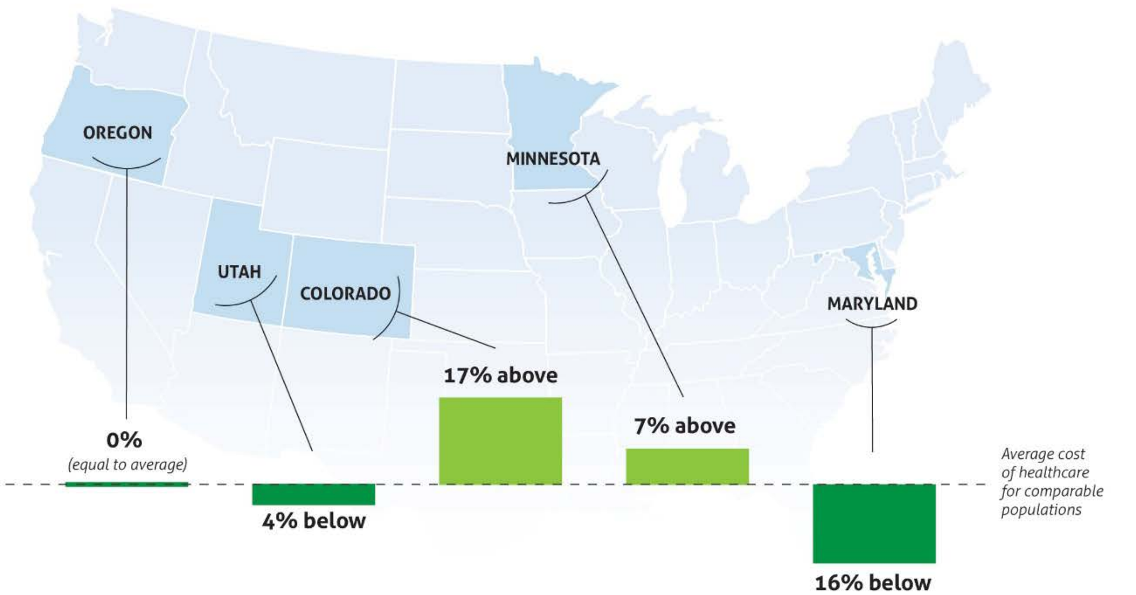
nrhi Network for Regional Healthcare Improvement

Healthcare Affordability: Untangling Cost Drivers

A Comparison of Total Cost of Healthcare Between Five States



Relative Cost of Healthcare

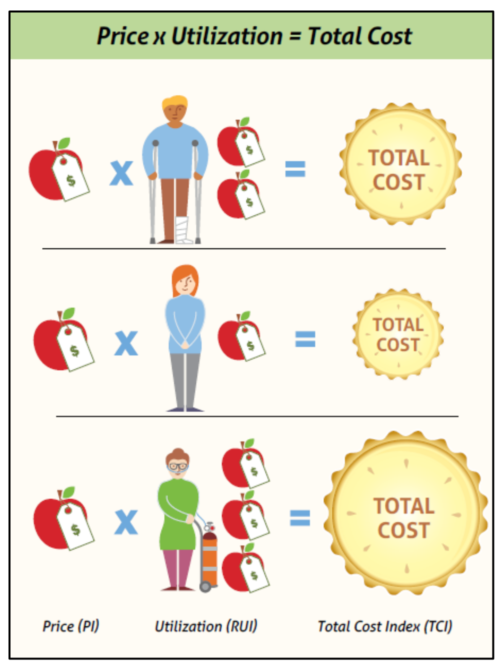
Opportunities for reducing the cost of healthcare are revealed by comparing 2015 risk-adjusted spending across participating states for private payers. Bringing the higher than average cost states highlighted above down to the average of the participating states could potentially save over $1 billion. Imagine if all the participating states could match the lowest cost state, several billion dollars would be available for other parts of the economy.

FACT: Healthcare costs vary widely between states.

MYTH: This variation is largely due to differences in pricing.

