

Mr. Donald S. Clark  
Office of the Secretary  
Federal Trade Commission  
6 Pennsylvania Ave., N.W.  
Washington, DC 20580

April 3, 2003

Dear Mr. Clark

The Massachusetts Council of Community Hospitals (MCCH) is an organization of twenty (20) community hospitals which are free-standing independent hospitals. They are located across the Commonwealth in a cross-section of community settings. We appreciate the opportunity to give testimony in your review of the effect of mergers on the healthcare system in Massachusetts and in particular in Boston.

MCCH has not conducted any work to specifically identify issues regarding the competitive behaviors or actions of any of the many merged hospital systems located in Boston. We do have rising concerns about the effect on the viability of the community hospital system as a possible result of these mergers. Hospital margins in Massachusetts may be the lowest in the nation. This poor financial performance is the result of many factors. One factor that recently has revealed itself, as the product of an economic analysis, is that Massachusetts community hospitals receive 23% less for non-Medicare discharges than the national average of a 1% premium over cost. We can only speculate that the bargaining power of Boston healthcare organizations greatly overwhelms the ability of many community hospitals to successfully compete for private payer insurance premium. We believe that sufficient dollars exist in the private pay insurance market since our health care premiums are among the highest in the nation yet our profitability is among the lowest in the nation. We cannot make any judgments regarding the effect of these mergers have had on the continued closing of community hospitals or their dramatic downsizing except to note that Massachusetts by 1999 is 15% below the national average in beds/1000 with more community hospitals becoming endangered every year.

We also note the significant growth in employment levels in Boston as well as total increase in market share for both inpatient and ambulatory care and an extraordinary growth in capital building programs over the decade. Massachusetts residents now utilize a teaching hospital setting for inpatient care 2.5 times the national average. This movement of patients to a high cost setting from a low cost setting may not have been envisioned in the Hart-Scott Rodino filings as a community benefit. This effect could be an unintended consequence of the effect of multiple mergers, in Boston, and the resultant competition between teaching hospitals to improve their financial position against one another. Possibly the economic effect the community hospitals are experiencing in not receiving adequate payment for services in order to attract and retain nurses and physicians, acquire new technology and retain patients is collateral damage as Goliath's battle for supremacy in a very small city and must reach deeply into the suburbs for patients.

I have enclosed the report from which I extracted the data used above. I will be happy to clarify any point at your convenience. I can be reached at 781-424-0930. Email is [dthieme01@attbi.com](mailto:dthieme01@attbi.com).

*DJ Thieme*

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Enclosure:  
Cape Ann Economics Report  
For MCCH-June 2001

**Massachusetts Council of  
Community Hospitals**

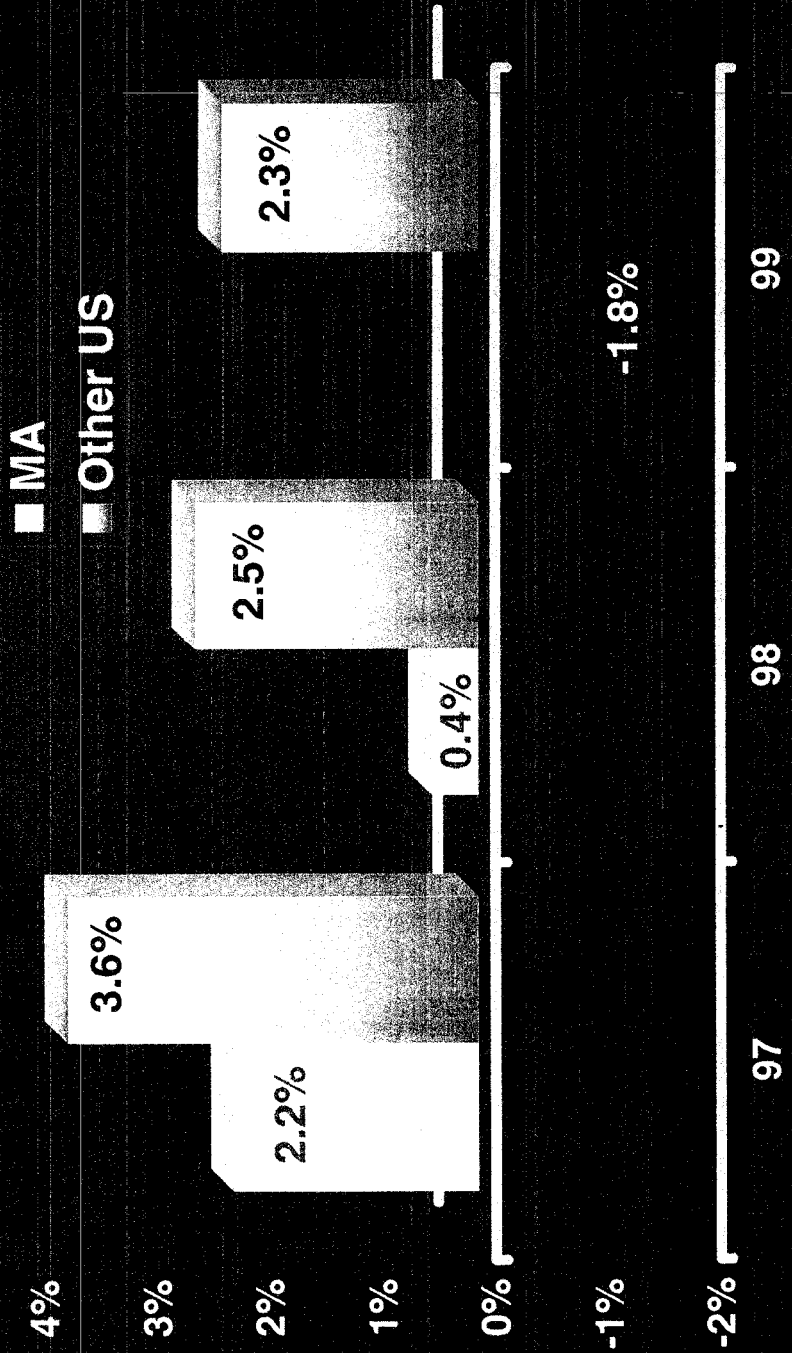
*The Fiscal Condition of Community  
Hospitals in Massachusetts*

## **Data Sources**

- **This report is prepared from data collected for all U.S. hospitals by the Medicare program.**
- **About 3/4 of all hospitals have submitted data for 1999**
- **1998 average profit rates in Massachusetts and the rest of the country for the hospitals that have filed in 1999 are not materially different from the averages for those that have not yet filed.**

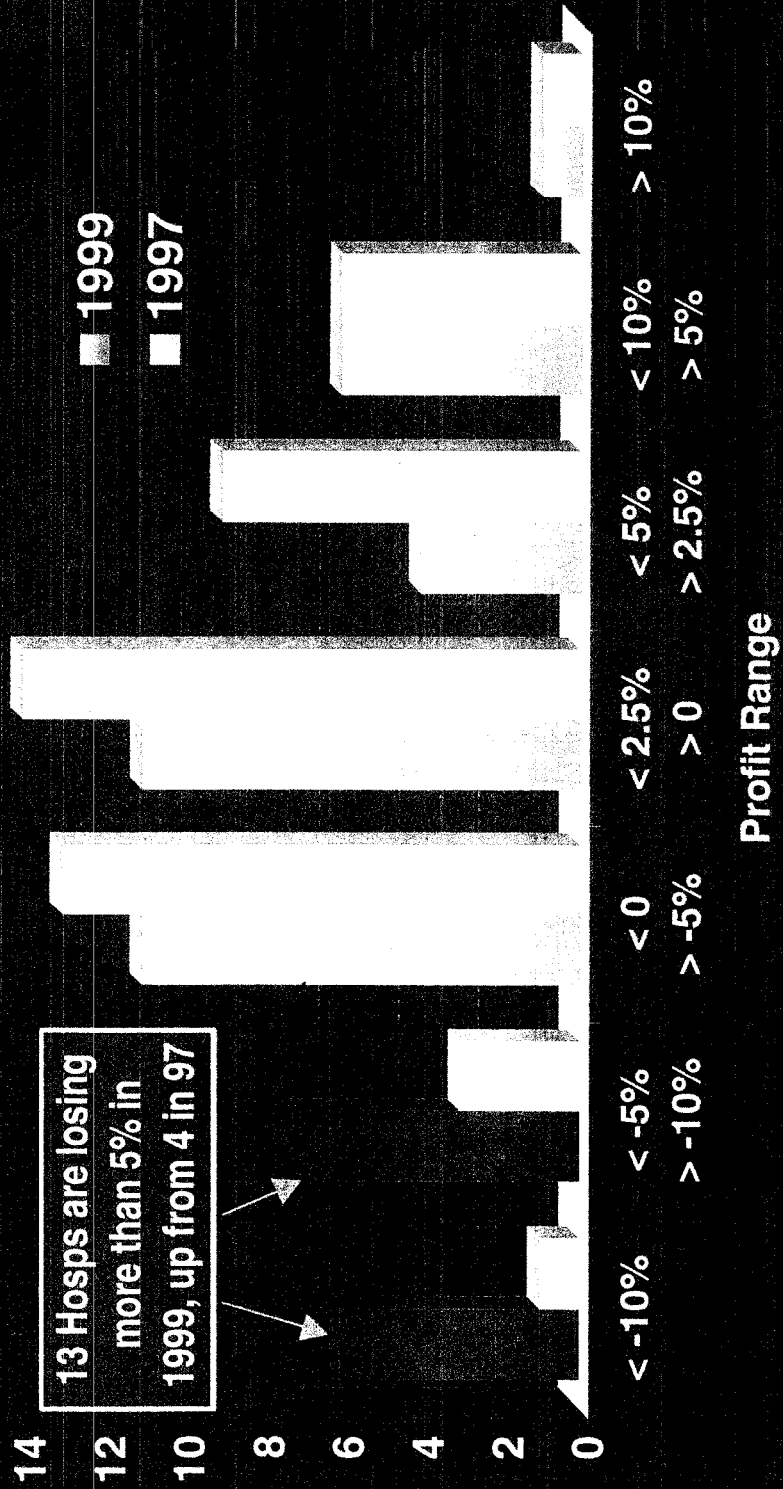
# Unlike hospitals elsewhere, Massachusetts community hospitals are losing money - and losing ground relative to the rest of the U.S.

Operating Profit Trend, 97 to 99  
Community Hospitals, Pct of Operating Revenue

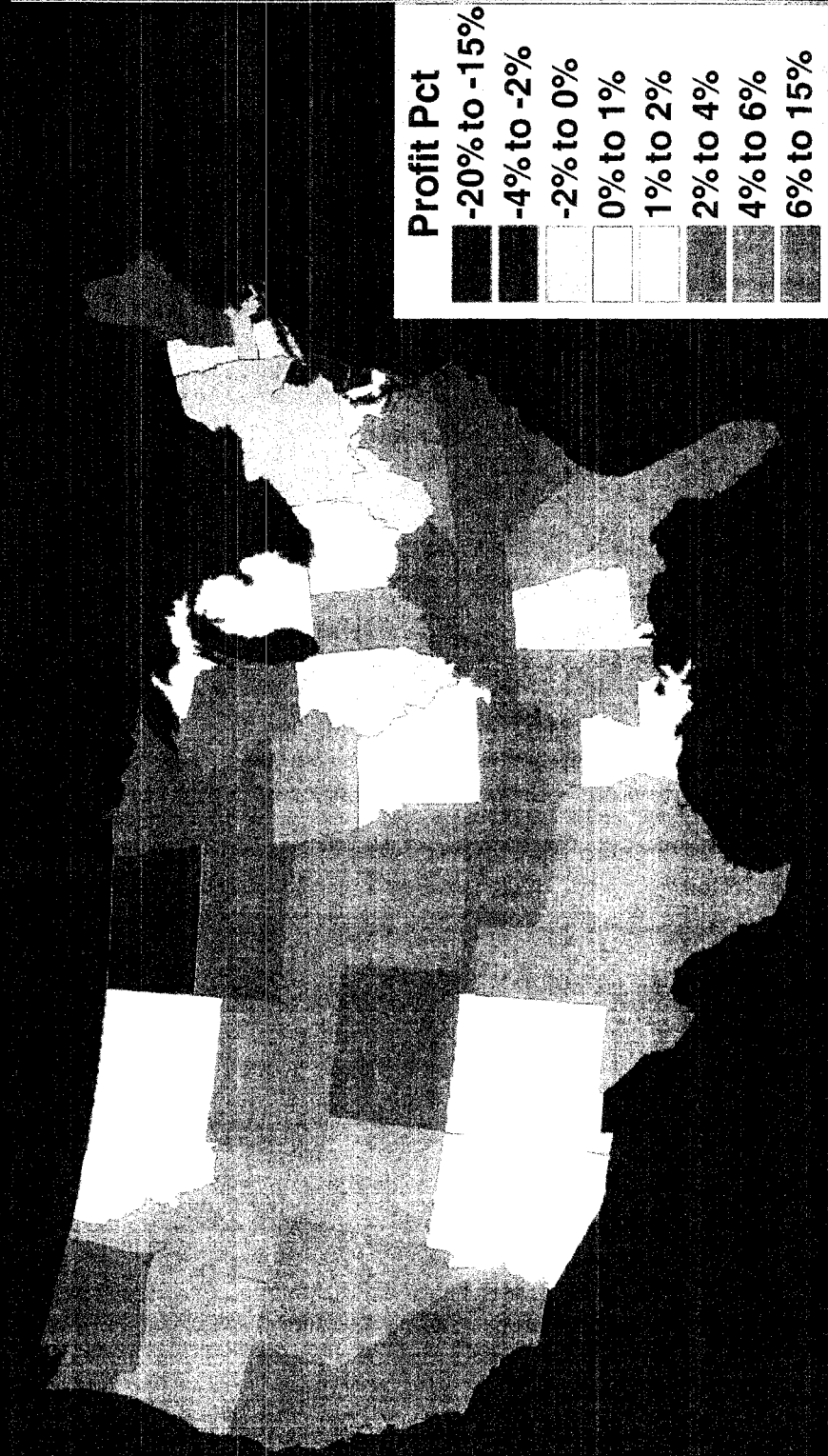


**24 MA community hospitals (52%) were losing money in 1999. In 1997, only 17 of these same hospitals were in the red.**

**MA Community Hospitals, by Profit Range**  
 Number of Hospitals by Profit Percent, 1997 and 1999



**Massachusetts community hospital profits are below most of the other states. Only 4 other states have greater loss rates.**



