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☞ Details: Informational hearing to discuss GAO report 05-856 and health care cost, quality and access in Southeastern Wisconsin. Hearing held in Milwaukee, Wisconsin on April 11, 2006.

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06
(session year)

Senate
(Assembly, Senate or Joint)

Select Committee on Health Care Reform...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (August 2012)

2005 articles

in [illegible]

2005 CMC

Report

GAO Federal Employees Health Benefits Program

Results in Brief

- It was found that FEHBP (Federal Employees Health Benefits Program) PPO (Preferred Provider Organization) hospital prices differed by 259% and physician prices differed by about 100% across metropolitan areas in the US, after removing the costs of doing business (rents and salaries and different types of services provided) affected by geographic variation.

- Prices for hospital stays and physician services tended to be higher in metropolitan areas in the Midwest and lower in the Northeast.

- In general, less competition and less HMO capitation were associated with higher hospital and physician prices.

- They found that physician prices were, on average, lower in areas with lower Medicaid payments and a higher percentage of uninsured.

- Total adjusted health care spending per enrollee was more than twice as high in the highest-spending metropolitan area as it was in the lowest-spending metropolitan area.

Geographic Variation in Spending, Utilization, and Prices

- In 1996, Medicare spending per beneficiary was higher in the Midwest and the South, especially in parts of Texas and Louisiana, than in the North and West.

- A more recent examination of Medicare spending showed continued geographic differences in spending per beneficiary across the nation.

- Geographic differences in utilization have been found in various types of service.

- The number of Medicare beneficiaries of nonsurgical hospital discharges and hip and knee replacement surgeries declined from 1996 to 2001.

- The use of inpatient services do not appear to be caused by the substitution of other, less costly services; markets with higher Medicare

spending per enrollee for acute care hospital services in 1996 also tended to have higher outpatient and physician spending per enrollee.

- Medicare establishes national prices and adjusts them by using formulas that incorporate estimates of differences in input costs, such as wages and rents across geographic areas while the prices are negotiated between providers and health insurers.

- Thus, the geographic differences in price in the Medicare program may not be the same as in the private sector.

Hospital Prices Varied More than Physician Prices

- There is a difference of 259% hospital prices though most FEHBP PPOs had prices much closer to the average.

- Prices paid by FEHBP PPOs for physician services also varied but less than hospital prices

I

- n the lowest-priced metropolitan area, Baltimore, Maryland, physician prices were 73% of the national average, and in the highest-priced metropolitan area, La Crosse, WI, they were nearly 50% above the national average.

- Metropolitan areas with higher physician prices tended to have higher hospital prices, and metropolitan areas with lower physician prices tended to have lower hospital prices.

Hospital and Physician Prices Were Generally Higher in the Midwest and Lower in the Northwest

- On average, FEHBP PPOs paid higher prices for hospital stays in metropolitan areas in the Midwest and lower prices in the Northeast (14% more) but there was a considerable range of hospital prices within regions. (table 1 attached)

- Several metropolitan areas with hospital prices in the highest quartile were located in the same state as metropolitan areas with hospital prices in the lowest quartile (i.e. NY, CA). (table 2 attached)

- FEHBP PPOs paid higher average physician prices in metropolitan areas in the Midwest and lower average physician prices in metropolitan areas in the Northeast (15%). (table 3 attached)

- Metropolitan areas in Wisconsin had physician prices ranked among the highest in the study (8 out of 10 metropolitan areas with the highest physician prices are in WI) (table 4 attached)

Prices Were Higher in Metropolitan Areas with Less Competition

- FEHBP PPO hospital and physician prices were higher, on average, in metropolitan areas with less competition among hospitals.

- In the least competitive metropolitan areas-those in the quartile with the lease competition-hospital prices tended to be about 18/% higher and physician prices tended to be nearly 11% higher than in the most competitive metropolitan areas-those in the quartile with the most competition.

- Example: Rapid City, South Dakota, was in the quartile with the least competition; its hospital prices were 25% above average, and its physician prices were 10% above average.
  In contrast, Pittsburgh, Pennsylvania, a metropolitan area in the quartile with the most competition, had hospital prices 14% below average and physician prices 16% below average.

Prices Were Higher in Metropolitan Areas with Less HMO Capitation

- FEHBP PPO hospital and physician prices were higher, on average, in metropolitan areas with less HMO capitation.

- On average, both hospital prices and physician prices were more than 10% higher in metropolitan areas with the least HMO capitation.

No Evidence of Cost Shifting Due to Medicaid, Medicare or the Unisured

- FEHBP PPOs did not pay higher prices in metropolitan areas with higher percentage of MA or Medicare beneficiaries, a larger uninsured population, or lower MA payments.

- While none of these cost-shifting factors were significantly associated with higher hospital or physician prices, physician prices were actually lower, on average in metropolitan areas with lower adjusted MA payment rates and proportionately larger uninsured populations.

- Physician prices were nearly 10% lower in the metropolitan areas in the quartile with the lowest MA payment index than in the quartile with the highest MA payment index.

Spending per Enrollee Varied by 112% Across Metropolitan Areas

- Total spending per enrollee varied by 112% across the 232 metropolitan areas in the analysis.

- Spending per enrollee in the metropolitan area with the lowest spending per enrollee, Grand Rapids-Mu7skegon-Holland, Michigan, was 67% of the national average.

- Spending per enrollee in the metropolitan area with the highest spending per enrollee, Biloxi-Gulfport-Pascagoula, Mississippi, was 42% above the average.

- Half of the metropolitan areas in the study had spending per enrollee that was no more than 10% above or below the national average. 80% had spending per enrollee ranging from 16% below average to about 19% above average.

- Total spending per enrollee in FEHBP PPOs was, on average, highest among metropolitan areas in the South and lowest in metropolitan areas in the Northeast.

Concluding Observations

- Market forces, not just the underlying costs of doing business providers face, help to determine the prices FEHBP PPOs ultimately pay hospitals and physicians.

- In metropolitan areas where there was less competition among hospitals, FEHBP PPOs paid a higher price to hospitals and

physicians than in metropolitan areas where hospitals and physicians had more competition.

- In metropolitan areas with less HMO capitation, FEHBP PPOs paid higher prices, which also suggests that hospitals and physicians in those metropolitan areas had less competition for patient share.

- No evidence was found that hospitals or physicians shifted costs, with suggest that FEHBP PPOs may have been influenced by market forces when establishing prices, regardless of the amount of uncompensated or undercompensate care in a metropolitan area.

Table 1: FEHBP PPO Hospital Price Indices in Metropolitan Areas Grouped by Census Region, 2001

Region	Average hospital price index[a] for region
Midwest	1.07
West	1.00
South	1.00
Northeast	0.94
Percent by which prices in the Midwest exceed prices in the Northeast	**13.83**

Source: GAO analysis of FEHBP data.

[a]We adjusted hospital prices to remove the effect of geographic differences in the costs of doing business (wages, rents, etc.) and differences in the severity of illnesses and mix of diagnoses among metropolitan areas. We converted hospital prices to an index by dividing the average hospital price in a metropolitan area by the average hospital price for all 232 metropolitan areas. The average hospital price index is 1.00.

Table 2: Metropolitan Areas with the Highest and Lowest Hospital Price Indices in FEHBP PPOs, 2001

Rank	Highest-priced metropolitan areas	Rank	Lowest-priced metropolitan areas
1	[a]	232	Orange County, Calif.
2	Dover, Del.	231	Pueblo, Colo.
3	Biloxi-Gulfport-Pascagoula, Miss.	230	Ventura, Calif.
4	St. Joseph, Mo.	229	Albany-Schenectady-Troy, N.Y.
5	Milwaukee-Waukesha, Wisc.	228	Newburgh, New York-Penn.
6	Salinas, Calif.	227	New York, N.Y.
7	Buffalo-Niagara Falls, N.Y.	226	Altoona, Penn.
8	Grand Junction, Colo.	225	Decatur, Ala.
9	[a]	224	Anniston, Ala.
10	La Crosse, Wisconsin-Minn.	223	Saginaw-Bay City-Midland, Mich.

Source: GAO analysis of FEHBP data.

Note: We adjusted hospital prices to remove the effect of geographic differences in the costs of doing business (wages, rents, etc.) and differences in the severity of illnesses and mix of diagnoses among metropolitan areas.

[a]Name withheld to protect proprietary data where the metropolitan area had only one hospital in 2001.

Table 3: FEHBP PPO Physician Price Indices in Metropolitan Areas Grouped by Census Region, 2001

Region	Average physician price index[a] for region
Midwest	1.05
South	1.02
West	0.99
Northeast	0.91
Percent by which prices in the Midwest exceed prices in the Northeast	**15.38**

Source: GAO analysis of FEHBP data.

[a]We adjusted physician prices to remove the effect of geographic differences in the costs of doing business (wages, rents, etc.) and differences in the mix of services among metropolitan areas. We converted physician prices to an index by dividing the average physician price per service in a metropolitan area by the average physician price in 319 metropolitan areas. The average physician price index value is 1.00.

