


HTNYS


Trustee Leader

Information, policy developments, and educational opportunities for health care trustees

HTNYS and HANYS Support Healthcare Community Reinvestment Fund

Shared Investment in Health Care Infrastructure

Health insurance companies are making huge profits in New York while hospitals struggle just to survive, let alone make the types of investments that are necessary to continue to provide quality care to our communities. It seems logical and fair that insurers in New York reinvest some of their profits in the health care of the communities where they do business.

Healthcare Trustees of New York State (HTNYS) and the Healthcare Association of New York State (HANYS) are advocating for the creation of a payer-funded Healthcare Community Reinvestment Fund that would provide a new stream of resources to hospitals and health systems for health care infrastructure enhancements, particularly to support information technology and other hospital and physician infrastructure needs.

HANYS' President Daniel Sisto highlighted the need for the creation of such a fund in testimony delivered in recent state legislative hearings on the final report of the Commission on Health Care Facilities in the 21st Century, noting:

"We also agree with the Commission's recommendation that health insurers reinvest dollars back into the health care system. Frankly, when you objectively consider all the participants in the health care system—aside from the most important, the patient—it becomes clear that not everyone has made a commitment to reforming it.

"The federal and state governments, even while faced with deficits, have shown their commitment to health care by providing the Federal-State Health Reform Partnership (F-SHRP) and Healthcare Efficiency and Accountability Law for New Yorkers (HEAL NY) dollars. Hospitals have done so, not only by providing the matching funds necessary to qualify for the HEAL program, but also by undertaking restructuring and investment in medical and health information technology, mostly on their own, with limited resources compared to hospitals in the rest of the nation.

So, who is missing? The health insurance companies. Insurers are making billions of dollars every year in New York, yet they are virtually nowhere to be found when it comes to making investments necessary to reform and improve the system. That is why HANYS believes we need a strategy that would reinvest at least some health insurance revenues back in the health care system."

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The Beginning of an Idea—Healthcare Community Reinvestment

The idea of a Healthcare Community Reinvestment Fund originated from work done by the Westchester County Association (WCA), a business group in Westchester County that counts several Fortune 500 companies among its members. After nearly two years of studying health care issues in its region, WCA determined that the health care infrastructure was threatened and that this could compromise the business community's viability.

WCA President William Mooney, Jr., observed that health insurers were profiting at the expense of hospitals, which

were struggling to maintain positive margins and facing enormous financial challenges to make necessary investments in their physical plants and organizations. He began advocating for the establishment of a reinvestment fund for health care, modeled after the banking industry Community Reinvestment Act, that would require health insurers to return a portion of their profits to rebalance the marketplace and support capital-intensive services in hospitals related to information technology and patient care.

Market Dominance by Health Insurers Negatively Impacts Hospitals and Physicians

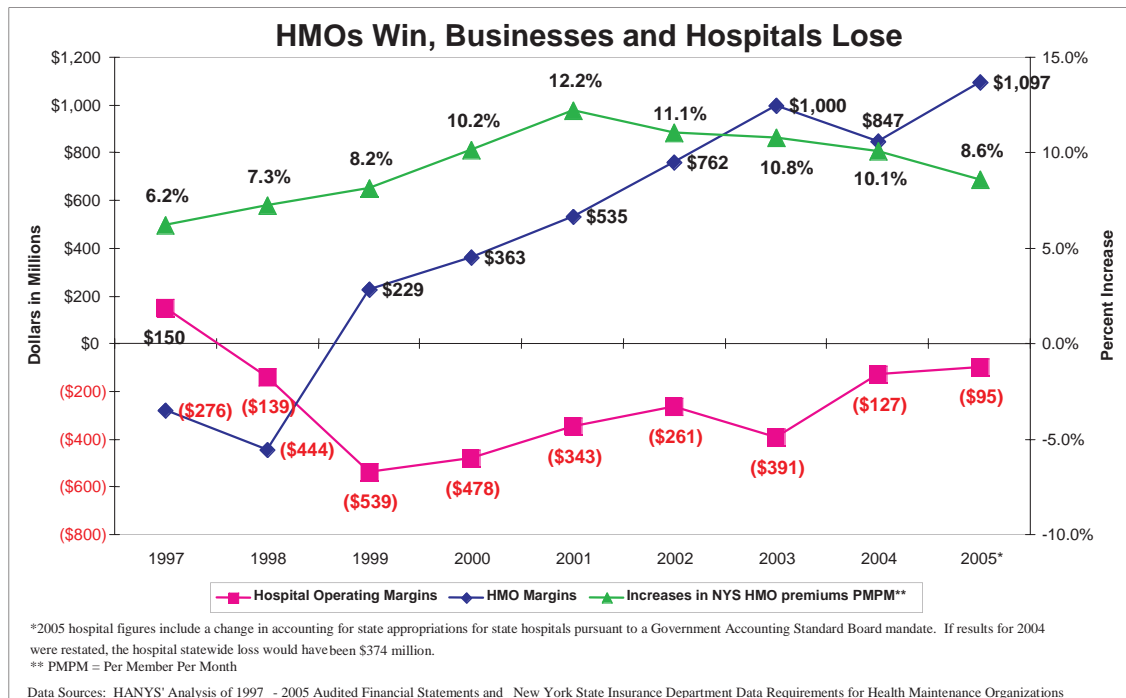
During statewide trustee briefings on the health care reinvestment concept, Mr. Mooney discussed the negative effects of health insurer market dominance on the ability of physicians and hospitals in his region to negotiate effectively. HANYS addressed the market dominance issue in recent testimony before the State Legislature, stating:

