What’s driving up the cost of our health care?

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Bake sales saved the nonprofit Athol Memorial Hospital the first time around, Steve Penka says with a smile. Eleven years later, it took a big Tennessee-based, for-profit hospital chain to keep it in business.

Mr. Penka, the president and chief executive officer, wears both a smile and visible relief these days because the hospital he takes so much pride in will be around at least another five years. The new lease on life, though, didn’t come without some hitches for the tiny facility with 25 patient beds, nine to 12 of which are occupied on a normal day.

Independent since it opened in 1950, Athol Memorial is set to enter a partnership with Vanguard Health Systems Inc., which operates a national chain of hospitals that includes St. Vincent Hospital in Worcester. It will maintain its emergency department and existing inpatient and outpatient services, as well as get $1 million in cash and a promised $2.5 million for capital improvements to, hopefully, make it more economically viable.

The very fact that Athol Memorial is still around today surprises many who follow the health care industry in Massachusetts. In a field dominated by what a recent report from state Attorney General Martha Coakley’s office terms “haves and have nots,” the Athol hospital is at the very bottom of the latter.

That report, “Examination of Health Care Cost Trends and Cost Drivers,” has drawn little attention among the public, but has stirred nonstop discussion among health insurers, hospital administrators, doctors and others associated with the health care industry in this state. It makes a convincing case that health care in Massachusetts, the model for much of the new federal health care law, is riddled with inequities and serious problems.

The quality of health care in the Bay State, ranked at or near the top by most quality measures, and access to it are not at issue. But the network of insurers, hospitals and doctors that pay for, administer and deliver that care has been rendered “dysfunctional” and fueled spiraling costs “that we all agree are unsustainable,” Ms. Coakley said in an interview.

It’s a definite matter of concern for Massachusetts residents who already pay the highest family health insurance premiums in the country, according to the Commonwealth Fund, a nonprofit health care foundation. Moreover, per capita spending on health care in the Bay State already was 54 percent higher than the rest of the country in 2007, according to the state’s Division of Health Care Policy and Finance, and left unchecked, health care costs could exceed one-third of an average Bay State family’s income by 2016.

Reading the attorney general’s report makes it clear that Athol Memorial could be labeled Exhibit A in a case for how not to be a financial success in Massachusetts.

For starters, it is relatively close to bigger competitors, 134-bed Heywood Hospital in Gardner 14 miles to the east, and 93-bed Baystate Franklin Medical Center in Greenfield 25 miles west. Their proximity leaves Athol Memorial without leverage in its negotiations with health insurers for reimbursement rates.

It’s a key reason, Mr. Penka notes, why his reimbursement rate negotiations with insurers are anything but negotiations. The insurers tell him what they’ll pay the hospital — take it or leave it. Athol Memorial trails every medical facility in the state in the reimbursement category and decidedly so. Harvard Pilgrim Health Care, for instance, one of the state’s four biggest insurers, pays 300 percent more for the same medical procedures to Fairview Hospital in Great Barrington than it does to Athol Memorial. The key difference is that similarly-sized Fairview, a 24-bed facility, is an hour’s drive from its nearest competitor, giving it necessary leverage to command better reimbursement.

The system has been stacked against Athol Memorial for a long time.
In truth, it was considerably more than bake sales that kept Athol Memorial afloat after its 1999 financial crisis, caused primarily by the same problems — reduced Medicare reimbursements and low rates paid by private health insurance companies — that very nearly put it out of business last year.

Fundraising efforts involved nearly every business and school in the North Quabbin region, as well as a $250,000 donation from precision tool manufacturer L.S. Starrett Co., Athol's biggest employer. In all, more than $800,000 was collected, surpassing the $500,000 goal and plainly demonstrating the community's concern and regard for its hospital, which has always been an active player by supporting numerous health and wellness programs at local schools, community centers and workplaces.

This past year, however, it became painfully obvious to Mr. Penka and his hospital trustees that even another fund drive couldn't keep Athol Memorial alive.

The hospital has been converted — unwillingly, Mr. Penka adds — mostly into a large outpatient clinic. While the hospital used to have inpatient departments such as maternity and cardiac care, they're gone because they were not profitable. The hospital stays afloat with only about 30 percent of its patients staying overnight, with outpatient procedures making up the rest. Financially successful hospitals have a more even mix, as inpatient hospital stays pay more.

Aligning with a stronger player supplies the leverage needed to fare better in rate negotiations with insurers, as well as to attract new doctors with needed specialties.

"Leverage," Mr. Penka said, "seems to be what it's all about these days."

Armed with one of the most extensive assessments ever undertaken into the reasons for rising health care costs — which have increased an average of 7 percent each of the past 10 years in Massachusetts — Ms. Coakley is quick to stress that she doesn't believe the situation is beyond repair. Massachusetts, she noted, has made great strides, most notably extending health insurance to some 97 percent of the state's population, and the cooperation with her investigation by representatives from throughout the health care field demonstrates their recognition of how dire the situation is and why immediate corrective action is crucial.

The findings were described by one state official as "the shot fired across the bow."

"It finally opens the door to all the uneven practices and dire trends of a system that's broken," the official said, "and won't be corrected without a seismic cultural shift."

