

# PREVAIL

EXCLUSIVELY FOR OUR BENEFACTORS

FALL 2018

**SPECIAL ISSUE**  
Facts about health care costs



## SUPPORTING LOCAL FAMILIES

Thanks to Mary Ellen  
Anderson, Eagle County  
patients overwhelmed  
by medical bills can get  
financial aid.

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# MONEY RELIEF DURING MEDICAL CRISIS

## Patient Assistance Fund helps local families.

Mary Ellen Anderson knows the positive impact a dog has on a person's life. Jazz, a rescue dog, is one of her dearest companions. That's why she's active in Canine Companions for Independence, which provides service dogs for disabled individuals.

Making a positive impact on people's lives is also why she gave the seed gift for Vail Health's new Patient Assistance Fund.

"An individual partnered with a CCI assist dog is immediately empowered," Mary Ellen says. "I also want to provide immediate help to people overwhelmed by medical bills."

The new fund provides financial aid for patients who work and live in Eagle County. They receive a one-time payment for living expenses, like rent and utilities.

Mary Ellen feels so strongly about helping local families she set up a bequest to endow the fund. In the meantime, she plans to give to it yearly.

"This is one way I can support the working families who are the fabric of our community," she explains.

**"Economic support  
is essential to healing."**

*Mary Ellen Anderson  
Canine Companions for  
Independence*



^ Mary Ellen Anderson's seed gift to our new Patient Assistance Fund helps local families burdened by medical bills.

## Giving legacy continues

Mary Ellen's gift is one of many from her family. In fact, her parents, Morgan and Cathie Douglas, were supporters for over 25 years. Her mom also served on the hospital's board and was one of our first volunteers.

"Giving to Vail Health was always important to my parents. I want to continue their legacy," she says.

"Going to the hospital is rarely by choice," she adds. "Economic support is essential to healing. People shouldn't have to worry about how they're going to pay unexpected medical bills."

## Please give to the Patient Assistance Fund today.

Today, one in three families are burdened by rising insurance premiums and medical bills. Vail Health's new Patient Assistance Fund lightens this load for local families.

To make a gift to the fund, go to [vailhealth.org/make-a-gift](https://vailhealth.org/make-a-gift) or mail it to PO Box 1529, Vail, CO, 81658.



# WHAT'S DRIVING HEALTH CARE COSTS

Aging Americans and supply costs have a huge impact.

Health care spending in the U. S. neared \$3.5 trillion in 2017, and it isn't slowing. In fact, the Centers for Medicare and Medicaid Services (CMS) project we'll spend \$5.7 trillion a year by 2026.

The causes? It depends on whom you ask. Clearly, aging baby boomers and higher costs of medical equipment and supplies will affect overall prices.



## More people covered raises costs

The increase in insurance coverage also plays a role in rising costs. CMS reported the Affordable Care Act (ACA) increased the number of Americans privately insured by 9.7 million in 2015. With more people insured, premiums typically go up.

In addition, 10.3 million more people enrolled in Medicaid after its expansion by the ACA. Medicaid reimbursements are less than the cost of providing care. So the more Medicaid patients a hospital treats, the greater the financial shortfall.

In 2016, this shortfall reached \$16 billion, according to the Medicaid and CHIP Payment and Access Commission. Like most community hospitals, Vail Health cares for Medicaid patients.

## Aging patients require more care

By 2030, all baby boomers will be older than 65. As a result, CMS expects Medicare enrollment to grow 5.5 percent each year through 2026.

In 2017 alone, Medicare spent \$702 billion, according to the Henry Kaiser Family Foundation. This accounted for 3.7 percent of the U.S. Gross Domestic Product.

As more people become insured by Medicare, the more money hospitals lose. The Harvard Business Review reported the average hospital margin for treating Medicare patients is

**negative 10 percent.** About a third of Vail Health's patients are insured by Medicare, and the number continues to grow.

The aging population affects Medicaid spending too—older enrollees require more costly care. For example, \$103 billion will be spent on home health care this year. CMS expects that number to reach \$173 billion by 2026.

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^ Drug costs are projected to increase 4–7 percent annually through 2021.

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**"44 percent of Americans said they didn't go to the doctor when they were sick or injured because of financial concerns."**

## Medical supplies push prices up

Prescription drugs head the list of price increases. Drug costs will increase 4–7 percent annually through 2021, according to a Quintiles report. That equals \$580 billion to \$610 billion.

The price of medical goods and services also greatly impacts overall health care costs. Supply costs are expected to rise 2.5 percent each year until 2026. Goods and services will account for 75 percent of the increase in health care costs.

## Hospital and physician spending

A report from The Hastings Center showed new and more use of technology contributes 40–50 percent to annual cost increases. The impact will heat up with inpatient spending expected to reach \$1.8 trillion in 2026.

Also, CMS projects spending for physician and clinical services will jump from \$698 billion to \$1.1 trillion by 2026.

## Major impact on average health consumer

Today's consumers are paying a far greater share of health care charges. In fact, Forbes reported patient payments accounted for 35 percent of provider revenue in 2017. This compares to about 4 percent in 2006.

