

Study: Average cost of Mass. hospital stay is \$15K. What can be done to lower the cost?

One policy expert said the state's Health Policy Commission needs more power to keep costs in check

Henry Schwan Worcester Telegram & Gazette November 24, 2023

WORCESTER – Life is full of uncertainty, and that maxim applies to your health. An illness can arise at any time that could put you in the hospital, and the cost could be a severe drain on your income and savings.

A recent study by ValuePenguin, a subsidiary of LendingTree, highlights that possibility.

Using data from the Kaiser Family Foundation, American Hospital Association and the U.S. Bureau of Labor Statistics, the study showed the average cost of a hospital stay jumped more than 160% over a 22-year period from 1999 to 2021.

- The average stay is four and a half days, with an average daily cost of \$2,883, putting the total cost of an average stay at \$12,974.
- Since the average U.S. private sector wage is \$33.82 hourly, according to the study, it would take 384 working hours to pay off the hospital bill. That translates to nearly 10 weeks of wages.
- It's worse for those making minimum wage, because a lower hourly wage means more weeks needed to pay off the debt.

The study acknowledged that many patients have insurance to help pay down the bill.

Meanwhile, Massachusetts ranked 33rd out of 50 states in the study's category of most work hours needed to afford a typical hospital stay. Given the \$15,197 average cost of a stay in Massachusetts and the state's average hourly private sector wage of \$33.92, it would take 386 work hours to pay the bill.

For those making the \$15 minimum wage in Massachusetts, it would take 1,013 hours to wipe away the debt. That time frame ranks 38th among all U.S. states.

Study puts focus on rising health care costs

Paul Hattis, a senior fellow at the Lown Institute, a nonpartisan health care think tank, questions the study's methodology because few patients pay cash for a hospital visit. Most have health insurance plans that cover a portion of a bill after premiums, deductibles and coinsurance are paid.

However, Hattis said the study highlights the rising costs of health care. He noted the number of patients needing inpatient care is falling while hospital revenues are climbing in a “substantial way.”

A June report by the Massachusetts Health Policy Commission supports that assessment. It noted a 12% increase in commercial spending on nonmaternity inpatient stays from 2017 to 2021, despite a 16% drop in inpatient volume. Price increases drove most of the growth, the report said.

Meanwhile, hospital inpatient prices jumped from 2.5% in 2019 to 4.4% in 2021, the report said. That compares to less dramatic increases in the outpatient and office-based prices: outpatient increased from 3.4% to 4.1%, while office-based moved from 2.5% to 3.6%.

Hattis attributes the inpatient price hikes to hospital negotiations with insurance companies for the cost of various procedures.

Hospitals are also attaching the highest level of severity code to more procedures, said Hattis, resulting in higher charges. The Health Policy Commission reported in June that 32% of hospital inpatient discharges in 2022 had the highest severity code, excluding COVID-19. That compares to 23% in 2023.

“With an increase in prices and coding, hospitals are upping prices beyond what seems reasonable, creating unsustainable cost growth,” said Hattis.

While Hattis believes there is merit to hospitals claiming they need more revenue to compensate for staff shortages, increased costs due to COVID-19 and other financial pressures, he said hospitals asking insurers to pay higher amounts for procedures is part of the unsustainable challenge in health care.

“The root cause of the problem is hospitals have no incentive to truly try to manage their expenses in a responsible way,” said Hattis. “If more monies are thrown at you, there’s not a real incentive to manage efficiently.”

Equity is an issue

Amie Shei, president and chief executive officer at the Health Foundation of Central Massachusetts, noted that health care spending is rising faster than incomes. The Health Policy Commission's June report highlighted this challenge: Commercial health care spending per person in Massachusetts grew 5% each year from 2019 to 2021, double the rate of income growth.

There's not a silver-bullet solution, said Shei, but she urges shifting attention to working upstream. That means moving some investments away from hospitals and emergency departments and into social determinants of health, including housing, education and transportation. Shei said those determinants play a significant role in the health of many residents, particularly in communities of color.

"It's important to consider the disproportionate impact on certain populations, the health equity implication of high health care costs," said Shei.