Table 4: Metropolitan Areas with the Highest and Lowest Physician Price Indices in FEHBP PPOs, 2001

Rank	Highest-priced metropolitan areas	Rank	Lowest-priced metropolitan areas
1	La Crosse, Wisconsin-Minn.	319	Baltimore, Md.
2	Wausau, Wisc.	318	Lowell, Massachusetts-N.H.
3	Eau Claire, Wisc.	317	Nassau-Suffolk, N.Y.
4	Madison, Wisc.	316	Washington, D.C.
5	Jonesboro, Ark.	315	Fort Lauderdale, Fla.
6	Janesville-Beloit, Wisc.	314	West Palm Beach-Boca Raton, Fla.
7	Great Falls, Mont.	313	Miami, Fla.
8	Green Bay, Wisc.	312	Providence-Fall River-Warwick, Rhode Island-Mass.
9	Appleton-Oshkosh-Neenah, Wisc.	311	Dutchess County, N.Y.
10	Racine, Wisc.	310	San Francisco, Calif.

Source: GAO analysis of FEHBP data.

Note: We adjusted physician prices to remove the effect of geographic differences in the costs of doing business (wages, rents, etc.) and differences in the mix of services among metropolitan areas.

[a]The Washington, District of Columbia metropolitan area includes parts of Maryland, Virginia, and West Virginia.


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Wisconsin Medical Society
Your Doctor. Your Health.

WHA
WISCONSIN HOSPITAL ASSOCIATION

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Misleading Focus Creates Wrong Conclusions

MADISON (September 15, 2005)----The Government Accountability Office (GAO) report released on Wednesday has fostered significant media interest and public attention. But the report's focus on physician and hospital *prices* as opposed to *actual health care costs* creates a hugely **misleading** snapshot of overall Wisconsin health care *spending*.

The GAO report emphasizes provider prices and compares Wisconsin metropolitan areas with metropolitan areas across the nation and draws the reader to conclude that something is amiss in Wisconsin. But a reader who analyzes the entire report can come to a far different conclusion about Wisconsin health care costs using the GAO's own analysis. Specifically, provider prices have only a marginal impact on actual spending. Unless one factors in volume of services consumed, we have an incomplete picture of dollars being spent on total health care services. Another way to look at it is, five widgets purchased at $5 ($25) are less expensive than seven widgets purchased at $4 ($28), even though the price of the individual widget may be less. Indeed, the GAO itself states that only about one-third of total cost differences are the result of unit prices.

Illustrating our concern, the GAO, using five-year-old data, concluded that the La Crosse metropolitan area is the "priciest" in the nation. But the GAO's own chart (page 55) tells a different story. That chart ranks metropolitan areas based on **actual spending** and *no* Wisconsin metropolitan area is found among the top 20 highest spending areas in the nation. This suggests that even if unit prices in La Crosse are higher, the more effective medical management of patients leads to lower costs. Making unit prices the lead is therefore hugely misleading.

Additionally, the GAO used national preferred-provider organizations bidding on small numbers of employees in each local market. Many of the businesses located in those markets are able to obtain larger discounts because of the greater volume of employees they can deliver to a local provider.

Medicaid Cost Shifting Not Considered

In addition to this significant misinterpretation, we also believe that the GAO report is **seriously flawed** in that it fails to account for ongoing and worsening hospital and physician cost-shifting due to **Medicaid underpayment**. Wisconsin Medicaid payments are among the very worst in the country, paying providers pennies on the dollar for actual costs incurred taking care of patients. This "hidden tax" is significant but not accounted for in the GAO study. Despite this, the Centers for Medicare and Medicaid Services (CMS) ranks Wisconsin health care as among the highest quality in the nation.

Here's the Real Story

Here is more current and comprehensive data that tell a much different story about health care spending in Wisconsin. The conclusion? Employers in many Wisconsin metropolitan areas spend *less* than counterparts in the rest of the nation. The chart below illustrates the average per member, per month cost of claims for all medical services, which includes hospital, physician, pharmacy, and laboratory expenses.

2005 Estimated Medical Cost – Full Commercial Population (not just federal employees)

Metro Area	Per Member Per Month Claim Cost
National Average	$403.01
Green Bay	$338.96
Wausau	$340.93
Appleton – Oshkosh – Neenah	$351.63
Eau Claire	$371.90
Janesville-Beloit	$383.32
Sheboygan	$386.83
Racine	$396.45
La Crosse	$403.09
Madison	$407.40
Milwaukee – Waukesha	$449.64
Chicago	$467.18

Source: Milliman USA – based on actual 2004 data

Wisconsin Hospitals and Physicians Embrace Transparency

Finally, Wisconsin hospitals and physicians are committed to providing efficient, high quality patient care. Wisconsin is a recognized national leader in the emergence of private sector initiatives that provide relevant quality performance data in anticipation of a more consumer-driven health care environment. Physician, hospital, and business leaders involved in the Wisconsin Collaborative for Healthcare Quality and WHA's CheckPoint program believe that improving health care quality, safety and efficiency is a common goal that will lead to a more market-oriented environment as called for by Congressman Paul Ryan in his release regarding the GAO report.

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Milwaukee Journal Sentinel September 17, 2005

EDITORIALS

Get to bottom of high prices

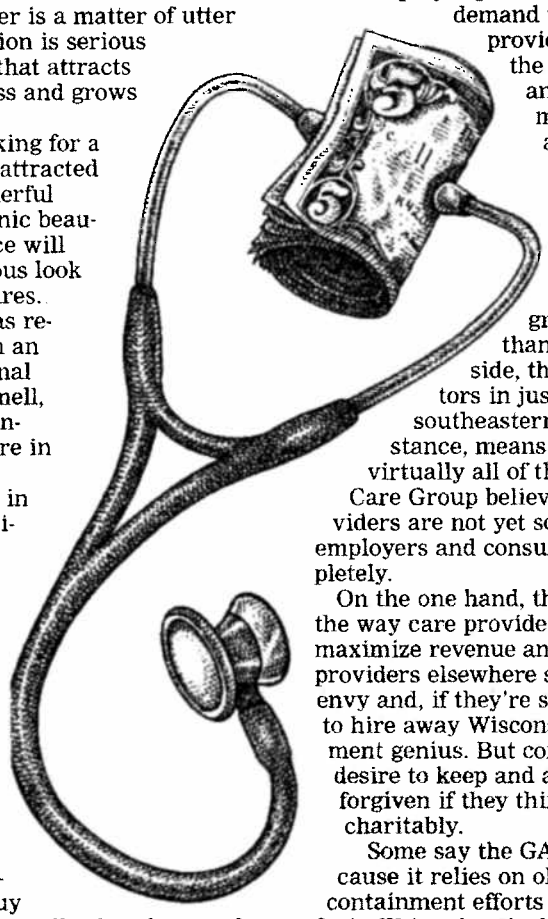
A federal study that marks Wisconsin metropolitan areas as tops in the nation in physician prices should just be the start of the discussion.

That's because even if the General Accountability Office study points to a cause — lack of competition among providers and less market clout by health maintenance organizations — it doesn't tell us why Wisconsin should be so unique in the absence of these.

HEALTH CARE

Getting the answer is a matter of utter necessity if the region is serious about an economy that attracts and retains business and grows jobs.

An employer looking for a new site should be attracted by the state's wonderful work force and scenic beauty. But due diligence will also require a serious look at these health figures.



The GAO study, as reported Thursday in an article by the Journal Sentinel's Rick Romell, says eight of Wisconsin's metro areas are in the top 10 highest priced metro areas in the nation for physician care. Every metro area in the state — except Fond du Lac — was in the top 16 nationally.

Meanwhile, another study by the Kaiser Family Foundation and the Health Research and Education Trust — as reported in an article Thursday by Guy Boulton — says nationally that the cost for an employer to provide health insurance for a family of four has jumped to $10,880 annually, with the worker contribution for that care at about $2,713, or about 25%.

So one study tells an employer that the cost of providing health benefits is high everywhere, but another says that because of the higher physician prices and the absence of HMO clout and competition, it could be even higher in Wisconsin. This is not compelling information for a business considering Wisconsin.

There are a couple of possible solutions. When the GAO study talks about lack of HMO clout, it is referring to the ability to apply enough market pressure to cap prices. Such pressure can be applied by coalitions of employers.

And the business community here and throughout the state has coalesced for a while now around this purpose. It's why the Business Health Care Group of Southeast Wisconsin exists. The premise is to consolidate employer purchases of health care, demand transparency from providers so consumers have the information on cost and quality they need to make educated choices and ask that all parties in the health care transaction be accountable for what they can be.

But while working together gives these groups more leverage than before on the demand side, the consolidation of doctors in just a few groups in southeastern Wisconsin, for instance, means one side still controls virtually all of the supply. The Health Care Group believes, however, that providers are not yet so consolidated that employers and consumers lack choice completely.

On the one hand, the state can be proud of the way care providers have consolidated to maximize revenue and profits. Health care providers elsewhere should be green with envy and, if they're smart, should be trying to hire away Wisconsin's medical management genius. But consumers and those who desire to keep and attract business can be forgiven if they think of this a lot less charitably.

Some say the GAO study is flawed because it relies on old data and that cost-containment efforts of late have borne fruit. We're skeptical.

Rising health care costs are a national problem, and Congress is way overdue in tackling this in a substantive manner. That's why we applaud the intention of Rep. Paul Ryan (R-Wis.) to call congressional hearings on this matter, perhaps exploring why lack of competition among physicians and lack of consumer clout should be so prevalent in one place but not in the other.

