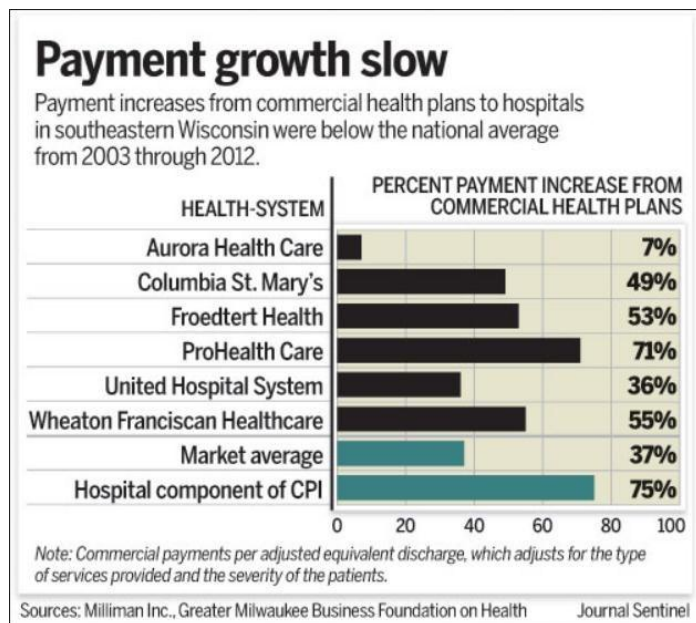


Hospital costs rise more slowly in southeastern Wisconsin

By [Guy Boulton](#) of the Journal Sentinel
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Hospitals in southeastern Wisconsin have gotten serious about controlling costs, with payments from commercial health plans increasing at roughly half the national rate from 2003 through 2012, according to a study released Wednesday.

Payments to hospitals from private health insurers and employers increased an estimated 37% in southeastern Wisconsin in that time period compared with a 75% increase in the national hospital component of the Consumer Price Index, according to the study done for the Greater Milwaukee Business Foundation on Health Inc.

"You have to give credit in general to area hospitals," said Ron Dix, the foundation's executive director. "They

have looked at their costs and they've done a reasonably good job of it."

Hospital care accounts for 30% to 40% of the cost of medical spending for commercial health insurance plans.

A variety of factors have contributed to the relatively small increase in the cost of hospital care in the region. Among them:

- Increased competition as health care systems have expanded into each others' geographic markets.
- Pressure from health insurers and employers.
- Preparations for anticipated changes in the way health insurers and government programs such as Medicare pay for health care.

Average commercial payments increased the least for Aurora Health Care: a total of 7% from 2003 through 2012 — or less than one-tenth the national average. And payments to Aurora actually decreased by 7% from 2009 through 2012.

In contrast, commercial payments to ProHealth Care increased 71% on average from 2003 through 2012, and 20% from 2009 through 2012.

Aurora's rates were 23% above the average for southeastern Wisconsin in 2003, according to the study. In 2012, they were 5% below the average.

The opposite took place at ProHealth. Its rates went from 6% below the average in 2003 to 18% above the average in 2012.

The study is based on a complicated formula that adjusts for volume, mix of services and severity of patients to allow comparisons between hospitals.

Although the cost of hospital care here is rising at a slow rate compared with the national average, [physician fees](#) in southeastern Wisconsin are almost 50% higher on average than in other Midwest markets for commercial health plans, according to a study released last month by the foundation.

Physician fees account for about 30% of the medical claims of commercial health plans. The difference is estimated to increase insurance premiums for employers and individuals in southeastern Wisconsin by 15% compared with other Midwest markets.

The study released Wednesday updated previous studies done in 2009, 2011 and 2012, and was done by Milliman Inc., an actuarial and consulting firm. The studies all looked at the same factors and used the same methodologies.

The Greater Milwaukee Business Foundation on Health, a private foundation created in 2002 to improve health care in the area, first drew attention to health insurance premiums in southeastern Wisconsin that were much higher than other cities in the Midwest.

That may have contributed to hospitals' working harder to control their costs and to provide care more efficiently.

"When you measure things, no one wants to be out of the norm," Dix said.

The foundation's first studies estimated that health care premiums in southeastern Wisconsin were as much as 55% higher in 2000 and 39% higher in 2003 than other cities in the Midwest.

The gap narrowed to an estimated 7% in 2011, based on a study released in late 2012. A separate [study](#) released at the same time found that hospital costs in southeastern Wisconsin increased at roughly half the national average rate from 2003 through 2011.

The study released Wednesday reinforces that.

"All the health systems are being very effective in controlling costs," said Keith Kieffer, a management consultant with Milliman.

Hospital operating costs — their day-to-day expenses — in southeastern Wisconsin increased at a much lower rate than national measures from 2003 through 2012, particularly in recent years.

The study found that hospital operating costs on average increased 19% in the region compared with a 34% increase in the national Hospital Producer Price Index and a 47% increase in the Hospital Market Basket for the Centers for Medicare and Medicaid Services.

The increase in southeastern Wisconsin from 2009 through 2012 was less than 1% a year.

"The hospitals have done a good job over the last 10 years," Dix said. "They've worked hard to contain their costs in a tough environment."

Competition also has intensified since 2008, and has made a difference in holding down costs.

"No question about it," Dix said.

In recent years, Aurora opened hospitals in Summit and Grafton, and Wheaton Franciscan Healthcare opened a hospital in Franklin.

Previous studies found that health systems dominated specific geographic areas in the southeastern Wisconsin market and contributed to higher hospital prices.

The study also estimated that 35% of the cost of hospital services for commercial health plans stems from payment rates from government programs, particularly Medicaid, that are below hospitals' costs and from bad debts and charity care.

Commercial health plans negotiate rates with health systems while Medicare and Medicaid dictate what they will pay.

Bad debt expense in particular has increased as health plans with high deductibles have become more common.

Health systems also are focusing more on holding costs down because of anticipated changes in how commercial and government health plans pay for health care.

"My guess is they are all preparing for a different environment," Kieffer said.

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