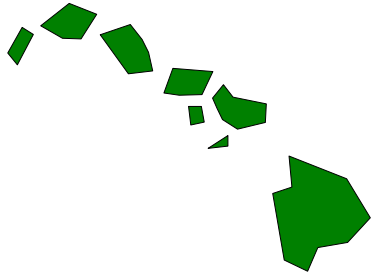




Healthcare Association of Hawaii

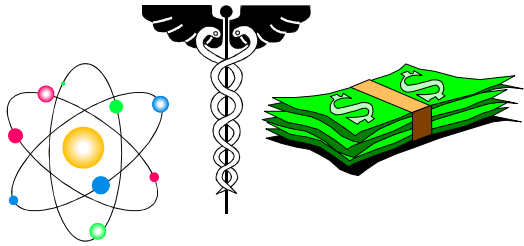
Financial Impact on Hawaii's Hospitals and
Nursing Facilities -
Medicare and Medicaid Reimbursement Update –
November 2001

Healthcare Industry in Hawaii



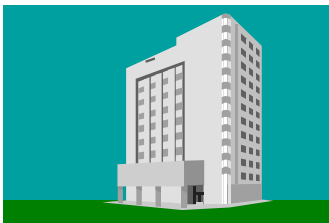
Hawaii

- ◆ Hawaii is made up of several key industries



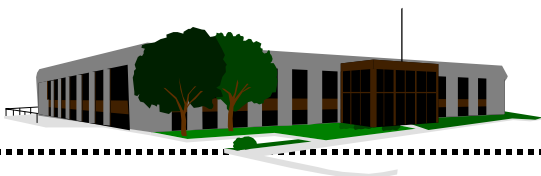
Healthcare Industry

- ◆ Healthcare industry in Hawaii includes all aspects of healthcare - providers, pharmaceuticals, research, insurance plans, etc.



Health Services Sector

- ◆ Health services sector includes the providers such as physicians, clinics, hospitals and nursing facilities



Hospitals and Nursing Facilities



Study Update Participants

- ◆ Medicare results are based on information for 17 hospitals and hospital based nursing facilities (90% of the total beds) and 5 freestanding nursing facilities
- ◆ Medicaid acute impact based on information for 21 hospitals (90% of the total acute beds)
- ◆ Medicaid nursing facility impact based on information for 27 facilities (60% of the total nursing facility beds including hospital based and freestanding)



Healthcare Industry in Hawaii

- ◆ Healthcare industry is the second largest private industry in Hawaii
- ◆ Health services sector is one of the largest employers of the healthcare industry and Hawaii's economy
 - 7.0% of the private industries based on gross state domestic product in 1999
 - 8.3% of the private industries based on employment in 1999
 - 11.5% of the private industries based on wages in 1999

Industry	Gross State Domestic Product	Average Employment	Total Wages
1997			
Health Services Sector	\$ 2,000,000,000	34,700	\$ 1,300,000,000
Total Private Industry	\$30,000,000,000	427,000	\$11,500,000,000
State Total	\$38,000,000,000	538,700	\$15,100,000,000
1998			
Health Services Sector	\$ 2,200,000,000	35,300	\$ 1,400,000,000
Total Private Industry	\$31,000,000,000	426,650	\$11,800,000,000
State Total	\$39,700,000,000	538,850	\$15,500,000,000
1999			
Health Services Sector	\$ 2,237,000,000	35,800	\$ 1,388,000,000
Total Private Industry	\$31,986,000,000	429,950	\$12,083,000,000
State Total	\$40,914,000,000	542,750	\$16,016,000,000

Information in each Study based on the most recent available information

Source: State of Hawaii Data Book



Health Services Sector in Hawaii

- ◆ The hospitals and nursing facilities comprise a significant portion of the health services sector
 - 35% of employees in 2000
 - 43% of total wages in 2000
 - 65% of revenues in 2000
- ◆ The hospitals and nursing facilities provide their employees with higher average wages (\$44,200) than the average in Hawaii (\$29,800) in 2000

Year *	Total Employees	Health Services Employees	Hospital Employees	Total Hospital Wages	Average Wages per Hospital Employee
1997	538,700	34,700	12,066	\$533,500,000	\$44,200
1998	538,850	35,300	11,892	\$550,200,000	\$46,300
2000	559,350	36,700	12,738	\$562,743,000	\$44,200

