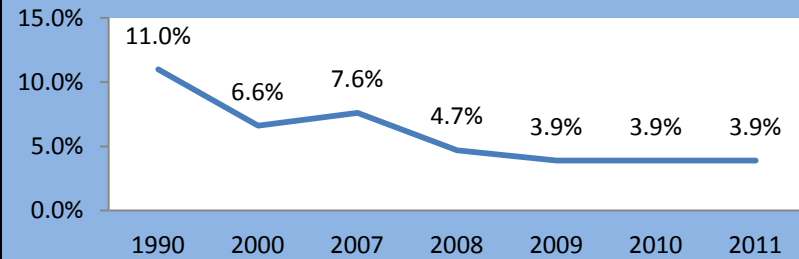


# HEALTHCARE SPENDING GROWTH SLOWS

Policymakers and the public continue to be concerned about the growth in health spending. Federal healthcare programs comprise 21 percent of the federal budget, and overall health spending accounts for nearly 18 percent of the gross domestic product. With an aging population and rising rates of chronic disease, many fear that health spending will only continue to grow. However, recent trends suggest a possible turnaround. Over the past three years, health spending — driven partly by slower price growth—has plummeted to the lowest rate in the 52-year history of national health expenditure accounting.

- The Congressional Budget Office projected earlier this month that Medicare and Medicaid spending will be \$200 billion less in 2020—a 15 percent reduction—than previously projected three years ago.
- The Office of the Actuary of the Centers for Medicare & Medicaid Services (CMS) reports the overall growth rate in healthcare spending has remained steady at a record low 3.9 percent for the third straight year.

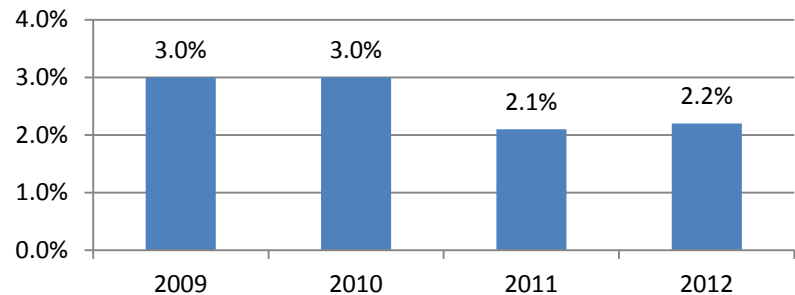
## Average Annual Growth in National Health Expenditures (NHE)



Source: *Health Affairs*, Vol. 32, No. 1 (Jan. 2013)

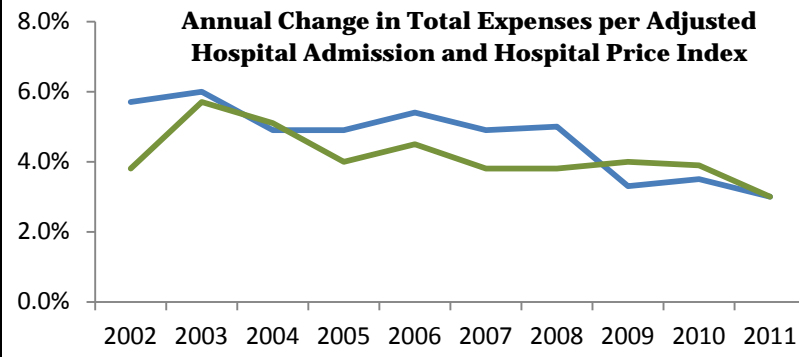
## Slower Growth in Hospital Prices is Contributing to this Trend:

### Annual Growth in Hospital Prices



Source: *Health Affairs*, Vol. 32, No. 1 (Jan. 2013); Altarum Institute Price Brief #13-02

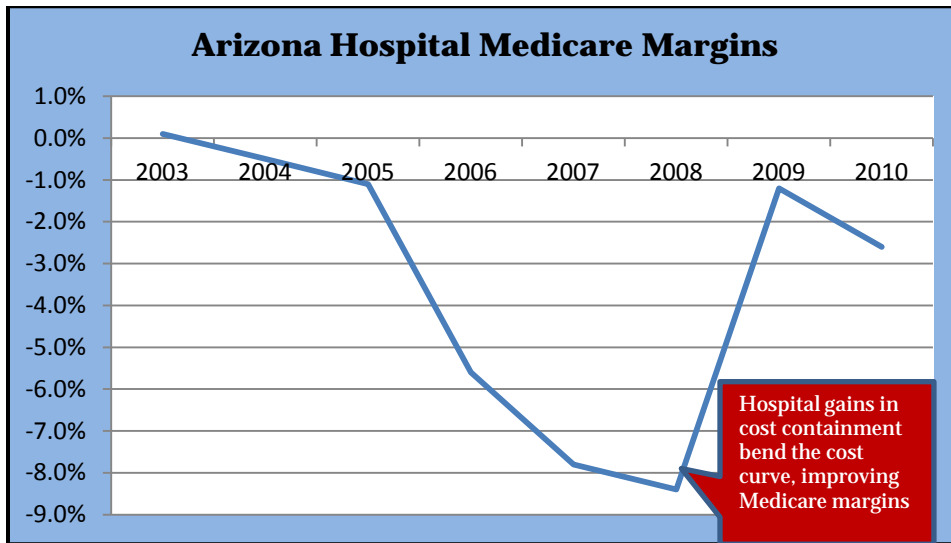
### Annual Change in Total Expenses per Adjusted Hospital Admission and Hospital Price Index



— Change in Total Expenses

— Change in Hospital Producer Price Index (Source: AHA)

## Arizona Hospitals are Bending the Cost Curve:



Source Data: HCRIS Master File 4Q2011 Release (Includes DSH and IME)