It's nice to be different, but we'd prefer this be confined to our fondness for cheese and the Packers.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Exposing hospital costs

Insurer's deal with 2 health care systems discloses prices

By GUY BOULTON
gboulton@journalsentinel.com

Posted: Sept. 17, 2005

Good luck trying to find out what your health plan will pay for the birth of your child or for your knee surgery.

That's because what hospitals charge health plans is confidential.

An upstart company in Waukesha has taken a small step toward changing that.

HealthCare Direct LLC has persuaded ProHealth Care and Columbia St. Mary's, two health care systems in the Milwaukee area, to accept a flat rate for 26 common hospital procedures and to disclose the price of each.

The goal is to help make health care a bit more like other markets, in which buyers have an easier time determining which companies have the lowest prices and, theoretically, are the most efficient.

"That's the whole reason for this exercise," said Jack Meler, president of HealthCare Direct.

In some ways, what ProHealth and Columbia St. Mary's have agreed to do -- albeit on a limited scale -- is radical. It will be the first time that the negotiated price for a specific service at a hospital in the Milwaukee area will be public.

It also is a small step toward so-called price transparency -- a big buzzword in health care these days.

Disclosing information on prices has become important as employers shift more costs to their employees through health plans. The goal is to encourage people to shop wisely for health care. But that's hard to do when no one knows what anything costs.

"Unless the price is public," Meler asked, "how can you expect consumers or purchasers to behave wisely?"

Disclosing prices not only could help people became better health-care consumers, but also could pressure high-cost hospitals to become more efficient.

That, in turn, could help slow the rise in health care costs.

HealthCare Direct, founded three years ago, oversees a preferred provider organization -- a network of doctors and hospitals that have agreed to accept negotiated prices. Employers that pay for their employees' health care costs, rather than buying health insurance, pay HealthCare Direct for the use of its network.

Hospital Prices

By the Numbers

$47,597
Price HealthCare Direct pays ProHealth and Columbia St. Mary's Hospitals for a heart bypass with cardiac catheter.

$100,723
HealthCare Direct's estimate of how much St. Joseph Hospital charges other providers.

+112%
Percentage difference

Source: Healthcare Direct

Quotable

"If the corporate community would back the type of product Jack is putting together, we could significantly reduce the cost of health (care) and health plans."

- Richard Blomquist, a Milwaukee health care consultant

"I don't think a small player like

Only about 2,000 employees and their families use HealthCare Direct's network. But the small company is challenging what many economists consider one of the inherent flaws in the health care marketplace.

"If the corporate community would back the type of product Jack is putting together, we could significantly reduce the cost of health (care) and health plans," said Richard Blomquist, a Milwaukee health care consultant.

this is going to have great impact on hospital pricing. ”

- Leemore Dafny, a health care economist at Northwestern University

Blindly buying health care

Health care accounts for roughly one-seventh of the U.S. economy. Yet health plans have only a general idea of what their competitors are paying for similar services. And consumers have almost no idea what their care will cost until after the fact.

“ Unless the price is public, how can you expect consumers or purchasers to behave wisely? ”

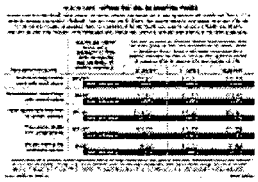
- Jack Meler, president of HealthCare Direct

Uwe Reinhardt, a health care economist at Princeton University, likens the market for health care to putting someone blindfolded in a department store and telling the person to go buy shirts.

"It's a huge economic sector in which prices are a trade secret," he said.

Some insurers have begun disclosing estimates of what some procedures cost at various hospitals. But those are only estimates, and no one really knows which hospitals and doctors charge the lowest prices and provide the best care.

Comparison



Graphic/Journal Sentinel

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That was made plain last week when the Government Accountability Office released a report showing that eight of the 10 metropolitan areas with the highest physician prices in the country are in Wisconsin.

The report -- requested by U.S. Rep. Paul Ryan (R-Wis.) and Milwaukee Mayor Tom Barrett -- was based on 2001 claims paid for federal employees and retirees.

To put this in perspective, it took a study by a federal agency to get a sense of what Wisconsin doctors are charging for their services.

Even then, the report dealt only with overall costs, not what an individual family-practice physician charges for an office visit or a radiologist charges to read a CT scan.

In all likelihood, health insurers had some idea that physician fees were higher in Wisconsin than other states. But probably no one else did -- or at least to what extent.

Lifting the smokescreen

Hospital prices are just as secret.

Few patients, for instance, realize that the huge bills they get from hospitals aren't what their health plan actually pays.

Columbia St. Mary's and ProHealth have not only agreed to disclose what they are charging HealthCare Direct for 26 common procedures, but also to accept flat rates provided there are no complications. This is how Medicare pays hospitals.

The result is that you don't need a medical degree -- or an accounting degree -- to figure out what an appendectomy costs.

Columbia St. Mary's and ProHealth will charge HealthCare Direct $11,300.

"The prices are very clear. We agree to accept X-number of dollars for a procedure," said Charles Dreher, chief financial officer of Columbia St. Mary's. "It does take away some of the smoke around health care pricing for a small number of procedures."

The price will be the same at ProHealth's two hospitals in Waukesha County -- Waukesha Memorial and Oconomowoc Memorial -- and at Columbia St. Mary's' two hospitals in Milwaukee and its hospital in Mequon.

The 26 procedures, Meler said, represent about half of the inpatient hospital costs for the average employer in a year.

The state has long compiled and disclosed information on hospital "charges" -- the health care equivalent of list prices. But health plans don't pay charges. They negotiate discounts, and the discounts are confidential.

This year, the Wisconsin Hospital Association, which now compiles the information for the state, began disclosing the average discount given by a hospital. That means that health plans -- as well as consumers willing to invest the time -- can get a vague sense of which hospitals have the highest prices.

But those figures are the average discount. What a hospital charges a health plan for a specific procedure remains secret. In addition, hospitals sometimes engage in what is called "strategic pricing" -- keeping the price for a common procedure low but raising prices for other services. Hospitals, moreover, can have thousands of prices.

"What matters is what the cost is at the end of the day," Meler said.

ProHealth and Columbia St. Mary's probably wouldn't agree to disclose some of their prices if they weren't confident that their hospitals were less expensive than their competitors.

Ford Titus, chief executive of ProHealth, said the health care system wants to make its price advantage clear to the market.

ProHealth has a reputation for keeping prices relatively low. But it also is in a protracted and contentious battle to stop Aurora Health Care from building a hospital in Waukesha County.

Drawing attention to its low prices could help ProHealth in that battle.

The move by ProHealth and Columbia St. Mary's, however, isn't without risks. For one thing, other health plans will be able to compare what they are paying ProHealth or Columbia St. Mary's with what HealthCare Direct pays.

Limited network, limited clout

Still, only limited pricing information will be available through HealthCare Direct. ProHealth and Columbia St. Mary's, for instance, aren't disclosing information on outpatient procedures.

Furthermore, hospitals -- which account for a bit less than one-third of health-care spending -- are just one factor in rising health care costs. Doctors' prices, for instance, won't be disclosed.

But Meler said HealthCare Direct had to start somewhere.

"We could have the biggest and most rapid impact starting here," he said.

A small health network with about 2,000 members isn't going to set off a price war among hospitals in the Milwaukee area.

"I don't think a small player like this is going to have great impact on hospital pricing," said Leemore Dafny, a health care economist at Northwestern University.

But Dafny agrees that more information on prices will lead to more price competition.

"It would be in the interest of all insurers if their prices were public," she said.

HealthCare Direct has taken a small step toward doing that.

Disclosing prices alone won't solve the country's health care crisis.

But Reinhardt, the Princeton health care economist, said that if prices were not kept secret, there would be more pressure on hospitals to become more efficient and to lower costs.

"The high-cost hospitals," he said, "would be out of business."

From the Sept. 18, 2005, editions of the Milwaukee Journal Sentinel


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Health costs keep rising

Employers, workers pay $10,880 for coverage

By GUY BOULTON
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Posted: Sept. 14, 2005

Five years of steep and steady price increases have pushed the cost of health insurance for a family of four to a national average of $10,880 - or more than a worker earning federal minimum wage makes in a year, according to an annual survey released Wednesday.

Since 2000, the cost of health insurance for employers has risen 73% compared with a 14% rise in inflation, according to the survey by the Kaiser Family Foundation and the Health Research and Education Trust, non-profit organizations that research health policy issues.

This year's increase comes after four consecutive years of double-digit increases. The increase - more than double the overall inflation rate of 3.5% - also shows that health care costs continue to rise sharply.

"We have a Katrina in health care coming this way," said Jim McCormack, chairman and chief executive of Diversified Insurance Services, an independent insurance brokerage and benefits consultant in Waukesha. "This is not going to go away."

Health care costs - which rose at a slower pace in the mid-1990s - began increasing sharply at the start of this decade. Consolidation in the hospital industry, which gave hospitals more power to raise prices, has been a factor. So, too, are higher prescription drug costs and less competition among insurance companies. In addition, more people are developing health problems as the population ages.

"It's become a tremendous burden on employers' bottom line," McCormack said.

