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New CT cost caps could chip away at rising healthcare spending



Dr. David Charash (right), medical director of Danbury Hospital's wound-care center, looks on as nurses treat a patient. Danbury, now part of Nuvance Health, is one of five Connecticut hospitals subject to a new state-imposed cost cap. PHOTO CONTRIBUTED

BY NATALIE MISSAKIAN
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When state regulators approved Connecticut's two most recent hospital mergers and acquisitions, both deals came with major strings attached.

As part of the merger between Western Connecticut Health Network and New York's Health Quest Systems (now called Nuvance Health) and Bridgeport Hospital's $66 million acquisition of Milford Hospital, the newly combined organizations agreed to healthcare cost price caps tied to the Consumer Price Index — a first for Connecticut and one of the most stringent cost controls ever placed on hospital combinations here.

The state's Office of Health Strategy (OHS) said it imposed the caps amid growing concerns about the spiraling cost of health care.

Nationally, the average American spent $10,739 on health care in 2017, according to the Center for Medicare and Medicaid Services, a number that is projected to grow by 5.5 percent annually over the next decade, higher than the rate of inflation.

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"High healthcare costs are a national problem," OHS Executive Director Vicki Veltri said via email. "When people can't afford health care, prescriptions or preventative care, they are more likely to let conditions go untreated, which creates even higher costs as more serious illness occurs."

No hospital has publicly complained about the relatively modest caps. But the limitations, modeled in part after reforms in Massachusetts and other states, could be a powerful lever for Connecticut regulators in their attempt to suppress the rising cost of health care, particularly if lawmakers decide to build on that authority in the years ahead.

The fledgling OHS, created by the legislature in 2017, currently has somewhat limited cost-control powers.

It can only apply the cost caps through the state's "certificate of need" process, which regulates major M&A activity between hospitals and large physician groups, but it can't directly apply the caps to all providers and payers across the state's healthcare landscape.

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In the recent legislative session, OHS tried, ultimately unsuccessfully, to expand its cost-review powers across a broader swath of the market, and on a more permanent basis.

Legislation that would have, among other things, required all healthcare providers to meet yearly cost benchmarks, or face public scrutiny died in the final hours of the legislative session.

The benchmarks were part of a contentious bill that initially sought to create a state-subsidized health plan for small businesses and individuals, known as the "Connecticut Option," but it was squashed following pushback from Cigna and other insurers.



States like Massachusetts and Rhode Island have taken cost caps a step further, implementing statewide price targets for all healthcare providers.

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Connecticut isn't there yet, but with the recent caps, regulators here are flexing what muscle they do have, with an eye toward moving in that direction.

David Blumenthal, president and CEO of the Commonwealth Fund, a healthcare policy think tank and foundation, views cost caps as a partial step toward greater price regulation.

"States are reluctant to take on the direct regulation of prices because they get a lot of pushback from the industry and it seems like a state intrusion in the marketplace," Blumenthal said.

While the healthcare system often talks about cost-lowering efforts, big mergers and acquisitions offer state regulators "a chance to bargain and use their authority over nonprofits to extract concessions," he added. "And they can do that without taking on the general issue of price regulation."

Massachusetts Attorney General Maura Healey last November imposed a seven-year price cap as a condition for approving the merger between Beth Israel Deaconess Medical Center and Lahey Health System amid reports that the deal could result in price hikes as high as $231 million a year.

The cap bans price increases above the Bay State's own healthcare cost growth benchmark, which was enacted in 2012 and currently stands at 3.1 percent.

Under the new Connecticut cap, affected hospitals cannot raise prices higher than the change in the Northeast region's Consumer Price Index from the preceding year plus 1 percent, or by 3 percent, whichever is lower.

"I think this is an interesting window into what the future's going to hold [for hospital mergers]," said Zack Cooper, a Yale health economist who has studied how hospital mergers impact prices.

Hospitals often say consolidation will bring down prices through better efficiency and coordination of services, but Cooper said there's an emerging consensus among academics that

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prices tend to go up when hospitals merge, as the systems can use their size to leverage higher prices.

A New York Times analysis last fall of the 25 metropolitan areas with the highest rates of consolidation between 2010 and 2013 found that the average price of a hospital stay rose between 11 and 54 percent in the years after a merger.

The prices of a hospital admission in the New Haven-Milford region jumped by 25 percent between 2012 and 2014 as Yale New Haven Health expanded, compared to 7 percent elsewhere in the state, the report said.

“It’s really hard to unscramble eggs,” said Cooper. “Once you allow hospitals to merge, you don’t have a lot of recourse if those merged parties are able to extract higher prices. What this [cap] does is put into place a safety net.”

Staying under the cap

Hospital mergers have been the norm in Connecticut over the past decade, with Hartford HealthCare and Yale New Haven Health (YNNH) emerging as two powerful systems, followed by smaller systems created Trinity Health of New England (parent of St. Francis Hospital and Medical Center) and California-based Prospect Medical Holdings Inc. (owner of Eastern Connecticut Health Network).

OHS’ Veltri wouldn’t comment on whether other pending or future mergers, including Hartford HealthCare’s proposed acquisition of St. Vincent’s Hospital in Bridgeport, would include some kind of price cap.

Meantime, officials from YNNH, parent of Bridgeport Hospital and now Milford Hospital, as well as Nuvance Health say they aren’t overly concerned about the price caps.

Steven Rosenberg, CFO, Nuvance Health

Nuvance Chief Financial Officer Steven Rosenberg said his new health system — which includes hospitals in Danbury, Norwalk and Sharon as well as three in New York — projects a maximum 3 percent-a-year cost increase over the next three years.

“So we feel comfortable that we’re going to be able to manage with this 3 percent cap,” Rosenberg said.



Rosenberg, who was Western Connecticut Health Network's CFO before the merger, said the system has run a lean operation and its history with insurers and other payers has been "very collaborative."

"We have not in recent history gone back to them asking for any significant kinds of price increases," he said.

YNNH spokesman Vin Petrini said the $4.17-billion health system supports OHS' efforts to reduce costs, which he called "critically important."

"When we got the decision from OHS, we certainly understood where they were coming from and agreed to it," Petrini said.

However, Rosenberg said hospitals have numerous outside pressures that can put a squeeze on budgets, including shrinking Medicaid reimbursements, Connecticut's hospital tax and the rising price of pharmaceuticals. Hospitals often look to their commercial contracts to help make up for some of those losses, he said.

"If we're getting a 3 percent cap on our pricing and pharmaceuticals are going up 8 to 10 percent each year, that presents a challenge," he said.

Petrini said rates the state's Medicaid program pays hospitals for services don't cover actual costs. Raising them, and restructuring the hospital tax — as Gov. Ned Lamont has recently signaled he will do — would help slow cost growth for patients on commercial insurance policies, he said.

"I think if we're going to have that conversation about [a Massachusetts-style] healthcare policy, we need to have the broad conversation about reimbursement of Medicaid and Medicare as well," Petrini said.

Matt Pilon contributed to this story.

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