CONNECTICUT HOSPITAL ASSOCIATION

November 10, 2022

Kimberly R. Martone
Acting Executive Director
Office of Health Strategy
P.O. Box 340308
450 Capitol Avenue, MS#51OHS
Hartford, CT 06134-0308

Dear Acting Executive Director Martone,

During its October 24 meeting, the Healthcare Benchmark Initiative Steering Committee (Steering Committee) began considering how to address the impact of the extremely high rate of inflation on cost growth benchmark (benchmark) attainment and opportunities to adjust the benchmark values to more appropriately reflect market conditions. The Connecticut Hospital Association (CHA) appreciates the opportunity to convey our views on the subject.

The Office of Health Strategy (OHS) should take immediate action to adjust the benchmark values for 2023, 2024, and 2025 and adopt an allowance that accurately captures the inflationary pressures being experienced by the healthcare system.

As has been thoroughly and effectively described by hospital and health system members of the Steering Committee, the current economic climate has placed enormous pressure on Connecticut's healthcare system. Significant labor shortages, across all employment disciplines and throughout organizations, have resulted in increased labor costs, mainly in the use of contract labor to address workforce needs. The cost of goods, services, and supplies have increased rapidly as the businesses that hospitals and health systems contract with adjust their prices in real-time to reflect today's inflationary environment. The experience here in Connecticut is corroborated in Kaufman Hall's annual report of national healthcare system performance, citing today's climate as one of the most challenging on record.[1] This enormous economic headwind, which shows no sign of abating, has resulted in the state's largest healthcare system reporting a nearly $300 million loss, with other hospitals and health systems also feeling substantial financial strain.

Unlike other businesses that are able to adjust to inflation in real-time, hospitals and health systems have far fewer options available to them. The reliance on government payers like Medicare and Medicaid, and multi-year contracts with commercial payers, make hospitals and health systems particularly vulnerable to inflationary costs. Medicare rates, which are adjusted annually in part to take into account inflation, are already set to under-adjust for today's trend in hospital costs. Medicare only adjusts their rates prospectively so this under-adjustment will contribute to a larger Medicare shortfall (relative to cost) for the foreseeable future. The Medicaid picture is even more dire. Annual Medicaid rate increases are limited to 2% and 2.2% for inpatient and outpatient services—this will result in a

[1] https://www.kaufmanhall.com/insights/research-report/2022-state-healthcare-performance-improvement-report?mkt_tok=NzEwLVpMTC02NTEAAAGHntxBc7NfGYClp0WU7VYgms-vLdGt6YQP_e2NpDj2FljoeAVz4rrBJEO9CZmHG8-i2BgqOmT2dx7guBFLzWOr_eZde-z1vJsv2tvIQF5a8ziL

substantial increase in Medicaid underpayment, which is already greater than most other states in the nation. Commercial payer contracts are generally negotiated on a three- to five-year cycle, making those payments vulnerable to inflationary pressure in off-cycle years. This revenue vulnerability poses significant operating challenges to hospitals and health systems in times such as these.

Hospitals use the few levers they have to weather such a storm, seeking ways to reduce costs through streamlining operations and adopting process and service-line improvements. In Connecticut, the ability to address these economic pressures nimbly is challenged by a regulatory environment that more often than not responds too slowly or without appropriate mind attention to the health and well-being of the healthcare system as a whole. **The result is a healthcare system that is in a substantially weaker position than it was when hospitals and health systems so effectively responded to the COVID-19 pandemic, making it more challenging to respond to current challenges like influenza, respiratory illness, behavioral health, and increased demand for services.**

Since 2020, hospitals and health systems have welcomed the opportunity to work with the State and other partners on implementation of the cost growth benchmark. Our members have served on the Stakeholder Advisory Committee and now on the Steering Committee. As a sector, we appreciate that affordability is critically important to health and the success of our system and thus, have been interested partners in the success of the benchmark program.

In the spring of 2020, when the initial benchmark values were being considered, there was significant discussion related to developing targets that were both aspirational and yet attainable. We were aware then that developing future targets based on economic projections would require a review of the benchmark values on a regular basis to ensure that they continue to both push the system to change while also being attainable. This is why the state legislature, in codifying the benchmark, required OHS to review the rate of inflation on an annual basis to assess whether the benchmark values remain appropriate or should be adjusted to reflect significant changes in the economy.

The state legislature was prescient to include such a requirement. No time more than now has required such a review. As was discussed during the October 24 Steering Committee meeting, it is likely that the inflationary costs being born by hospitals and health systems now will be part of the future negotiations with commercial payers, which have experienced significant profits during the last two years, and to a lesser extent reflected in future Medicare payments. **It is entirely reasonable for the extreme costs being shouldered by hospitals and health systems to be reflected in future payments. Not doing so would jeopardize service delivery, clinical improvement, and hurt our patients and employees.**

Getting this right is critically important to the future success of the benchmarking process. Maintaining benchmark values that if met would result in harm to Connecticut's healthcare system is not in the interest of patients or the public. Maintaining benchmark values that are not based in current economic reality will also render them less relevant. However, acknowledging changing economic factors and adjusting benchmark values that maintain momentum for the work and better reflect reality, would display responsible policy and a mature commitment to success.

We value our partnership in this process and look forward to continuing to work together on its successful implementation. **We end by reiterating our request that OHS take immediate action to adjust the benchmark values for 2023, 2024, and 2025 and adopt an allowance that accurately captures the inflationary pressures being experienced by the healthcare system.**

Sincerely,

Paul Kidwell

Paul Kidwell
Senior Vice President, Policy

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