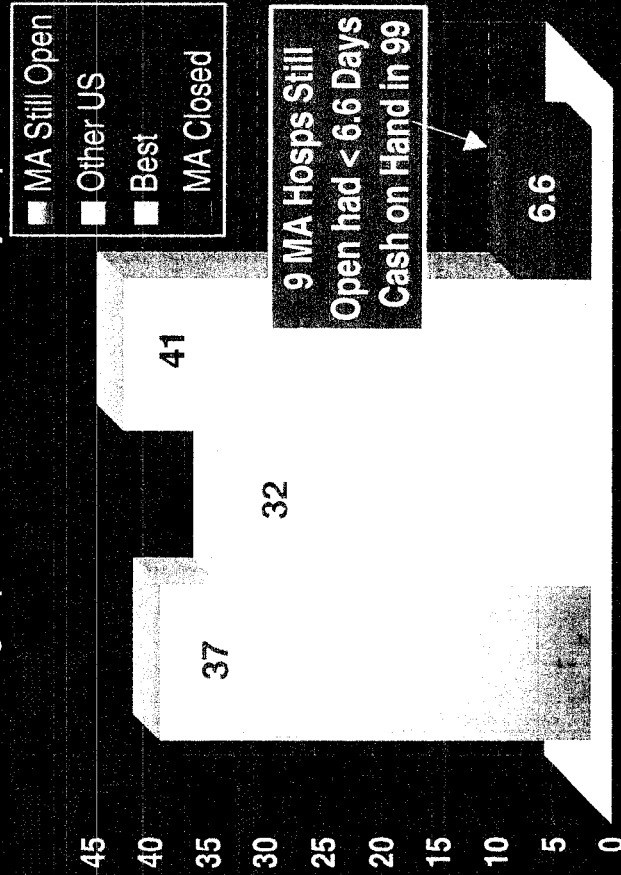
## **The fiscal distress of Massachusetts community hospitals shows on their balance sheets**

- **In 1997, there were 4 troubled hospitals since closed or sold in distress.**
- **Many hospitals still operating today have balance sheets more troubled than those 4 hospitals just prior to their closings**
- **In the next chart, our community hospitals are compared to those elsewhere.**
- **Also compare with community hospitals on the U.S. News list of ‘Best Hospitals’**



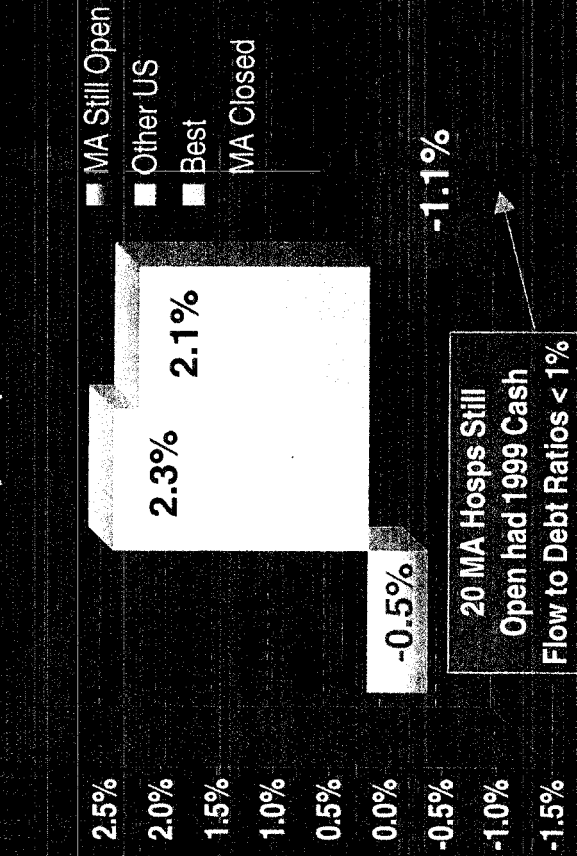
**Although average days cash on hand is high, 9 hospitals are at dangerous levels. Cash flow to debt ratios are much lower than elsewhere.**

**Days Cash on Hand - 1999**  
Including Liquid Investments, Community Hospitals



Source: Medicare Cost Report

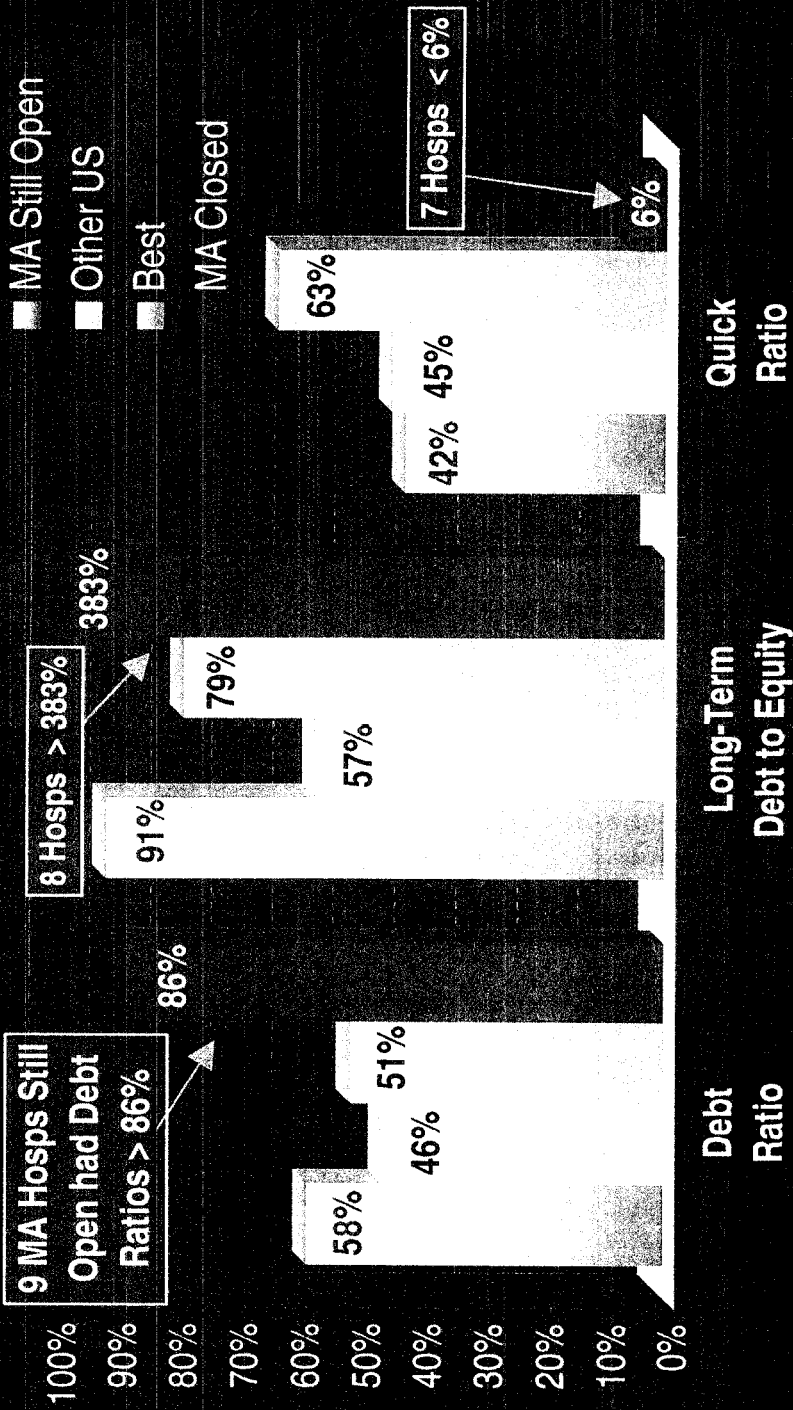
**Cash Flow to Debt Ratios**  
Community Hospitals, 1999



Source: Medicare Cost Report

# Long-Term debt to equity ratios in Massachusetts are high relative to the rest of the country and quick ratios are low

Community Hospital Balance Sheet Ratios  
Massachusetts and Other U.S. - 1999



Source: Medicare Cost Report

**To understand differences in profit rates,  
analyze revenues and expenses in relation  
to volume**

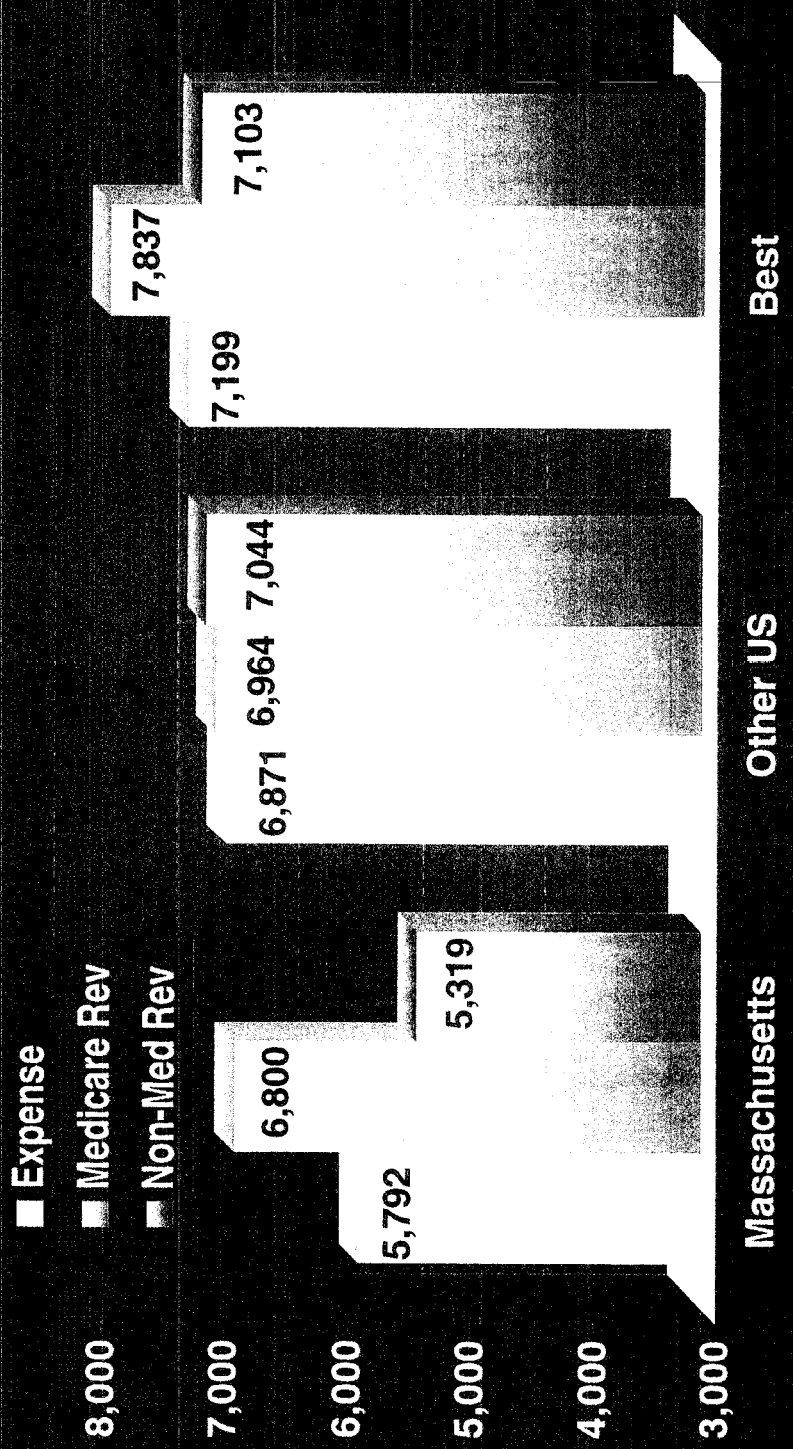
- **To compare across states, we look at revenues  
and expenses per adjusted discharge**
- **Adjusted discharges include outpatient activity,  
translated into inpatient discharge equivalents**
- **For comparability, all revenues and expenses  
are indexed to reflect regional wage differences  
and differences in patient severity**

**Losses in Massachusetts community hospitals are primarily the result of stunningly low non-Medicare revenues**

- **As we'd expect, Medicare revenues in Massachusetts are comparable to those in other states**
- **But non-Medicare revenues are 24% less than elsewhere in the nation!**

# Medicare revenues in MA community hospitals are comparable to those elsewhere, but non-Medicare revenues are far lower.