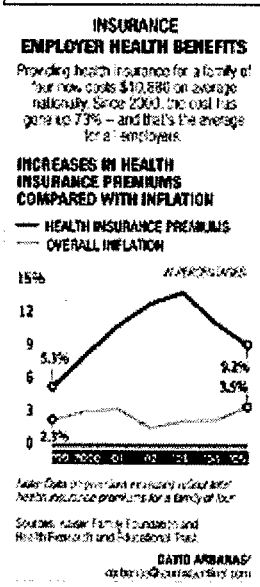
The average annual premium for employer-sponsored coverage is now $4,024 for one person and $10,880 for a family of four, according to the survey. Workers on average contributed $610 [illegible] and $2,713 toward family coverage.

Those costs don't include deductibles, co-pays and co-insurance.

That, though, is a national average. Health care costs in southeastern Wisconsin are higher than in many parts of the country. And a report released Wednesday by the U.S. Government Accountability Office found that doctors charge higher fees in Wisconsin than doctors in other states.

"People should realize that there is variation here," said Gary Claxton, vice president of the Kaiser Family Foundation and co-author of the survey. "Everybody wants to focus on the average. Nobody is average."

Insurance



Graphic/David Arbanas

Click to enlarge

Quotable

"We have a Katrina in health care coming this way."

- Jim McCormack, Diversified Insurance Services

Some companies had premium increases of 5% or less. Those companies employed about 32% of the workers in the survey. Other companies had increases of more than 15%. Those companies employed about 17% of the workers in the survey.

The survey's results, though, were generally in line with other recent surveys. It was based on findings from 2,013 private and public employers, ranging in size from three to more than 300,000 employees.

Last month, United Benefit Advisors, an alliance of insurance brokerages and benefit consultants, released a survey that found the average premium for health insurance increased 9.6% nationally. The average increase was 7.2% in southeastern Wisconsin and 8.7% for the state.

For many small businesses, however, the cost has increased at a higher rate than the national or state averages. For one thing, their costs can be tied to the health of their workers.

Storage Battery Systems Inc., a family business that employs about 45 people in Menomonee Falls, for instance, saw the cost of health benefits increase 23% this year, said Scott Rubenzer, the company's president.

The company, which designs and makes battery power supplies, spends more than $12,000 a year for family coverage - and that's just the company's share of the cost. In all, the company will spend more than $300,000 this year on health and dental benefits.

"It's a responsibility most business people would rather not have," Rubenzer said. "I'd rather sell batteries."

The cost has forced more small employers to stop offering the benefit.

The Kaiser survey found that the number of companies that offer health benefits has dropped to 60% from 69% in 2000. The drop stems almost entirely from small businesses.

The survey found that 98% of businesses with more than 200 employees offer health insurance. But Claxton, the survey's co-author, said that it is not known how many of those large employers are making greater use of part-time workers not eligible for benefits.

Low-wage workers also may not be able to afford health insurance even when it is offered.

It will become increasingly hard for low-wage workers, Claxton said, to continue to get health insurance from employers.

"I can't see anything going on that's good for them," he said.

The survey found that 20% of employers who offer health insurance now offer the option of a health plan with a high deductible. It also found that nationally, large companies were more likely to offer that option.

But small businesses also are turning to high-deductible plans, often combined with a health savings account, because of their lower costs.

In recent years, Storage Battery Systems switched to plans with higher deductibles for that reason, Rubenzer said. The result is that the business is paying more for less insurance.

Storage Battery Systems can afford the cost of providing health insurance to its employees. But the cost and frustrations have made Rubenzer open to the idea of national health insurance - "something I never thought I'd say in my life," he said.

That viewpoint isn't widespread. But Claxton of the Kaiser Family Foundation said no one has any clear answers on how to slow the rise in health care costs.

"People are worried about it," he said. "But they aren't confident about what to do about it."

From the Sept. 15, 2005, editions of the Milwaukee Journal Sentinel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WISCONSIN
CITIZEN ACTION

PRESS RELEASE

For Immediate Release
September 16, 2005

CONTACT: **Darcy Haber (608) 256-1250 x16**
Cell (608) 235-7471

GAO Finds Failure of Free Market Health Care System in Wisconsin the Cause of High Prices

Citizen Action to Gard: "Where is the Task Force for the Real Health Care Crisis?"

"We are relieved that the GAO has finally confirmed what we have been saying for years: the free market simply doesn't work when it comes to providing health care," stated **Darcy Haber, Health Care Campaign Director for Wisconsin Citizen Action**.

"~~Now the question is, what will our elected leaders do with this crucial information~~? Within hours of the Supreme Court decision overturning malpractice caps, Assembly Republicans were issuing press statements crying wolf that our health care system was in serious jeopardy, even though malpractice premiums represent .04% of health care costs in Wisconsin. Now faced with the GAO report explaining that it is free market failure, not malpractice premiums, that are driving up Wisconsin's health care costs, we have not heard a peep from Speaker Gard or other Republican leaders. Once again, while the engine of our health care system smokes, Gard is still examining the windshield wipers."

"According to Expansion Management Magazine [2/14/05], Wisconsin ranks second best (lowest) in medical malpractice premiums and second worst (highest) in health insurance premiums. This GAO report confirms Wisconsin's health care costs are some of the highest in the nation. Where is the task force for the real health care crisis?"

###

FOR FURTHER COMMENT OR TO SCHEDULE AN INTERVIEW, please call or email Darcy Haber directly at (608) 256-1250 x16 or (608) 235-7471.

MILWAUKEE
JOURNAL SENTINEL

WEST EARLY EDITION ★ THURSDAY, SEPTEMBER 15, 2005 ★ WWW.JSONLINE.COM

HEALTH INSURANCE COSTS JUMP TO NEARLY $11,000 A YEAR — STORY ON 1D

State leads nation in physician costs

Wisconsin has 8 of 10 costliest areas, in analysis of '01 data

By RICK ROMELL
rromell@journalsentinel.com

Wisconsin metropolitan areas bear the highest physician prices in the country, and the state is unique in the widespread extent of its chart-topping doctor costs, a federal study shows.

Of the 10 highest-priced metro areas, eight were in Wisconsin, according to the report by the Government Accountability Office, which looked at 319 metro areas nationwide.

Every metro area in the state, except for Fond du Lac, ranked among the top 16. No state came close to matching Wisconsin's concentration at the top of the list.

Across the country, the report said, higher-priced areas tended to share two characteristics: less competition among providers, and less market clout for health maintenance organizations.

"Staggering," said Rep. Paul Ryan (R-Wis.), who together with Milwaukee Mayor Tom Barrett requested the analysis. " . . . It's really a jaw-dropping study."

Nationally, physician and clinical services accounted for 22% of health care spending in 2003, according to the Centers for Medicare & Medicaid Services. Hospital care accounted for 31%.

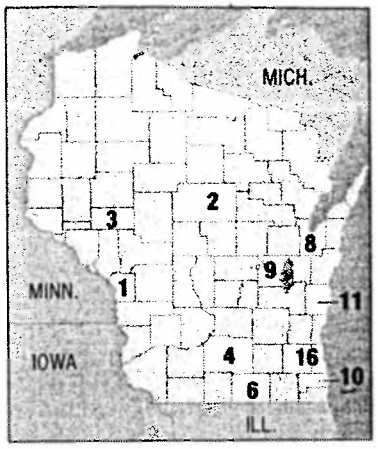
Some observers cautioned that the GAO analysis uses claims data from 2001. Since then, efforts at cost control have been stepped up, in part as em-

Please see DOCTORS, 13A

HEALTH CARE COSTS: **METRO AREAS WHERE DOCTORS CHARGE THE MOST**

Eight of the 10 metropolitan areas across the nation with the highest physician prices are located in Wisconsin, according to a report released by the Government Accountability Office.*

RANK	METROPOLITAN AREA	STATE	PERCENT PRICES WERE ABOVE THE AVERAGE
1	**La Crosse**	**Wis.-Minn.**	**48%**
2	**Wausau**	**Wis.**	**46**
3	**Eau Claire**	**Wis.**	**42**
4	**Madison**	**Wis.**	**41**
5	Jonesboro	Ark.	35
6	**Janesville-Beloit**	**Wis.**	**32**
7	Great Falls	Mont.	29
8	**Green Bay**	**Wis.**	**28**
9	**Appleton-Oshkosh-Neenah**	**Wis.**	**27**
10	**Racine**	**Wis.**	**24**
11	**Sheboygan**	**Wis.**	**23**
16	**Milwaukee-Waukesha**	**Wis.**	**21**



Adjusted physician prices based on private insurance payments for physician services for federal employees and retirees in 319 metro areas, 2001

Source: Government Accountability Office

ALFRED ELICIERTO/aelicierto@journalsentinel.com

Study cites lack of competition

DOCTORS, From 1A

ployers have banded together seeking more leverage over prices, said Susan Rabe, principal and Milwaukee office leader with consulting firm Mercer Health and Benefits.

"There's been a great deal of progress made since 2001 around this," Rabe said.

Previous studies already have depicted Wisconsin as a stronghold of costly health care, but those reports concentrated on the Milwaukee area. A 2003 Mercer report, for example, found that Milwaukee health care costs were 39% higher than in other areas of the Midwest. Last year, a preliminary version of the GAO study ranked Milwaukee fifth-highest among the nation's metropolitan areas in hospital prices, and 16th highest in physician prices.

