

## THE NEXT MAYO/REMAKING A MEDICAL GIANT

# MAYO FACES NEW PRICE OF SUCCESS

● The stakes are high for the world-class hospital, which must transform itself amid a new era of reform.

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Angie Carlson faced a tough choice when buying health insurance for her employees at DataIQ in Eden Prairie last year: Keep her existing coverage, which allowed employees to use the vaunted Mayo Clinic, or exclude Mayo and instantly save 5 percent on premiums.

She knew her workers would appreciate the savings. But how would they feel about losing access to one of the best known health systems in the world? None of them had ever traveled to Rochester for medical care, but one had an eye condition that might suddenly require sophisticated treatment.

“What if that worsens?” she wondered.

Carlson stuck with Mayo this year, and will do so again next year. But her debate underscores the challenges facing Minnesota’s premier medical institution as economic, demographic and political forces combine to transform the way health care is delivered and paid for in the United States.

Mayo has been lauded by President Obama and influential health economists as an example of superb care and medical efficiency. Yet Mayo also has a reputation in Minnesota — confirmed by publicly available health data — for high prices.

How Mayo resolves that paradox will determine the future of a clinic that has become a signature Minnesota brand. Mayo draws patients from all 50 states



Photo: Glen Stubbe

Mayo Clinic employs over 59,000 people, 33,000 at its Rochester, MN location and system-wide treats over 1.2 million patients per year.

and more than 130 countries each year. With nearly 41,000 Minnesota employees, it is the state’s largest private employer and, as of this year, a partner with taxpayers in a \$327 million venture to elevate the state as a global medical destination.

“If Mayo Clinic were perceived as being too expensive and not worth it, it would be a huge risk to the organization,” said Mayo CEO Dr. John Noseworthy.

As Mayo celebrates 150 years of history, it’s adapting aggressively to meet the coming wave of reforms. It is extending its brand nationally through exclusive affiliation agreements with smaller hospitals around the country. It’s investing more money in a lab that develops and exports cost-saving medical techniques. And it’s formed an unusual alli-

ance with the nation’s biggest health insurer, UnitedHealth Group, to use “Big Data” to prove and improve the value of Mayo’s services.

### Premium care, prices

The financial squeeze facing hospitals and clinics has been building for years; total U.S. health spending has slowed sharply since 2008 and last year grew at the slowest pace on record.

But the scale of Mayo’s challenge became clear last year with the debut of Minnesota’s MNsure insurance exchange, which allows consumers to compare health plans by price and coverage. The only plan in Rochester to include Mayo Clinic as an “in-network” provider cost two to three times more than comparable insurance plans in the Twin Cit-



Photo: Glen Stubbe

Dr. Robert Cima, who specializes in colon and rectal surgery and the patient care team checked on patient Dan Thomas. The Mayo model is for larger multi-disciplinary teams to focus on one patient at a time. Dr. Cima is the medical director of surgical outcomes and chair of surgical quality.

ies. Eventually, state regulators persuaded a second insurer, Medica, to offer a plan on the exchange for Rochester-area residents. But even its network did not include Mayo's primary care clinics in the city of Rochester itself.

Mayo's leaders argue that the cost figures are misleading. They say data comparing Minnesota hospitals fail to reflect the fact that Mayo treats sicker patients and more complicated diseases — some of which have been mistreated or misdiagnosed elsewhere.

But a Star Tribune analysis of 2012 hospital and insurance data found that Mayo charges more than its Minnesota competitors for even the most common procedures. A colonoscopy at Mayo cost \$1,311, compared to just \$573 at Allina specialty clinics and \$449 at Fairview clinics in the Twin Cities, according to Minnesota Community Measurement, a state-sponsored nonprofit that tracks cost and quality data. A knee X-ray cost private insurers \$92 at Mayo, \$69 at Allina and \$51 at Fairview.

Those disparities make little sense to business executives such as Angie Carlson. "Even if they bought ... top of the line equipment for colonoscopies,"

she said, "there still is only one way to do a colonoscopy."

Mayo's higher fees partly reflect its market dominance in southeast Minnesota, where it has the clout to command higher payments from insurers. Twin Cities hospitals, for example, discount their rates by 40 to 50 percent in order to be included in the networks of large private insurers, according to data from the Minnesota Hospital Association. Mayo's hospitals — St. Marys and Methodist — by contrast, discount their rates to private insurers by roughly 20 percent, the data show.

So even when Mayo's prices are comparable — it charges \$10,562 for a knee arthroscopy and Abbott Northwestern Hospital charges \$10,424, according to hospital association data — it is possible that Mayo is discounting less and getting more of its sticker price back from insurers.

And that may be taking a toll. Insurance brokers say more customers are willing to sacrifice the cachet of having Mayo in their plan, especially this year, as employers cope with rising premiums taking hold under federal health reform. Individuals and small business-

es can now find limited-network plans that exclude Mayo and other higher-cost providers.

"You see fewer people signing up for [plans with] Mayo when they realize what the additional cost is," said Paul Howard, a broker with the DCI agency in Chanhassen, which helps individuals and small businesses select benefits.

Mayo officials say they aren't seeing the consequences in terms of fewer patients. Mayo treated 1.2 million patients from 135 countries last year, an increase from 2012. They also point to a partnership with Wal-Mart, the world's largest retailer, which said this fall that it will cover 100 percent of employees' treatment and travel costs for breast, lung and colorectal cancers if they went to Mayo. And, for 2015, Medica added a plan on MNsure for Rochester-area residents that only covers services provided by Mayo doctors and facilities.