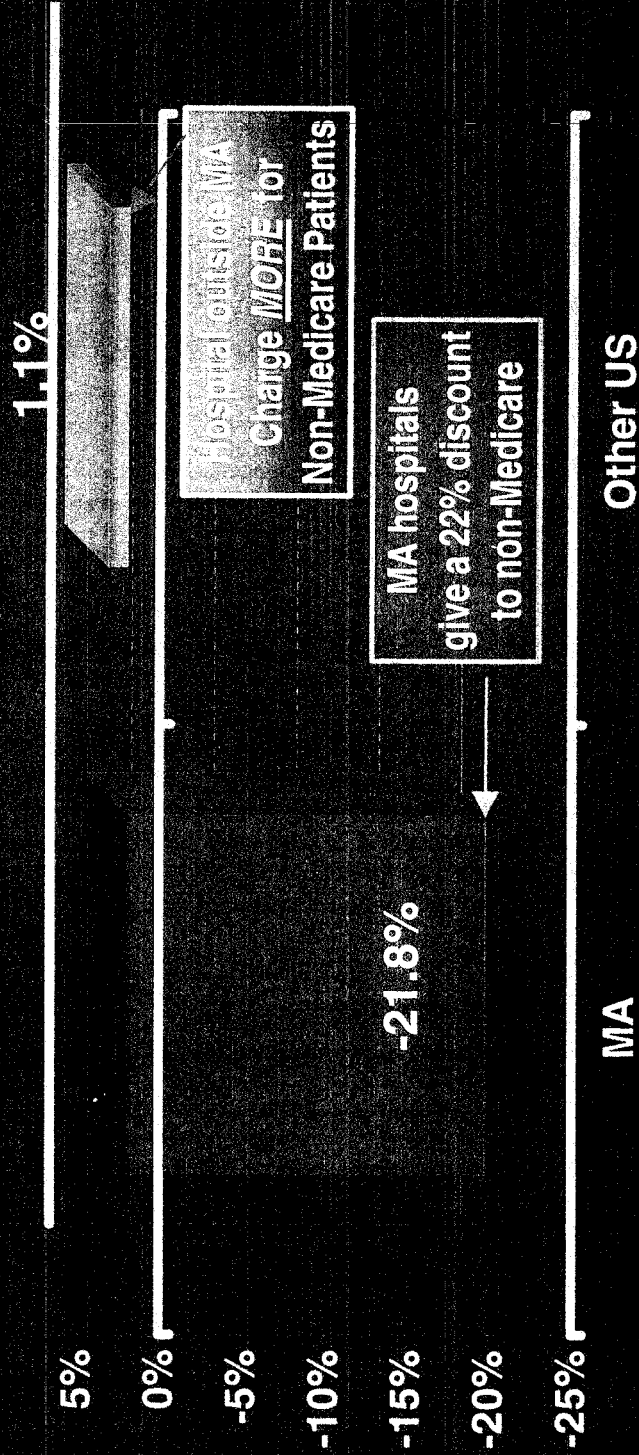
Medicare vs non-Medicare - Community Hospitals per Adjusted Discharge, Indexed for Wages & Severity. - 1999



Source: Medicare Cost Report

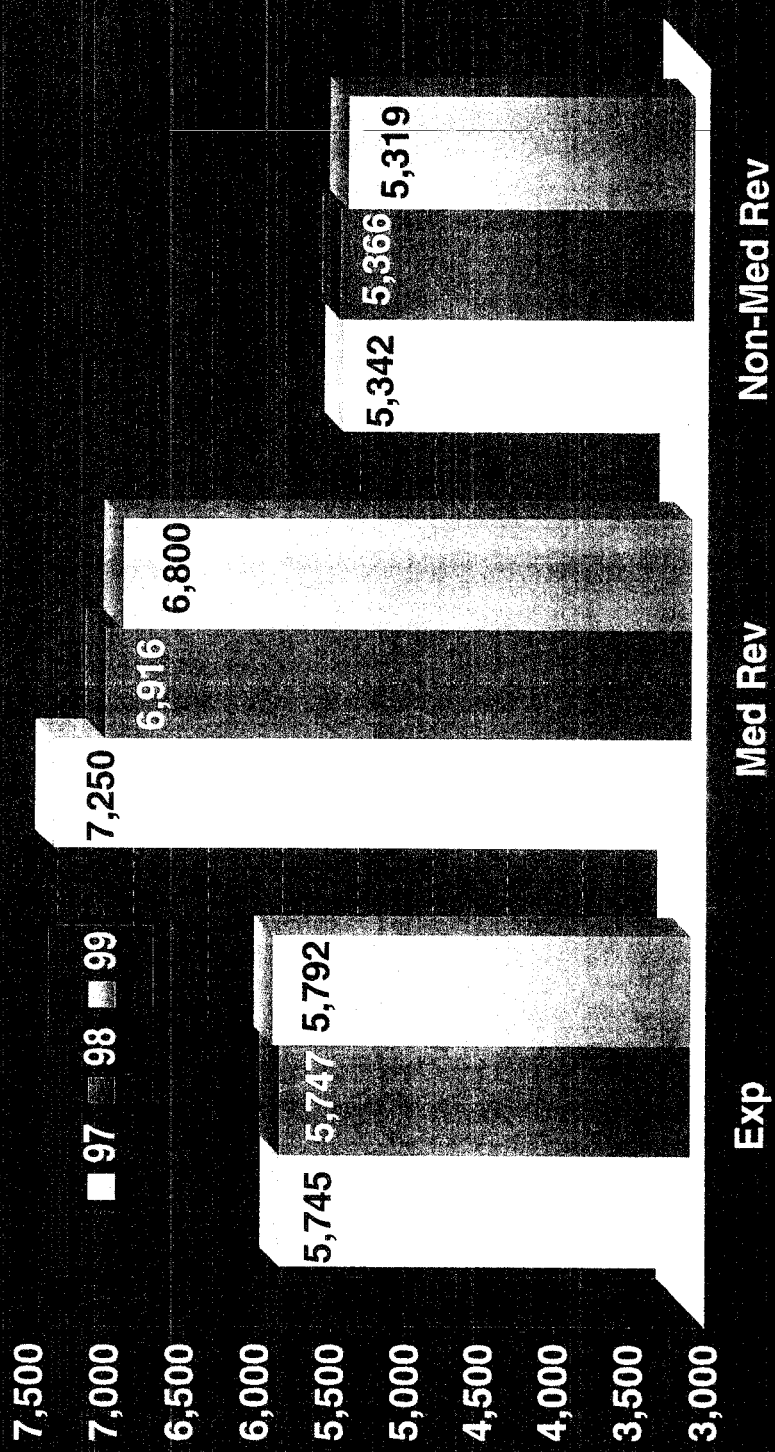
**If Medicare revenues are a standard, MA community hospitals give a 22% discount to other payers; elsewhere, hospitals charge a 1% premium.**

**Non-Medicare Revenue per Discharge  
As Pct of Medicare, Comm Hosps Us vs MA, 1999**



# Although the ultimate problem is low payments from HMOs and Medicaid, the immediate crisis is from reduced Medicare

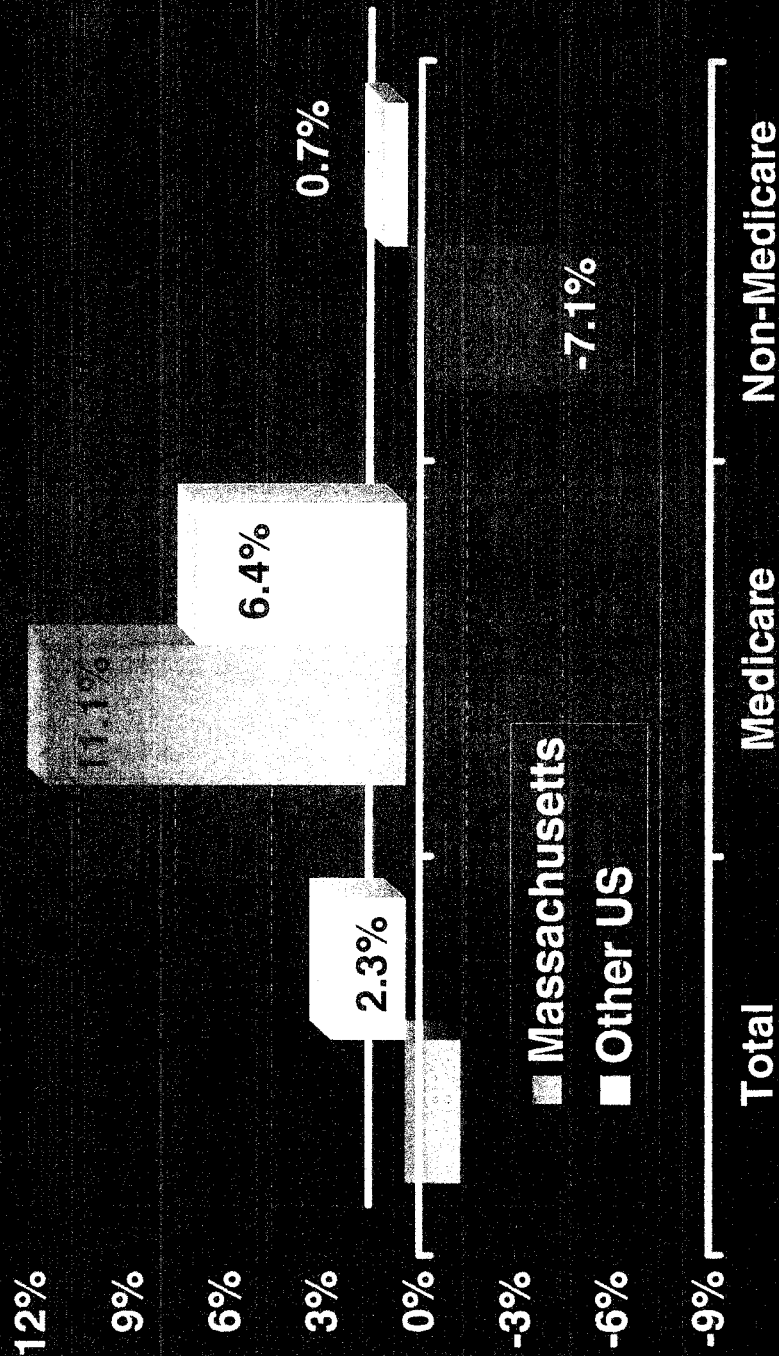
Revenue Trends - MA Community Hospitals  
per Adjusted Discharge, Indexed for Wages & Severity. - 1997 - 99



Source: Medicare Cost Report

# Even with recent reductions, MA community hospitals have an 11% profit margin on Medicare, but lose 7% on other patients

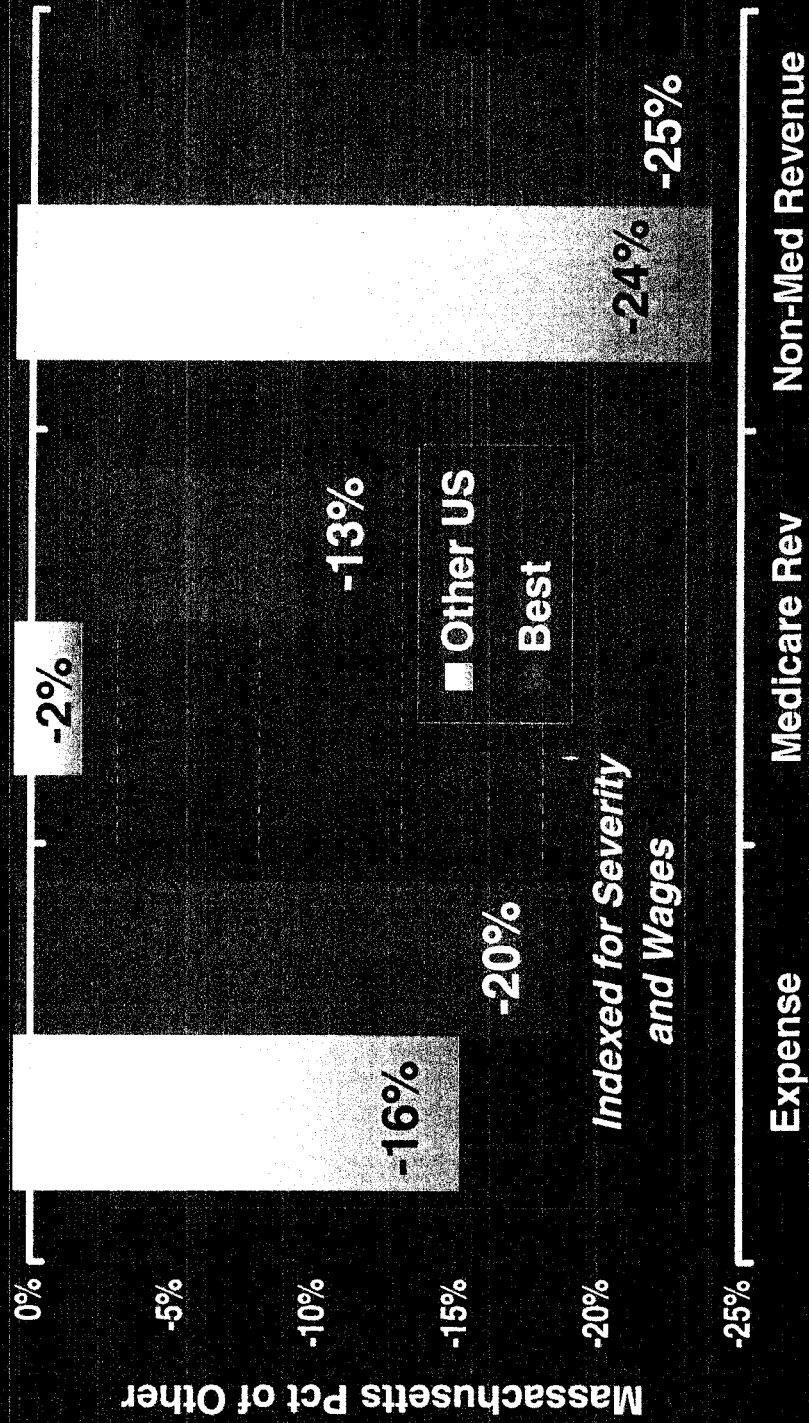
## Operating Profit, Medicare & Other Community Hospitals, Pct of Operating Revenue - 1999





