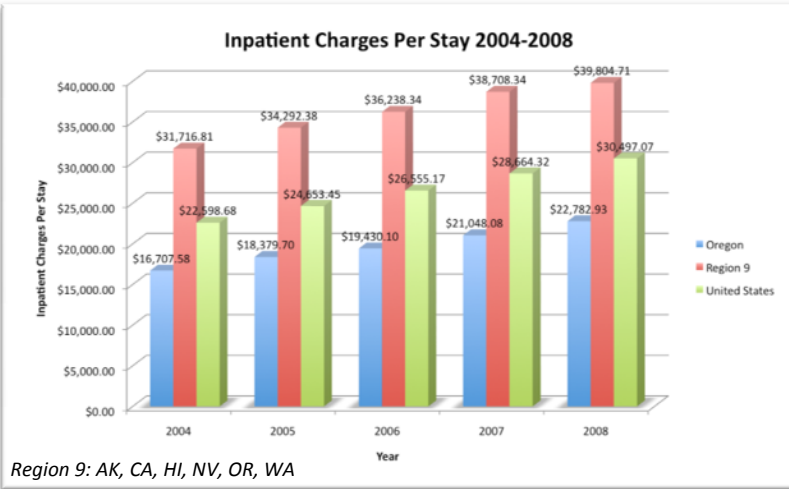


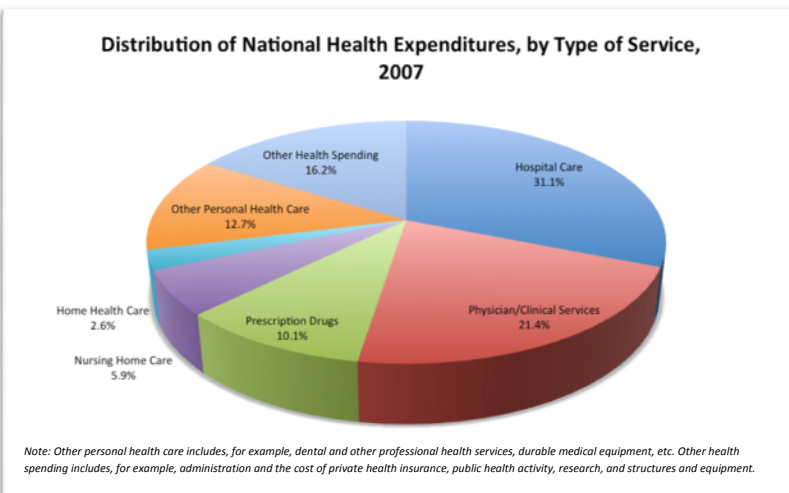
# The Truth about Hospital Costs

## Cost & Quality



Oregon's hospitals continually seek to be more efficient, and to hold the line on costs against a backdrop of rising uncompensated care and growing labor costs. Oregon hospitals have achieved the third-shortest inpatient length of stay in the nation, behind Idaho and Wyoming, and average cost per patient stay ranks 37<sup>th</sup> in the nation, comparing favorably to neighboring states<sup>i</sup>. Despite a short average length of stay, Oregon hospitals' rate of Medicare readmissions for 31 relevant medical conditions ranks in the lowest quartile in the nation.<sup>ii</sup>

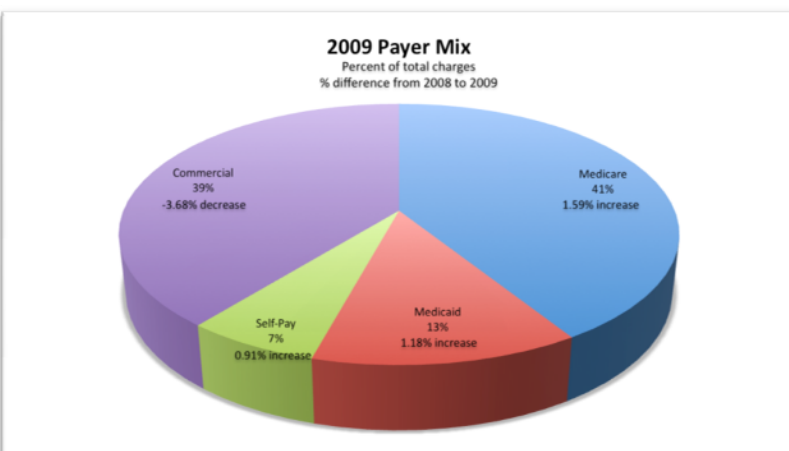
## Rising Costs in Context



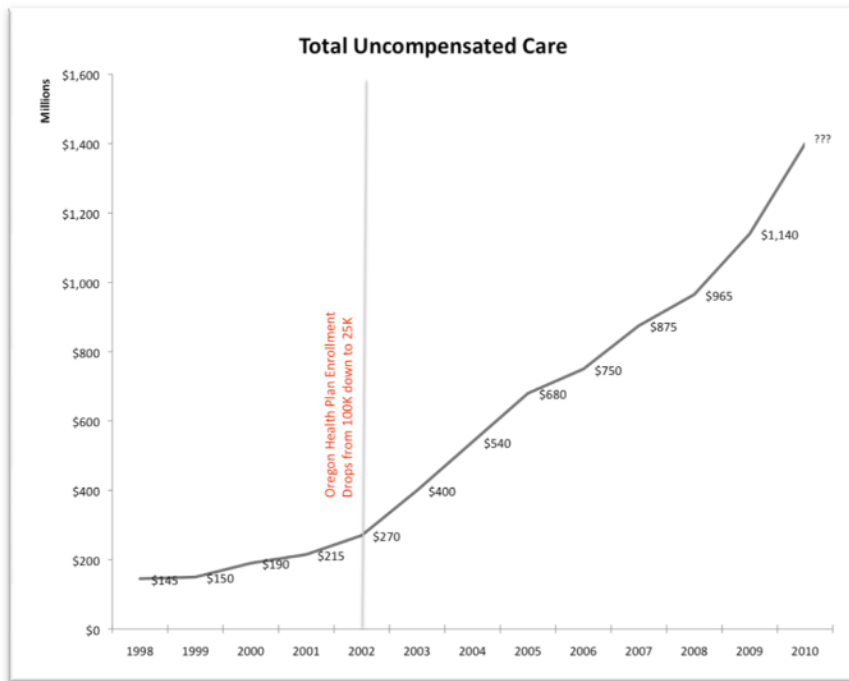
Hospital care comprised 31 percent of national health expenditures in 2007. Outpatient care is growing as a portion of overall hospital costs. Oregon's outpatient hospital expenses accounted for 46 percent of total hospital charges in 2009, up from 40 percent in 1999.

