



COLORADO

Department of Health Care
Policy & Financing

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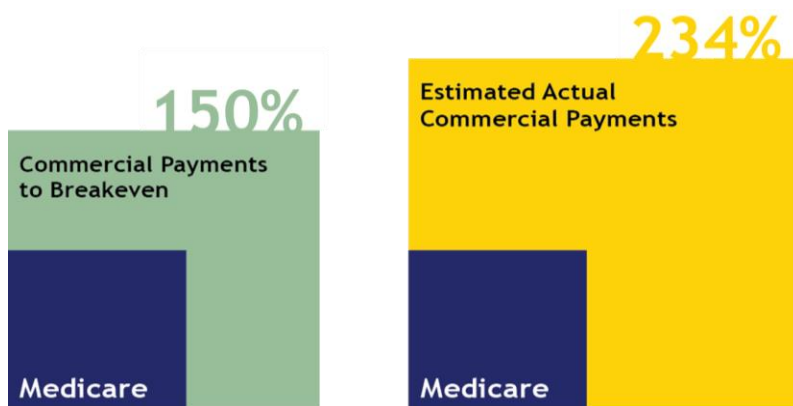
Breakeven Analysis Write-Up

Introduction to Breakeven Analysis

The Department of Health Care Policy & Financing (HCPF) is introducing a new [Breakeven Analysis tool](#) for employers, other health care payers and state regulators to better understand hospital costs and prices. This tool provides financial data from 2012 through 2020 with an emphasis on Colorado hospitals, as well as thousands of hospitals nationwide. The tool explores costs using data that hospitals submit through the Medicare Cost Report, paired with HCPF's [Hospital Cost Reporting Tool](#) for an in-depth view of hospitals' costs, prices, and profits through 2020.

Breakeven is defined as the commercial reimbursement rate that would cover all of a hospital's current expenses for inpatient and outpatient services, without profit.¹ Specifically, HCPF's [Breakeven Analysis Tool](#) provides information on commercial payment amounts necessary to breakeven, which focuses on commercial (non-government) payers.² This tool further presents commercial breakeven rates for Colorado hospitals, and compares them to state, national, and system trends, also using the methodology to calculate estimated, actual aggregate commercial prices paid to hospitals. As well, this tool shows *commercial payments to breakeven* both as a percentage of costs and as a percentage of Medicare reimbursement rates, which may be more useful to negotiators as detailed below.

Figure 1: An example of Commercial Payments to Breakeven compared to Estimated Actual Commercial Payments and how they relate to Medicare rates, Colorado aggregate, average of three years 2018-2020.



¹ Commercial breakeven. The National Academy for State Health Policy. (2022, April 5). Retrieved from <https://www.nashp.org/policy/health-system-costs/understanding-hospital-costs/commercial-breakeven/>.

² Commercial breakeven. The National Academy for State Health Policy. (2022, April 5). Retrieved from <https://www.nashp.org/policy/health-system-costs/understanding-hospital-costs/commercial-breakeven/>.

Additionally, the [Breakeven Analysis Tool](#) provides the amount of *commercial payments beyond breakeven* as a percentage of payments (for example, 30% of commercial payments going beyond breaking even, and therefore contributing to profits). This tool and analysis are like the analyses created by the National Academy for State Health Policy (NASHP), which calculated commercial breakeven rates¹, or the RAND Corporation analysis, which provides actual payment rates using claims data.^{3,4} For more information on available hospital price tools, see HCPF's Hospital Pricing Tools Write-Up available on HCPF's [Hospital Reports Hub](#).

Key Findings from the Breakeven Analysis Tool

Key findings from the [Breakeven Analysis Tool](#) are provided within the tool; some are restated here. The findings from this analysis mirror those in the Hospital Cost, Price, and Profit Report and other HCPF analyses: **When compared nationally, Colorado hospitals are consistently both high cost and high profit, a counterintuitive situation that makes Colorado unique.**

- 1) Colorado's *commercial payments to breakeven* have slowly grown and are high compared to the nation.
- 2) Colorado's *commercial payments beyond breakeven* have increased relative to the nation.
- 3) In 2020, Colorado ranked 12th in *commercial payments to breakeven*, and 10th in payments beyond breakeven. While Colorado was the only state to rank in the top 10 for both metrics in 2019, and while Colorado was the only state to rank in the top twelve for both metrics in 2020, this movement from top 10 to top 12 illustrates a favorable movement by hospitals, though still illustrates tremendous opportunity for additional improvements in both areas to achieve more normative, national performance.
- 4) Colorado's **system hospitals (defined as 3 or more hospitals)** drive both metrics, with their independent counterparts operating at lower prices and costs. This presents an important opportunity for large system price reductions and cost efficiency, which would be to the benefit of Coloradans and employers covered by commercial coverage.
- 5) A few Colorado hospitals, with over 40% of commercial payments contributing to profits, present an even greater opportunity for strategic change.
- 6) Some Colorado hospitals have *commercial payments to breakeven* far beyond state or national norms. This may indicate inflated costs and an affordability opportunity; better managing costs is necessary to drive more affordable pricing and to save Coloradans and our employers' money on healthcare.

The Case for Using Breakeven Analysis and Its Implications

HCPF's Breakeven Analysis Tool has applications for state policymakers, commercial payers, hospitals, purchasing alliances, and other health care stakeholders.

- **Measuring cost coverage and efficiency.** Several of the metrics measure breakeven as a ratio of costs (i.e., commercial payers pay 140% of costs for the hospital to break even). These cost-based

³ Whaley, C. M., Briscoe, B., Kerber, R., O'Neill, B., & Kofner, A. (2022). Prices Paid to Hospitals by Private Health Plans Findings from Round 4 of an Employer-Led Transparency Initiative. RAND Corporation. <https://doi.org/https://doi.org/10.7249/RR1144-1>.

⁴ There are notable methodology and limitation differences between HCPF analyses and the NASHP and RAND analyses, which can be identified using the published methodology documents for each.



ratios are especially useful to explore hospitals' cost efficiencies and offer a simple context to understand how much of commercial payments go towards covering costs, versus boosting profits.

- **Commercial insurance or employer purchaser negotiations.** Other metrics in the tool provide measures as a ratio of Medicare payments (i.e., commercial payers pay an estimated 200% of what Medicare pays, for the hospital to break even). These Medicare-based ratios are especially useful for commercial payers (such as employers or insurers) in negotiations with hospitals. Negotiating payment contracts as a percentage of Medicare could encourage cost efficiency since Medicare rates are set nationally and adjusted for conditions, such as cost of living. Using *commercial payments to breakeven* as a percentage of Medicare also helps transition Colorado and the industry to payments grounded by actual costs (versus market dominance or power), while recognizing the payment rate necessary for hospital profitability. The breakeven analysis tool will aid in negotiating, but is composed of estimates, and should be taken as such. Negotiations should also include other factors, such as quality of care.

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