The new GAO study reiterated those findings but this time also ranked metro areas nationwide — and found nine in Wisconsin with higher doctor costs than Milwaukee.

"The fact that all the other Wisconsin cities appear to be even more costly than Milwaukee is surprising," said Jim Wrocklage, executive director of the Greater Milwaukee Business Foundation on Health Inc.

La Crosse No. 1

La Crosse led the nation in physician prices — 48% higher than the national average. The city also ranked 10th in hospital prices. No other Wisconsin metro area besides Milwaukee was included in the GAO's hospital-price listing.

"Staggering. . . . It's really a jaw-dropping study."

U.S. Rep. Paul Ryan,
who together with Milwaukee Mayor Tom Barrett requested the analysis

The agency didn't address Wisconsin specifically, but Ryan said he had asked GAO researchers about the state's unusual showing.

"They point to their general conclusions for the source of high prices — very little competition and a consolidation of providers," Ryan said.

He noted that the GAO found no evidence that prices for private patients, on average, were any higher because an area received lower Medicaid payments or had a larger percentage of the population enrolled in Medicaid or Medicare.

"I'm questioning that," said Susan L. Turney, chief executive officer and executive vice president of the Wisconsin Medical Society.

Many observers have said that the state's relatively low reimbursement rate for Medicare patients pumps up costs for people with private insurance because providers shift costs to them. That is "sort of the hidden tax" here, Turney said.

That might raise physician costs somewhat in Wisconsin, said Jim Mueller, president of insurance brokerage and consulting firm Frank F. Haack & Associates. But physicians here also have advantages, such as relatively low malpractice insurance rates, that arguably could work to restrain prices, he added.

Like the GAO, Mueller pointed to competitive factors as the reason for higher prices in Wisconsin. In some metro areas, he said, physicians "really control health care" not only through supply, but by influencing demand through ownership of coverage plans.

"They're not only controlling supply, they're also the payer," Mueller said.

'Tremendous market share'

He pointed to the Madison area, where the physician-owned Dean Health System runs both clinics and a large health plan. Dean, he said, has "tremendous market share and clout."

Kevin Hayden, president and chief administrative officer of Dean, disputed that.

"Anyone who looks at Madison and says it's not a competitive health care marketplace is not informed about the provider dynamics," Hayden said.

Madison has large provider systems, but that promotes efficiency, he said. And he said there was "extraordinary competition" among Dean, Meriter Hospital and the University of Wisconsin Hospital and Clinics.

The GAO analyzed claims paid for federal employees and retirees in the Federal Employees Health Benefits Program. The plan covered 8.5 million people in 2001, and remains the largest employer-sponsored insurance program in the U.S.

Members of the plan enroll with private insurers who provide coverage. The study looked at claims from several large, national preferred provider organizations that participate in the federal program.

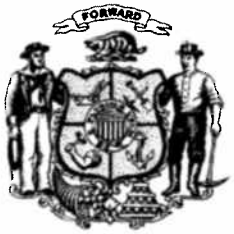
Data on physician prices came from 319 of the country's 331 metropolitan areas in 2001. Data on hospital prices came from 232 metropolitan areas.

Like Rabe of Mercer consulting, Aurora Health Care spokesman Jeff Squire said the data's age limited its usefulness.

"The health care landscape has changed dramatically in recent years," he said. "Certainly more work needs to be done, but good progress has been made in controlling the cost of care."

Ryan said he plans to hold a hearing in Milwaukee County on the findings "as the congressional calendar allows."


WISCONSIN STATE LEGISLATURE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August 2005

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Highlights

Highlights of GAO-05-856, a report to the Honorable Paul Ryan, House of Representatives

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Competition and Other Factors Linked to Wide Variation in Health Care Prices

Why GAO Did This Study

Congress is concerned about the health care spending burden facing the Federal Employees Health Benefits Program (FEHBP), the largest private health insurance program in the country. Health care spending per person varies geographically, and the underlying causes for the spending variation have not been fully explored. Understanding market forces and other factors that may influence health care spending may contribute to efforts to moderate health care spending.

Health care spending varies across the country due to differences in its components, the utilization and price of health care services. A wide body of research describes extensive geographic variation in utilization. However, less is known about private sector geographic variation in prices.

This report examined prices and spending in FEHBP Preferred Provider Organizations (PPOs) to determine (1) the extent to which hospital and physician prices varied geographically, (2) which factors were associated with geographic variation in hospital and physician prices, and (3) the extent to which hospital and physician price variation contributed to geographic variation in spending.

We analyzed claims data from several large national PPOs participating in FEHBP. We used 2001 data, the most current data available at the time of the study.

www.gao.gov/cgi-bin/getrpt?GAO-05-856.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald, (202) 512-7101 or steinwalda@gao.gov.

What GAO Found

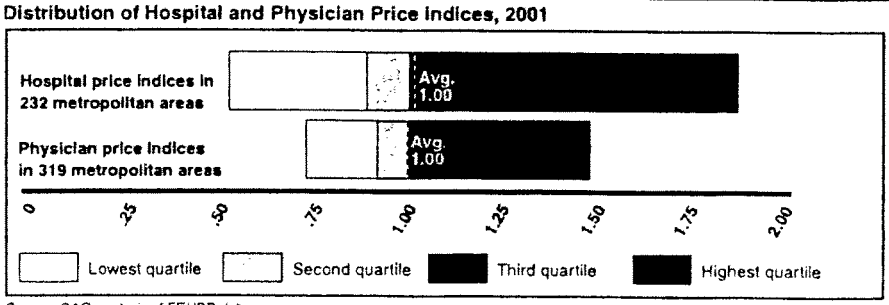
FEHBP PPOs paid substantially different prices for hospital inpatient and physician services across metropolitan areas in the United States. Hospital prices varied by 259 percent and physician prices varied by about 100 percent across metropolitan areas. While there were some areas with very high or low prices, most had prices that were closer to the average.

The variation in prices appeared to be affected by market characteristics. Metropolitan areas with the least competition, areas with a higher percentage of hospital beds in the two largest hospitals or hospital networks, had hospital prices that were 18 percent higher and physician prices that were 11 percent higher than areas with the most competition. The percent of primary care physicians' reimbursement that was paid on a capitation basis in health maintenance organizations (HMO), a proxy for HMO price bargaining leverage, was also associated with geographic variation in prices. Metropolitan areas with the least HMO capitation tended to have hospital and physician prices that were about 10 percent higher than areas with the most HMO capitation. When GAO controlled for other factors that might be associated with geographic variation in prices, more hospital competition and HMO capitation were still associated with lower prices, but the effect was reduced. GAO did not find any evidence that price variation was due to cost shifting, where providers raise private sector prices to compensate for lower prices from other payers.

Total health care spending per enrollee varied by over 100 percent across metropolitan areas. For hospital and physician services, price contributed to about one-third and utilization to about two-thirds of the variation in spending between metropolitan areas in the highest and lowest spending quartiles. Higher physician prices were also associated with lower physician utilization, but higher prices were still typical in higher spending areas.

The Office of Personnel Management provided comments on a draft of this report and agreed with our findings.

Distribution of Hospital and Physician Price Indices, 2001



Source: GAO analysis of FEHBP data.

Note: GAO converted prices to an index by dividing the average price in a metropolitan area by the average price in all study metropolitan areas.

Abstract

- Federal Employees Health Benefits Program: Competition and Other Factors Linked to Wide Variation in Health Care Prices, GAO-05-856, August 15, 2005
Highlights-PDF PDF Accessible Text

Congress is concerned about the health care spending burden facing the Federal Employees Health Benefits Program (FEHBP), the largest private health insurance program in the country. Health care spending per person varies geographically, and the underlying causes for the spending variation have not been fully explored. Understanding market forces and other factors that may influence health care spending may contribute to efforts to moderate health care spending. Health care spending varies across the country due to differences in its components, the utilization and price of health care services. A wide body of research describes extensive geographic variation in utilization. However, less is known about private sector geographic variation in prices. This report examined prices and spending in FEHBP Preferred Provider Organizations (PPOs) to determine (1) the extent to which hospital and physician prices varied geographically, (2) which factors were associated with geographic variation in hospital and physician prices, and (3) the extent to which hospital and physician price variation contributed to geographic variation in spending. We analyzed claims data from several large national PPOs participating in FEHBP. We used 2001 data, the most current data available at the time of the study.

FEHBP PPOs paid substantially different prices for hospital inpatient and physician services across metropolitan areas in the United States. Hospital prices varied by 259 percent and physician prices varied by about 100 percent across metropolitan areas. While there were some areas with very high or low prices, most had prices that were closer to the average. The variation in prices

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appeared to be affected by market characteristics. Metropolitan areas with the least competition, areas with a higher percentage of hospital beds in the two largest hospitals or hospital networks, had hospital prices that were 18 percent higher and physician prices that were 11 percent higher than areas with the most competition. The percent of primary care physicians' reimbursement that was paid on a capitation basis in health maintenance organizations (HMO), a proxy for HMO price bargaining leverage, was also associated with geographic variation in prices. Metropolitan areas with the least HMO capitation tended to have hospital and physician prices that were about 10 percent higher than areas with the most HMO capitation. When GAO controlled for other factors that might be associated with geographic variation in prices, more hospital competition and HMO capitation were still associated with lower prices, but the effect was reduced. GAO did not find any evidence that price variation was due to cost shifting, where providers raise private sector prices to compensate for lower prices from other payers. Total health care spending per enrollee varied by over 100 percent across metropolitan areas. For hospital and physician services, price contributed to about one-third and utilization to about two-thirds of the variation in spending between metropolitan areas in the highest and lowest spending quartiles. Higher physician prices were also associated with lower physician utilization, but higher prices were still typical in higher spending areas. The Office of Personnel Management provided comments on a draft of this report and agreed with our findings.