# MA community hospitals get 25% less per adjusted discharge for a non-Medicare patient than hospitals elsewhere - and spend 16% less

Revenue and Expenditure per Adjusted Discharge  
 MA community hospitals relative to Other U.S., Best - 1999

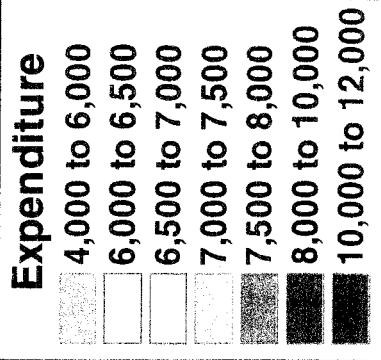
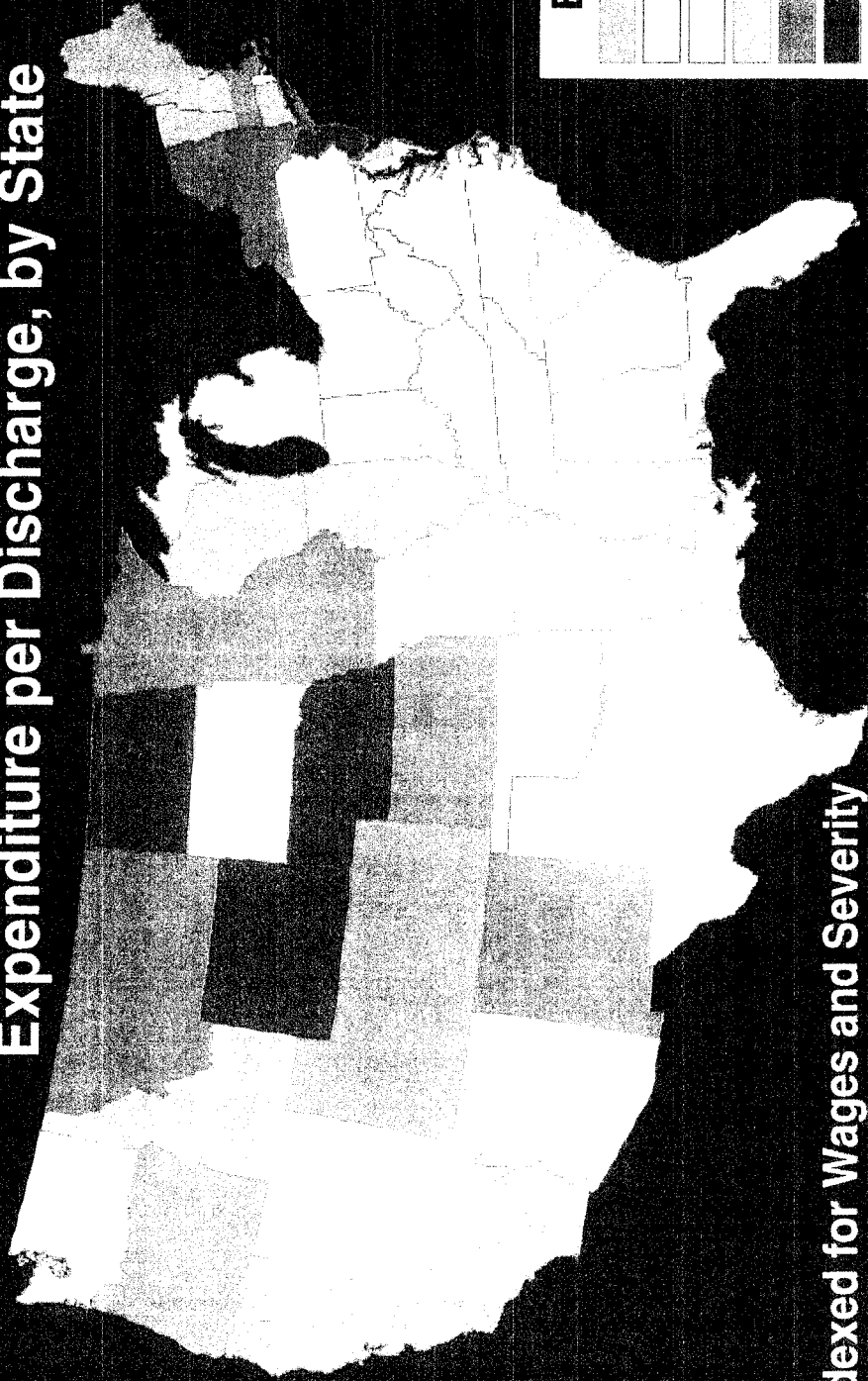


**Low Revenue means Low Expenditure -  
Contrary to popular perception, our hospitals  
spend less - a lot less - than hospitals elsewhere**

- **Massachusetts community hospitals collect 24% less than hospitals elsewhere for each non-Medicare adjusted discharge**
- **One result is that they are losing money**
- **Another result is that they are spending less**
- **Adjusted for severity and wages, Massachusetts hospitals spend 16% less per discharge than hospitals elsewhere - and 20% less than the best hospitals!**

**In only 3 other states - Oregon, Utah, and Colorado - do community hospitals spend less per adjusted discharge than in Massachusetts**

**Expenditure per Discharge, by State**



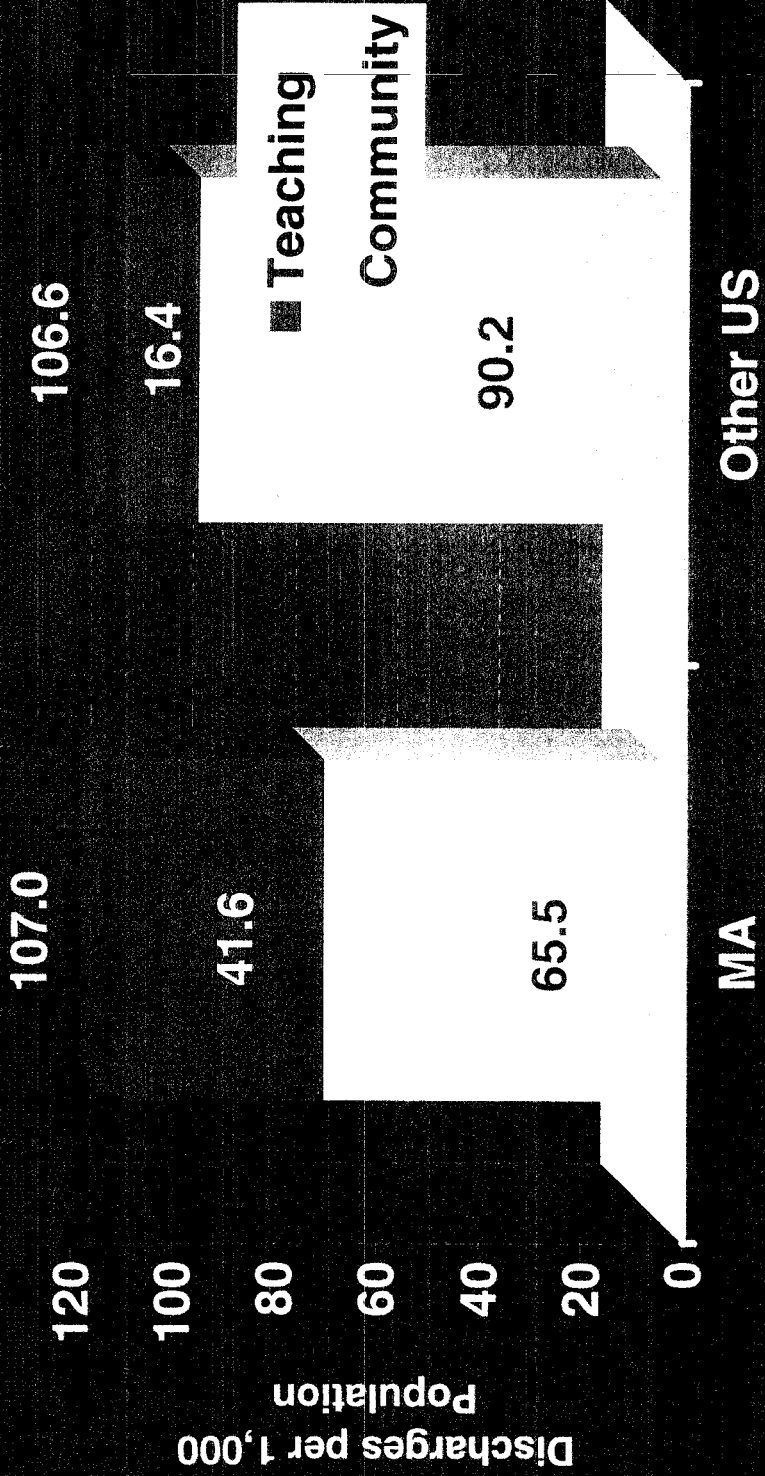
**Indexed for Wages and Severity**

**Massachusetts hospital spending is very low in relation to other states**

- **Adjusted for severity and wage rates, our community hospitals are spending 21% less per adjusted discharge than those in New York**
- **Spending is 18% less than Connecticut, 25% less than New Jersey, 10% less than Pennsylvania, and 22% less than Illinois**
- **Massachusetts spending is well under the Southern states - 19% less than Mississippi and Louisiana, 17% less than South Carolina**

# Inpatient Hospital Utilization in Massachusetts is the same as nationally, but 2.5 times more patients use teaching hospitals.

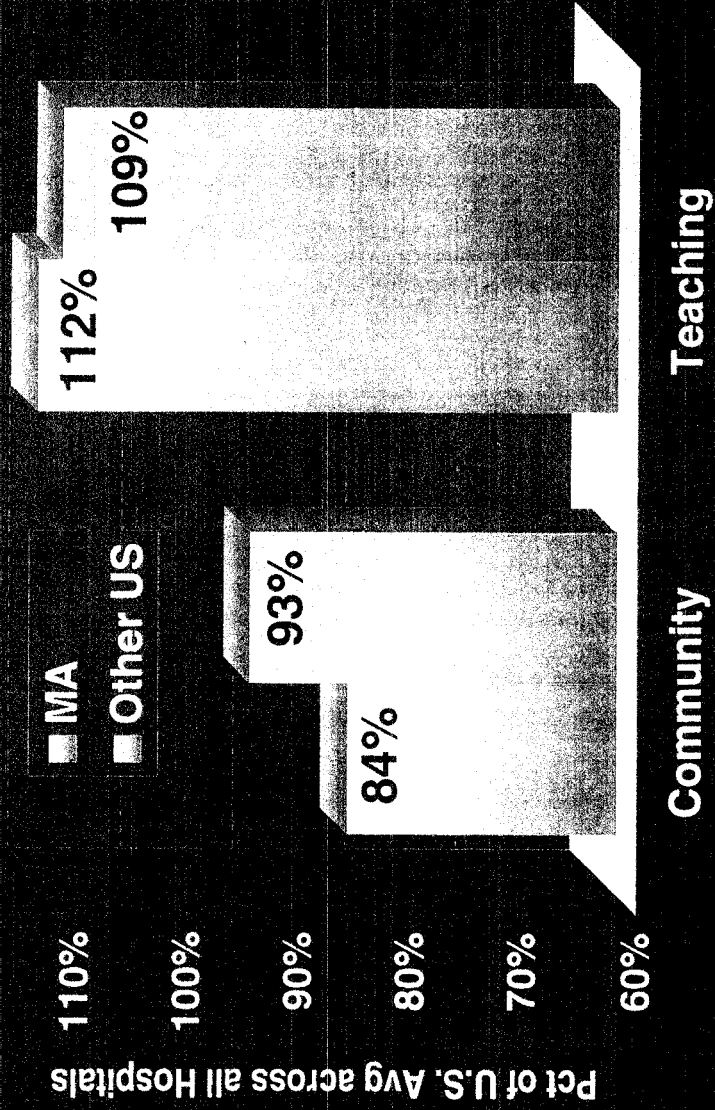
In Patient Hospital Discharges  
Per 1,000 Population, MA and Other U.S. - 1998



