Prices Paid to Hospitals by Private Health Plans: Round 5

Employer’s Forum of Indiana

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Study funding provided by Robert Wood Johnson Foundation and participating employers
Three economic points about the US health care system

1. We spend a lot on health care, which comes at the expense of other goods and services

2. We spend a lot because of the high prices

3. Prices are highly variable, not transparent, and not linked to quality
Employer-sponsored plans cover half of Americans

- $1.3 trillion in health care costs
- $490 billion in hospital costs
- 160 million people
Premiums and deductibles outpace wages

- 473% deductibles
- 355% premiums
- 178% wages
- 167% inflation
Rising hospital prices drive spending growth
Self-funded purchasers have a fiduciary responsibility to monitor health care prices

“Fiduciaries have a responsibility to "act solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them."
—Department of Labor

How can self-funded plans fulfill fiduciary obligations without knowing prices?
Recent lawsuits target employers (and HR execs) for breach of fiduciary duties

CLASS ACTION COMPLAINT

Plaintiff Ann Lewandowski, individually, and on behalf of all others similarly situated, brings this action under 29 U.S.C. § 1132 against Defendants Johnson and Johnson; The Pension & Benefits Committee of Johnson and Johnson; and the members of the Pension & Benefits Committee of Johnson and Johnson, including Peter Fasolo, Warren Luther, and Lisa Blair Davis, for breaches of fiduciary duties and other violations under the Employee Retirement Income Security Act ("ERISA"), 29 U.S.C. §§ 1001-1461, and states as follows:
Why did we undertake this study?

• We do not know what the “right” price is for hospital care

• Self-funded employers and purchasers cannot act as responsible fiduciaries for their employees without price information

Employers and purchasers can use the information—together with knowledge of their own employee populations—to decide if the prices they and their employees are paying align with value
Obtain claims data from:
- self-funded employers
- APCDs
- health plans

Measure prices in two ways:
- relative to a Medicare benchmark
- price per case-mix weight

Create a *public* hospital price report:
- posted online, downloadable
- named facilities & systems
- inpatient prices & outpatient prices
- Sage Transparency dashboard

Create *private* hospital price reports for self-funded employers
Why should we care about prices?

- Prices are the lever to allocate goods and resources throughout the economy.
- Without transparent prices and market competition, it is impossible to have an efficient allocation of goods and services.

*If we rely on markets, price transparency and competition are critical for the functioning of the US health care system.*
Percent of Medicare is a price benchmark, not a price endpoint

- Benchmarking to Medicare allows employers to compare prices between hospitals, relative to the largest purchaser in the world

- Medicare prices and methods are empirically based and transparent

- Medicare Payment Advisory Commission (MedPAC): Medicare rates are close to break-even for efficient hospitals
Medicare rates are nationally close to break even

Source: CMS Cost Report Data, 2022
We collected the largest database that allows for identification of hospitals

- Over 4,000 hospitals + 4,000 Ambulatory Surgical Centers
- Approximately $100 billion in spending
- 6% of US hospital commercial insurance spending
- 17 states with more than 5% of commercial spending
Three Main Findings

1. Employers pay prices that are 2.5x what Medicare pays

2. Large variation in prices that is not explained by quality or cost-shifting

3. Market concentration drives prices
Hospital prices paid by employers are high and variable

Commercial Hospital Price (IP + OP, Facility + Professional)
Hospital prices are all over the map
Facility fees drive hospital prices

<table>
<thead>
<tr>
<th>State</th>
<th>Percent of Medicare</th>
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<tbody>
<tr>
<td>AR</td>
<td>100%</td>
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<td>IA</td>
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<td>VA</td>
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<td>CA</td>
<td>400%</td>
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</tbody>
</table>

Commercial Hospital Price (IP + OP, Facility)
Less variation in professional fees

Commercial Hospital Price (IP + OP, Professional)
Prices are similar as percent of Medicare or standardized prices

Inpatient

Outpatient

Correlation: 66%

Correlation: 78%
Site-of-care payment differentials are 50% larger in commercial than in Medicare.
Hospitals charge high markups on cancer drugs

- Hospitals average 178% margins on administered, with large variation

- 340B hospitals are able to acquire drugs for large discounts, but don’t pass savings to patients (NEJM, 2024)
Hospital prices vary widely within markets

Indiana System Commercial Hospital Price (2020-2022 Average)
Indiana hospital operating margins are above national average.
Our study has contributed to contract negotiations.