Nationally, hospital costs rose 7.6 percent annually between 2000 and 2006, equal to the rise in the cost for physician services. During the same time period, drug costs rose 10.3 percent annually, and the cost for administration of private health insurance rose 10.1 percent.<sup>iii</sup>

## What Drives Costs Up?



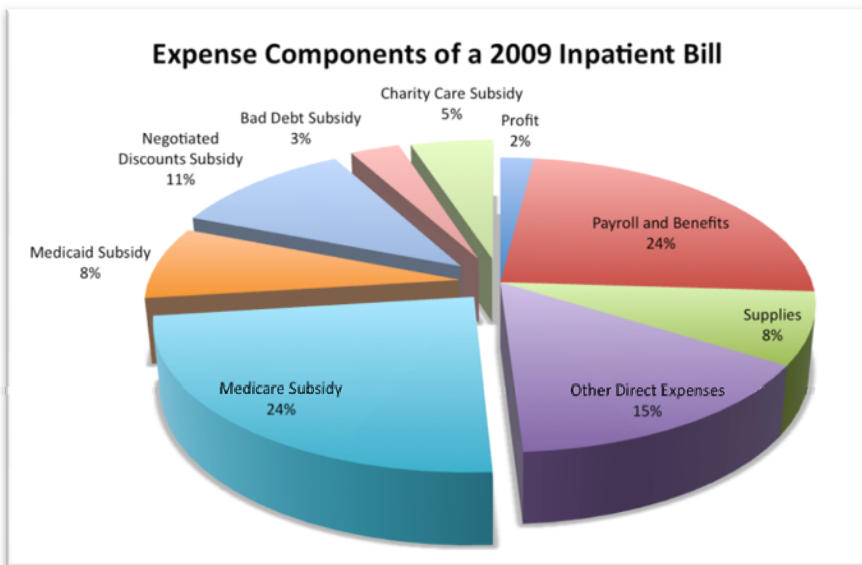
Hospitals rely on a shrinking pool of commercially-insured patients to offset growing losses in charity care, bad debt, and underpayments from Medicaid and Medicare. Uncompensated and undercompensated care are growing at unsustainable rates, forcing hospitals to shift costs to the commercially insured population. Medicare paid hospitals 86 cents for each dollar spent caring for Medicare beneficiaries in 2009, and Medicaid paid 77 cents for each dollar spent caring for Medicaid



patients<sup>iv</sup>. *Twenty one of Oregon's 26 Prospective Payment System hospitals (DRG) are paid bottom-quartile Medicare reimbursement rates.<sup>v</sup>*

Inpatient hospital charges are made up of three components. The first is direct expenses incurred providing patient care, including payroll, supplies, and insurance. The second component is subsidies incurred when payers pay less than billed charges, (and in many cases less than the cost of care). The third component is profit. An analysis of 2009 Oregon inpatient charges reveals that *51 percent of the inpatient hospital bill went toward covering subsidies, while only 2 percent went to hospital profit.*

### Other underlying cost pressures for hospitals



**Labor costs.** Oregon hospital labor costs increased 24 percent between 2005 and 2009.<sup>vi</sup> *Oregon's labor cost per full-time employee is 4.6 percent higher than the national average, at \$58,193.<sup>vii</sup>*

**Obesity:** Nearly one in four Oregon adults are obese, *more than twice the rate reported 15 years ago.<sup>viii</sup>* Hospital admissions of obese patients are on the rise, with consequences for costs.

Obesity is associated with a 36 percent increase in inpatient and outpatient medical expenditures, and a 77 percent increase in medication costs when compared to treating normal-weight patients.<sup>ix</sup> Obese individuals are 67 percent more likely to suffer from chronic disease.<sup>x</sup> Hospitals must pay to equip emergency rooms and surgical suites with bigger operating tables, special lifts, sturdier crutches, and other specially designed medical equipment. Such equipment costs providers 30 percent more than traditionally sized items.<sup>xi</sup>

The rise in obesity rates is the single largest driver of overall health care spending over time, accounting for 62 percent of the rise in per-capita health spending, nationally.<sup>xii</sup>

**Uninsured and unemployed:** Oregon's uninsured rate is the 12<sup>th</sup> highest in the nation, at 16.6 percent of the population.<sup>xiii</sup> This high uninsured rate translates to more self-pay patients and more bad debt for hospitals. Oregon has also lost 72,400 jobs during the past five years, one-third during the last 12 months; the state's unemployment rate is more than 10 percent.<sup>xiv</sup> Because of this, our uninsured rate is unlikely to improve prior to the implementation of major provisions of federal health reform in 2014.