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Correspondence Memorandum

Date: October 21, 2022

To: Group Insurance Board

From: Renee Walk, Programs & Policy Unit Director
 Office of Strategic Health Policy

Subject: Wisconsin Health Market Report

This memo is for informational purposes only. No Board action is required.

Background

The Department of Employee Trust Funds (ETF) tracks changes in the local and national health care industry that may impact the costs of the programs offered by the Group Insurance Board (Board) or access to care under the Board’s programs. This memo highlights key mergers, acquisitions, and facility changes that have occurred since the Board’s last health market report in May 2021 ([Ref. GIB | 05.12.21 | 8A](#)). It further includes an overview and discussion of the National Academy of State Health Policy (NASHP) Hospital Cost Tool (HCT).

Insurance Carrier Developments and Trends

The most substantial development for the Board’s programs in the past 12 months has been WEA Trust’s announcement that they are leaving the health insurance market. Roughly 52,000 members of the Group Health Insurance Program (GHIP) will need to select a new plan for program year 2023. WEA Trust’s coverage will continue through December 31, 2022. Claims processing and close out work is expected to last into the first part of 2023.

Earlier, in January 2022, Dean Health Plan (Dean) and Medica announced the implementation of a strategic partnership to expand coverage in Wisconsin. Medica primarily covered the western part of Wisconsin, and Dean primarily covered the southern and eastern parts of Wisconsin. Together, the two plans will have more than 1.5 million members. Dean has been a long-standing participating plan in the GHIP.

At the national level, Optum purchased Change Healthcare for \$13 billion, finalizing the sale in October of 2022. Change Healthcare collects healthcare claims and provider data; and uses it to provide a variety of tools, including provider decision support tools, payer claims checking systems, and more. The United States Department of Justice

Eileen Mallow

Reviewed and approved by Eileen Mallow, Director, Office of Strategic Health Policy
 Electronically Signed 10/26/2022

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(DOJ) attempted to block the merger on grounds that, by acquiring Change Healthcare, UnitedHealth would have access to competitor health plan data that could be used to limit competition and innovation. A judge ultimately ruled that there was insufficient evidence to support this theory, and the closure of the merger was announced October 3, 2022. Optum is a part of UnitedHealth Group which owns UnitedHealth Care, the Board's Medicare Advantage and Medicare Plus vendor.

Globally, health plans are anticipating increased costs in 2023, according to a recent 2023 Global Medical Trends Survey conducted by Willis Towers Watson¹. The survey, which gathered data from 257 health insurance companies in 55 countries, anticipates that health care costs will increase 6.8% in the United States in 2023, down from 7.6% in 2022. 75% of insurers cited overuse of care as a concern, up from 68% last year; and 52% said that poor patient health habits were a driver of cost, up from 35% last year.

Provider System Mergers and Acquisitions

In August 2021, Aspirus Health System (Aspirus) purchased seven hospitals from Ascension Wisconsin, as well as 21 clinics and ambulance services. Aspirus now owns hospitals in Eagle River, Merrill, Woodruff, Stanley, Tomahawk, Rhinelander, and Stevens Point. In the GHIP, these hospitals are included in the Aspirus network.

In June 2022, Bellin Health finalized a merger with Gundersen Health System. The new system includes 11 hospitals and 100 clinics across Wisconsin, Minnesota, and Michigan. Gundersen Health System is currently part-owner of Quartz, one of the Board's contracted health insurance plans. Bellin is an integrated health care delivery system that is currently covered by Aspirus, Network Health, and Robin with Health Partners in the GHIP.

Also in October 2022, Essentia Health (Essentia) and Marshfield Clinic Health System announced they are exploring a possible merger to create a regional health system that would include providers in Wisconsin, Minnesota, Michigan, and North Dakota. The new system would include 25 hospitals and a network of 3,500 providers. Marshfield Clinic Health System is local to Wisconsin, serves Wisconsin and the upper peninsula of Michigan, and owns Security Health Plan (a vendor returning to the GHIP in 2023). Marshfield Clinics are also included in Group Health Cooperative of Eau Claire's networks. Essentia is based in Duluth, Minnesota, and currently has providers in Minnesota, Wisconsin, and North Dakota. Currently, Essentia providers are covered by Group Health Cooperative of Eau Claire and Health Partners in the GHIP.