"Parkview has been focused on delivering the best care at the best cost, as we know it’s what our region’s patients and employers expect and deserve."

—Mike Packnett, Parkview Health
But, prices have increased...

Parkview Health IP + OP Prices

Percent of Medicare

2020 2021 2022
PT Study prices align with Transparency-in-Coverage (TiC) prices

**Inpatient**

**Outpatient**

![Inpatient Percent of Medicare](image1)

Correlation: 0.31

![Outpatient Percent of Medicare](image2)

Correlation: 0.39
TiC data show wide variation in Indianapolis joint replacement prices

Joint Replacement (DRG 470) Percent of Medicare

- Witham Health Services
- Johnson Memorial Hospital
- Riverview Health
- Hancock Regional Hospital
- Hendricks Regional Health
- Orthoindy Hospital
- Indiana University Health
- St Vincent Health
- Franciscan Health
- Community Health Network
- IU Health

100% 200% 300%
What drives prices?

- **No correlation** with Medicare, Medicaid, or uncompensated patients (“cost shifting” not true)

- **Minimal correlation** with quality and outcomes

- **Strong correlation** with market power and concentration
Cost-shifting doesn’t explain hospital prices
Prices are not linked to quality

Dashed line indicates mean price
No relationship between price and quality for Indiana hospitals
Hospital Price Increases Don’t Lead to Quality Improvements

30-day mortality rate AMI
30-day mortality rate COPD
30-day mortality rate heart failure
30-day mortality rate stroke
90-day complication rate hip/knee replacement
30-day readmission rate hospital wide
30-day readmission rate AMI
30-day readmission rate COPD
30-day readmission rate heart failure
30-day readmission rate hip/knee replacement
30-day readmission rate pneumonia

Change in quality associated with a 2 percent increase in discharge price

Quality improvement
Quality decrease

Market concentration drives prices
Over 2,000 hospital mergers since 2001
Hospital markets are not competitive
Hospital mergers increase spending and reduce wages

- Hospital mergers over the last decade have led to
  - $3.7 trillion increase in employer spending
  - $840 billion lower wages
- Hospital mergers decrease quality (NEJM 2020)

Sources: Arnold and Whaley, (2024) Who Pays for Health Care Costs
Liu et al. 2022. Environmental Scan on Consolidation Trends and Impacts in Health Care Markets
Private Equity health care acquisitions have skyrocketed and are a new wave of consolidation.
Why are we where we are?

“We reserve the right to charge what the market will bear.”
  • Senior executive at large non-profit hospital system

“We don’t believe this information is valuable to employers and we don’t want to confuse them.”
  • National TPA representative

“We don’t know why our spending is so high, but our consultants tell us we’re doing fine.”
  • Health benefits director from employer with $35,000 annual premium

“We don’t want to put our hospitals at a competitive disadvantage.”
  • State legislator from low-priced state
What is the road ahead?

- Whether they like it or not, U.S. employers are in the health care business
- Fiduciary obligations are becoming real
- Policy and regulators have been slow to act, but are finally moving
  - Oregon: ownership disclosure
  - Texas: anti-competitive contract provision bans
  - FTC actions on non-competes, consolidation, and private equity
  - Medicare site-neutral payment policies
- Several employers and purchasers have used price transparency to break the mold and innovate
CalPERS saves money by increasing use of ASCs

- Targeted financial incentives to use ASCs vs. HOPDs
- 20% savings on shoppable services
- $100 billion savings / year nationally

Source: Robinson, Brown, Whaley (2017) Health Affairs
32BJ Health Fund uses data to inform tradeoffs

**New York Presbyterian**: Over 300% of Medicare

By analyzing its claims data, the union has saved approximately $100 million a year in healthcare costs. These savings have allowed the union to boost wages by the largest amount in the union’s history and give them each a $3,000 bonus.
Reference-based pricing saves money

- Oregon public employees and teachers
- 200% of Medicare reference-based price
- $54 million in savings / year
- *Equivalent to $102 million / year savings in Indiana*

*Source:* Hospital Facility Prices Declined As A Result Of Oregon’s Hospital Payment Cap. Roslyn C. Murray, et al. Health Affairs 2024
Conclusions

• Rising health care costs place tremendous pressure on employers and worker wages

• The wide variation in hospital prices presents a potential savings opportunity for employers and purchasers

• Employers and purchasers need to demand and use transparent information on the prices they—and their workers—are paying

• State and federal policies need to ensure employers and purchasers are on equal playing fields and health care markets are competitive
Thank you

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