* Information in each Study based on the most recent available information. 1999 hospital data was not available during the 2000 Study

Source: State of Hawaii Data Book and Facility Cost Report data



Tax Contribution of Hospital and Nursing Facility Employees in Hawaii

	1997*	1998*	2000*
Average income for hospital/NF employee	\$ 44,200	\$ 46,300	\$ 44,200
State income tax percentage for family of 4 with income of \$50,000	9.00%	9.55%	8.67%
State income taxes paid per employee	\$ 4,000	\$ 4,421	\$ 3,832
Employees	12,066	11,892	12,738
Total state income taxes paid by employees	\$48.0 million	\$52.5 million	\$48.8 million

- ◆ In 1997, hospital/NF employees paid 5% of the total state income taxes collected (\$976,600,000)
- ◆ In 1998, hospital/NF employees paid 4.8% of the total state income taxes collected (\$1,083,400,000)
- ◆ In 2000, hospital/NF employees paid 4.5% of the total state income taxes collected (\$1,064,303,000)

* Information in each Study based on the most recent available information. 1999 hospital data was not available during the 2000 Study

Source: State of Hawaii Data Book and Facility Cost Report data



General Excise Tax Contributions of Hospitals and Nursing Facilities in Hawaii

	1997*	1998*	2000*
Expenses	\$1.28 billion	\$1.11 billion	\$1.25 billion
GET rate	4%	4%	4%
GET paid by hospitals and nursing facilities	\$51 million	\$44 million	\$50 million

- ◆ In 1997, hospitals and nursing facilities paid over 3.5% of the total GET collected (\$1,460,000,000)
- ◆ In 1998, hospitals and nursing facilities paid over 3.1% of the total GET collected (\$1,425,400,000)
- ◆ In 2000, hospitals and nursing facilities paid over 3.3% of the total GET collected (\$1,536,276,000)

* Information in each Study based on the most recent available information. 1999 hospital data was not available during the 2000 Study

Source: State of Hawaii Data Book and Facility Cost Report data



Population and Utilization of Health Services

- ◆ The resident population of Hawaii increased approximately 2% from 1996 to 1999 while the de facto population increased approximately 4%

Population	1996	1997	1998	1999	2000
Resident	1,184,434	1,189,322	1,190,472	1,185,497	1,211,537
De Facto	1,284,594	1,305,611	1,309,366	1,307,639	1,337,991

- ◆ The number of hospital admissions increased approximately 5% from 1996 to 1999 while the average length of stay decreased resulting in an increase in patient days of less than 1%

Utilization	1996	1997	1998	1999	2000
Admissions	98,930	100,345	103,795	100,105	104,273
Avg Length of Stay	6.3	6.2	5.7	6.0	6.0
Patient Days	619,394	620,516	591,485	597,004	621,482

- ◆ The number of nursing long term care admissions increased approximately 37% from 1996 to 1999 while the average length of stay decreased resulting in an increase in patient days of 6%

Long Term Care	1996	1997	1998	1999	2000
Admissions	4,577	5,102	5,789	5,866	6,251
Avg Length of Stay	279.0	249.0	232.0	231.0	216.0
Patient Days	1,279,278	1,272,496	1,342,459	1,356,870	1,351,073

Source: State of Hawaii Data Book and SHPDA reports



Contributions to Community

- ◆ Hawaii's hospitals and nursing facilities provide a significant service to the community through support of:
 - Medical education
 - Community programs and
 - Provision of services regardless of ability to pay
- ◆ Majority of the costs for these programs are funded by the hospitals and nursing facilities



Medical Education

- ◆ Six hospitals have teaching programs (interns and residents)
- ◆ Teaching programs support the School of Medicine
- ◆ Teaching programs support medical research
- ◆ Reimbursement is only received from Medicare and is decreasing

Cost Item	1998 Cost*	2000 Cost*
Salaries and wages for interns and residents	\$ 8,541,000	\$ 8,730,000
Support staff for interns and residents	755,000	2,000,000
Office space for interns and residents	1,373,000	1,373,000
Parking for interns and residents	175,000	175,000
Meals for interns and residents	162,000	162,000
Other costs	4,965,000	4,965,000
Cost to support Hawaii Residency Program	11,725,000	14,500,000
Total costs	\$ 27,696,000	\$ 31,905,000
Direct Medicare reimbursement received	12,941,000	^ 12,941,000
Unreimbursed costs	\$ 14,755,000	\$ 18,964,000

^ Does not reflect impact of BBA as impact is included in the estimated BBA impact on page 13

* Information is based on data gathered by the Hawaii Residency Program. Data was not gathered for 1999 and projections have not been developed for 2001 and 2002.