Hospital and Clinic Facility Developments

Several hospital systems expanded existing campuses or began new building projects in late 2021 and throughout 2022. Notably, several behavioral health systems announced plans for or opened new hospital facilities in Wisconsin. As discussed in

¹ Willis Towers Watson. (October 12, 2022) 2023 Global Medical Trends Survey. https://www.wtwco.com/en-US/Insights/2022/10/2023-global-medical-trends-survey-report?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosvitals&stream=top.

other memos to the Board, behavioral health care access, particularly for crises, has historically been challenging in Wisconsin.

Advocate Aurora Health (Advocate Aurora) Expands in Sheboygan, Fond du Lac

In March 2022, Advocate Aurora finished construction of its new Sheboygan Medical Center campus. The hospital portion of the campus has 118 beds, and the offices will include 36 specialty providers.

In June 2022, Advocate Aurora broke ground in Fond du Lac on a new hospital. This is an addition to its original health center and will add 10 new patient beds and an eight-bay emergency department. The project was originally announced in 2020 but was delayed due to the pandemic. Advocate Aurora expects the facility to begin accepting patients in 2024. Advocate Aurora is included in Aspirus and Common Ground's networks in the GHIP.

Ascension Builds Micro-Hospitals

In September 2021, Ascension opened a new 32,000 square foot micro-hospital in Greenfield, and another micro-hospital in Waukesha in October 2021. These facilities are two of four total micro-hospitals Ascension intends to build. Ascension is included in the Network Health Plan network in the GHIP.

Bellin Health Builds Ambulatory Surgery Center (ASC) in Ashwaubenon

In November 2021, Bellin Health announced plans to build a new, five-story ASC in Ashwaubenon. Construction was scheduled to begin in 2022 with the facility opening in 2023. As mentioned earlier in this memo, Bellin Health is included in several GHIP health plan networks.

Encompass Health Announces Two Rehabilitation Hospitals

In July 2021, Encompass Health, based in Alabama, announced plans for two new hospitals in Wisconsin. Both will be focused on inpatient rehabilitation services. One 40-bed facility is planned for the Madison area and is planned for opening in 2023. The second facility is a joint venture with Hospital Sisters Health System (HSHS) for a 36-bed unit within their existing Eau Claire hospital. The location was intended to open in August 2022 but is currently still in progress. This will be Encompass Health's first location in Wisconsin.

Froedtert and the Medical College of Wisconsin (Froedtert and MCW) Open Three New Facilities

In April 2022, Froedtert and MCW submitted plans to purchase a 26-acre parcel of land for a new hospital, medical offices, and ASC in Sheboygan. If the plan is approved, construction would start in early 2023, and new patients would be accepted in 2024.

In May 2022, Froedtert and MCW opened its fourth community micro-hospital in Mequon. The facility is 17,000 square feet and has a seven-bed emergency room and eight inpatient beds.

In August 2022, Froedtert and MCW opened a new hospital facility in Wauwatosa, which includes hospital, dermatology, and a skin cancer surgery clinic. Then, in mid-October 2022, ThedaCare and Froedtert and MCW announced plans to explore building new hospitals in Fond du Lac and Oshkosh. The joint venture, announced on October 13, 2022, would build smaller-capacity hospitals that include emergency, inpatient, and outpatient services. Currently, the groups are not seeking a full merger. ThedaCare is covered by Aspirus, Common Ground, and Robin with HealthPartners.

Granite Hills Behavioral Health Hospital Opens in West Allis

In September 2021, Granite Hills Hospital, a 120-bed psychiatric hospital, opened in West Allis. The facility was planned as part of a redesign of the Milwaukee County behavioral health care system. The hospital accepted its first patient from the county in January 2022. The facility is being run by Universal Health Services.

Marshfield Clinic Health System Expands in Minocqua, Stevens Point

In May 2022, Marshfield Medical Center began work on an expansion to their hospital in Minocqua. The expansion will add 12 beds, including six intensive care unit rooms and additional emergency and urgent care services. The hospital originally opened in 2020. As mentioned above, Marshfield Clinic Health System is in network with several GHIP plans.

Also in May 2022, Marshfield Clinic Health System opened a new hospital in Stevens Point. Marshfield Medical Center – River Region is an expansion of the existing Marshfield Clinic in Stevens Point and includes 12 inpatient beds and eight treatment rooms, plus surgical suites, emergency, and trauma rooms.