Source: Medicare Cost Reports, U.S. Census

# Because so many Massachusetts patients use teaching hospitals, the average severity of patients in our community hospitals is low

Average Patient Severity  
Massachusetts and Other U.S. - 1999

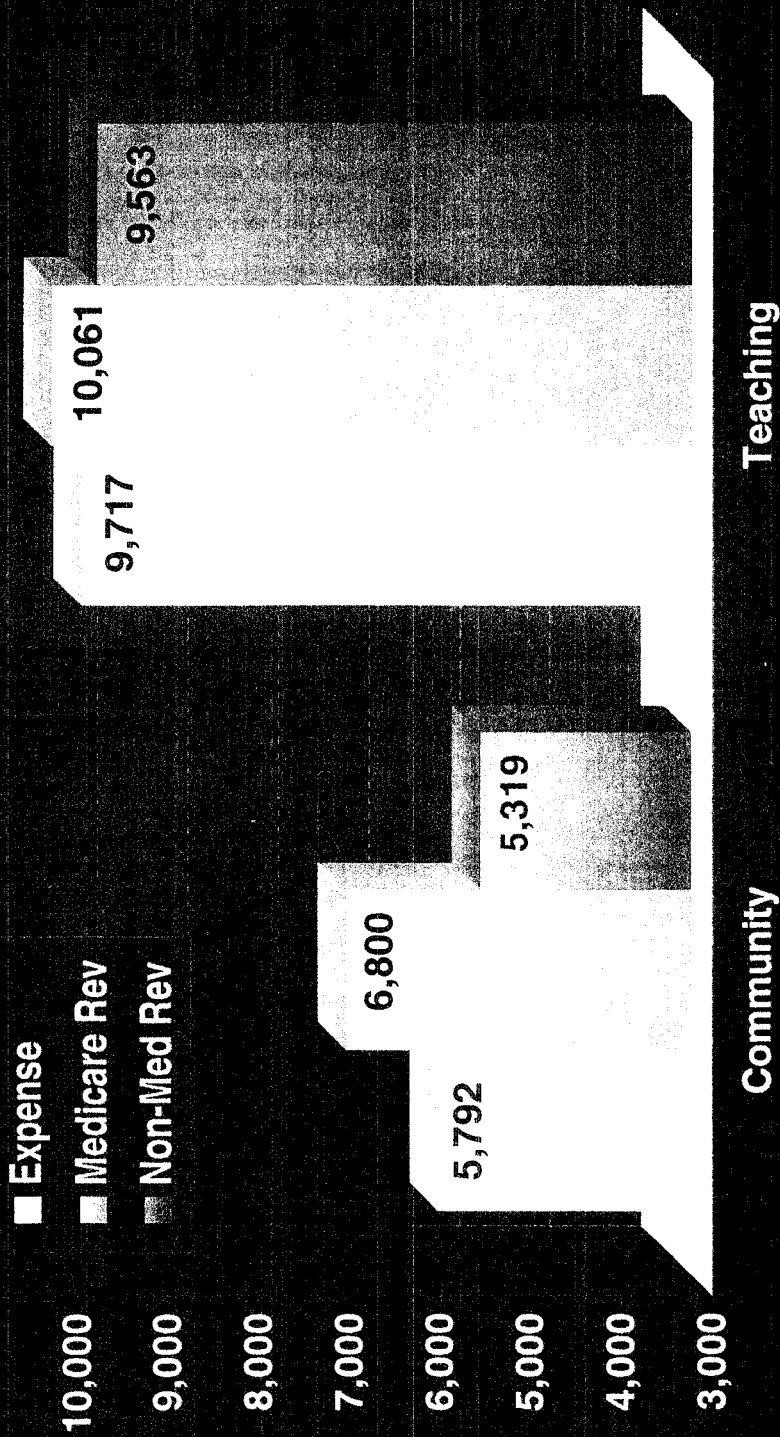


**We can use this same analysis to compare community with teaching hospitals in Massachusetts**

- **Teaching hospital costs and revenues are considerably higher - even when adjusted for the higher severity of teaching hospital patients**
- **Teaching hospitals also lose money on non-Medicare patients, but at a higher level of revenue (and cost)**
- **Teaching hospitals do slightly better on Medicare reimbursement, so have a slightly lower loss rate.**

# Massachusetts Teaching hospital costs and revenues are far higher than at community hospitals - even for non-Medicare

Medicare vs non-Medicare - Massachusetts Hospitals  
per Adjusted Discharge, Indexed for Wages & Severity. - 1999

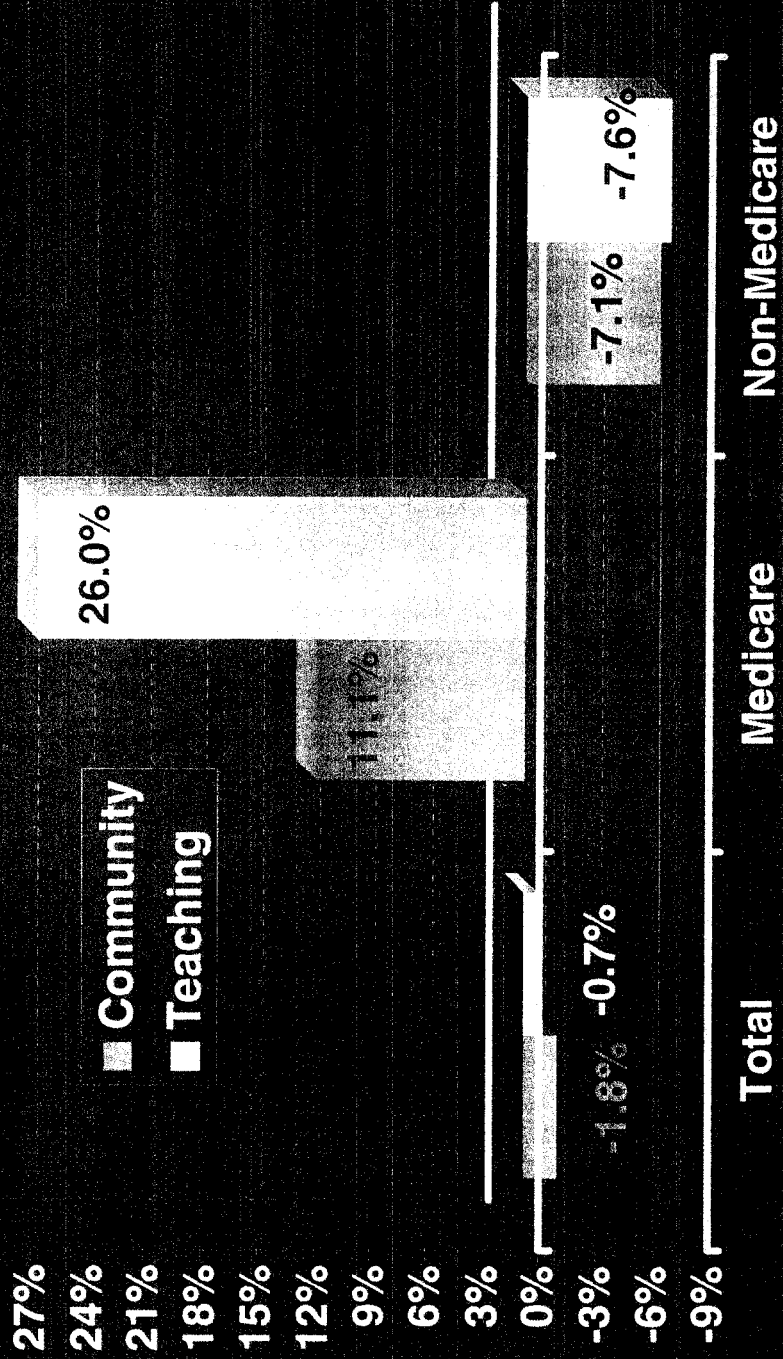


Source: Medicare Cost Report

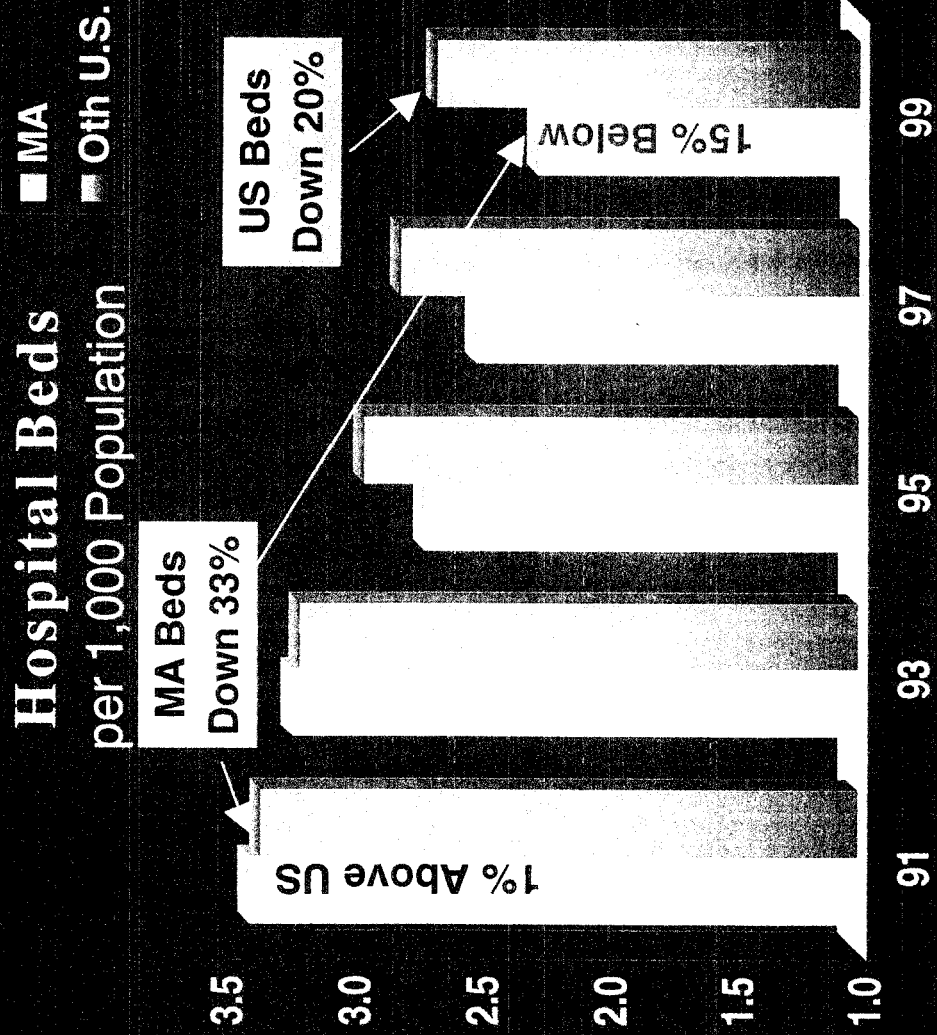


# Massachusetts teaching hospital Medicare margins are much higher than community hospitals; non-Medicare loss rate is similar

