Delaware Health Care: The Need for Competition

Delaware is a small state so when two very large and powerful entities have a conflict it is a little bit like a cage match.

Such is the current situation between the State of Delaware and Christiana Care Health Services (CCHS). They are the two largest employers in the state.

The State's largest budgetary expense is healthcare and Christiana Care hospital is the biggest part of that cost. Fully 30% of Delaware's budget is dedicated to health insurance for its current employees, it's retirees and Medicaid. That 30% number is scheduled to increase as federal subsidy funding of Delaware's expanded Medicaid program dwindles within the next two years.

The state's website says that these health care cost numbers will double by 2025. The largest line item in that expense is Christiana Care. They have raised their fee schedule 4% every year, notwithstanding soaring profits (labeled "net revenue").

Four years ago there was a coming together whose consensus was the "Triple Aim" proposed by the past head of CMS (Center for Medicare and Medicaid Services), one of the authors of the widely discredited affordable care act.

The State and the hospital's shared goal was to increase access to care, increase the quality of outcomes, and decrease the cost. A commission was formed and generously funded. There were a lot of expensive meetings and social events. It was asserted that less competition would result in falling prices.

While there have been some notable successes in the microcosm of this effort, the two largest players have failed.

The State of Delaware has continued to essentially offer an "all you can eat free buffet" of health services to its employees and its retirees. (The inevitable result of that buffet will be closure of the restaurant.)

The hospital has continued to consistently raise fees because they could, without achieving the requisite metrics. Delaware ranks third in the nation for per capita healthcare spending and 30th for positive healthcare outcomes.

Let's look at the numbers. Over the past ten years, 2006 to 2016, private sector earnings in Delaware increased 8.4%. During that same period, Delaware's healthcare industry earnings rose 64.2% (US Department of Commerce), almost 8 times as much.

Of that, hospital earnings soared 85%, while outpatient or ambulatory care increased 38%, even as a steadily increasing number of surgeries moved from the hospital setting to the less costly ambulatory setting, which should have lowered hospital earnings.

Earnings in nursing care soared 98% as inpatients were increasingly transferred to nursing homes, this despite two large cuts to nursing home payments by CMS early on in the implementation of the Affordable Care Act (ACA).

The largest single item in the State's budget is Medicaid, $770 million from the state's General Fund, and $2.1 billion total including Federal money. There was a temporary subsidy by the Federal Government to encourage Delaware's expansion of Medicaid eligibility under the ACA. That temporary subsidy times out soon and Delaware will have to pony up or cut Medicaid eligibility.

Runaway healthcare spending is breaking the State of Delaware's budget and crowding out traditional State functions such as public education.

Looking forward, analysis from a multitude of sources pegs the state's unfunded liability for healthcare benefits to current and retired state employees at $9 billion.

From FY 09 through FY15, state employees' salaries increased at a compound annual rate of 1.5%, while employee healthcare rose 4.3% and retiree healthcare rose 3.6%. In other words, healthcare cost per employee rose 3 times as fast as salaries, and for retirees, twice as fast as salaries for those still employed.

State politicians have been very generous with health insurance benefits to themselves and State employees and retirees. A recent study by the Delaware Public Policy Institute found that Delaware State government employees receive a benefits package that is between 53% and 102% more generous than those received by private sector workers. This from a state whose ratio of economic output to unfunded liability is near the worst in the country.

Most of these worrisome trends and stats can be best understood as unintended consequences of poor public policy creating perverse incentives.

For instance, the massive expansion of health insurance benefits to State employees and retirees as well as Medicaid caused a significant increase in cash flow to the Christiana hospital, which is then free to raise prices because the consumer/patient is disconnected from the cost. The hospital then engages in a rather massive building project to increase capacity.

Simultaneously, the administrative costs explode disproportionately.

The newly built infrastructure, both bricks and mortar and administration, then needs to be sustained, therefore the justification for fee increases. The absence of competition of course, makes it possible. "The state has no choice but to pay" is an often heard phrase.

Delaware has chosen to take a "regulatory" approach and has introduced a healthcare spending benchmark, an annual target growth rate to which the insurance payers and providers are encouraged to adhere. In effect, the State government is attempting to bring Delaware healthcare spending under control by introducing a price cap (or price ceiling). This is a standard government mal-reaction to rising prices. It never works.

Oddly enough, this whole healthcare inflation spiral began with the wage and price controls installed during WWII.

Following the war, to stem inflation, wages were frozen. Employers eager to keep good employees were able to offer them a new benefit instead of a raise... health insurance…thus disconnecting the consumer from the cost. Hospital and Medical fees rapidly increased leaving the old and unemployed unable to afford care. Medicare resulted which then hyperinflated the cost of healthcare. The marketplace was unintentionally distorted, seemingly irrevocably.

The appropriate alternative to the current worrisome trajectory would be to introduce competition to the healthcare marketplace, hospitals, and insurers.

Currently there are only two major health insurance providers in Delaware: Highmark BCBS Delaware, and Aetna which is selling itself to CVS. Regulators are in the final steps of approving the takeover. Other Health Insurers are loathe to enter the Delaware market because it is a small market dominated by the CCHS hospital system and the State itself and its insurance commissioner.

More insurance choices would be welcome, increasing consumer options and decreasing costs.

Currently, Christiana Care has successfully blocked entry to the Delaware market via the Health Care Resources Board. Recently organizations such as Jefferson, Fox Chase, and UPenn have been denied access. Again, competition is always good.

The greatest tragedy of this cage match clash of titans is that doctors, nurses, therapists and their patients are powerless and unfortunately caught in the same cage. They will be casualties. As it stands now, neither the State, nor the nonprofit CCHS pay taxes. So, it falls to the rest of us to pay the third party costs of these two unbridled gargantuan appetites.

Competition among hospitals is needed to reform Delaware health care. The benefits from competition include higher quality products and services, a larger variety of similar products and services, better prices and greater accessibility in finding products and services**.**

With regard to health insurance and hospital care, the "Delaware Way" appears to be limited competition, high per capita health care costs, and below average health care outcomes.

Dr. Christopher Casscells
Director
CRI Health Policy Center

Dr. John E. Stapleford
Chair
Caesar Rodney Institute