healthcare, despite working in the healthcare industry. For these people and for all Oregonians facing similar challenges, something needs to change in our healthcare system to reduce prices and improve care. We believe a hospital rate review system would inject the urgently needed change and provide a platform to take Oregon's healthcare delivery system into a more efficient and cost-effective future.

According to a poll conducted by NPR, the Robert Wood Johnson Foundation and the Harvard Chan School, **one in four adults in Oregon say health care costs have caused a serious financial problem** for them as individuals or for their family. Many these people report spending all or most of their personal savings and are being contacted by bill collectors. Some even report having to file for bankruptcy.[1]

The single largest recipient of expenditures on healthcare is the hospital industry. One out of every three dollars spent on healthcare went to a hospital in 2015. [2] Hospital prices have increased considerably over the years for reasons unrelated to government rates or expenses. In 2000 the prices paid by private insurers were 16 percent above hospital costs; by 2009 they were more than 34 percent higher. Some may argue that the increased prices for private patients are designed to make up for lower Medicare and Medicaid rates (known as cost-shifting); however, prominent studies have shown cost-shifting to be largely exaggerated.[3] **Evidence points to increased market power in the hands of hospitals, physician groups, and larger health systems as the cause for higher payments.** Market power can come from geographic dominance or "must-have" hospitals with exceptional reputations. These influences and others have created what the *Journal of Heath Politics, Policy and Law* described as "a massive engine for the redistribution of resources from employers, taxpayers, and households to the organizations that provide health care goods and services."[4]

[1] NPR, Robert Wood Johnson, Harvard Chan School (2016). Patients' Perspectives on Healthcare in the United States: Oregon.
[2] Centers for Medicaid and Medicare Services. National Health Expenditures 2015 Highlights,
[3] Frakt, AB. (2011). How Much Do Hospitals Cost Shift? A review of the Evidence. *Milbank Quarterly*.
[4] Murray, Robert, (2012). Case for a Coordinated System of Provider Payments in the United States. *Journal of Heath Politics, Policy and Law*.
[5] Across all Oregon hospitals. Oregon Health Authority, Hospital Financial Data 2006-2015.

This transfer of wealth to hospitals and health systems can be observed in Oregon as well. Nearly all (92%) hospitals in the state charge patients more than 130% of what it costs the hospital to provide the care. More than half of Oregon hospitals charge more than 200%, some charge even three times higher than their costs. Moreover, hospital operating margins have been increasing. **Average operating margins for Oregon hospitals in 2015 was the highest it has been in the ten years on record**. Just between 2013 and 2015, the average hospital operating margin in Oregon more than doubled.[6]



Rising healthcare costs have dramatic impacts on people's lives and the healthcare choices we make. I hear from many working Oregonians about the tough choices between paying bills and affording care. SEIU Local 49 represents thousands of healthcare workers in the region, many of whom, ironically, can't afford their healthcare. Hospital workers with chronic diseases share stories of spacing doctor and lab visits longer than recommended in order to have them fall across different pay periods. Other workers simply turn to the government for assistance and sign up for Oregon Health Plan, despite working full-time.

House Bill 2679 would establish a system to review and regulate hospital prices. Rate regulation can be used to insert sorely missed market forces into the world of hospital pricing. A well-functioning system can be a boon not only to patients and payers who benefit from controlled growth, but also to hospitals who experience stronger financial viability and high bond ratings which lower borrowing costs. While hospitals may experience slightly lower profits on average, theirs profits would be more consistent and reliable. Payers and providers alike benefit from reduced administrative costs as payer-provider negotiations take on less significance, payments are standardized, and transparency increases.[7]

Most importantly, a rate-regulating system can provide a platform for broader payment reforms. While Oregon has taken great strides in establishing Coordinated Care Organizations and restructuring the payment and care delivery systems for Medicaid, other payers, notably commercial payers, are outside that system. Placing all payers on a level playing field can help create consistent and aligned incentives for providers, accelerating the pace of reform.

Maryland used their successful all-payer rate-regulating system to springboard into innovative models that spread across all payers and create powerful, singular incentives for hospitals to improve the health of populations. Maryland established their rate regulating system in the late 1970's and had notable

[6] Ibid.
[7] Murray, Robert, (2012). Case for a Coordinated System of Provider Payments in the United States. *Journal of Heath Politics, Policy and Law*.

success in containing per-admission payments for all payers.[8] While some hospitals abided by established rates, certain rural hospitals operated under fixed global budgets. Maryland's renegotiation of their waiver with CMS established a robust, innovative approach that will continue the shift away from fee-for-service models and towards population-based payment models. This will align provider incentives and revenue streams to the benefit of patients' health and pocketbooks. As we heard last night in President Trumps speech and at the National Governor Association speech he is looking to allow states to innovate to control health care costs. HB 2679 should be part of that innovation.

The potential to create significant cost containment and other benefits under an all-payer rate-setting system has been recognized by think tanks and implemented by other states and other countries. Both the RAND Corporation and the Urban Institute highlighted the potential gains of such a system when doing comparisons of various reform options, including care coordination, bundled payments and implementation of a public plan. Indeed the United States is the only industrialized nation that does not constrain health care pricing and costs through either a single-payer or a coordinated all-payer payment system.

House Bill 2679 would push Oregon to learn from examples and establish our own successful program to review and constrain hospital rates, reforming our state's disjointed healthcare system. Coordinated Care Organizations have established delivery models and financial incentives that are at odds with traditional models used by private payers. Bold action is required to change aggregate healthcare spending; therefore, we need to get all payers on board with reform efforts. A rate review system that is flexible enough to evolve with changes, transparent, and has broad stakeholder support can springboard Oregon into a more efficient and affordable healthcare future. As healthcare patients, consumers, and payers, Oregonians need to rein in and lower hospital costs.

Thank you for this opportunity to testify in support of House Bill 2679. I would be happy to answer questions now or in the future.

[8] Rajkumar, R., Patel, A., Murphy, K., Colmer J., Blum, J., Conway, P., & Sharfstein, J. (2014). Maryland's All-Payer Approach to Delivery-System Reform *New England Journal of Medicine*.

Articles:

Regarding Medical Debt:

- Patients' Perspectives on Healthcare in the United States: Oregon, a report on polling completed by NPR, Robert Wood Johnson, Harvard Chan School (February, 2016)
- In the Red for a Hospital Bed, a report on medical debt and household bankruptcy in Lane County, OR by SEIU Local 49 (December, 2015)

Regarding Hospital Price Variation:

- Oregon Hospital Payment Report, a report compiled by the Oregon Health Authority Office of Health Analytics providing the median payments from commercial insurers to hospitals for common inpatient and outpatient procedures (July 2016)
- The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured, a report by Zack Cooper of Yale University, Stuart Craig of University of Pennsylvania, Martin Gaynor of Carnegie Mellon University, University of Bristol, and NBER and John Van Reenen of Centre for Economic Performance, LSE and NBER (December 2015)

Regarding Rate Review:

- Hospital Rate Setting Revisited, a research report published by the Urban Institute (November 2015)
- Addressing Hospital Pricing Leverage through Regulation: State Rate Setting, a policy analysis by the National Institute for Health Care Reform (May 2012)
- State Hospital Rate-Setting Revisited, an issue brief by the Commonwealth Fund (October 2009)
- Setting Hospital Rates to Control Costs and Boost Quality: The Maryland Experience, Health Affairs (September/October 2009)
- CMS Innovation Center: Maryland All-Payer Model