Still, patient choices could shift as consumers make greater use of websites, such as MNsure, that make hospital charges more visible, said Garrett Black, a vice president at Blue Cross and Blue Shield of Minnesota.

"With the level of transparency and consumer choice that is emerging ... people are going to choose with their wallets," he said.

Insurers such as Blue Cross have been trying to steer patients to less expensive hospitals and clinics through "tiered" benefits, which offer financial incentives such as lower coinsurance payments. In Blue Cross' Distinction program, for example, Mayo shows up as a high-quality provider for cardiac care, knee and hip replacements, and spine surgeries. But it doesn't receive the "Plus" designation that the insurer awards to hospitals with a combination of high quality and low cost in those specialties.

Similarly, the ranking system used for Minnesota state employees' health insurance ranks Mayo's primary care clinics in Rochester among the most expensive, and gives workers financial incentives to choose others.

### Costs vs. outcomes

Mayo officials don't argue with the cost figures. But they say sticker price is a crude measure by which to judge a hospital or clinic.

"Despite the reputation of high cost that some people would try to pin on us, we think we can do pretty well and we are constantly working to do better," said Dr. Douglas Wood, medical director at Mayo's center for innovation.

Mayo's tradition of paying physicians a salary, rather than fees for each procedure, encourages doctors to collaborate, while eliminating the incentive faced by many American doctors to bill for more and more procedures. As a result, Mayo doctors say it's more likely to make an accurate diagnosis the first time, sparing patients the expense of repeat tests and unnecessary procedures.

Mayo's neurology department, for example, has developed particular expertise in the diagnosis of multiple sclerosis. In some cases, Mayo doctors found that patients did not have the condition after they had already undergone expensive tests and thousands of dollars in treatments at other hospitals, said Dr. Charles Rosen, a Mayo transplant surgeon.

Organ transplants are another example. Even if Mayo charges more for the initial surgery, its patients suffer fewer deaths and fewer follow-up transplants due to complications, Rosen said.

"If you avoid that [second] one, you save a bunch of money," he said.

Even the higher price for a standard colonoscopy may be justifiable, according to Dr. Vijay Shah, chairman of Mayo's gastroenterology department. Mayo doctors conduct more thorough searches and remove dangerous polyps in the first procedure, while other doctors wait until a second procedure, he said. The hospital achieves high success rates, and reduces complications such as perforations of the colon, by funding extensive training for its gastroenterologists before they can fly solo, he added.

"A blood draw, that's a pretty standard procedure," Shah said. "But to have a long tube stuck all the way up through your back side? That's an invasive proce-



Photo: Glen Stubbe

Dr. Charles Rosen, left, led the Mayo Clinic's transplant selection team in a status meeting to match patients with donors.

cedure that requires competence and excellence."

And where Mayo does charge more per procedure, there is evidence that it simply uses fewer of them.

In a 2008 study, the Dartmouth Atlas of Health Care estimated the United States could save \$50 billion annually in spending on end-of-life care if all hospitals operated as efficiently as Mayo, largely because it had found ways to excise waste and unnecessary care. Mayo is now working with other hospitals through Dartmouth to identify savings in nine areas of notoriously wasteful medicine.

"What's really important about Mayo is that they have shown they can do integrated, high quality care that doesn't involve a huge quantity of care," said Jon Skinner, a health economist for the Dartmouth Atlas, which is based at the Dartmouth University medical school in Hanover, N.H. "It doesn't involve ... lots of surgery and lots of procedures and lots of hospital admissions that other hospitals are doing and claiming they need to do."

Later this year, Minnesota Community Measurement will, for the first time, rank hospitals by the total cost of car-

ing for each patient — rather than the amount charged per procedure. This would theoretically favor a hospital that performs one colonoscopy instead of two, or makes a correct diagnosis the first time.

But Mayo's CEO, Noseworthy, is warning that this first round of data will end up looking bad for Mayo, because it won't adequately adjust for the fact that Mayo treats sicker patients.

### Innovating for efficiency

When compared to other "destination" medical centers around the country, Mayo does appear more cost efficient. Noseworthy said that, in part, reflects Mayo's investments in research that makes medical care more efficient.

"Mayo is very strong right now, and we're in a very strong position to lead going forward," Noseworthy said, "but to lead one has to innovate."

A streamlined patient-tracking system in its ICU, for example, has been credited with reducing hospital errors and reduced lengths of stay; it is being tested at five U.S. hospitals and will produce an estimated \$80 million in savings over three years.

A tissue-freezing technique in Mayo's pathology lab produces faster test results, giving surgeons the ability to treat patients in a single procedure rather than wait for lab results and schedule follow-up operations. Improved preparation of patients for orthopedic surgeries has allowed Mayo to reduce the use of intravenous narcotics in recovery, reducing drug costs as well as patients' hospital stays. A Medicare demonstration project subsequently found Mayo with the lowest costs for hip and knee replacements out of 19 major U.S. medical centers.

"You do things up front that allow the patients really to heal in a natural manner," said Dr. Robert Cima, a surgeon and chairman of Mayo's Surgical Quality Subcommittee. "That allows them to feel and act as if they are able to leave" the hospital.

Even large insurers that monitor Mayo's costs acknowledge these effi-



Photo: Glen Stubbe

Dr. Ognjen Gajic a critical care specialist at Mayo Clinic's St. Mary's Hospital developed a system that combines a centralized data repository with electronic surveillance to monitor patient care which has led to a decrease in costly complications.

ciencies. Blue Cross, for one, is exploring the creation of an insurance plan that would include Mayo in specialties where it is clearly superior, such as the diagnosis and care of multiple sclerosis. "The

more complex the care is," Black said, "the more cost effective Mayo becomes."

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