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Texas Employers Pay Hospitals 240% of What Medicare Would Pay, According to RAND Study

HOUSTON – May 16, 2019 – The [Houston Business Coalition on Health](#) (HBCH), a non-profit representing employer purchasers of health care, released the findings for Texas of the RAND Corporation study issued last week that examined US hospital prices covering 25 states. In Texas, the prices paid to hospitals for privately insured patients by employers averaged 240% of what Medicare would have paid.

Specifically, the privately insured paid 187% for in-patient and 330% for outpatient over Medicare, putting Texas in the top quarter of highest employer paid health care costs among the states analyzed in the study.

“The result of this study supports the argument that Houston employers are paying more than what is reasonable for most health care delivery,” said Chris Skisak, PhD, executive director for HBCH. “The recent steerage by health systems towards higher priced outpatient services as reflected in these results is a good example. HBCH is fortunate to have employer members who are now collectively motivated in our market to improve the quality and reduce the cost of health care to their employees and dependents.”

The Texas data primarily came from HBCH employer members that participated in the research and represent a variety of industries including energy, health care, educational, construction and manufacturing.

Additional details and the RAND Corporation study can be [found here](#).

Some states (Kentucky, Michigan, New York and Pennsylvania) had average relative prices that were 150% to 200% of what Medicare paid, while other states (Colorado, Indiana, Maine, Montana, Wisconsin and Wyoming) had average relative prices that were 250% to 300% of what Medicare would have paid.

“The widely varying prices among hospitals suggests that employers have opportunities to redesign their health plans to better align hospital prices with the value of care provided,” said Chapin White, the study’s lead author and an adjunct senior policy researcher at RAND, a nonprofit research organization. “Employers can exert pressure on their health plans and hospitals to shift from current pricing system to one that is based on a multiple of Medicare or another similar benchmark.”

If employers and health plans participating in the study had paid hospitals using Medicare’s payment formulas, total payments over the 2015-2017 period would have been reduced by \$7 billion -- a decline of more than 50%.

“The purpose of this hospital price transparency study is to enable employers to be better shoppers of health care on behalf of their employees,” said Gloria Sachdev, president and CEO of the Employers’ Forum of Indiana, an employer-led health care coalition that collaborated with RAND and participated in the study design and recruitment. “We all want to know which hospitals provide the best value (best quality at best cost). Numerous studies have found that rising health care costs are due to high prices, not because we are using more health care services. Hospital quality transparency has been available thanks to the Centers for Medicare & Medicaid Services and others. This study allows us for the first time to

compare hospital prices within a state and across states. With quality and price transparency now available, our aspiration of having improved, affordable health care seems within reach.”

A large portion of private health insurance contracting for hospitals is done on a discounted charge basis where the insurer agrees to pay a percentage of billed charges. By contrast, Medicare issues a fee schedule that determines the price it will pay for each service, with adjustments for inflation, hospital location, the severity of a patient’s illness and other factors. The Medicare price is considered by most health care economists to be a fair price, despite many health systems claiming large losses. There is ample evidence to support that hospitals with high market leverage can charge employers more, and as a result need not be as efficient in delivery, thus making it appear that Medicare does adequately pay hospitals.

Hospitals included in the analysis are from Colorado, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Maine, Michigan, Missouri, Montana, North Carolina, New Hampshire, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Vermont, Washington, Wisconsin and Wyoming.

Support for the study was provided by the Robert Wood Johnson Foundation, the National Institute for Health Care Reform, the Health Foundation of Greater Indianapolis and participating employers.

About RAND

RAND Health Care promotes healthier societies by improving health care systems in the United States and other countries.

About Houston Business Coalition on Health

The non-profit [Houston Business Coalition on Health](#) is the leading resource for Houston employers and their health services providers dedicated to providing health benefits at a sustainable cost while improving the quality and employee experience of their delivery through effective benefits design. With more than 70 members, HBCH represents 800,000 local and more than 2 million national employer-sponsored lives. HBCH a member of the National Alliance of Healthcare Purchaser Coalitions. For additional information visit our website houstonbch.org and follow us on [Twitter](#) and [LinkedIn](#).

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