PAYMENT

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Employer health plans pay hospitals 224% of Medicare

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MH Illustration

Employers continue to pay hospitals more than double the amount Medicare would pay for the same services, a new study shows.

Private employer-sponsored health plans paid hospitals 224% of Medicare prices, on average, according to an updated RAND Corp. analysis of claims from 4,000 hospitals across every state except Maryland. Hospitals with higher market shares tended to have higher prices, according to the study, which supports past research.

A 10% increase in hospital market share was associated with a 0.5% increase in a hospital's price relative to Medicare, researchers found. Still, some researchers noted that a 0.5% increase for a significant 10% boost in market share was relatively small.

"No one expects prices to go down year over year given how consolidated most hospital markets are," said Glenn Melnick, a health economist and policy professor at the University of Southern California, whose work shows that prices tend to increase as hospitals grow. "My prediction is that once the study is updated again, prices are going to shoot up. The wage push and cost pressure on these facilities is enormous, so they are going to pass it on."

Private insurers paid 222% of Medicare prices in 2018 and 235% in 2019. The 224% total for 2020 was less than the 247% figure reported for 2018 because the sample size increased with data from states like Washington, Oregon and Utah where hospitals tend to have lower prices, the researchers noted.

That decline was telling, said Rick Pollack, president and CEO of the American Hospital Association.

"This suggests what we have long suspected: You simply cannot draw credible conclusions from such a limited and biased set of claims," he said in a statement.

Hospitals also claim that Medicare does not fully cover the cost of care for Medicare beneficiaries. Relying solely on Medicare rates would likely cause hospitals to cut services, which would reduce access to care, Pollack said.

That implies that hospitals shift costs, meaning they charge higher rates for their commercially insured patients to make up for the relatively lower pay for care provided to Medicare and Medicaid beneficiaries and the uninsured. But RAND researchers did not find evidence to support the cost-shifting premise.

Medicare, in part, bases its payment levels on hospitals' labor costs. Medicare may boost its rates in 2022 and 2023 to account for the average 13% increase in hospitals' wage and benefit expenses from October 2020 to October 2021, industry observers said.

"We know that Medicare rates have not increased much, and as my Brookings Institute colleagues have pointed out, they may go up in 2022 or 2023," said Paul Ginsburg, a health policy professor at USC and senior fellow of the USC Schaeffer Center for Health Policy and Economics. "It might be a temporary change allowing higher wages to factor into the Medicare input price data."

Hospitals also argue that their prices are higher because they offer fewer profitable services like behavioral healthcare that aren't otherwise available in their markets or that their quality is higher. At least for the latter, RAND researchers didn't find a direct correlation between prices and quality.

Medium-priced hospitals, for instance, had the highest share of hospitals with five-star ratings, the study found.

In addition to market share, hospitals' reputations and branding have influenced pricing, said Dr. David Blumenthal, president of the Commonwealth Fund.

In eastern Massachusetts, for instance, employers and their workers demanded that Mass General Brigham be included in their health plans, he said.

"Often the most powerful market force is not just the control of beds, it's reputation," Blumenthal said. "If you broke up these institutions, their market power might not go away."

Part of the price transparency rule went into effect last year, requiring hospitals to post their payer-negotiated rates on their website in a readable format. While most experts didn't expect the law, in its current state, to meaningfully curb hospital prices, employers can still use the data to shape their benefit design, they said.

The prior iteration of RAND study found that the Parkview Health System in Fort Wayne, Indiana, had among the highest prices in the country when measured relative to Medicare rates. Several Fort Wayne-area employers used the information to pressure providers to negotiate a new contract with lower prices, according to the study. More employers implemented narrow networks, incentivizing the use of low-cost, high-quality hospitals.

Other employer and policymaker pressures in Indiana led the Indiana University Health system to announce plans to reduce prices, researchers said.

"This data is really good for purchasers, who are now thinking about benefit design innovations and about prices negotiated on their behalf," said Christopher Whaley, a RAND policy researcher and lead author of the study. "In some sense, this is a trillion-dollar market with no level of price information we are accustomed to in every other market."

The onus is on employers to use the data to inform their network design and give them more negotiating clout with hospitals, Ginsburg said.

There is no debate over whether market power leads to higher prices, said Barak Richman, a law professor at Duke University. The more challenging question is what payers can do to limit that effect, he said.

"I think there is a lot of promise still for narrow networks, centers of excellence and sustaining ambulatory surgery centers or independent physician practices, particularly those that can bear some kind of risk," Richman said.

More states may use related data to set cost-growth benchmarks, similar to Massachusetts and Oregon, among other regulations, experts said.

"This is a very important study and the data it presents is going to be hugely important in the healthcare debate about competition among hospitals and price transparency," said Richard Scheffler, a health economics and policy professor at the University of California, Berkeley.

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