Health care costs in Massachusetts, Ms. Coakley said, are increasing far faster than the growth of the economy, the state's gross domestic production and wages. "Such increases, unchecked, threaten the financial stability of individuals and businesses, and the future viability of our gains in health care access," she added.

Specific examples of the problems cited in the attorney general's report have been previously publicized.

Last summer, for instance, a Boston Globe series detailed how an informal agreement in 2000 between Blue Cross Blue Shield of Massachusetts and Partners HealthCare, parent company of Massachusetts General and Brigham and Women's hospitals in Boston, led to sizeable increases in rates paid by the insurer to Partners, and how other insurers were compelled to pay similar increases or lose access for their subscribers to the prestigious hospitals. Last fall, a T&G report documented how UMass Memorial Medical Center — University Campus regularly charges 40 to 50 percent more for many surgeries and other procedures than crosstown rival St. Vincent Hospital, despite comparable quality and safety ratings for the two facilities.

The attorney general's report confirms both newspapers' findings and makes it clear that such practices and discrepancies are systemic and far more widespread than the areas served by Partners and UMass Memorial.

Obtaining insurer rates paid to 66 hospitals throughout the state, the AG's report points out that six of the 10 best compensated are community hospitals outside the Boston area and without competitors relatively nearby. The Top 10 list for Blue Cross reimbursements, for instance, includes expected facilities such as Children's, Beth Israel Deaconess, Massachusetts General and Brigham and Women's hospitals in Boston, but also Partner's Nantucket Cottage Hospital, Harrington Hospital in Southbridge and Berkshire Health System's Fairview Hospital in Great Barrington, as well as facilities in Northampton, Pittsfield and Springfield.

UMass Memorial Medical Center — University Campus is No. 11 on the Blue Cross reimbursement list.

Ms. Coakley warns that if patient volume continues to move away from financially weaker hospitals to those with better "brand" recognition and/or geographic location, the vulnerable ones will have to close, merge or shrink dramatically. Resulting mergers and acquisitions will be inevitable, a situation already evidenced in Central Massachusetts.

Hubbard Regional Hospital in Webster, for example, merged with Harrington in Southbridge in May 2009. One-third of
Hubbard's employees were laid off, and Hubbard's emergency room and surgical wing were closed. Had the merger not happened, Hubbard, which had been under financial pressure for years, likely would have closed.

Also vulnerable to closing are departments at existing hospitals that are already unprofitable in the current system, such as psychiatric services, addiction recovery and specialized units for treating burn victims. Worcester's St. Vincent Hospital nearly closed its psychiatric department last year, but was saved at the last minute when the hospital settled a new contract with its department head.

Even going forward, the department is not profitable and must be subsidized by other, more profitable departments, St. Vincent officials say.

Competition could be hit as well, as profitable services such as cardiac care, cancer treatment and others become concentrated in the larger — but higher cost — facilities.

The attorney general's report in March has spurred a fierce pushback by the state. In April, the state Division of Insurance rejected a slew of health insurance rate increases for individuals and small businesses. Also in April, the Department of Justice launched a civil investigation into possible anticompetitive behavior by Partners, the state's most powerful hospital and physician network.

UMass Memorial Health Care, the largest health care provider in Massachusetts, with facilities in Worcester, Clinton, Marlboro, Leominster, Fitchburg and Palmer, is feeling the effects of the outcry.

John G. O'Brien, president and chief executive officer of UMass Memorial Health Care, said he expects to have to lay off staff within the next three to six months, primarily because of cuts in Medicare and Medicaid payments, as well as a lowering of UMass' rates charged to private health insurance companies.

"The cuts are coming at us very quickly. There are probably some difficult cuts to be made in the next several months. We are looking at everything we do and how we do it," he said.

Mr. O'Brien said that despite any cuts, UMass Memorial will continue to provide the types of services unavailable anywhere else in Central Massachusetts, such as a Level 1 emergency department and a neonatal intensive care unit.

"We have an important mission to serve our community, we need to generate a margin to fulfill our mission," he said. "We're one of the top providers for indigent care. We have the busiest emergency department in Massachusetts, and 40 percent of our emergency department patients are low income. We are the safety net."

No such cuts are planned at St. Vincent Hospital, according to spokesman Dennis L. Irish.

St. Vincent's future success doesn't hinge on the hospital negotiating higher insurance payment rates, said hospital President John E. Smithhisler, noting that the facility earned $39 million in profit last year despite receiving 40 to 50 percent less in insurance reimbursement rates than UMass Memorial. What is of concern, he said, is how the current system provides better leveraged facilities such as his hospital's chief competitor with the clout to steer patients its way.

St. Vincent, Mr. Smithhisler said, relies on volume, a steady flow of patients coming through the doors.

"Everybody's patients are sick," added Dr. Octavio J. Diaz, the hospital's chief medical officer. "The quality, safety and complexity of care we offer is comparable.

"What we don't have is the ability to make deals like others do."

Tomorrow: Part 2 — Fixing the problems. Contact Aaron Nicodemus by e-mail at anicodemus@telegram.com. Contact Jay Whearley at jwhearley@telegram.com.

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