In August, the Center for Health Information and Analysis reported that Blacks and Hispanics in Massachusetts are using hospital services at a rate higher than their percentage in the population. The results highlighted inequities in the system, including limited access to primary care doctors.

Hospital perspective: 'A lot of moving parts'

St. Vincent Hospital declined to comment for this story. The hospital is part of Tenet Healthcare Corp., a for-profit company based in Dallas. Tenet reported total revenues of \$19.1 billion in 2022 and a \$2.4 billion operating income.

“It’s not a simple question. There are a lot of moving parts,” said Sergio Melgar, executive vice president and chief financial officer at UMass Memorial Health, when asked for the average cost of a hospital stay within the UMass system.

One moving part is inflation. Melgar explained inflation was elevated from 2000 to 2010, fell from 2010 to 2020, and picked up during the COVID-19 pandemic. Also, a substantial number of health care workers left the field during the pandemic. That drove up hospital costs, because UMass Memorial brought in more expensive, temporary travel nurses to fill the void.

- In addition, more procedures moved to an outpatient basis, said Melgar, leaving inpatient units with highly complex cases that cost more to deliver care.
- An aging population that needs more care is another cost driver. So is more advanced information technology to track a complex health care system, and more government regulations.

“A combination of factors lends to a (cost) increase over time,” said Melgar.

Health care costs at UMass Memorial Health rose 3% to 7% annually over the past decade, said Melgar. The main driver was wages, which accounted for more than half of the health system's total expenses.

As for how long a patient is admitted on average, Melgar said it varies because each of the system’s hospitals serves different types of patients, with varying levels of needs and care. A stay could last seven days in Worcester compared to three days at the system’s hospital in Marlborough.

UMass Memorial Health has not yet closed the books on its fiscal 2023 financial performance. The fiscal year ended Sept. 30, and the final report is expected in three weeks.

- Through June, the health system reported a gain of \$219.5 million. That figure included the sale of UMass Memorial’s share in Shields Health Solutions, which Walgreens Boots Alliance Inc. bought in 2019. Without the sale, the loss was \$54 million, said hospital officials.
- In fiscal 2022, UMass reported a \$38.2 million loss that included a gain of \$185 million from the Shields sale. Without the sale, the health system's loss was \$223 million.

What is the solution for rising costs?

Melgar supports the economies of scale principle, whereby more services in one location increase efficiency and lower costs. In essence, put more patient services in one location where a large population will support such a system. But the right level of state and federal regulations must be in place to make it work.

To fix the problem of not enough doctors and nurses, Melgar said changes to the length and cost of training in the U.S. must be addressed. Professional training is longer than in other parts the world, he said, and those who graduate are saddled with high debt. As a result, graduates need higher-paying jobs to pay off loans. It’s a vicious cost cycle that Melgar said needs to be fixed.

Hattis noted two solutions to keep health care costs in check.

One is giving the state’s Health Policy Commission more oversight power to levy stiffer fines on insurance companies and health care providers. Currently, the commission can require those entities adhere to a performance improvement plan if they exceed a cost-growth benchmark tied to the state’s economic forecast.

The commission took that step for the first time in 2022, when it told Mass General Brigham it had to produce an improvement plan. Violation of the plan could result in a

\$500,000 fine. Hattis would like to see that amount increased to the total amount of excess spending above the benchmark, resulting in a bigger fine to deter rising costs.

Earlier this year, the commission set the benchmark at 3.6% for 2024.

Another possible solution, said Hattis, is for Massachusetts lawmakers to approve a cap on health care cost growth. In essence, it would prevent insurance companies and providers from upping prices beyond the percentage cap.

State Sen. Julian Cyr, senate chair of the state's Joint Committee on Public Health, said the high cost of health care is a real concern in Massachusetts, and work is underway to address it.

"The Legislature is dedicated to making health care more accessible to all residents in Massachusetts," said Cyr's email statement. "We are continually working to understand obstacles to accessibility and find solutions to a myriad of thorny health policy challenges.

"The high cost of health care is a particular area of concern, one the Senate has worked to address from bolstering our health care workforce, making headway on health equity, or, as seen in the recent passage of the PACT Act, ensuring affordable pharmaceuticals. I am all ears as we continue to learn about and explore policy remedies to high costs in hospitals and beyond."