Indiana University Health

March 31, 2022

The Honorable Todd Huston
Speaker of the House
Indiana House of Representatives
200 W Washington St
Indianapolis, IN 46204

The Honorable Rod Bray
President Pro Tempore
Indiana Senate
200 W Washington St
Indianapolis, IN 46204

Dear Speaker Huston and President Pro Tempore Bray:

Thank you for your letter dated December 17, 2021. As you know, IU Health is the largest and only academic health system in Indiana, with more than 36,000 team members, and providing care to more than one million Hoosiers annually at our 16 hospitals and more than 300 outpatient clinics in cities and rural areas throughout the state. We are committed to improving the health of Hoosiers, and part of that commitment includes ensuring that access to affordable healthcare does not become a barrier.

We are taking a proactive and fiscally responsible approach to addressing patient care costs that consists of three primary elements: (1) Affordability; (2) Value-based healthcare; and (3) Public health investment. This plan takes into account the immediate need to address the cost of healthcare but also focuses on sustainable long-term strategies.

However, before we provide details around each element of our plan, we believe it's important to note that there is no simple explanation or solution for America's and Indiana's high healthcare costs. Proposals aimed solely or primarily at one segment of the healthcare system are unproductive and will not yield the desired results.

Healthcare costs are high because the aging of our population and the prevalence of chronic illness are driving utilization of healthcare services higher while at the same time many of the inputs that determine the cost of providing healthcare are high and likely to increase in the future. It is not realistic to think we can actually reduce the growth of healthcare costs, but it is possible to slow that growth so that it is more in line with the growth of our economy.

The IU Health Affordability Plan

After a comprehensive analysis, IU Health believes it can achieve national average commercial pricing by January 1, 2025. Based on the 2018 "national average" of 247% of Medicare reported by the RAND Corporation in 2019, and a 3.0% – 3.4% year over year growth rate based on data from all three RAND reports, we are confident our current plan will achieve hospital prices consistent with national averages by your requested date.

For 2021, this affordability plan, on average, held overall prices flat from 2020 to 2021 when considering all payers and services, including the shift of customers from one payer to another. Average commercial prices increased 1.3% from 2020 to 2021, and those increased prices will be completely offset by the shift of patients from commercial to government payers. Over the term of our plan, we expect that commercial customers when considering inflation will realize more than $1 billion in savings relative to the pricing terms in place with our commercial payers at the beginning of this plan. For 2021, our estimate of commercial savings for that year exceeded expectations, coming in at $124 million. Even under this new timeline, we feel confident we can continue to provide healthcare services to ALL patients (regardless of ability to pay) even during these times of economic uncertainty.

We do not enter into this commitment lightly. IU Health has sustained operating losses in the first two months of 2022. We will soon report that our first quarter results were dramatically impacted by higher than projected labor costs due to the premium pay required to retain critical clinical professionals to care for extraordinary patient volumes and unfavorable revenue due to the cancellation of non-urgent surgeries and procedures during the COVID-19 surges.

These most recent pandemic-related cost pressures – particularly the unprecedented labor costs we are currently experiencing - reinforce the need for us to be thoughtful when executing against this plan so that we can continue to provide quality patient care today and in potential future public health situations. Please be assured, however, that despite these strong headwinds, IU Health continues to make progress on its plan.

We also understand accountability will be an important element for you as we continue with our affordability plan. Therefore, IU Health will continue to report out on our progress at our annual public forums, discussing future efforts as well as performance on prior years' actions.

As an additional measure of accountability, we are meeting one-on-one with business leaders in our IU Health regions (Bloomington, Central Indiana, Muncie and Lafayette regions) to discuss our per unit pricing adjustments so that they can begin to track whether these saving are being seen in their own health benefit plan designs. Already we have found these meetings to be productive, allowing us to engage in conversations for not only pricing, but also on other strategies businesses may deploy to help reduce costs given our own experience as a large employer.

An additional level of accountability is our commitment to price transparency. It's certainly noteworthy that IU Health was one of seven hospitals with more than 1,500 beds that received a five-star rating for price transparency according to the Price Transparency Scorecard released by health technology company Turquoise Health.[1] The federal price transparency rule, made effective on Jan. 1, 2021, requires hospitals to post their prices online in a machine readable format. These prices in the public

[1] 7 hospitals with more than 1,500 beds, 5-star price transparency scores (beckershospitalreview.com)

domain serve as yet another accountability measure to monitor our overall performance against our affordability plan. Furthermore, with the development of Indiana's All Payer Claims Database (APCD), interested stakeholders will have access to a wide array of claims data and other information, filling critical gaps in information, generating actionable information for stakeholders, creating a more transparent healthcare system, and generally achieving the three-part aim of increasing access to care, improving quality of care, and reducing the cost of care.

