



BlueCross BlueShield of Vermont

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OP-ED

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Blue Cross and Blue Shield of Vermont (BCBSVT) is an independent, not-for-profit Vermont company, governed and managed locally, and our sole focus is Vermont. One of our guiding principles is to put our members first, and at times it is important to advocate on their behalf. It is from that perspective that I offer this opinion.

The current health care system unfairly burdens Vermont businesses and individuals who pay health insurance premiums by requiring them to subsidize the services that government programs (Medicaid and Medicare) provide but don't fully pay for.

The Green Mountain Care Board (GMCB) is the primary regulator of health care in Vermont. One of its successes has been the regulation of net patient revenue increases through the hospital budget process. Last year the Board approved an aggregate revenue increase of 2.7 percent for Vermont's 14 hospitals. Both the regulators and hospitals should be commended for their work; the previous decade saw net patient revenue increases that have exceeded 7 percent.

Unfortunately for Vermonters who are privately insured, the lower hospital budgets still lead to increases in health insurance premiums that are higher than the approved budgets. For 2015, the GMCB approved hospital budget increases of 3.1 percent, whereas BCBSVT exchange premiums will average 7.7 percent higher.

How can a 3 percent increase in hospital budgets require a much higher increase in premiums?

The answer is the "cost shift". When government reimbursements are insufficient to cover the cost of the services a facility provides to Medicare or Medicaid beneficiaries, hospitals charge patients with private insurance enough to cover not only the cost of their services, but the shortfall created by government reimbursements as well.

According to the GMCB, the cost of hospital services shifted onto the commercially insured population has grown from \$154 million in 2005 to approximately \$406 million in 2014, and it is the continued growth that is the problem. Annual Medicare and Medicaid payment increases (if any) rarely keep pace with the annual growth in the hospitals' budgets, so the privately insured bear an increasingly larger share of the health care system cost.

Let's look at a simplified example based on a mid-sized Vermont hospital. In this example, the hospital has a budget of \$225 million, \$158 million of which comes from Medicare and Medicaid while the remaining \$68 million comes from the privately insured population.

If the GMCB approves a 3 percent increase in revenues, it means that the payers will need to pay a combined \$6.75 million more for services in the next year. However, the share Medicare, Medicaid, and the commercially insured each contributes to cover the increase will not be proportionate because Medicare and Medicaid set their reimbursement rates independent of the GMCB approved increase to the hospital budgets.

To demonstrate this using our example, let's say that Medicare and Medicaid reimbursement increases will be 1 percent in the next year, which means that the government payers will contribute \$1.5 million to the hospital budget increase of \$6.75 million. This leaves the hospital no choice but to charge the privately insured an additional \$5.25 million in rates, or prices, to make up the difference. Based on the \$68 million contribution from the privately insured population in year one, a \$5.25 million increase means 7.7 percent higher prices for the privately insured in year two.

Higher provider prices, or rate increases, that offset Medicare and Medicaid underpayments are the primary factors determining the next year's health insurance premium prices. Across all Vermont hospitals, roughly half of revenue

comes from the privately insured population, while about a quarter comes from Medicare and another quarter from Medicaid. The GMCB approval of 3.1 percent net patient revenue increase requires a 7.2 percent price increase for services provided to commercial payers. This increase reflects over \$20 million that BCBSVT customers will pay in 2015 for the cost of services that government services provide, but underfund.

This trend can only be reversed by a commitment from the federal and state governments to fully fund their share of Vermont's health care system, in combination with real health care system and payment reforms.

Don George resides in Richmond, Vermont