Mayo Clinic Health System (Mayo Clinic) Plans Replacement of La Crosse Hospital, Moves Maternity Care

In February 2022, Mayo Clinic revealed plans to build a new, 70-bed hospital facility in La Crosse, intended to replace its existing hospital. The project is expected to finish in 2024.

In August 2022, Mayo Clinic also announced plans to shift maternity care away from Barron and Menomonie hospitals in northwestern Wisconsin, consolidating in its Eau Claire location. Prenatal care will still be available in Barron and Menomonie, but delivery has transitioned as of August 26. Mayo Clinic is included in Dean's Prevea360 West network.

Prevea Health (Prevea) Opens Green Bay ASC

Also in June 2022, Prevea opened a 33,000 square foot ASC in Green Bay. Patients usually seen at HSHS hospitals for day surgery will instead be booked at the new ASC. The ASC has five operating rooms and 10 procedure rooms, in addition to recovery space. The Prevea360 network offered by Dean/Prevea includes this facility.

ProHealth Care (ProHealth) Opens Hospital in Mukwonago

In January 2022, ProHealth opened a new hospital facility in Mukwonago in southeastern Wisconsin. The hospital has 24 inpatient rooms as well as emergency services, lab, and rehabilitation services. This is the fourth hospital owned by ProHealth. ProHealth is included as a major provider in one of Quartz's plan offerings in the GHIP.

Rogers Behavioral Health (Rogers) Adds Brown Deer Facility

Wisconsin-based Rogers has also made several expansion bids both in and out of Wisconsin over the past year. Rogers added a new clinic to its existing Oconomowoc campus in August of 2021 and added a new facility in Brown Deer in July of 2022. This is in addition to new sites outside of Wisconsin in Colorado and Washington.

Facilities and Cost Monitoring

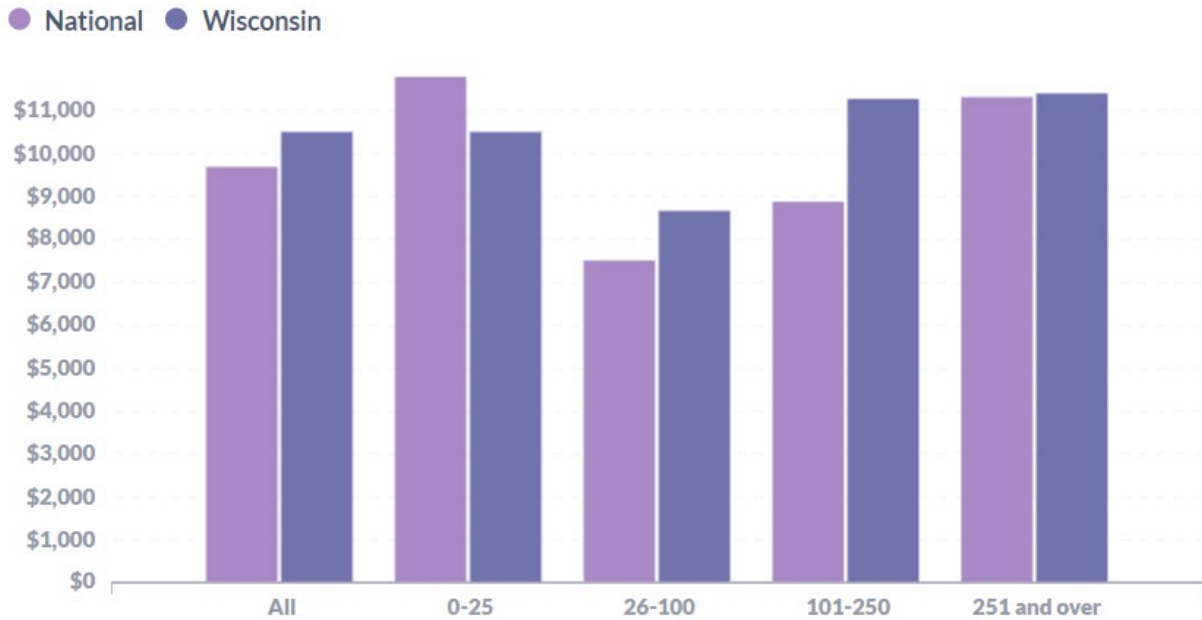
Hospital costs play a substantial role in the cost of insurance premiums, and a greater share of services are now provided in outpatient hospital settings versus in a clinic. Hospital-based services are typically more expensive than those provided in a clinic. From a patient experience perspective, hospital-based services can be confusing; for example, in office visits at outpatient hospitals, members are typically charged separately for the physician's services and the hospital exam room. In the Board's programs, inpatient and outpatient services account for more than half of medical service costs.