Value-based healthcare

As you've heard us discuss before, the per unit price of healthcare services is only one component of the total cost of care. Another key component is utilization of those services. Lowering per unit prices without a simultaneous focus on utilization may not lead to cost savings. That's why, in addition to our affordability plan, IU Health also is working to manage utilization by adopting a value-based healthcare delivery model. As a health system that owns and operates a health plan, we are uniquely positioned to innovate in this area.

IU Health knows that in order to bend the healthcare cost curve we must begin to organize our healthcare system around value and away from today's Fee-For-Service (FFS) model, in which providers are generally paid based on the volume of care they provide to patients. It should not be surprising that many experts believe the FFS model is at least in part responsible for the inexorable rise in healthcare spending in the United States over the past 50 years.

Value-based care can transform our current healthcare system, which generally engages patients only when they are sick, into one that focuses on wellness, prevention and disease management. It encourages providers to keep people from becoming sick when possible, and when not, to intervene early to slow or manage the progression of patients' illnesses.

Value-based care encourages providers to offer alternative care venues that are more convenient and less expensive than hospitals, including urgent care, virtual care and home care as appropriate. It also encourages a focus on pre-natal care and support as well as end of life care in ways that make patients comfortable without excessive utilization of care resources that would be futile and often reduce quality of life.

Finally, and critically, value-based care has the potential to slow the rate of growth of healthcare costs over time. There are early and growing indications that value-based care models like Medicare's Accountable Care Organizations (ACOs), when effectively implemented, can produce lower rates of utilization and spending, which could result in a "bending" of the healthcare cost-curve, even as we face the onslaught of an aging baby boomer generation.

In fact, the federal government has been an early and aggressive advocate for value-based care models. CMS Director Seema Verma noted that "*Value-based payment under the Trump administration is the future. So, make no mistake — if your business model is focused merely on increasing volume rather than improving health outcomes, coordinating care and cutting waste, you will not succeed under the new paradigm.*" (Modern Healthcare, September 19, 2019).

This is why IU Health became an early adopter of the Medicare ACO model. The Medicare ACOs operate under a general principle where the provider agrees to take a level of financial risk based on achieving

certain outcomes for a cohort of Medicare patients. Performance against those outcomes metrics, which include quality measure and utilization expectations, lead to a predetermined level of profit/loss with the payer – in this case, Medicare.

Under IU Health's ACO model, after evaluation against the select performance and financial metrics for a population of 62,000 Medicare beneficiaries, IU Health generated approximately $65 million in gross savings for 2019 and 2020 combined. After the upside/downside risk, calculation, the federal government netted nearly $31 million in healthcare cost savings to the Medicare program while IU Health was able to reinvest the difference, approximately $35 million, in improved health programming for its beneficiaries.

IU Health's Medicare ACO experience has allowed us to apply these learnings to our non-Medicare, IU Health Plans beneficiaries. IU Health Plans currently takes financial risk for a number of defined patient populations, including IU Health team members and their dependents.

IU Health believes this value-based design model is a key component to achieving these savings while not sacrificing quality. Our current performance against targeted cost and quality metrics is demonstrable evidence that these programs work and can change - for the better - the healthcare cost curve trajectory here in Indiana. However, to truly have an impact on the state's health costs, other health systems and payers must do more to adopt similar value-based care models and assume risk for the cost and clinical outcomes of the patients they serve.

Investment in public health

In addition to focusing on reducing our per unit costs and health benefit designs that reward value over volume, we simply cannot ignore that Indiana's poor public health indicators are a contributing factor to the state's overall health care costs. In the IU Fairbanks School of Public Health report, *Addressing Factors that Affect Health Care Costs: Recommendations for Indiana Stakeholders*, the researchers' literature analysis recounted numerous studies showing a direct causal link between investment in public health (or lack thereof) and the cost of healthcare.[2]

Given this research, we would be remiss not to draw attention to the fact that Indiana's woeful investment in public health relative to national benchmarks only exacerbates the cost of care when the population seeking care is in poorer health than the rest of the nation. In fact, in a 2020 State Health Compare publication, Indiana ranks 47 out of 51 states in per person state public health funding.[3] In a corollary to this, State Health Compare's most recent state ranking on overall public health places Indiana at a dismal 38 out 51 states.[4]

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[2] https://fsph.iupui.edu/doc/research-centers/fairbanks-school-of-public-health-report.pdf, pg 32, (citing numerous studies showing increases in public health spending and reductions in adjusted Medicare expenditures)
[3] http://statehealthcompare.shadac.org/rank/117/per-person-state-public-health-funding#2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20,21,22,23,24,25,26,27,28,29,30,31,32,33,34,35,36,37,38,39,40,41,42,43,44,45,46,47,48,49,50,51,52/a/32/154/false/lowest
[4] https://www.americashealthrankings.org/explore/annual/measure/Overall_a/state/IN?edition-year=2021