This shift has caused many people to skip necessary care, according to a 2018 survey by the University of Chicago and West Health Institute.

The poll showed 44 percent of Americans said they didn't go to the doctor when they were sick or injured because of financial concerns.

Further, 40 percent said they skipped a recommended medical test or treatment. Surprisingly, most of these people had health insurance.

With escalating medical costs, industry observers predict health care spending will outpace growth of the U.S. Gross Domestic Product by 2026.

# FIGHTING RISING PRICES



Multiple strategies address cost and spending increases.

Hospitals, the government and employers are taking steps to combat today's staggering medical costs. Here's how:

## Health care systems

Hospitals and providers are fighting lower reimbursements and inpatient admissions with greater efficiencies. They're streamlining and standardizing processes and supplies, and better managing labor costs.

The Health Research Institute stated the only way medical costs will be controlled in the future is with more collaboration of employers, insurers, employees, providers, drug companies and community resources.

## Centers for Medicare and Medicaid Services

In the past, Medicare reimbursed providers a single payment for services a patient might need during a given period of time. The type,

quality and number of services didn't really make a difference in the amount the provider received. Incentives drove providers to focus on patient numbers rather than quality of care.

Today, Medicare provides financial incentives for providers to offer the best care at the lowest cost. The University of Illinois at Chicago found that this change is enhancing patient care in quality and value.

## Companies and organizations

Employers are also working to manage insurance costs. They're offering high-deductible health plans with more patient cost sharing and involvement. For example, employees may receive premium discounts for participating in wellness programs. Other plans include incentives to prompt the use of more cost-saving care options like telemedicine.

# PREMIUMS OUTPACE MEDICAL CHARGES

Hospital prices account for fraction of medical costs.

No one is really surprised when health insurance premiums go up each year. But you may not realize they're increasing at a much higher rate than hospital charges.

The Health Research Institute estimates medical costs will increase 6 percent in 2019. But the average health insurance premium is predicted to jump 10 percent next year, according to the Center for American Progress.

"Drug prices are increasing the fastest. They're expected to jump about 6.3 percent every year..."

## Factors fueling higher medical costs

Hospital charges are less than a third of the overall cost of health care. The other two thirds include medical equipment, technology and prescription drugs.

Drug prices are increasing the fastest. They're expected to jump about 6.3 percent every year, according to The Hastings Center. Fueling this increase are new specialty drugs used to fight diseases like cancer.

In addition, new medical equipment and greater use of technology account for 40–50 percent of the annual increase in health care costs. The increase will intensify with prices expected to go up 2.5 percent each year until 2026.





^ Premiums are expected to jump 10 percent next year, with medical costs up 6 percent.

## Steps to lower premiums

Of course, medical costs impact premiums. But health care organizations are taking steps to address this issue.

For example, Vail Health is giving substantial discounts on medical services provided for patients insured by certain Anthem Blue Cross Blue Shield policies.

“It is our hope that these discounts will be passed on to consumers so their insurance premiums will be lowered,” says Harold Dupper, Vail Health’s chief financial officer. “But so far, that hasn’t been the case.”

Even with Vail Health doing its part to help lower costs, patients will likely see major insurance premium increases for many years.



^ Active lifestyles cause more injuries and use of medical care, resulting in higher premiums.

# WHY IS MOUNTAIN MEDICINE EXPENSIVE?

You had a fender bender. Even after it's fixed, you know more costs are coming. Your insurance rates *will* go up. With car insurance, more claims

always result in higher premiums. The same is true with health insurance. The more we use it, the higher the premiums.

## More claims and higher cost of living fuel health care costs.

While people in Eagle County are healthy, our active lifestyle makes us prone to injury. For example, an accident on the mountain can result in a trip to the Emergency Department. Often it requires a CT scan or MRI, and sometimes even surgery.

### More injuries produce higher premiums

This additional usage causes our health insurance premiums to be higher than the national average, which is represented by a score of 100 on the Health Insurance Price Index. Premiums in Denver are higher, ranking 106 on the index. Eagle County premiums are at 113.

To combat these higher premiums, mountain hospitals lobbied the Colorado Insurance Commission in 2016 to lower insurance rates on the Western Slope. This could be achieved by combining our region with the Front Range region. Such a move would lower premiums here 19 percent. But it would raise Front Range rates 10 percent. About 90 percent of Colorado residents live on the Front Range, so commissioners vetoed the request.

### Local cost of living also impacts prices

Everyone knows it costs more to live in a resort community. How much more? The Council for Community & Economic Research puts Vail's cost of living at 153 on its index. Denver's cost of living comes in at 110. (The national average is 100.)

This higher cost of living requires employers here to pay higher salaries so people can be full-time residents.

Another challenge all hospitals face is a national nurse shortage. To compete, mountain hospitals must provide even more incentives to entice nurses and other specialty providers to move to our community.

Together, all these factors make medicine in the mountains more expensive than in other areas of the country.



^ Resort areas' high cost of living increases medical costs.

450 hospitals at risk of closing.