Source: Hawaii Residency Program study and Medicare cost reports



Community Programs

- ◆ A number of the hospitals provide community programs
- ◆ Medicare and Medicaid do not reimburse for these programs
- ◆ State and federal funds * received through appropriations and grants are minimal
- ◆ These programs include alcohol and drug treatment, services for the elderly, programs on Hawaiian nutrition, community education, health fairs, programs for adolescents, school health programs, family planning programs, counseling services and outpatient clinics for the underserved and uninsured

	1998	1999	2000	2001	2002	Total
Program costs	\$ 17,500,000	\$ 22,400,000	\$ 23,600,000	\$ 24,100,000	\$ 22,500,000	\$ 110,100,000
Funding received *	1,500,000	2,800,000	3,200,000	3,500,000	1,800,000	12,800,000
Unfunded costs	\$16,000,000	\$19,600,000	\$20,400,000	\$20,600,000	\$20,700,000	\$97,300,000

Source: Information provided by *six* hospitals and *two* nursing facilities



Charity Care and Bad Debt

- ◆ Hawaii's hospitals and nursing facilities provide services regardless of ability to pay resulting in bad debt expense and charity care
- ◆ As the percentage of uninsured increases, bad debt and charity care increases
- ◆ Medicare reimburses for bad debt, however, reimbursement is decreasing due to the Balanced Budget Act
- ◆ Bad debt projections for 2001 and 2002 on the next page were developed before knowing the impact of the September 11, 2001 events.
- ◆ The number of uninsured may be increasing due to rising unemployment resulting from the September 11, 2001 events
 - This generally results in an increase in bad debt and charity care
 - COBRA provides continuing coverage for a limited period of time

Charity Care and Bad Debt

1999 Study	1998*	1999*	2000*	2001*	2002*	Total
Bad debt	\$ 42,600,000	\$ 46,400,000	\$ 42,800,000	\$ 41,900,000	\$ 42,900,000	\$ 216,600,000
Charity care	9,500,000	6,100,000	7,900,000	8,400,000	9,000,000	40,900,000
Total	\$52,100,000	\$52,500,000	\$50,700,000	\$50,300,000	\$51,900,000	\$257,500,000

* Information provided by 17 facilities

2000 Study	1998*	1999^	2000^	2001^	2002^	Total
Bad debt	\$ 42,600,000	\$ 56,500,000	\$ 58,700,000	\$ 61,000,000	\$ 61,000,000	\$ 279,800,000
Charity care	9,500,000	7,600,000	11,700,000	14,100,000	14,400,000	57,300,000
Total	\$52,100,000	\$64,100,000	\$70,400,000	\$75,100,000	\$75,400,000	\$337,100,000

^ Information provided by 18 facilities. Additional facility added approximately \$8,000,000 per year from 1999 to 2002.

2001 Study	1998*	1999^	2000**	2001**	2002**	Total
Bad debt #	\$ 42,600,000	\$ 56,500,000	\$ 76,800,000	\$ 67,100,000	\$ 74,200,000	\$ 317,200,000
Charity care	9,500,000	7,600,000	18,500,000	18,800,000	18,400,000	72,800,000
Total	\$52,100,000	\$64,100,000	\$95,300,000	\$85,900,000	\$92,600,000	\$390,000,000

Bad debt levels depend on the amount of uncollectible accounts each year. Levels in 2001 and 2002 may increase due to Sept. 11 events.

**Information provided by 31 facilities. The additional facilities added approximately \$18,000,000 in 2000 and approximately \$14,500,000 each year from 2001 to 2002.

