PENN Medicine

National Health Policy Forum

“The Cost of Hospital Care”

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PENN Medicine Highlights

- $3.6 billion annual operating budget
- 80,000+ inpatient admissions at 3 hospitals – including the nation’s first hospital (Pennsylvania Hospital) and first teaching hospital (Hospital of the University of Pennsylvania)
- School of Medicine founded in 1765 as the nation’s first; top recipient of NIH funding, $400+ million in FY10, strong success with “stimulus” grants.
- 1800+ full time faculty, 750 medical students, 580 PhD students, 1700+ residents and fellows, 17,000+ employees.
- Ranked #1 employer in Philadelphia.
HUP is a 782 licensed bed quaternary care hospital in an academic medical center located on the campus of the University of Pennsylvania.

**Fiscal Year 2010**

- Adjusted admissions (inpatient admissions adjusted for outpatient activity): 65,000
- Average inpatient occupancy: 87%
- Total surgical cases: 25,000
- Solid organ transplants (heart, kidney, liver, pancreas): 400
- Overall case mix index (CMI) 1.86, Medicare CMI 2.39 (highest in the region)
- Total revenue: +$1.5B
- Pennsylvania Hospital Association (HAP) award for quality
- Nursing “Magnet” designation
- US News & World Report 2010 “Honor Roll” Hospital
Over the last 6 years HUP has managed costs in line with payment and activity changes while making significant capacity, technology and quality investments.
HUP is a safety net hospital for the West Philadelphia community and is one of Pennsylvania’s largest providers of care to the uninsured and under insured with 25% of admissions in Medicaid/Medicaid Managed and Self Pay categories. Level 1 Trauma Center and Obstetrics provider. Fifteen OB programs have closed in the region over the last several years.
Financial Performance Extremely Sensitive to Payer Mix

UPHS Acute Care Reimbursement by Payer per $100 Expense

(sample public payer rate $85)
Medical Technology: Costly Competitive Advantage

• Medical technology is a key driver of increasing health care costs (and benefits) and, as such, is a frequent target of policy discussions.

• AMCs like HUP rely on advanced medicine driven by research, and even more advanced technology to maintain competitive advantage.

• AMCs attract talented faculty and staff, who are leaders in developing advanced technology, but we are also end users and must pay what the market will bear.
### High Cost of Advancing Technology

<table>
<thead>
<tr>
<th>“Traditional” Technology</th>
<th>Standard Technology circa 2000</th>
<th>Current Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>X-Ray Machine</td>
<td>CT Scanner $1 million</td>
<td>CT Functional Imaging w/PET $2.3 million</td>
</tr>
<tr>
<td>$175,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open Surgery Instrument Set</td>
<td>Laparoscopic Surgery Set</td>
<td>Surgery Robot ~$2 million</td>
</tr>
<tr>
<td>$10,000</td>
<td>$15,000</td>
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<tr>
<td>Cardiac Balloon Catheter</td>
<td>Stent $2,300</td>
<td>Treated Stent $5,000</td>
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<tr>
<td>$500</td>
<td></td>
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<tr>
<td>Scalpel</td>
<td>Electrocautery $12,000</td>
<td>Harmonic (ultrasonic) Scalpel $30,000</td>
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<tr>
<td>$20</td>
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Making Game-Changing Investments

- AMCs uniquely willing to invest in state-of-the-art technology.
- E.g., proton therapy required $140M investment - new infrastructure
## Operating Costs Distribution and Analysis

### Total operating costs are in excess of $1.38B

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>44.5%</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>10.6%</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>29.3%</td>
</tr>
<tr>
<td>Depreciation &amp; amortization</td>
<td>4.0%</td>
</tr>
<tr>
<td>Interest</td>
<td>0.9%</td>
</tr>
<tr>
<td>Malpractice</td>
<td>3.8%</td>
</tr>
<tr>
<td>Provision for doubtful accts</td>
<td>5.1%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.1%</td>
</tr>
<tr>
<td>SOM Support</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

- **Effective management of labor and benefits costs is essential to long term fiscal stability.**
- **Supply pricing is at industry leading levels (UHC comparisons). Opportunities in utilization remain but are difficult to capture.**
- **Malpractice costs do not include costs related to defensive medicine.**
- **Bad debts increased 9% over the prior year reflective of high unemployment.**
- **Support of research and teaching missions continues to increase.**

(1) The Health System provides over $300M of academic support to the Clinical Practice Group and SOM annually.
Controlling Costs: Focus on Quality, Effectiveness

• Deploy information technology solutions improving workflows and provider/patient communications. (Inpatient EMR (Allscripts) and outpatient EMR (EPIC), Nursing documentation (Allscripts), My Penn Health)

• Enhanced nursing, pharmacy and homecare staffing structures focusing on quality improvement initiatives:
  • Reduced blood stream infections and urinary tract infections.
  • Reduced medication errors.
  • Improve transitions in care reducing hospital readmissions in collaboration with Blue Cross.

• Process improvement initiatives including revenue cycle, patient progression, laboratory specimen handling, new technology review and evidenced based evaluations.

• Refine alignment of physicians and hospitals to better meet multiple missions.