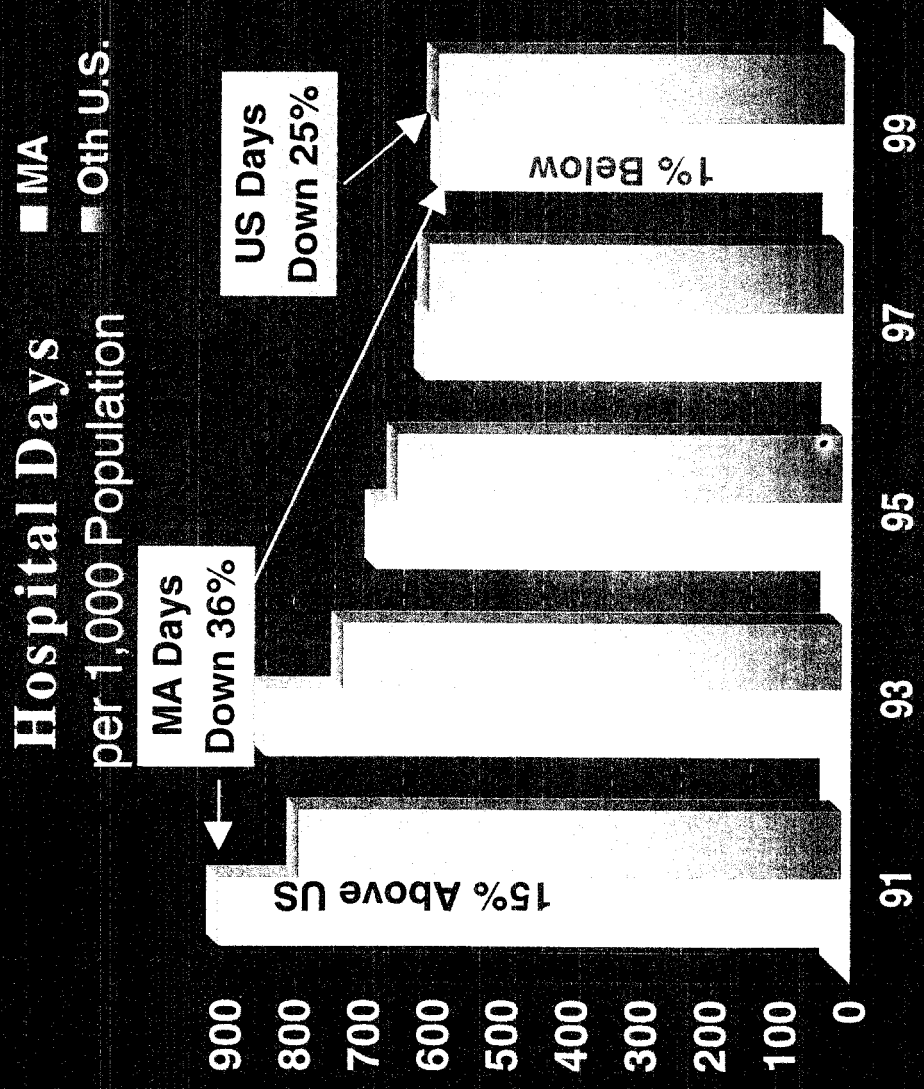
**Operating Profit, Medicare & Other**  
 Massachusetts Hospitals, Pct of Operating Revenue - 1999



**Massachusetts has reduced its beds per 1,000 people by 33% since 91. We now have 15% fewer beds than the rest of the country.**



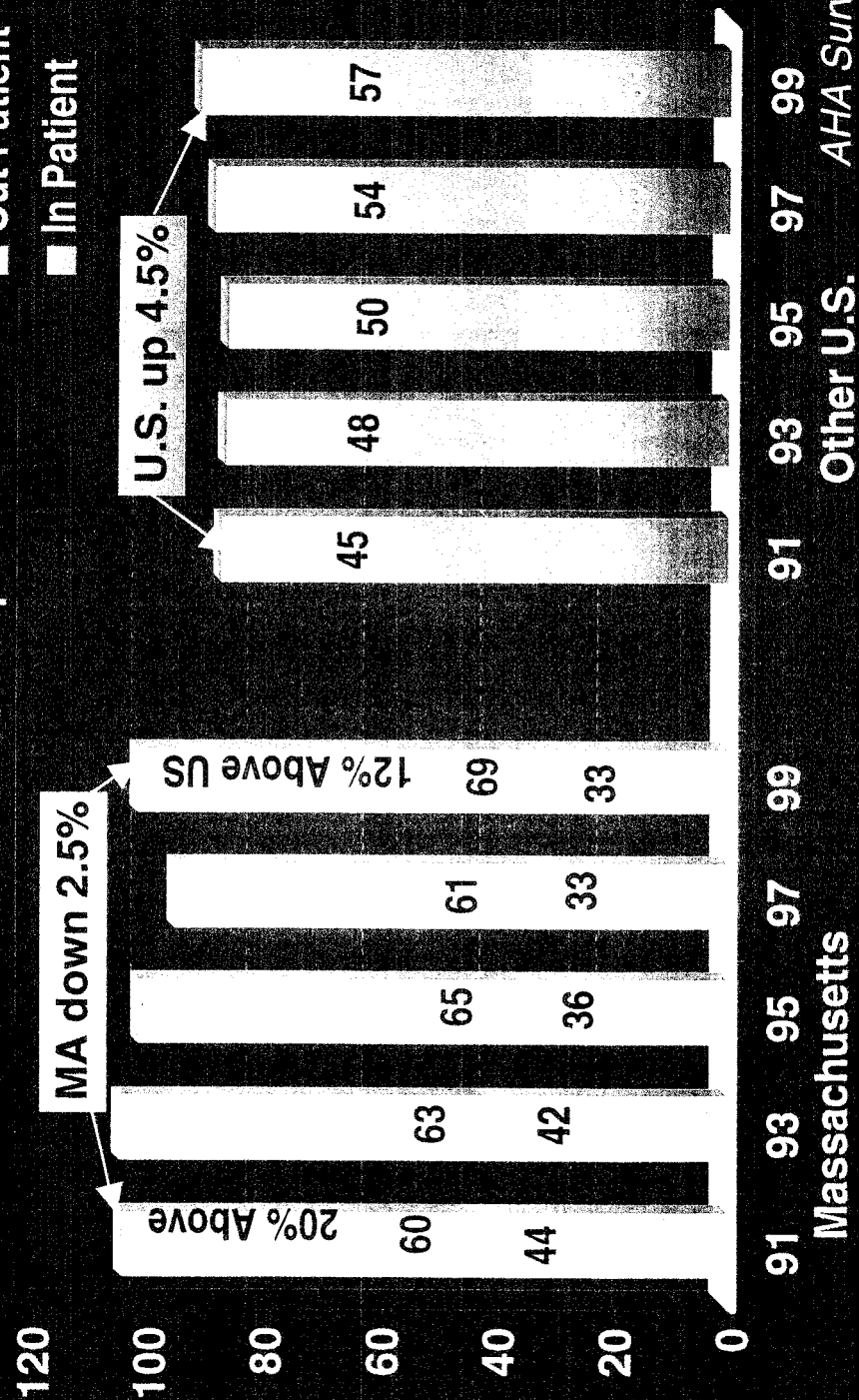
**Massachusetts hospital days in relation to population have come down faster than the rest of the country and are now 1% below the U.S.**



**Massachusetts does more surgical procedures than the U.S., but the gap is narrowing as surgeries fall here but rise elsewhere**

**Surgical Procedures Per Thousand Population**

■ Out Patient  
■ In Patient



Massachusetts

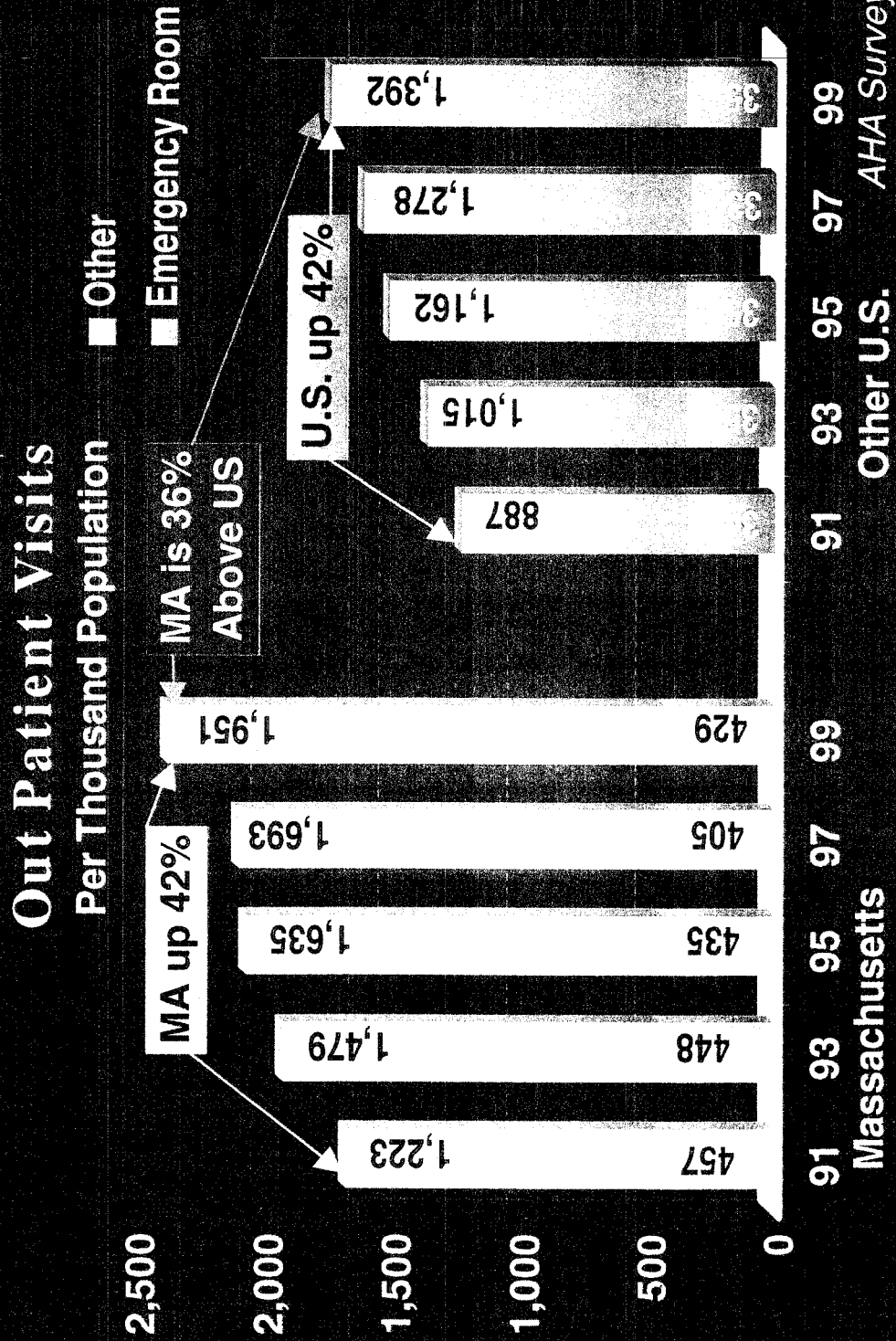
Other U.S.

AHA Survey

# High Out Patient Activity

- The major area of greater hospital volume in Massachusetts is outpatient care.
- This is illustrated in two charts - the first showing outpatient visits, which are 36% higher here than elsewhere.
- The bottom, blue portion of the bars show emergency room visits; the upper, yellow portion show other visits. The total height of the bars shows total outpatient visits.
- Emergency Room visits are not the major difference.

**A key factor in Massachusetts higher spending is that hospitals here have 36% more out-patient visits than hospitals elsewhere.**



Massachusetts

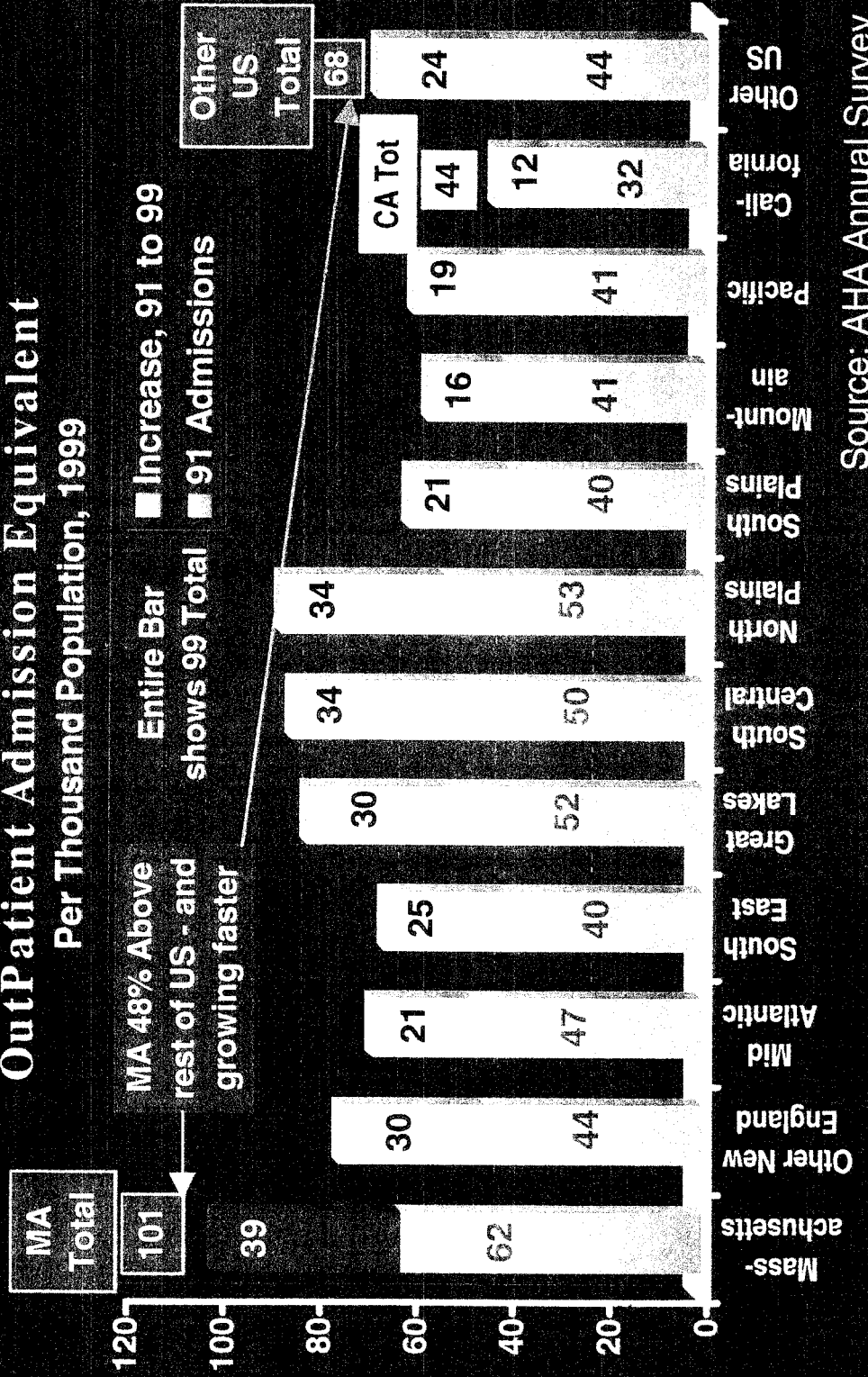
Other U.S. AHA Survey

# High Out Patient Activity

- The industry measures total out-patient volume by expressing it as in-patient admission equivalents - next chart.
- Applying this measure to all regions, Massachusetts outpatient volume is 48% above the rest of the country, and more than twice California.
- The bottom, blue portion of the bars show outpatient volume in 91; the upper, yellow portion shows the increase since then. The total height of the bars shows 1999 outpatient volume.