“Dominant health plans with major market shares in their region have considerable leverage to dictate terms and rates to providers. The imbalance is made worse by anti-trust limitations that prevent providers from negotiating in any manner that would somewhat level the disparity between the power of the parties. Even worse, however, is the growing number of subtle and not-so-subtle practices designed to prevent providers from dropping

out of the mega-plan's network . . . As insurers in New York merge, providers have increasingly less bargaining power and little recourse to dispute unfair contract provisions.”

HANYS supports legislative reform proposals that would restore the balance of bargaining power between contracting health care providers and managed care organizations. These reforms, along with increased regulatory oversight by the State Insurance Department, will help eliminate unacceptable payer practices.

The chart below highlights the imbalance between payer profits and hospital losses—a situation that has persisted for eight years.



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Market dominance by insurance companies has also negatively affected physicians' ability to negotiate fair contracts and private insurance rates for their services. The Medical Society of the State of New York, a partner with HANYS and HTNYS in this initiative, states:

"The enormous market share garnered by insurance companies means that most physicians are unable to have any meaningful negotiations with them."

Physicians are faced with a choice—accept a contract with unfair terms as offered by the company or simply walk away. The latter course, however, often exists only theoretically because the insurers control huge numbers of patients. These patients would be forced to go elsewhere and the physicians' practices would be decimated."

Insurance Profits at the Expense of the Financial Condition of Hospitals

Health maintenance organization (HMO) market dominance and excessive profits have hurt the state's hospitals and health care community. For the eighth consecutive year, New York State's hospitals lost money in 2005, bringing total hospital losses to \$2.4 billion since 1998. Overall, the state's 217 hospitals lost \$95.4 million in 2005, representing an operating margin of minus 0.2%. New York now ranks 49th in the nation when compared to hospital operating margins in the rest of the country, which average a positive 3.7%. In fact, only three other states—Nevada, Mississippi, and Alaska—posted negative overall margins. Fifty-six percent of the state's hospitals are either losing

money, breaking even, or operating in a precarious fiscal situation with positive financial margins of 1% or less. Nearly nine out of ten hospitals failed to meet the 4% operating margin that economists recommend for not-for-profit organizations to be able to re-invest in their facilities and update their services.

Meanwhile, in 2005, New York HMO profits totaled \$1.1 billion, bringing their total profits to \$2.4 billion for the past nine years. Over the past three years, HMO premiums charged to businesses have soared 67%.

Health Insurance Reinvestment—Lessons from Other States

Health care insurers in other states have set a precedent by participating in both voluntary and mandatory health care infrastructure improvement programs.

For example, during 2005 in Pennsylvania, after a discussion of excessive profits, the state's four not-for-profit Blue Cross Blue Shield health insurance plans reached an agree-

ment with the state to contribute \$950 million over six years to support community health reinvestment.

In Massachusetts, a voluntary initiative by Blue Cross Blue Shield of Massachusetts pledged \$50 million to study and support the development of electronic health records.

Reinvestment in Health Care Concept Gains Momentum

In briefings held across the state with trustees, physicians, and business leaders, the health care reinvestment concept has gained traction. HTNYS will hold additional briefings featuring Mr. Mooney in the coming weeks, and encourages trustees and business leaders to become activated on this important issue in the following ways:

- Be an advocate to your local and state lawmakers on the need to create a Healthcare Community Reinvestment Fund.

- Help spread this message by inviting Mr. Mooney or representatives of HANYS to local business gatherings such as local chamber of commerce meetings.
- Talk about this issue with your board—determine which of your board's business leaders would make the best advocates on this issue.
- Participate in HTNYS' advocacy initiatives in 2007 highlighting this issue.