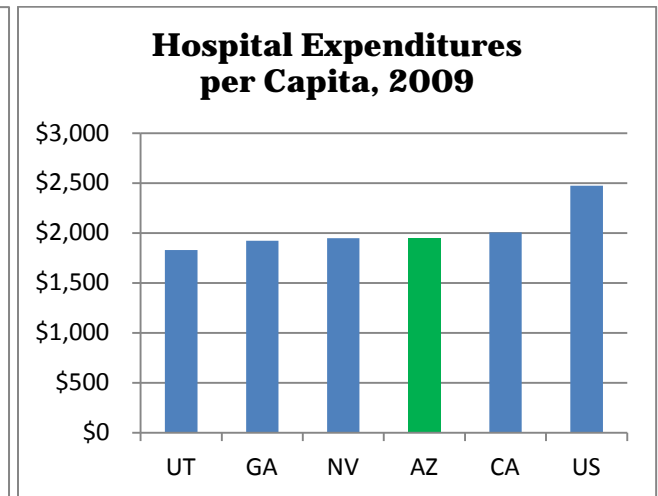
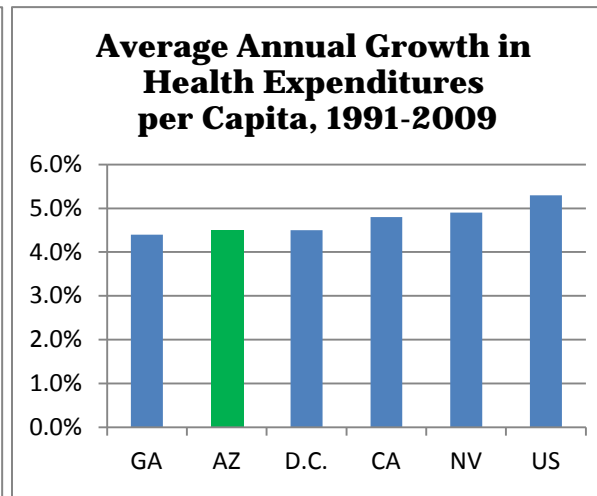
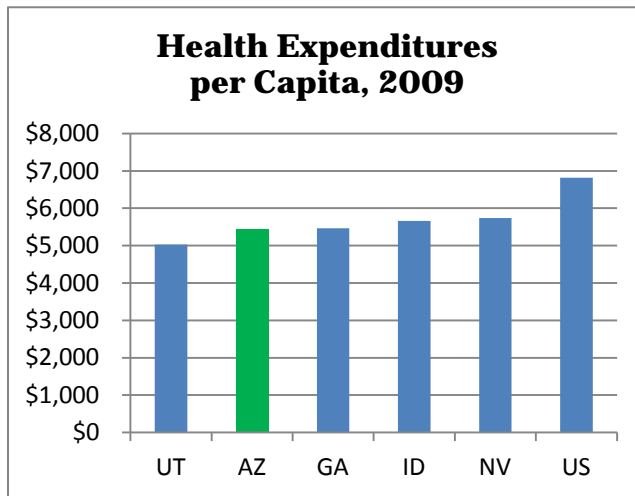
*“There is a growing consensus that changes in how doctors and hospitals deliver health care – as opposed to merely a weak economy – are playing a role [in the lower spending trajectory].”*

- New York Times, February 7, 2013

*“The more we look at the data, the more it seems to me that the cost curve did bend before the recession.”*

- Charles Roehig, Altarum Institute

## Arizona is a Leader in Containing Healthcare Spending:



Arizona is the second lowest state in both healthcare expenditures per capita and the rate of growth in those expenditures, as well as the fourth lowest in hospital expenditures per capita. (Source: Kaiser State Health Facts)

## How Arizona Hospitals are Bending the Cost Curve:

- **Improving capacity to capture clinical and financial data to provide better, more efficient care.** Hospitals are developing information technology tools to improve and streamline patient care, thus reducing duplicative and unnecessary services and improving the patient experience.
- **Accelerating integration of the best clinical knowledge.** Clinical variation is a key driver of healthcare delivery and hospital costs. By facilitating the development and use of standardized evidence-based clinical practice guidelines, hospitals are reducing variation in clinical practices, which is driving down labor and supply costs.
- **Maximizing savings in operations.** Operations is one of the most common areas that hospital administrators focus on to reduce costs. Savings have been achieved in supply chain and other purchased service areas, such as energy, shipping, food and service contracts. Many hospitals have initiated service-line agreements with physician groups to oversee certain specialties, such as cardiology and orthopedics. Working together, physicians and hospital administrators are able to choose more cost-effective supplies and implants, while maintaining high levels of quality.
- **Embracing new payment methodologies.** Hospitals are taking part in new gain-sharing payment models that incentivize value over volume. Hospitals are collaborating with private and public payers and physicians to develop bundled payment, medical home and accountable care organization payment strategies in an effort to improve quality over the continuum of care, and ultimately reduce costs. Several Arizona hospitals have taken a leadership role in the development and adoption of these new pay-for-performance approaches.
- **Improving surgical and emergency department operations.** Hospital administrators are analyzing their data to improve emergency and surgical department throughput. Such data analytics can help hospitals improve operating room scheduling times and processes to reduce delays and overhead costs. In the emergency department, savings have been found in supply and drug utilization, as well as ancillary testing and inappropriate usage.
- **Collaborating with strategic partners.** As a result of financial pressure, hospital mergers and acquisitions are up nationally. In Arizona, some hospitals have weathered the storm by creating strategic affiliations and partnerships. Through such alliances, hospitals are able to reduce administrative overhead by outsourcing certain business operations, such as claims management.