The considerable differences between the total cost of healthcare in five states is largely driven by local patterns of healthcare usage and pricing. These regional differences are the subject of *Healthcare Affordability: Untangling Cost Drivers*, a report from the Network for Regional Healthcare Improvement (NRHI).

This unique report goes beyond comparing the total cost of care between states and digs in to find what's driving those differences. The report uses the average cost of healthcare for comparable populations as its benchmark, and compares each state to that average. It finds that different care delivery patterns and local prices contribute to the significant cost differences between Oregon, Utah, Colorado, Minnesota, and Maryland.



The report utilizes a [Total Cost Index (TCI)]* with two components—a Resource Use Index (RUI) and a Price Index (PI)—to determine whether the states' cost differences are a result of above (or below) average healthcare use, the prices paid for those healthcare services, or both. These numbers tell a story about the role that local policies, demographics, and market factors make in driving each state's healthcare costs.

Colorado's high use of outpatient services – 25 percent above average – had the greatest impact on its total cost.

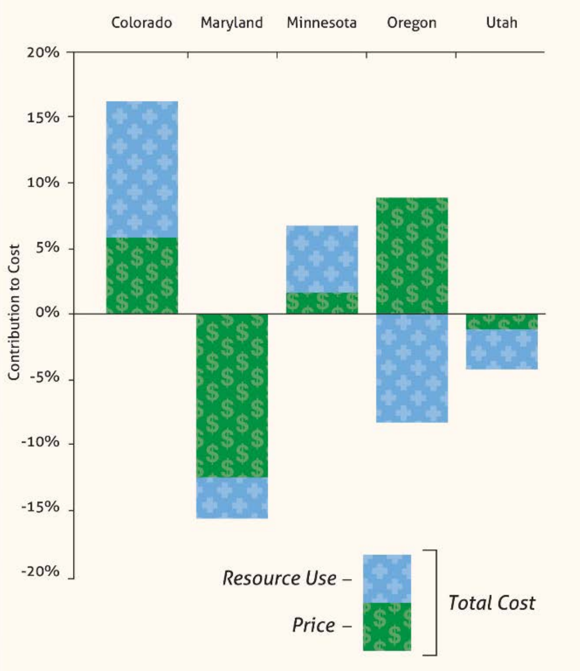
Maryland uses healthcare resources three percent below average, but with prices 13 percent lower than the benchmark, its total cost of care was 16 percent below the average.

Minnesota's resource use and prices were 10 percent higher than average, and resulted in total costs seven percent above the benchmark.

Oregon's costs are equal to the benchmark, with its higher prices offset by lower resource use.

Utah, with the nation's highest per capita birthrate, used inpatient resources 16 percent above average, but its 14 percent lower prices helped bring the state's total costs in at four percent below average.

Untangling The Cost Drivers



The size of the bars represents the impact of price and resource use on the total cost. As seen in the above graphic, price and resource use played different roles in the variation of total cost by state.

> *"You can't fix what you don't understand, but with reliable and actionable information on cost drivers we can enable healthcare stakeholders to make the changes needed to bring down the cost of care. America's healthcare cost crisis will not be solved by data – but it cannot be solved without it."*
>
> Elizabeth Mitchell, President & CEO, NRHI

This report was developed under NRHI's Total Cost of Care initiative, which began in November 2013. The five states whose data is detailed in this report are all members of NRHI, and the national comparison is supported by practice-level reporting that each member has done in its own region. Four of the five states participating in the 2015 effort also participated in the 2014 benchmark study released by NRHI in January 2017. With the publication of this report, NRHI now has two sets of regional cost comparisons, and another round is scheduled for release in late 2018. With three years of data, trends will begin to emerge to support existing hypotheses and/or challenge long-held assumptions.

Healthcare Affordability: Untangling Cost Drivers was developed with support from the Robert Wood Johnson Foundation. The full report can be found at: http://www.nrhi.org/uploads/benchmark_report_final_web.pdf

* *https://www.healthpartners.com/hp/about/tcoc/index.html*