# Out Patient Volume in Massachusetts is much higher than any other region, and has grown much more since 1991

**Out Patient Admission Equivalent Per Thousand Population, 1999**

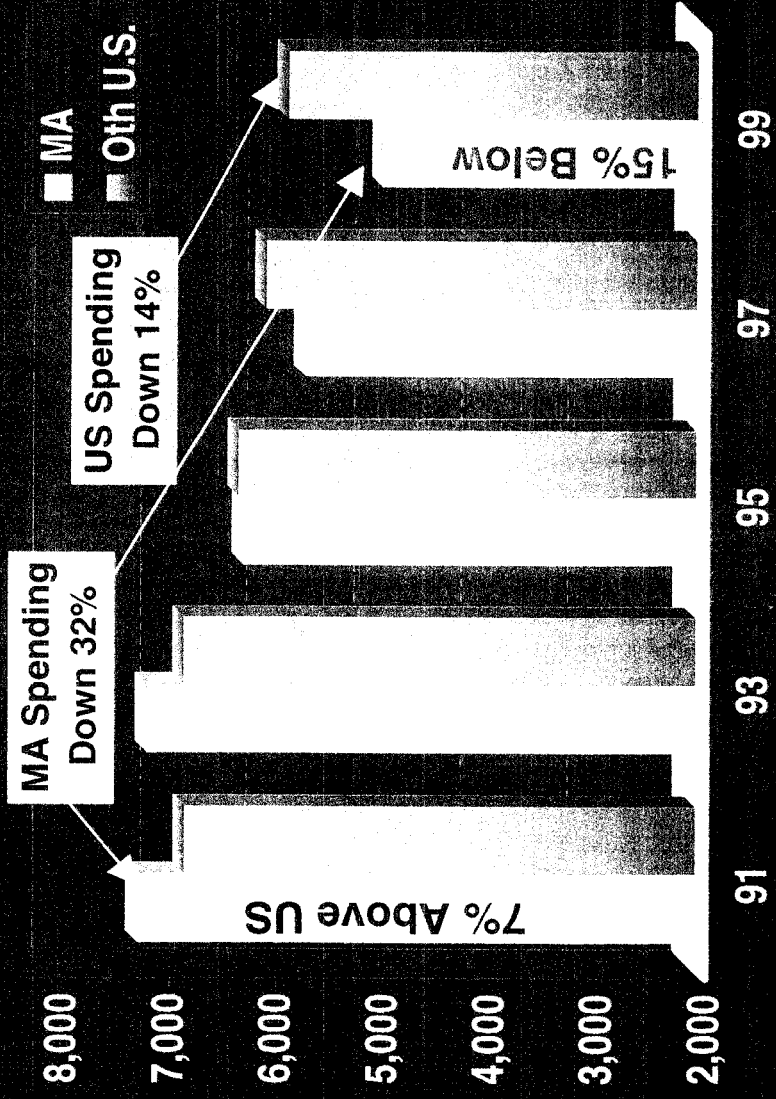


Source: AHA Annual Survey



# Community Hospital spending per discharge was 15% lower in Massachusetts and, in constant dollars, has fallen faster than the U.S.

Community Hospital Spending Per Adjusted Admission, in 99 Dollars



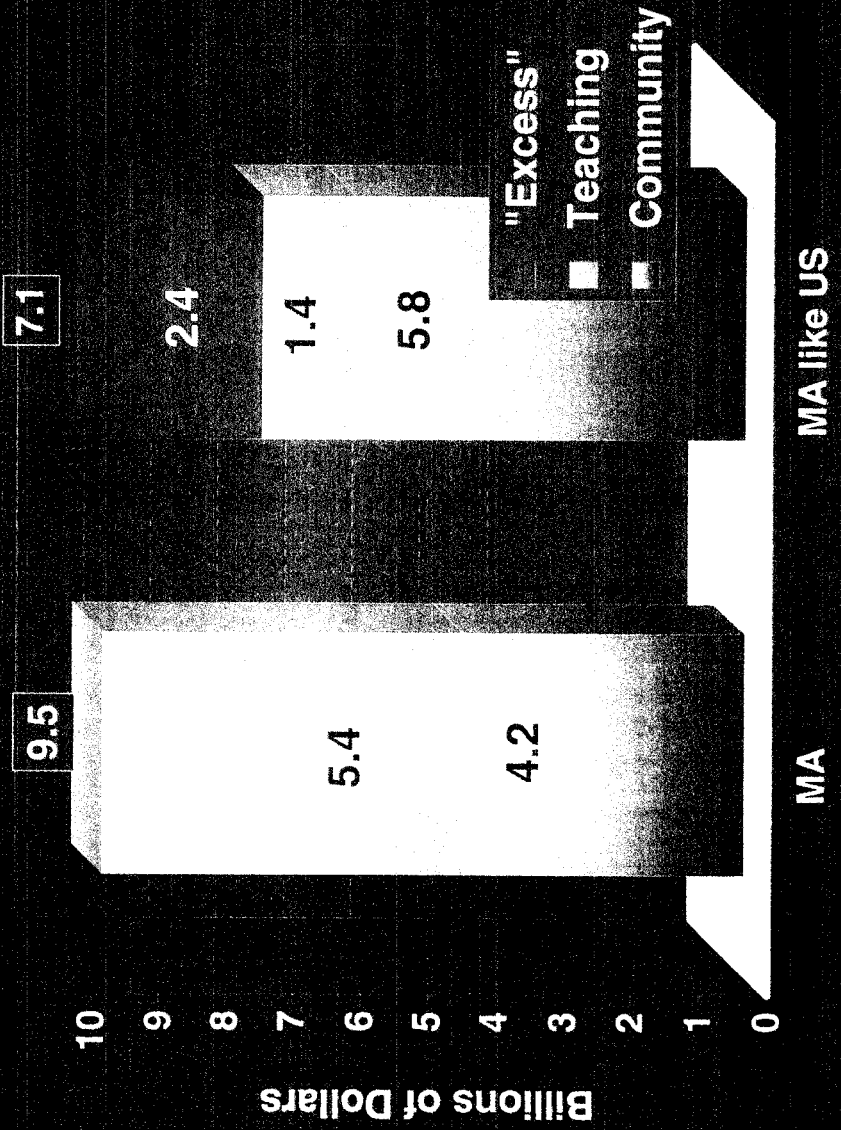
Source: AHA Annual Survey

# Are Massachusetts Hospital Costs Too High?

- Total spending by Massachusetts hospitals (including teaching hospitals) is \$9.5 billion.
- If our spending were the same on a per-capita basis as the rest of the country, we'd spend \$7.1 billion - \$2.4 billion less.
- Superficially, this suggests that our hospitals are wasteful.
- As we'll see, this is misleading - our hospitals actually deliver a comparable basket of services more - not less - efficiently than hospitals elsewhere.

# Raw Hospital Spending in MA is \$2.4 billion above the norm based on the rest of the U.S.

Massachusetts Total Hospital Expense  
Compared to norm based on per-capita expense  
elsewhere in U.S., 1999

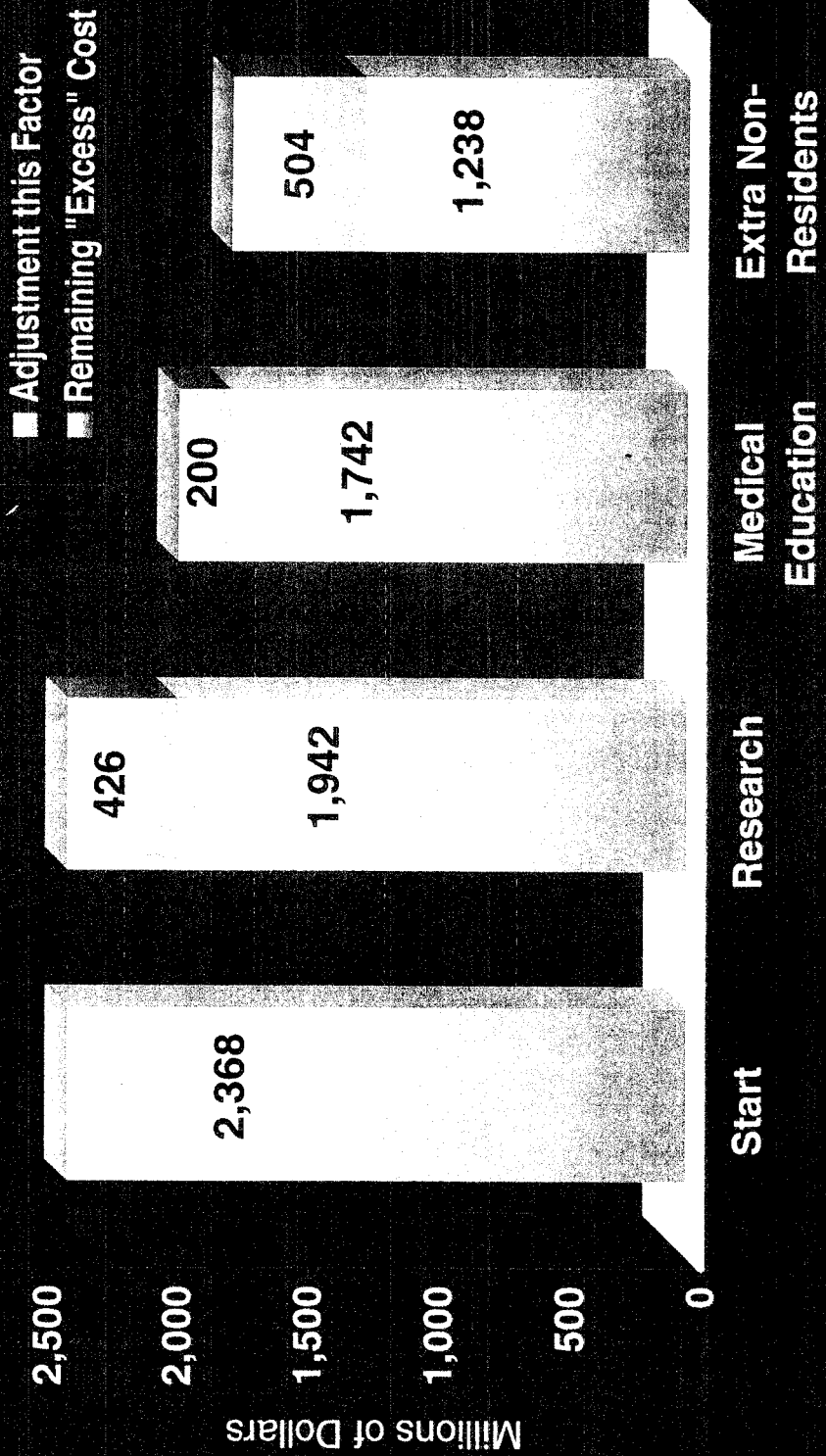


# High MA Costs - Part 2

- Total spending by Massachusetts hospitals includes directly reimbursed spending for
  - Medical Research
  - Graduate Medical Education
  - Out of State Patients at our teaching hospitals
- All of these activities are more concentrated in Massachusetts than in other states.
- These items are not paid for by Massachusetts consumers.
- After adjusting both MA and US for these items, total spending at our hospitals is \$1.2 billion above the national norm.

