



March 30, 2022

President Pro Tempore Bray and Speaker Huston:

On behalf of Deaconess Health System, I would like to provide the following response to your letter dated December 17, 2021, in which you requested that hospitals work collaboratively with health insurers to “present a plan to the legislature by April 1, 2022, that would lower Indiana’s hospital prices to at least the national average by January 1, 2025 . . .” We understand that the Indiana Hospital Association (“IHA”) submitted a response dated March 28, 2022. Although we agree with and support the IHA’s response, we would like to take this opportunity to highlight items specific to Deaconess.

**Background on Deaconess:** Deaconess, which was founded more than 130 years ago in Evansville, has a long tradition of serving patients. Today we provide care for patients from three states and 35 counties as an independent health system, headquartered in Evansville. Deaconess consists of nine hospitals, a fully integrated multi-specialty group, cancer center, urgent care centers, network of preferred hospitals and doctors, and multiple partnerships with other providers in the region.

In Fiscal Year 2020, Deaconess provided \$225.8 million in community benefit services. Deaconess has also been recognized as the second best hospital in Indiana for four consecutive years by *US News and World Report* and was named one of the top 250 hospitals in the United States by Healthgrades. Deaconess was also recognized by *Forbes* as one of the best large employers in the United States.

**Rand Study and Pricing:** The Rand Studies are frequently cited regarding health care affordability in Indiana; however, there are many flaws with the Rand Reports (Rand). For example, Rand bases affordability on a percentage of Medicare, despite the fact that Medicare reimbursement varies widely across the United States. As an example, for Diagnosis-Related Group (DRG) 003, Tracheostomy with O.R., the Medicare Inpatient Prospective Payment System (IPPS) would reimburse a hospital in Evansville \$124,175, while a hospital performing the same procedure in Stanford, California would be reimbursed \$265,563 and a hospital in Brooklyn, New York would be reimbursed \$197,668. There are numerous other examples of widely disparate Medicare reimbursement. Medicare is therefore a poor measure of affordability and is not an appropriate way to frame commercial reimbursement.

Putting these flaws aside, Deaconess ranks extremely well in healthcare affordability according to Rand. In Rand 3.0, Out of 18 hospitals, Deaconess has the sixth lowest pricing for inpatient and outpatient combined. Deaconess provides care at 102% of the state average, with the majority of its care provided in an Urban/Suburban setting where costs for real estate and labor are higher. The December 17, 2021, letter asks health systems to meet the national Medicare average pricing of 263% by January 1, 2025. Deaconess is already within a few percentage points of this average.

Furthermore, Deaconess is committed to reducing its costs even further. Our hospitals are invested in reducing the total cost of care (not just hospital care) to help control healthcare inflation. We are also actively engaged in a number of efforts to reduce costs, which include:

- Leveraging our Accountable Care Organization to keep people healthy.
- Collaborating with post-acute care facilities.

- Increasing value-based contracts (e.g. Anthem, Humana and others).

**Financial Durability and Response to COVID-19 Pandemic:** Deaconess’ financial durability and reserves allowed us to weather the COVID-19 pandemic and serve as a leader in providing COVID-19 treatment and resources in SW Indiana. The cancellation of elective procedures during the pandemic constrained our revenues significantly at a time when expenses were skyrocketing due to the tremendous increase in cost of Personal Protective Equipment (“PPE”) and labor. Like all hospitals, these unique financial hardships caused by the pandemic placed an undue burden on Deaconess, **despite insurance companies experiencing record profits** during the same period.

Nevertheless, Deaconess’ healthy financial position and prudent decision-making allowed the hospital to overcome these significant financial constraints and still provide exceptional care to its patients and the communities of SW Indiana. Throughout the pandemic, we were a leader in providing the following treatment, services and information to the public:

- First system in SW Indiana to set up drive-thru testing locations with onsite PCR testing.
- Mass vaccination clinics.
- Resource for local government and businesses.
- Acting as a regional facility accepting transfers.
- Dedicated infusion center for monoclonal anti-body treatments.

**Importance of Financial Durability beyond COVID-19 Pandemic:** Regardless of the pandemic, Deaconess has always endeavored to maintain financial durability and solvent reserves because this is what is required of hospitals in order to access the capital markets. Without access to capital, Deaconess could no longer be an independent health system and likely would be forced to join a larger national healthcare entity. In addition, we would be unable to make the necessary capital investments (e.g., replacing facilities and equipment) to continue providing high quality services to our patients without access to capital markets. Inability to access the capital market means no reinvestment in hospital assets, poor delivery of services, and a negative impact on quality and care.

The key to accessing capital is a strong credit rating. Deaconess currently maintains the following credit ratings: Fitch – AA (stable outlook) and S&P: A+ (positive outlook). Sustaining these ratings is dependent on maintaining a certain level of Days Cash on Hand. In order to maintain these ratings, Deaconess must maintain 348 Days Cash on Hand for Fitch and 337.1 Days Cash on Hand for S&P. Deaconess currently maintains 311.1 Days Cash on Hand, as adjusted to remove advance payments received through the Cares Act funding. Thus, maintaining this level of Days Cash on Hand is critical in order for Deaconess to maintain its credit ratings and access capital in the markets.

### **Conclusion**

As the Legislature understands, the cost of health care is a multi-faceted issue. The December 17, 2021, letter appears to put the burden on hospitals to reduce prices, while there is no expectation or action requiring the same of insurers. This is despite the fact that **health insurance premiums increased 4.4% per year on average from 2010-2020** while hospital price growth averaged just 2% during the same period. This is also at a time when **insurance companies are experiencing record profits**.

I would appreciate an opportunity to meet with you to discuss these issues further. I cannot underscore enough how critical financial durability and solvent reserves are for hospitals to continue providing our very critical services. I would be happy to walk you through these issues further and to answer any questions you might have about Deaconess or our financial position.

I want to thank you for your leadership and your dedication to Indiana's future success. We believe that health care should be accessible to all, affordable, and of the highest quality. Our hospitals stand ready to collaborate with stakeholders to meet this goal.

Respectfully,

A handwritten signature in blue ink, appearing to read "Shawn McCoy". The signature is stylized and includes a large, sweeping flourish that extends upwards and to the right.

Shawn McCoy, CEO  
Deaconess Health System