Reduced Reimbursement to Healthcare Facilities Due to BBA

- ◆ Medicare is a significant source of reimbursement for hospital, outpatient and nursing facility services
- ◆ Impact of the BBA on Hawaii's facilities is significant over the five year period
- ◆ Impact will mean larger losses for certain facilities, smaller profits for others or will turn profits into losses for certain facilities
- ◆ Average annual BBA impact (\$28,955,000) is 2.2% of total net patient revenues based on 2001 results
- ◆ Reimbursement impact averages 10% for the five years based on the anticipated Medicare reimbursement before BBA
- ◆ Amounts reflect the impact on 17 hospitals including the hospital based skilled nursing units and 5 freestanding nursing facilities

2001 Study	1998	1999	2000*	2001*	2002*	Total
C&C of Honolulu	\$ 12,360,000	\$ 23,274,000	\$ 27,246,000	\$ 29,665,000	\$ 30,649,000	\$ 123,194,000
Hawaii County	1,083,000	2,569,000	2,808,000	2,845,000	2,816,000	12,121,000
Maui County	489,000	1,082,000	1,175,000	1,081,000	1,005,000	4,832,000
Kauai County	458,000	938,000	1,059,000	1,099,000	1,075,000	4,629,000
State Total	\$ 14,390,000	\$ 27,863,000	\$ 32,288,000	\$ 34,690,000	\$ 35,545,000	\$ 144,776,000

*Impact calculated includes BBA relief approved by Congress in November 1999 and December 2000