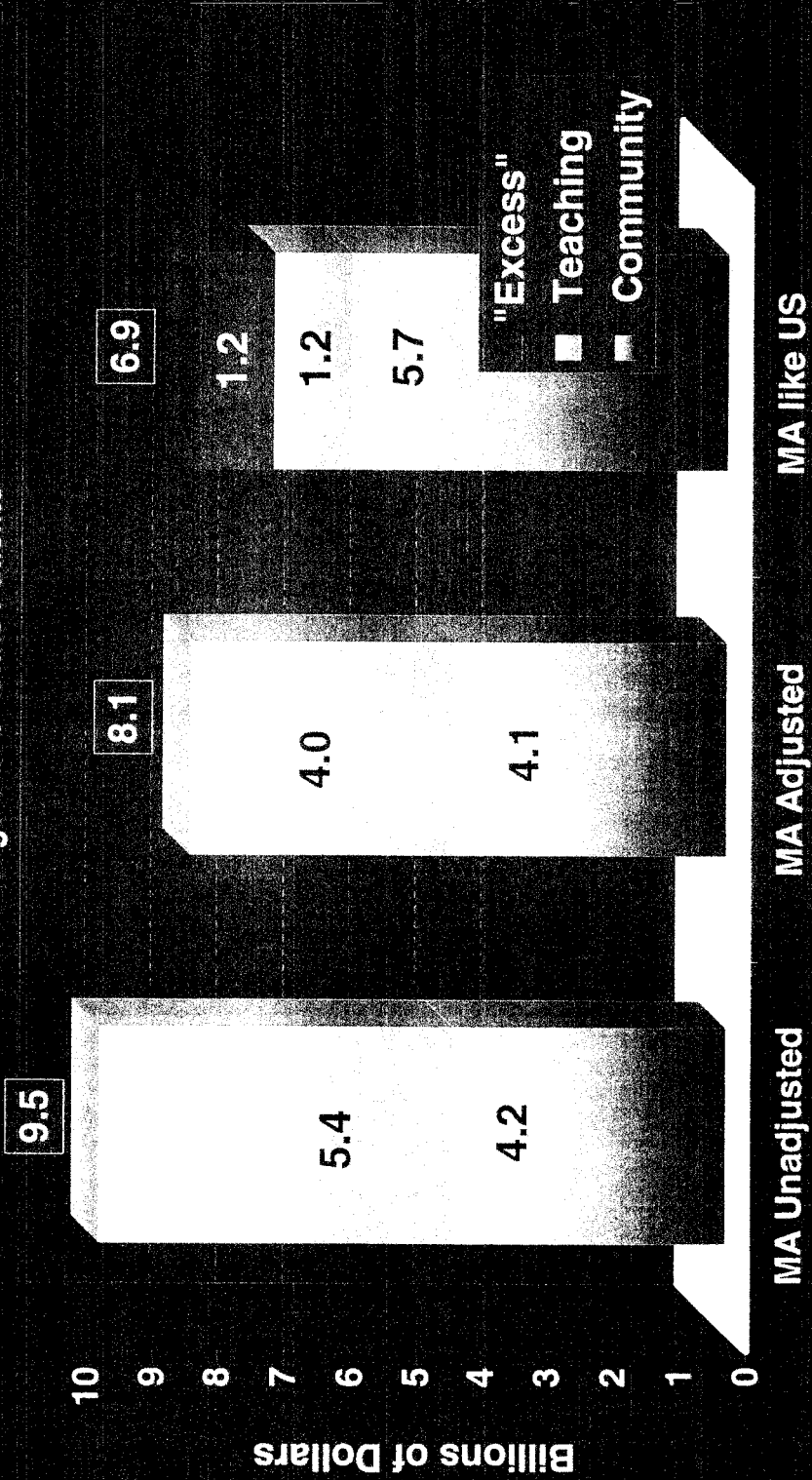
# Compared to U.S. norm, our hospitals have \$426 million more research, \$200 mn more medical education, and \$504 mn more out-of-state patients

Adjusting Massachusetts Total Hospital Cost, 1999 for Research, Medical Education, Extra Teaching Hospitals, Wages, etc.



# MA Hospital Spending is only \$1.2 billion above U.S. norm after subtracting research, medical education, and out-of-state patients

Massachusetts Hospital Expense vs U.S. Norm  
 Removing Directly Reimbursed Medical Education, Medical Research, and  
 above-average Out-of-State Patients



# High MA Costs - Part 3

- Hospital costs actually paid by Massachusetts payers are \$1.2 billion above the national norm, but -
- A fair comparison must reflect:
  - the higher usage of teaching hospitals here (extra cost = \$761 million)
  - higher Massachusetts wages (\$443 million)
  - higher overall hospital use - 50% more outpatient use than elsewhere (\$1.1 billion)
- Adjusting for these factors, MA hospitals deliver comparable services for a cost \$1 bn LESS than the US norm.

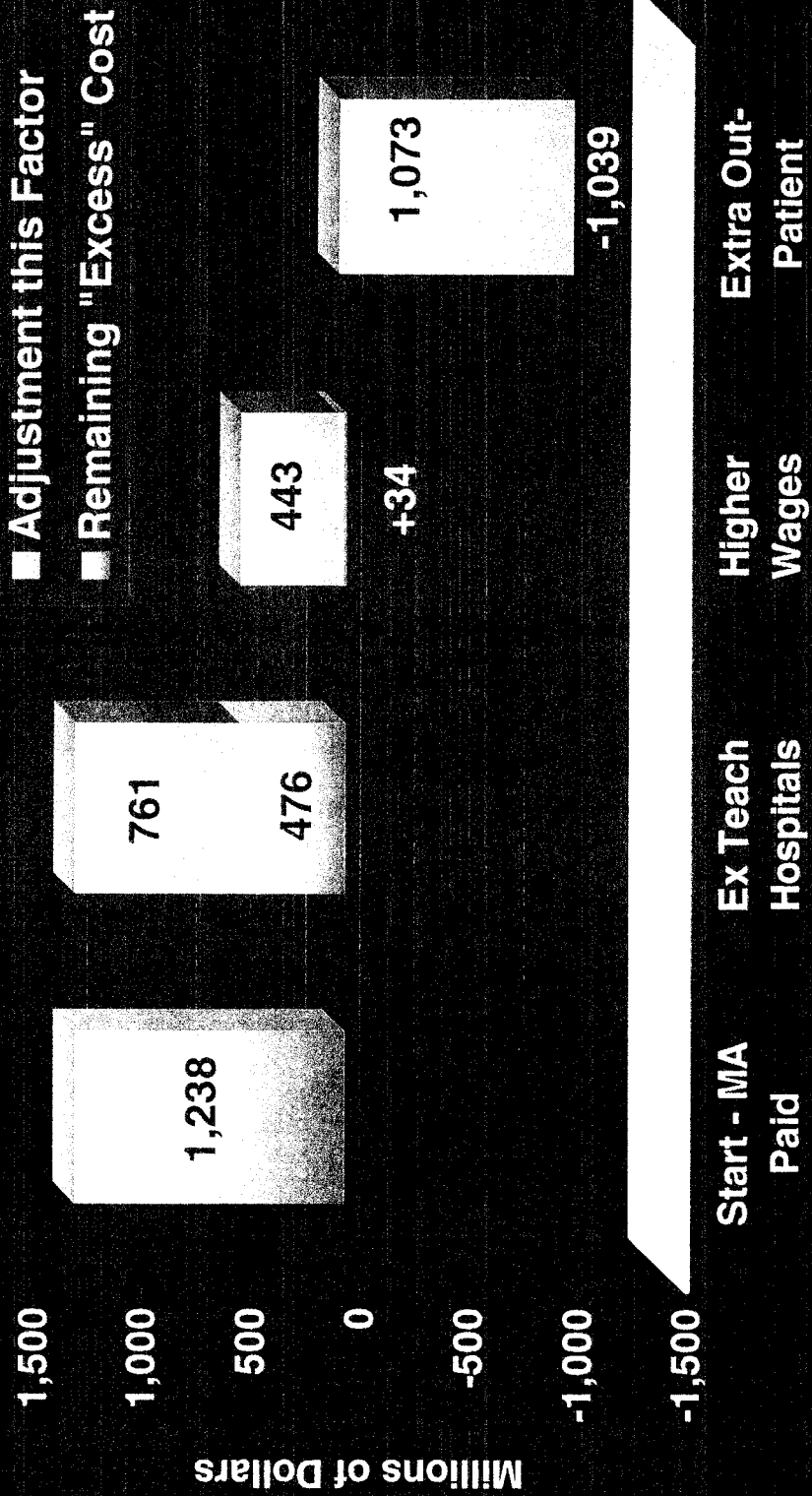
# High Teaching Hospital Use

- Only 66% of Massachusetts admissions (not counting non-residents) - vs 88% nationally - are in community hospitals.
- Teaching hospital costs (not counting research and medical education) are \$9,300 per admission.
- Community hospital costs for these patients, adjusted for greater severity, would be \$6,600
- Moving 277,000 patients to community hospitals, at a saving of \$2,750 each, would reduce total MA costs by \$761 million.



**Compared to U.S. norm, we have \$761 million more teaching hospital use, \$443 mn in higher wage rates, and \$1,073 million more outpatient use**

**Adjusting Massachusetts Total Hospital Cost, 1999 for Teaching Hospital Use, Wages, High Outpatient Use**

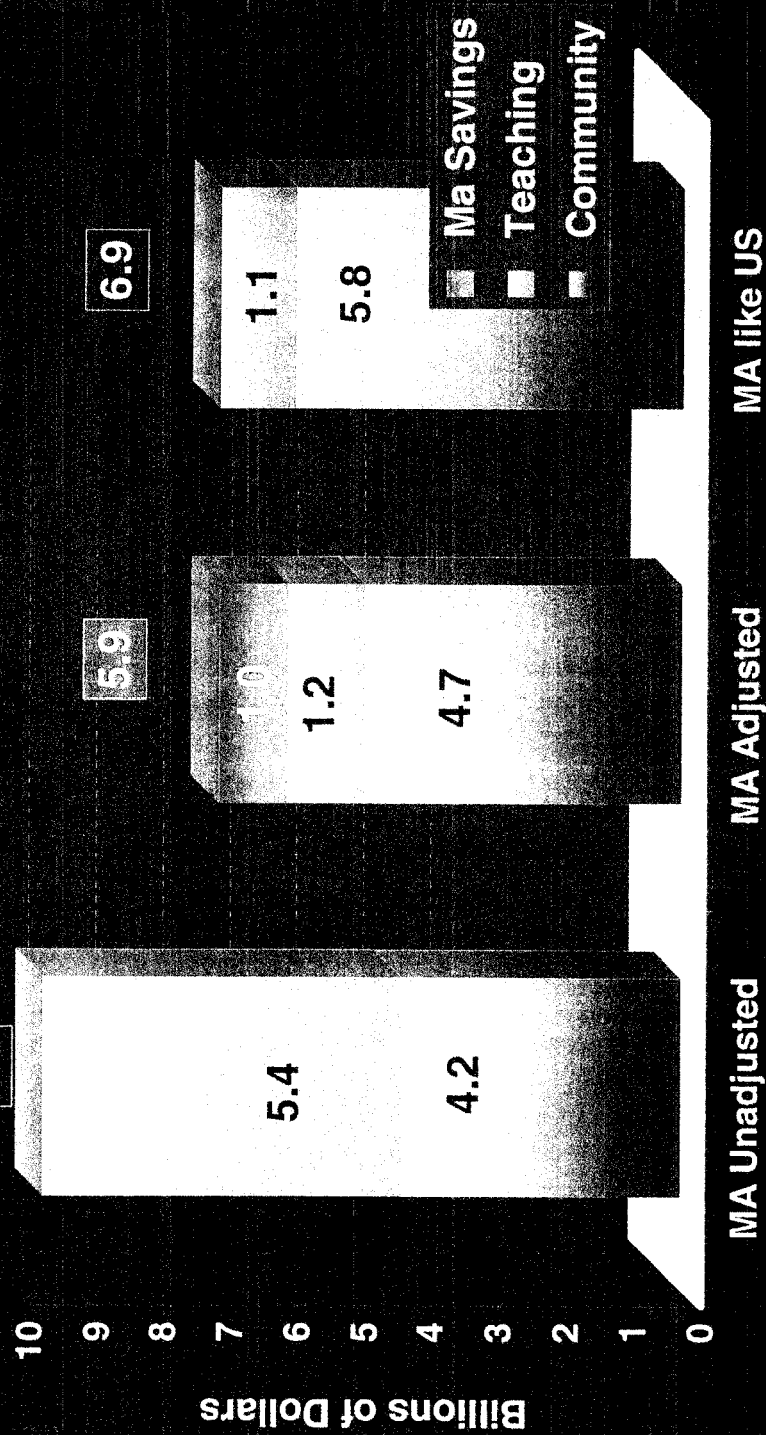


# High Out Patient Use

- **MA Inpatient admissions are slightly less than U.S., adjusted for population.**
- **MA has the equivalent of 101 outpatient admissions per thousand population, vs 68 in the rest of the U.S.**
- **That is, Massachusetts residents use more hospital tests and procedures than people elsewhere in the country**
- **This costs an extra \$1.1 billion.**
- **Adjusting for this, wages, and extra teaching hospitals, our hospitals cost \$1 bn less than the U.S. norm**

# Massachusetts hospitals deliver fully comparable services for \$1 billion less than the national norm.

Massachusetts Hospital Expense vs U.S. Norm  
Adjusted for Extra Teaching Hospital, Higher Wages, Extra  
OutPatient Use



# Conclusion

- **Massachusetts community hospitals are efficient**
- **Indeed, they may be too efficient, spending 16% less than community hospitals elsewhere for similar service**
- **What appears to be higher cost is higher utilization of outpatient services by Massachusetts residents.**