Subject Terms

Comparative analysis
Competition
Cost analysis
Economic analysis
Health insurance
Health insurance cost control
Health maintenance organizations
Hospitals
Medicaid
Medical fees
Medical services rates
Medicare
Physicians

GAO REPORT
ADD ONE

- On average, PPOs paid higher hospital and physician prices in metropolitan areas in the Midwest and lower prices in the Northeast.

The GAO assessed factors that could contribute to the geographic differences in hospital and physician prices, concluding that areas where there was less competition among hospitals and less HMO capitation (indicative of less price-bargaining leverage) had higher prices, on average. Overall, the GAO found that many metropolitan areas in its study had low levels of competition, and the least competitive areas also tended to have smaller populations.

The GAO found no evidence of cost shifting. In other words, PPOs did not pay higher prices in areas with a higher percentage of Medicaid or Medicare beneficiaries, a larger uninsured population, or lower Medicaid payments. In fact, physician prices were lower, on average, in metropolitan areas with lower adjusted Medicaid payment rates and proportionately larger uninsured populations.

"The results of this study are startling. This GAO report illustrates a very clear point: less competition means higher prices for consumers. And Wisconsinites are paying a lot more for health care because consumers lack power and providers face little competition," Ryan said. "This shows how great the need is for more competitive, consumer-based health care, where patients have the information and the bargaining power they need to be choosy consumers and get quality care while lowering their costs. I plan on examining this issue in greater detail through a committee field hearing in Wisconsin."

"The results of the GAO report confirm to me the reasons I asked for this report. The Milwaukee region ranked fifth highest nationally for hospital costs among 232 areas studied. That is unacceptable and we must find a way to control these skyrocketing costs and their impact on job creation. Employers in our region should study this report and consider solutions to increase competition and gain more bargaining power. I look forward to participating in Rep. Ryan's public hearings and working on solutions," said Mayor Tom Barrett.

The GAO Report is available on Congressman Ryan's website at www.house.gov/ryan or via the GAO's website at www.gao.gov.

Below is a chart adapted from Table 16 (Appendix III) of the GAO Report, listing the ten most expensive areas by adjusted physician prices.

Rank	Metropolitan Area	Percent prices were above the average
1	La Crosse, WI-MN	48%
2	Wausau, WI	46%
3	Eau Claire, WI	42%
4	Madison, WI	41%
5	Jonesboro, AR	35%
6	Janesville-Beloit, WI	32%
7	Great Falls, MT	29%
8	Green Bay, WI	28%
9	Appleton-Oshkosh-Neenah, WI	27%
10	Racine, WI	24%

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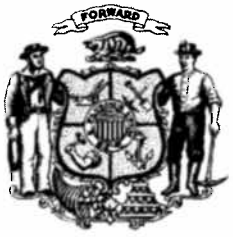
WISCONSIN STATE LEGISLATURE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U.S. House of Representatives
Committee on Ways & Means

Sub-Committee on Health

Government Accounting Office
"Federal Employees Health Benefits Program
Competition and Other Factors Linked to Wide Variation in Health Care Prices"

Testimony of the Honorable Tom Barrett
Mayor of Milwaukee

December 2, 2005

Chairwoman Johnson and distinguished Members, thank you for the opportunity to present my views for consideration by the health subcommittee today. I last addressed this committee in July of 2002, when I spoke to you about an amendment I offered as a Member of the House Commerce Committee. The bipartisan Wilson-Barrett amendment reduced geographic disparities in Medicare physician payments. I am pleased that our amendment became law and brought much needed relief to low reimbursement states, like Wisconsin. And thank you for scheduling this important hearing on the Government Accountability Office's (GAO) report on geographic differences in health care prices, costs and spending. It is an honor to meet with you again, this time as Mayor of Milwaukee.

In May of 2002, Representative Paul Ryan of Wisconsin's 1st District and I requested that the GAO conduct a study of variation in health care spending in response to mounting concerns over the rapid growth of health care costs. Representative Ryan and I heard from constituents, including individuals, businesses, and employee groups about soaring medical expenses and double-digit increases in insurance premiums, including significant increases in the Federal Employees Health Benefits Program (FEHB). In reviewing these concerns, we noted that the burden of high health care spending was not evenly distributed throughout the country; that employer health care costs can vary substantially even among cities in the same geographic regions. It was our hope when we made the request to the GAO in 2002, that we would find the means to reduce the burden on areas with the highest cost and we may learn how to better control overall health care expenses. We have a lot to talk about as a result of this report, and I want to thank the GAO for its efforts.

The report clearly identifies that hospital prices, doctor fees, and other health care costs are higher in southeastern Wisconsin than the national average. Other local and national reports, including the recent Mercer report, and the Greater Milwaukee Business Foundation on Health have also concluded that metro Milwaukee's health care costs exceed the national average. Most of us engaged in this discussion throughout Milwaukee and Wisconsin agree on that basic fact. We even may agree on many of the causes of high health care costs. Where we are likely to differ is how to control costs; to slow the trend of skyrocketing expenses; and increase affordability without losing the quality of health outcomes for which Wisconsin is known.

According to the GAO, the higher than average costs in southeastern Wisconsin are attributable to the greater utilization of health services, higher prices charged by doctors and hospitals and "provider concentration" and subsequent lack of negotiating power. When we consider what was <u>not</u> included in the GAO's analysis, it is evident that the entire scope of the problem has not been studied; and that solutions based on the report's conclusions will not lead us to better alternatives. In order to give us a complete picture of Milwaukee and Southeastern Wisconsin's health costs situation, I believe that analysts must evaluate other drivers of health care costs including Medicare and Medicaid reimbursement, healthcare for the uninsured and the underinsured, ethnic and racial disparities with poor health outcomes that lead to more significant treatment; the price of prescription drugs, the nursing shortage, behavioral health, medical technology and

variances in prescribed tests; and even the expense of paperwork. All of those factors and others must be considered before we can accurately diagnose the causes and prescribe the cures. I am pleased, though, that this report has generated so much dialogue in Milwaukee and around the country. That policy makers and health care providers are intensifying discussions as a result of this study can only lead to progress in addressing this very complicated and very serious problem. Perhaps the GAO staff is willing to help to keep us at the table here in Wisconsin by taking another look at the other factors that have kept Milwaukee and Southeastern Wisconsin stuck in a high cost environment.

As Mayor of Milwaukee, retaining jobs and creating more employment opportunities is my number one priority. But excessive health care costs have a negative impact on regional employment expansion, local job creation and economic development initiatives. Business leaders have expressed great concern about their ability to continue to compete in Milwaukee when they see their profits vaporized due to rising employee health care costs. And because of major increases in coverage, employees are faced with higher premiums, higher co-pays, higher deductibles, and are contributing a greater percentage of their take home pay. Health care costs can be an obstacle to Milwaukee's economic health.

There is some good news, though; that over the course of the last few years (and since Representative Ryan and I made our request to the GAO), strides have been made in Milwaukee and Wisconsin to improve quality, provide transparency, and plan for new ways to reduce core costs. Employers in Milwaukee and around the country are becoming more aware of the value of disease management services, risk assessment and wellness programs. Still, the Mercer Health & Benefits survey, released just last week reported that the cost of providing health benefits in Wisconsin rose 9.2% this year – 31% more than the national average. And that is simply not acceptable.

There remains, then, the need to shed light on a discreet set of issues. As the CEO of the largest city in the state, I will bring together those in Wisconsin, many of whom are in this room today, who have already contributed much to the healthcare debate, and who can help to determine the broader questions that are still lingering as a result of the GAO report.

Thank you again for this opportunity.


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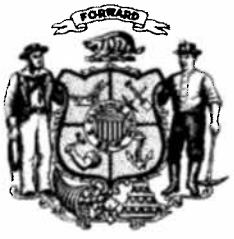
FORWARD

Congress of the United States

Washington, DC 20515

May 9, 2002

The Honorable David M. Walker
Comptroller General of the United States
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Comptroller General Walker:

We are writing to respectfully ask your assistance on a matter critical to Milwaukee and the surrounding area. We appreciate your attention to this matter.

Recent reports have renewed concerns about the rapid growth of health care costs. More and more employers are reporting double digit increases in premiums. This was true of the Federal Employees Health Benefits Program for 2002, and radical increases in premiums are projected for 2003.

While overall health care inflation is a grave concern, the burden of high health care spending is not distributed evenly throughout the country. Some locales have much higher average spending per capita than others. These differences occur among localities that are quite close to one another. For example, in the greater Milwaukee area, large employers' health care costs are 40 percent greater than in nearby Chicago. We believe understanding these differences may assist in finding means to reduce the burden on areas with the highest costs as well as providing insights about how to better control overall health care spending.