So, left with no other choice, IU Health is making an unprecedented investment in improving the overall health of Hoosiers. It is the right thing to do for our patients, and we also understand investing in the health of the public is important to reducing the overall cost of care. IU Health's mission is to make Indiana among the healthiest states in the nation. However, in so doing, we know this will require us to look beyond the walls of our hospitals and medical offices and address those social, economic and environmental conditions that contribute to poor health outcomes, shortened lives and higher healthcare costs.

In fact, we know that people's health is determined to a far greater degree by their physical and social environments than by the medical care they receive from physicians and hospitals. (See figure on left.) Social determinants of health factors such as housing, education, employment and access to clean air and water, as well as the personal decisions we make about what to eat and whether to smoke or use drugs, are the biggest drivers of what makes us healthy.

This not only includes investing in such public health initiatives like enhancing smoking cessation opportunities, reducing infant and maternal mortality, and increasing access to behavioral health and cardiovascular care, but also on those "upstream" non-traditional areas like workforce development, accessible housing, educational attainment and place-based initiatives. As the figure to the left indicates, where you live, work and play can often be a greater predictor of your health than your own genetic code.

This is why IU Health has doubled-down on its investment in community health by dedicating $500 million for health-related community development in the neighborhoods surrounding the downtown Indianapolis campus, as well as doubling the amount of our IU Health Community Impact Investment Fund to $200 million, which has a statewide focus. This investment is over and above the already substantial investments we've made over the last two years in our communities, some of which include:

- Nearly $900,000 for the innovative career development program at Crispus Attucks High School
- $1.05 million for the development of a Crisis Diversion Center in Monroe County
- $1.37 million to provide spiritual care for the socially isolated in Marion and Monroe Counties
- More than $1 million for the revitalization of the Thomas Park-Avondale & South Central neighborhoods in southeast Muncie
- More than $1M to the Eleven Fifty Academy to launch a workforce development program in the West Central region of the state

This is a *historic* investment and is designed to complement our affordability plan for patients and support our progression to value-based healthcare – all designed to help us achieve that critical step in reducing healthcare costs across Indiana. IU Health's strong balance sheet has enabled us to accelerate this effort.

While it has been argued that these funds are better used to reduce hospital pricing, we believe this is a short-sighted approach to reducing healthcare costs. IU Health firmly believes any successful plan to

reduce healthcare costs must not only include the immediate relief of reducing per unit costs, but also adopt a longer-term public health strategy designed to keep people out of the hospital in the first place.

We recognize the tremendous pressure you face in trying to address the many public policy challenges facing this great state. We acknowledge that more must be done to address the growth of healthcare costs which is why we've put together this comprehensive plan which seeks to reduce per unit pricing, shift to value-based benefit designs, and invest in public health.

However, we cannot do this alone. In addition to the work you've done to promote greater transparency in healthcare pricing, eliminating waste in healthcare delivery, you have the capability to invest in Hoosier health by investing more in public health. As previously discussed, Indiana's public health spending is among the worst in the nation, and research shows there is a clear correlation between this state's investment in public health and our abysmal public health metrics. You have asked us directly "What can the state do to help reduce the cost of care in Indiana?" We would request that you bring Indiana's public health care spending to the national averages as we are doing with our prices.

For example, over the last several budget cycles, hospitals and healthcare advocates have argued for an increase in the cigarette tax only to see this initiative fail year after year. We know that in Indiana healthcare costs attributable to smoking were estimated to be $3.3 billion, with the state's Medicaid program incurring approximately $540 million of that cost.[5] And, as a healthcare provider, we saw all too often the impacts of COVID on the mortality of those Hoosiers who smoke. As we continue to do our part to rein in the growth of healthcare costs, we are asking you to meet us halfway in this effort by investing more in Hoosier public health, including exercising your authority to increase the cigarette tax at a meaningful amount to curb tobacco use. The revenues from this tax could support much needed public health expenditures to right-size Indiana's investment in public health.

Thank you for allowing us to outline this comprehensive plan for you. We welcome an ongoing dialogue on this and other thoughtful strategies to improve the health of this great state.

We are grateful for your service.

Dennis M. Murphy
President and Chief Executive Officer
Indiana University Health

Stephanie Motter
President of IU Health Plans
Indiana University Health

[5] https://tobacconomics.org/files/research/489/Richard-M.-Fairbanks-Tobacco-Report-October-2018.pdf (pg 5)