The Centers for Medicare and Medicaid Services (CMS) requires Medicare-certified hospitals to submit cost data annually. That data set is called the Healthcare Cost Report Information System (HCRIS). This data is publicly available but complicated to ingest. NASHP has developed a [HCT](#) to help demystify hospital costs. The HCT gives the public the ability to compare among hospitals, examine a specific hospital or health system, or look at hospital costs by state. Within the tool, users can look at hospital operating costs versus revenue, the proportion of charity care and unreimbursed expenses, and the breakdown of payer mix at each facility.

The current tool contains data through 2019 and does not reflect impacts related to the pandemic. According to NASHP, this was due to a large amount of hospital reporting being incomplete for years 2020 and following. They plan to update the tool as the HCRIS data becomes more complete.

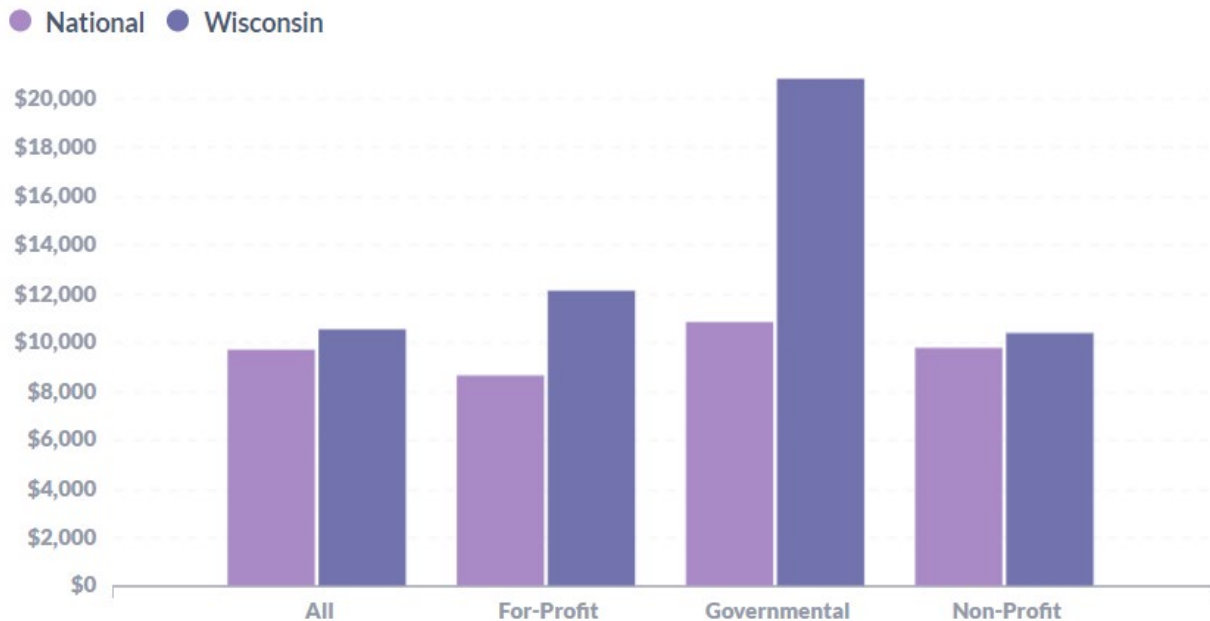
According to the HCT, the median operating costs per adjusted patient discharge is higher in Wisconsin than the national average in every size category except the micro-hospital (<26 beds) and by ownership structure. Operating costs are considered the proportion of expenses related only to hospital patient care and which are eligible for reimbursement under Medicare. The adjusted patient discharge is calculated to account for the hospital's total patient volume, in order to make facilities of different sizes comparable.

Chart 1. Median hospital operating costs per adjusted patient discharge by bed size, Wisconsin v. National



Costs by size are most comparable to national averages in the 251 beds and larger group; Wisconsin has 10 hospitals reported in this size classification. Costs are most disproportionately higher in the 101 to 250 bed range; Wisconsin has 22 hospitals reported in this size classification.