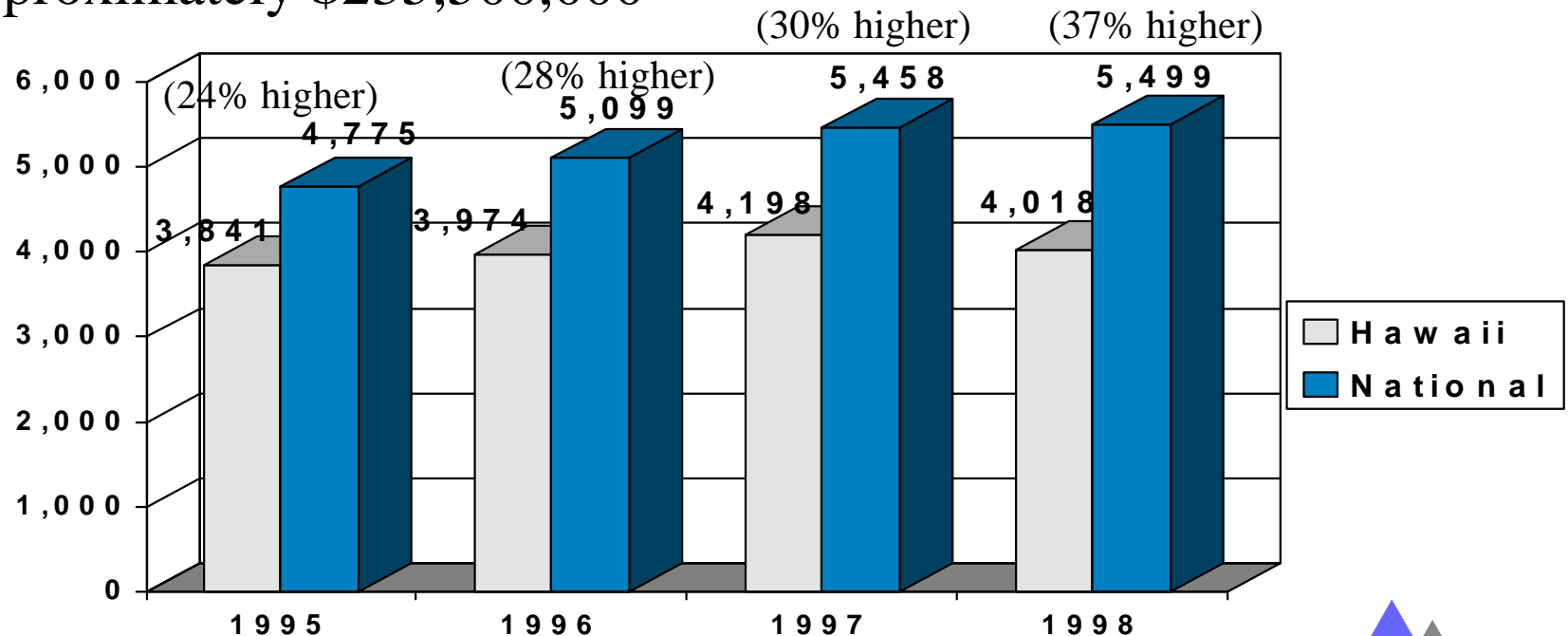


Federal Reimbursement in Hawaii

- ◆ Hawaii has one of the lowest per enrollee Medicare payments
- ◆ Medicare does not reimburse the full cost of hospital services provided to beneficiaries in Hawaii
 - In 1998, cost per discharge was \$13,735
 - In 1998, reimbursement per discharge was \$13,365
 - Resulting in a deficit of \$370 per discharge
 - If reimbursement covered costs, additional reimbursements would be approximately \$30,000,000
- ◆ Medicaid does not also reimburse for the cost of providing services
- ◆ Results in private sector having to share the burden of the underreimbursed costs through higher private health insurance rates

Medicare Reimbursement in Hawaii

- ◆ Medicare benefit payments in 1998 totaled \$639,000,000
- ◆ National Medicare reimbursement is 37% higher than Hawaii's average reimbursement per enrollee in 1998
- ◆ Differential has increased each year
- ◆ With 159,000 enrollees in Hawaii in 1998, the differential is approximately \$235,500,000



Source: The Universal Healthcare Almanac



Medicaid Impact

- ◆ Medicaid is looking to reduce the inflation factor for 2002 hospital and nursing facility rates by 50% starting 11/1/01
 - Impact in FY 2002 is estimated to be \$3,053,000 assuming the reduction took place on 11/1/01
- ◆ Future reimbursement rates may not be increased by an inflation factor and increases will depend on the amount of funding received by the Medicaid program from the State which may be impacted by the declining economy
 - Impact of no increase in FY 2003 is estimated to be \$3,170,000 based on the reduced rate FY 2002 rate
 - Impact of no increase in FY 2003 is estimated to be \$7,912,000 based on the original FY 2002 rate
- ◆ Medicaid is required by Act 294, SLH 1998 to reimburse for nursing facility services based on the level of care rather than the place of service. The impact will depend on the reimbursement methodology developed



Summary of the Financial Impact on Hawaii's Hospitals and Nursing Facilities

- ◆ Unfunded costs incurred by the hospitals and nursing facilities for community support average \$113,900,000 each year
- ◆ Hospitals and nursing facilities will also incur significant costs to comply with the Health Insurance Portability and Accountability Act (HIPAA)

2001 Study	1998	1999	2000	2001	2002	Total
Medical Education	\$ 14,755,000	\$ 14,755,000	\$ 14,755,000	\$ 18,964,000	\$ 18,964,000	\$ 82,193,000
Community Programs	16,000,000	19,600,000	20,400,000	20,600,000	20,700,000	97,300,000
Bad Debt/Charity Care	52,100,000	64,100,000	95,300,000	85,900,000	92,600,000	390,000,000
Total	\$ 82,855,000	\$ 98,455,000	\$ 130,455,000	\$125,464,000	\$132,264,000	\$ 569,493,000

- ◆ Average annual BBA impact of \$28,955,000 is 2.2% of total net patient revenues based on 2001 results (refer to page 13 for more details)
- ◆ The BBA and State's changes to Medicaid are estimated to impact the facilities by an average of \$36,644,000 each year from 2001 to 2002
- ◆ Act 294, SLH 1998 for Medicaid long term care reimbursement is scheduled to be implemented in 2003, the impact cannot be determined at this time as the revised reimbursement methodology has not been developed

Summary of the Financial Impact on Hawaii's Hospitals and Nursing Facilities (cont'd)

- ◆ Increases in premiums charged by health insurers does not necessarily translate into increased reimbursements to providers
- ◆ Although the hospitals and nursing facilities have taken steps to control costs, certain cost increases are not within the facility's control
 - Increases in personnel costs due to contract negotiations
 - Increases in personnel costs due to shortages (i.e., nursing shortages)
 - Increases in the cost of pharmaceuticals
 - Increases in insurance premiums
 - Increases in costs due to corporate compliance programs