Accordingly, we wish to request that the GAO conduct a study of the variation in health care spending across geographic areas. We ask that the study address to what extent these health spending differences are attributable to variation in:

1. the demographics and health status of areas' populations and the cost of living;
2. service utilization, not related to health status or demographics;
3. the relative supply of providers;
4. the extent of participation in different forms of managed care;
5. major employers' purchasing arrangements;
6. Medicare and Medicaid provider payment levels;
7. state laws and regulations regarding insurance plans, offerings and premiums, and certificate of need controls on provider expansions.

Thank you for your prompt consideration of this matter. We look forward to your response.

Sincerely,

Tom Barrett
Member of Congress

Paul Ryan
Member of Congress

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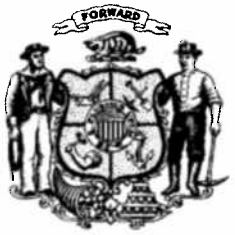

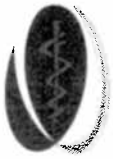

Wisconsin Medical Society

Your Doctor. Your Health.

TO: Members, Health Subcommittee to House Ways and Means Committee
Congresswoman Nancy L. Johnson, Chairman

FROM: Susan L. Turney, MD, MS, FACP, FACMPE

DATE: December 2, 2005

RE: GAO Report 05-856 – Cost of Health Care in Wisconsin

Chairman Johnson, Congressman Ryan and members of the Health Subcommittee, good morning and thank you for this opportunity to testify on the General Accountability Office's findings in Report 05-856, concerning the cost of health care in Wisconsin. I am Doctor Susan Turney, Executive Vice President and CEO of the Wisconsin Medical Society – the state's largest physician organization with almost 11,000 members statewide.

It's important for the Subcommittee members to know that the Society was as shocked as everyone else when we first saw the GAO report – especially with the finding that eight of the top ten most expensive metropolitan areas for adjusted physician prices are in Wisconsin. Central to our surprise was the report's claim to have found no evidence of cost shifting from Medicare to the private sector. Wisconsin's long history as a state with low Medicare reimbursement has woven this cost shift thread into the very fabric of our cost and price structure.

Following the report's release, we made great efforts to ascertain the GAO's methodology, including a conference call with Society staff, the Wisconsin Hospital Association, the Marshfield Clinic and GAO staff on September 30, 2005, to discuss the GAO's reliance on Medicare geographic practice cost indices (GPCIs) in reaching its conclusions in the report. During the call, we specifically requested information about whether the geographic adjustments using Medicare GPCIs might have a systematic bias against states with lower adjustors, like Wisconsin. GAO staff provided very broad, descriptive information without providing further detail. This lack of transparency is troubling, both undermining the integrity of the report and making it much more difficult for stakeholders to consider what steps can be taken to evaluate and strengthen the health care system.

The cost-shifting question is fundamental when discussing health care costs, especially those costs borne by private industry – the very statistic prompting Congressman Ryan and then-Congressman Tom Barrett to make their GAO request. Because we still lack important knowledge regarding the report's methodology in this area, we cannot speak specifically to some of the findings.

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We can, however, speak to the things we very much know: Wisconsin's health care system provides high quality and efficient care as part of an integrated delivery system – the type of system lauded by the Institute of Medicine as a method to best provide safe, effective, patient-centered, timely, efficient and equitable care. We are proud to be one of the high quality states as measured by CMS, as the first attachment to this testimony shows ("State-Level Performance on Medicare Quality Indicators").

The Marshfield Clinic (Marshfield) system in Wisconsin, where I spent 25 years of my career, is an excellent example of the burdens the Medicare payment system causes. One out of every five Marshfield Clinic patients is in the Medicare program. Thirty-six percent of all services provided by Marshfield are to Medicare patients, but Medicare reimbursement provides only 20 percent of the clinic's revenue. The math does not add up – Marshfield estimates that Medicare's reimbursement falls $100 million short annually for Medicare patients. Extrapolating Marshfield Clinic's experience to the state as a whole, the total Medicare reimbursement shortfall for Wisconsin is somewhere between $1 billion and $2 billion.

Despite that staggering shortfall, Wisconsin consistently ranks high among the states in quality of care provided, but is in the lowest quartile for Medicare per-capita reimbursement. As the second attachment to this testimony shows ("Average adjusted service use per beneficiary, all services, 1999-2002"), Wisconsin is not just a high quality state, but is a state where Medicare beneficiaries use fewer services. This means our Medicare patients are in one of the highest value states for the health care dollar – a conclusion quite different from that in the GAO study.

We believe Wisconsin's shift to an integrated delivery system model has led to our state's ability to provide quality care. While the report can be read to label this model as a "consolidation of providers" and highlights that consolidation as "very little competition" leading to high physician prices, we look at the model differently. These so-called consolidated providers have led the way in computerization, promoting lifestyle changes in schools and workplaces, and creating public reports so that health care consumers can have useful, value-based information – all elements very much lacking in states without such integrated systems.

Fundamental questions over the report's methodology and transparency must be addressed if future government efforts wish to garner broader support. For example, if the federal government wishes to explore the possibilities of an effective "Pay for Performance" system and expects physicians and other health care entities to embrace the plan, the accuracy and transparency of data collection and usage will be critical. Wisconsin physicians are more than willing to be judged and reimbursed based on quality – as long as the methodology is transparent and valid.

Thank you again for this opportunity to testify, and for holding this hearing in Oak Creek. No matter what one thinks about the GAO report, it has stimulated dialogue in both Wisconsin and Washington, DC, about how we should collect, analyze and interpret health care cost information. The Society is pleased to help add to the discussion.

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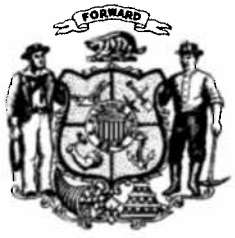

U.S. Congressman Paul Ryan
Milwaukee Mayor Tom Barrett

FOR IMMEDIATE RELEASE
September 14, 2005

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MAYOR BARRETT AND CONGRESSMAN RYAN RELEASE GAO REPORT ON HEALTH CARE PRICES AND SPENDING

MILWAUKEE/WASHINGTON – Wisconsin's First District Congressman Paul Ryan and Milwaukee Mayor Tom Barrett today released a report they had requested by the U.S. Government Accountability Office (GAO) on geographic differences in health care prices and spending and what factors are behind these differences.

More than three years ago, Ryan and Barrett – who was serving in the U.S. House of Representatives at the time – asked the GAO to investigate why Milwaukee pays more for health care than comparable cities and markets elsewhere in the country.

In response to this request, the GAO compared hospital prices, physician prices, and health care spending per enrollee across metropolitan areas nationwide using 2001 medical claims data from enrollees under age 65 in selected national preferred provider organizations (PPOs) participating in the Federal Employees Health Benefits Program (FEHBP). In August 2004, the GAO issued an interim report focused on Milwaukee health care prices and spending compared to other areas and concluded that provider leverage relative to insurers may contribute to high prices.

The GAO's final report, released today, looks more broadly at the variation in hospital and physician prices and spending in metropolitan areas throughout the United States. As part of its analysis, GAO ranks 232 areas around the nation by hospital prices and 319 areas by physician prices. This report confirms that health care prices in the Milwaukee area and other Wisconsin communities are high relative to the other metropolitan statistical areas (MSAs) in the study. Specifically, GAO found that:

- Hospital prices varied more than physician prices nationwide. The Milwaukee-Waukesha area ranked fifth highest by adjusted hospital prices, with hospital prices about 57% above the national average. The La Crosse, Wisconsin-Minnesota area ranked tenth highest by hospital price, with prices nearly 39% above the national average.

- Metropolitan areas in Wisconsin had physician prices ranked among the highest in the study: of the 10 metropolitan areas with the highest physician prices, eight were located in Wisconsin. The GAO found physician prices were highest in the La Crosse WI-MN area, with prices 48% above the national average. A chart listing the top ten GAO-ranked areas by physician price appears below. In addition, Sheboygan ranked 11th, Milwaukee-Waukesha ranked 16th, and Kenosha ranked 18th highest by physician price.

-- MORE --

GAO REPORT
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- On average, PPOs paid higher hospital and physician prices in metropolitan areas in the Midwest and lower prices in the Northeast.

The GAO assessed factors that could contribute to the geographic differences in hospital and physician prices, concluding that areas where there was less competition among hospitals and less HMO capitation (indicative of less price-bargaining leverage) had higher prices, on average. Overall, the GAO found that many metropolitan areas in its study had low levels of competition, and the least competitive areas also tended to have smaller populations.

The GAO found no evidence of cost shifting. In other words, PPOs did not pay higher prices in areas with a higher percentage of Medicaid or Medicare beneficiaries, a larger uninsured population, or lower Medicaid payments. In fact, physician prices were lower, on average, in metropolitan areas with lower adjusted Medicaid payment rates and proportionately larger uninsured populations.

"The results of this study are startling. This GAO report illustrates a very clear point: less competition means higher prices for consumers. And Wisconsinites are paying a lot more for health care because consumers lack power and providers face little competition," Ryan said. "This shows how great the need is for more competitive, consumer-based health care, where patients have the information and the bargaining power they need to be choosy consumers and get quality care while lowering their costs. I plan on examining this issue in greater detail through a committee field hearing in Wisconsin."