# VAIL HEALTH ISN'T ON THE LIST

Almost 20 percent of hospitals in the U.S. are in bad shape.

This comes from a recent report issued by Morgan Stanley after analyzing 6,000 hospitals. The findings are further proof of the instability of today's health care environment.

Fortunately, Vail Health's picture is much brighter. In fact, Standard & Poor's gave us an A+ rating. S&P looks at hospitals' economics, market position and management in determining ratings.

An S&P rating is like a person's credit score. It indicates the organization's likelihood of paying its debts. The higher the rating, the lower the interest rate a company pays to borrow funds. The S&P rating is also a measure of an organization's performance and

financial stability compared to its peers.

Our A+ also reflects our 9.6 percent operating margin, comparable to our high-ranking peer hospitals at 7.1 percent.

## Financial strength fuels community reinvestment

"Our financial position is strong because 10 years ago Vail Health's board took a decisive position to create an organization that is financially sustainable. Vail Health invested, what were then small profits, carefully and conservatively. Over time, this investment strategy has rewarded Vail Health with greater financial stability," says Harold Dupper, Vail Health's chief financial officer. "This is where Vail Health is today."





^ Vail Health's financial sustainability enables us to provide the most advanced care.

As a nonprofit, Vail Health's purpose for generating income is to reinvest in patient programs and services. Our financial position allows us to provide many medical specialties unusual for a small, rural hospital, including:

- Comprehensive cancer center
- Cardiac cath lab
- Level III trauma center
- Level II nursery
- World-class orthopaedics
- Cancer caring house

Our financial strength also allows us to offer free community programs like health screenings, Sun Safety and wellness education.

## Cash provides safety net

Standard & Poor's also looks at a hospital's cash on hand to determine financial viability. This money is set aside to cover regular operating costs as if no revenues were coming in.

To maintain our A+ rating, S&P expects us to have a well-funded "savings account." This account is known as days' cash on hand. For us, that means having an excess of 314 days of operating expenses in reserve.

S&P also expects an A+ rated hospital of our size to invest \$10-\$20 million annually for equipment and facility upgrades. These funds are on top of regular operating funds.

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^ Vail Health saved for 10 years to fund the hospital's \$200 million transformation.

## Savings and philanthropy cover construction

Cash on hand isn't intended for big expenses like the hospital's major expansion. That's why Vail Health has additional savings earmarked for construction. By the time the new east wing is completed, the entire project will cost over \$200 million.

Harold explains, "This major investment will reduce the hospital's cash resources over the next several years."

## Lower prices add up to patient savings

Our stability also enabled us to limit price increases to 1.6–3.9 percent

annually for the past eight years. During this same time period, CMS reported a national average increase in health care costs of as high as 5.8 percent.

Harold shares, "Our board is working with local employers to structure pricing to control the cost of providing health benefits for their employees. It's the right thing to do for our community."

Vail Health's financial sustainability helps provide our community affordable health care options close to home. In fact, Vail Health's prices are similar to or notably lower than Denver hospitals for some very expensive procedures.

# MISSION BEFORE MARGIN

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Excellent patient care leads to financial stability.

The saying in the world of hospital finance used to be, “no margin, no mission.”

But today, financial stability requires hospitals to embrace the motto—“no outcome, no income,” says Harold Dupper, Vail Health’s chief financial officer. In other words, if a hospital provides excellent patient care, revenues will follow.

At Vail Health, our mission is to provide superior health services with compassion and exceptional outcomes. “For a hospital to be sustainable long term, it must meet its mission first,” he says.

## Success built on patient experience

Harold explains that a good patient experience is fundamental to a hospital’s financial success. That experience begins in the parking lot and doesn’t end until the bill hits the patient’s mailbox.

“With today’s high health care costs, if we don’t meet patients’ expectations, they won’t use our services,” he explains.

“First, we have to focus on the patient, then on finances,” he adds. “You can’t focus on just one or the other and be financially viable today.”



^ We focus on patients first, then finances.

# HELPING LOCAL FAMILIES MANAGE MEDICAL COSTS

With your support, patients in need can get financial assistance.

“Thank you for saving my family. I was losing my mind over finances. I’m able to breathe again and be happy thanks to all your help.”

These heartfelt words were expressed by Enrique Meza. His wife, Elsa, is a patient at Shaw Cancer Center and received financial aid through Vail Health’s assistance programs.

Vail Health’s programs help Eagle County residents who seek care when misfortune leaves them without health insurance.

For example, local patients can receive a 75 percent discount at our Urgent Care clinics when they don’t have insurance and can demonstrate financial need.

“We’ve structured our prices at our Urgent Care clinics to make medical care more affordable for



^ The Mezas received financial help through our assistance programs.

Eagle County residents who don’t have insurance,” says Harold Dupper, Vail Health’s chief financial officer.

## Offering more support

The hospital also provides local patients financial aid through our charity care program. To qualify, patients’ household income must be less than 350 percent of the federal poverty level, which is \$25,100 for a single-person household.

“You guys mean the world to us and always will.”

- Enrique Meza