2001 Study	1998	1999	2000*	2001*	2002*	Total
Medicare BBA	\$ 14,390,000	\$ 27,863,000	\$ 32,288,000	\$ 34,690,000	\$ 35,545,000	\$ 144,776,000
Medicaid Inflation					3,053,000	3,053,000
Total	\$ 14,390,000	\$ 27,863,000	\$ 32,288,000	\$ 34,690,000	\$ 38,598,000	\$ 147,829,000

- ◆ The total impact of the costs for medical education, community programs, bad debt/charity care, BBA impact on Medicare reimbursements and changes to Medicaid reimbursement average \$143,500,000 per year

2001 Study	1998	1999	2000*	2001*	2002*	Total
Unfunded Costs	82,855,000	98,455,000	130,455,000	125,464,000	132,264,000	569,493,000
BBA/Medicaid Impact	\$ 14,390,000	\$ 27,863,000	\$ 32,288,000	\$ 34,690,000	\$ 38,598,000	\$ 147,829,000
Total	\$ 97,245,000	\$ 126,318,000	\$ 162,743,000	\$ 160,154,000	\$ 170,862,000	\$ 717,322,000

*Impact calculated includes BBA relief approved by Congress in November 1999 and December 2000

Impact on Community and Industry

Reduced reimbursements mean:

Reductions in FTEs, salaries and operating/capital costs

Reductions in state income taxes collected

Reductions in GET collected

Higher bad debt and charity care due to unemployment

Higher health insurance premiums for employers

Reductions in employment at suppliers, vendors, contractors, etc.

Reductions in state income taxes collected

Reductions in GET collected

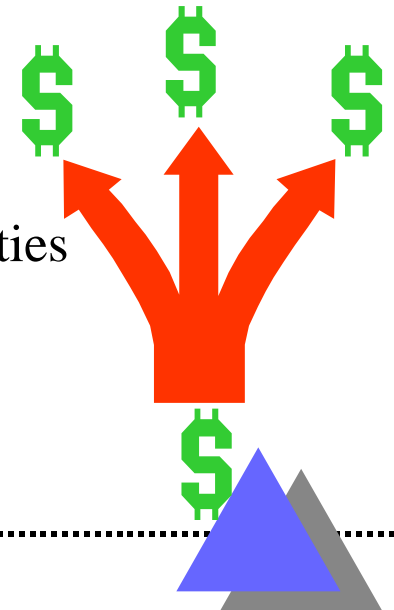
Reduced access to care

Closing of services, clinics, hospitals or nursing facilities

Increased use of emergency care

Higher acuity of patients

Increased cost for care





Impact on Community and Industry

- ◆ Reductions in FTEs
 - BBA impact equates to a reduction of 650 FTEs based on the average annual wages
 - Increases bad debt and charity care due to increased unemployment
 - Increases health insurance premiums to employers
 - Could impact state welfare and unemployment expenditures
- ◆ Reductions in salaries paid to existing employees
 - BBA impact equates to 5% of total annual wages paid by hospitals and nursing facilities
 - Reduces income taxes by \$2.5 million annually
 - Decreases ability to attract qualified employees and physicians



Impact on Community and Industry

- ◆ Reductions in operating costs
 - BBA impact equates to a \$1.2 million reduction in GET annually if operating costs are reduced
 - Other employers (vendors, suppliers, etc.) may need to reduce costs or FTEs
- ◆ Decreased bond ratings due to the poorer financial results
 - Increased interest costs
 - Reduced access to funds as most of the facilities are fully leveraged
- ◆ Reductions or delays in capital expenditures (i.e., technology)



Impact on Community and Industry

- ◆ Reductions or limits in the amount provided for medical research
 - Reduced ability to attract federal grants
 - Reduced incomes taxes and GET to state
 - Reduced funding for School of Medicine
- ◆ Reduced access to care
 - Reduction or elimination of services or service sites (clinics)
 - Increases healthcare costs for emergency care and higher acuties
- ◆ Reductions or elimination of community programs
- ◆ Closure of hospitals or nursing facilities which reduces access to care