"The results of the GAO report confirm to me the reasons I asked for this report. The Milwaukee region ranked fifth highest nationally for hospital costs among 232 areas studied. That is unacceptable and we must find a way to control these skyrocketing costs and their impact on job creation. Employers in our region should study this report and consider solutions to increase competition and gain more bargaining power. I look forward to participating in Rep. Ryan's public hearings and working on solutions," said Mayor Tom Barrett.

The GAO Report is available on Congressman Ryan's website at www.house.gov/ryan or via the GAO's website at www.gao.gov.

Below is a chart adapted from Table 16 (Appendix III) of the GAO Report, listing the ten most expensive areas by adjusted physician prices.

Rank	Metropolitan Area	Percent prices were above the average
1	La Crosse, WI-MN	48%
2	Wausau, WI	46%
3	Eau Claire, WI	42%
4	Madison, WI	41%
5	Jonesboro, AR	35%
6	Janesville-Beloit, WI	32%
7	Great Falls, MT	29%
8	Green Bay, WI	28%
9	Appleton-Oshkosh-Neenah, WI	27%
10	Racine, WI	24%

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Original URL: http://www.jsonline.com/news/editorials/aug04/253668.asp

Editorial: GAO's health cost alarm

From the Journal Sentinel

Posted: Aug. 24, 2004

A long-awaited federal study on health care prices in the Milwaukee area released Monday told local health care providers what they probably didn't want to hear but needed to: Much of the blame for the high costs rests on their shoulders because they exert more muscle in negotiations than do insurance companies.

The result, according to the Government Accountability Office - which conducted the study at the request of U.S. Rep. Paul Ryan (R-Wis.) and Milwaukee Mayor Tom Barrett - is that hospital inpatient charges are 63% higher here than the average of 239 metropolitan areas across the country and that physicians' prices are 33% higher than the average of 331 metro areas.

While the high cost of health care in southeastern Wisconsin is not a new story, these latest statistics are staggering. Why should costs be so much higher here than in other metropolitan areas where the cost of living is higher? Quite obviously, something in the dynamics of the health marketplace in this area is out of line.

Fixing it won't be easy, but fixed it must be. One way to do that is to give consumers as much information as possible about prices of medical procedures, tests and examinations so they can make informed, apples-to-apples decisions about their health care.

If these costs are not reined in, the area's economic health surely will suffer.

Fortunately, Wisconsin has a relatively low percentage of uninsured residents compared with the rest of the United States; a state study last September showed that only about 6% of Wisconsin residents didn't have insurance. Even so, the steep cost of health care takes a higher financial toll both on the uninsured and on hospitals located in poor neighborhoods because they end up caring for more of the indigent.

In what may or may not prove to be a significant finding, the GAO report also tended to downplay the long-held belief that the high health care prices in this region are the result of lower Medicare reimbursement rates in Wisconsin.

At a news conference, Barrett and Ryan did not suggest how to rein in costs. But they did call for a dialogue among hospitals, physicians, employers and insurers. That's a good start, but it needs to go much further than just talking and everyone needs to be brought to the table, including public and private employee unions, business groups such as Wisconsin Manufacturers & Commerce and civic groups, including the Greater Milwaukee Committee.

Those involved also should take a good, hard look at the amount of money being spent on new health care construction. Surely someone has to pay for all that brick and mortar, not to mention the duplication of high-end medical equipment.

In short, everyone, including local consumers who often demand unlimited access to health care providers as part of their insurance plans, must realize that these soaring prices are a symptom that something is dreadfully wrong. And that it needs to be remedied soon.


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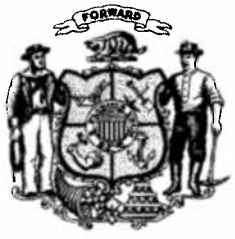
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Guest Column

Transparency Will Improve Quality, Reduce Cost of Health Care

by U.S. Congressman Paul Ryan

Rep. Paul Ryan

As many of you may know, I recently participated in a House Ways & Means subcommittee field hearing in Oak Creek to discuss a variety of issues regarding the recent Government Accountability Office (GAO) report on the wide variation in health care prices across the nation for PPOs participating in the Federal Employees Health Benefits Program. I realize a number of you raised concerns about how this report was interpreted and about several methodological issues.

While the GAO's findings show that health care costs and prices in Wisconsin are higher than the national average, I have no interest in seeing this report used primarily to place blame for the skyrocketing health care costs we have been experiencing. Rather, this report should serve as a starting point for an open and honest dialogue between patients, doctors and hospitals, and providers, so that we can find viable solutions to the problems facing all of us.

In my view, health care should embrace market-based reforms in order to facilitate consumer involvement in health care decisions and promote provider competition.

In my view, health care should embrace market-based reforms in order to facilitate consumer involvement in health care decisions and promote provider competition. An important building block for fixing the health care marketplace is *transparency* – information necessary for decision-making facilitated by the rapid diffusion of information technology.

The time has come to empower individuals by giving them the resources they need to shop for health care based on quality and value. I do not believe universal single-payer coverage is the answer to our country's health care woes. I believe doctors, hospitals, and providers should shape health care by publishing their actual prices in order to promote competition in the medical community, which can also lead to better quality health care for consumers. By moving towards a market-based system with a safety net for all uninsured, all health care providers will compete for patients' business, rather than the government setting prices and reducing quality and outcomes.

I am proud of the fact that our state is recognized as a national leader when it comes to measuring and reporting quality information.

I recently read the *Hospitals & Health Networks* article "Ahead of the Pack" that described the significant transparency initiatives that are being led by Wisconsin hospital and medical groups. I am proud of the fact that our state is recognized as a national leader when it comes to measuring and reporting quality information.

Make no mistake – the current health care marketplace is in need of serious repair. In order to accommodate the necessary transformation of the delivery and financing of health care services, we must engage patients and provide the information they need to act as judicious consumers. Transparency in health care will help us fix a broken system.

Wisconsin is fortunate to have health care leaders who are engaged in advancing a proactive transparency agenda. I want to support these initiatives and encourage their speedy evolution in order that we can transform the marketplace by improving outcomes and rewarding value.

WHA

Sign Up NOW for Community Benefits Reporting Training Session

Reminder: If you have not already done so, please establish a Community Benefits contact person for your facility. WHA's free community benefits reporting training sessions start next week: March 22, Oconomowoc; March 23, Eau Claire; and March 24, Stevens Point. The session will train your staff to use the online survey to track your Community Benefit programs. WHA is in the process of establishing log-in and passwords for every facility, and a contact person for every facility is necessary for your hospital to participate. Contact Mandy Ayers, WHA, at *mayers@wha.org* or call 608-274-1820.

Federal Budget Proposals Pending in Congress

Congressional health care hearings

The U.S. Senate began voting on amendments to the FY 07 budget resolution this week. In a striking departure from the President's proposed budget, the Senate Budget Committee has already removed the President's proposed $36 billion reduction to Medicare after hearing from Senators that the cuts went too deep. In approving its resolution, the Senate Budget Committee also failed to include reconciliation instructions for the Senate Finance Committee. This is a positive move and means that the Senate will now need 60 votes (a higher threshold) for any Medicare cuts.

In other positive news, not only did the Senate remove the President's proposed Medicare reductions, but Senators such as Arlen Specter, a Republican from Pennsylvania, were even considering offering amendments to increase spending on health care.

The U.S. House, on the other hand, delayed committee work on a budget resolution until the week of March 27. It is not clear whether the House will parallel the tact taken by the Senate or if they will include Medicare cuts in their resolution. Additionally, it is unclear whether the House, unlike the Senate, will include reconciliation instructions.

In other news, Congress held several hearings of interest this week.

A subcommittee of the House Energy and Commerce Committee held a hearing on price transparency entitled, "What's The Cost?: Proposals to Provide Consumers With Better Information About Healthcare Service Costs." Testifiers included Rep. Dan Lipinski (D-IL) and Newt Gingrich among others. Rep. Lipinski testified on his legislation, H.R. 3139, the Hospital Price Reporting and Disclosure Act. Access HR 3139 online at http://thomas.loc.gov/. Access hearing details at http://energycommerce.house.gov/108/Hearings/03152006hearing1813/hearing.htm#Transcript.

A subcommittee of the House Ways and Means Committee held a hearing on long term acute care hospitals and Medicare payment policies. Testifying at this hearing were Herb Kuhn, director for the Center for Medicare Management of the Centers for Medicare and Medicaid Services, and Mark Miller, executive director of the Medicare Payment Advisory Commission among others. Access their statements and other hearing information at http://waysandmeans.house.gov/hearings.asp?formmode=detail&hearing=469.

The full Senate Health Committee held a hearing entitled, "Enhancing Public Health and Medical Preparedness: Reauthorization of Public Health Security and Bioterrorism Preparedness and Response Act." Department of Health and Human Services Secretary Michael Leavitt was among the testifiers. Access committee details at http://help.senate.gov/Hearings/2006_03_16/2006_03_16.html.

For questions on these or other federal issues, contact Jenny Boese at WHA at 608-268-1816 or *jboese@wha.org*.