Chart 2. Median hospital costs per adjusted patient discharge by ownership, Wisconsin v. National



Costs in all ownership types are higher than the national average, but highest at government-owned facilities in Wisconsin. Government-owned facilities are substantially higher in Wisconsin than the national average; Wisconsin only has two facilities that fall into this category. The median cost of operations at these facilities is nearly double the national average. While publicly available data is limited, recent media reports anticipate costs to rise significantly in coming years regardless of ownership structure.

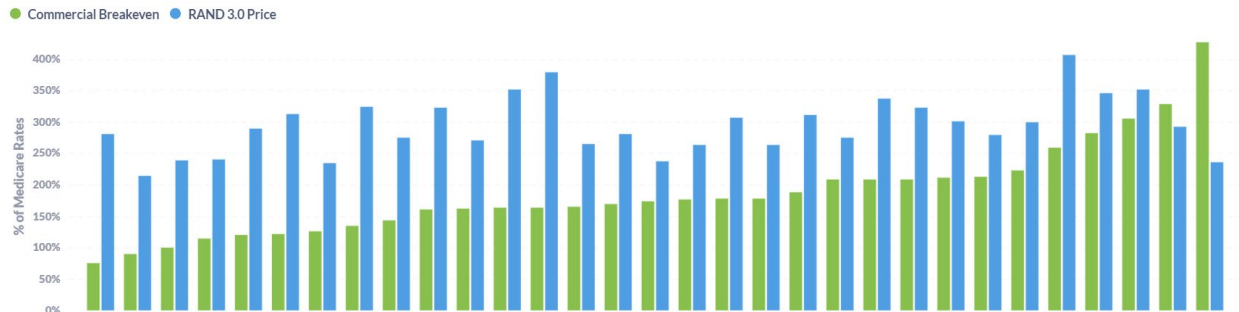
The HCT also shows the net profit margin for facilities; that is, the net patient revenue less operating expenses, plus other income and expenses as reported. Per the HCT, this represents the earnings retained by the hospital after operating costs are paid.

Across all years reported in the HCT (2011 to 2019), Wisconsin hospital net income percentages exceed the national average by at least 2.9 percentage points. In 2019, net income in Wisconsin hospitals was double the national average (8.8% versus 4.4%). Net profit margin for for-profit-owned hospitals in Wisconsin is 20 percentage points higher than the national average and between 1.3 and 6.6 percentage points higher in each bed size category.

The HCT provides breakdowns of hospital operating costs as a percentage of hospital charges. Charges are the list prices set by the hospital and are often components in the lower negotiated price that a health plan will pay. From 2011 to 2019, Wisconsin hospitals operating costs calculated to between 39% and 44% of their charge masters, versus 28% to 35% of costs to charges nationwide.

The HCT also provides some references for payers who might be interested in how to derive a fair price for services. The tool includes both a commercial break-even calculation (determined as a percentage of Medicare), as well as a comparison to the [RAND 3.0](#) survey of commercial coverage prices derived from self-insured employers, six state all-payer claims databases, and health plans nationwide. The Medicare calculation is useful since Medicare rates are publicly available down to its component calculated parts. Medicare is viewed by many as a benchmark for what health care services should cost. The RAND 3.0 survey is valuable given that it uses what plans in 49 states and the District of Columbia actually pay for services in the commercial market. In all but two hospitals with 101 or more beds in Wisconsin, the RAND 3.0 price (what plan sponsors in the market actually pay) exceeds the calculated commercial breakeven price (the percentage of Medicare that, based upon its own Medicare submissions, the hospital would need to break even). Chart 3 below shows a graph view of this data. Due to the size of the chart, hospital labels cannot be seen, but users of the HCT can view each hospital's name, location, health system, ownership status, bed size, facility type, and both the RAND 3.0 price and calculated breakeven on the [HCT tool website](#).

Chart 3. Commercial breakeven with RAND 3.0 price, Wisconsin hospitals with 101 or more beds



ETF participates in the NASHP Health Cost Containment workgroup through which this tool was developed and is working internally to determine how to use this data in health plan negotiations. The HCT also makes a full file of its data and a companion data dictionary available on the tool's website for public use.

Staff will be available at the Board meeting to answer any questions.