Prices Paid to Hospitals by Private Health Plans: Round 5

Employer's Forum of Indiana

Christopher Whaley, Rosie Kerber, Daniel Wang, Aaron Kofner, Brian Briscombe

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

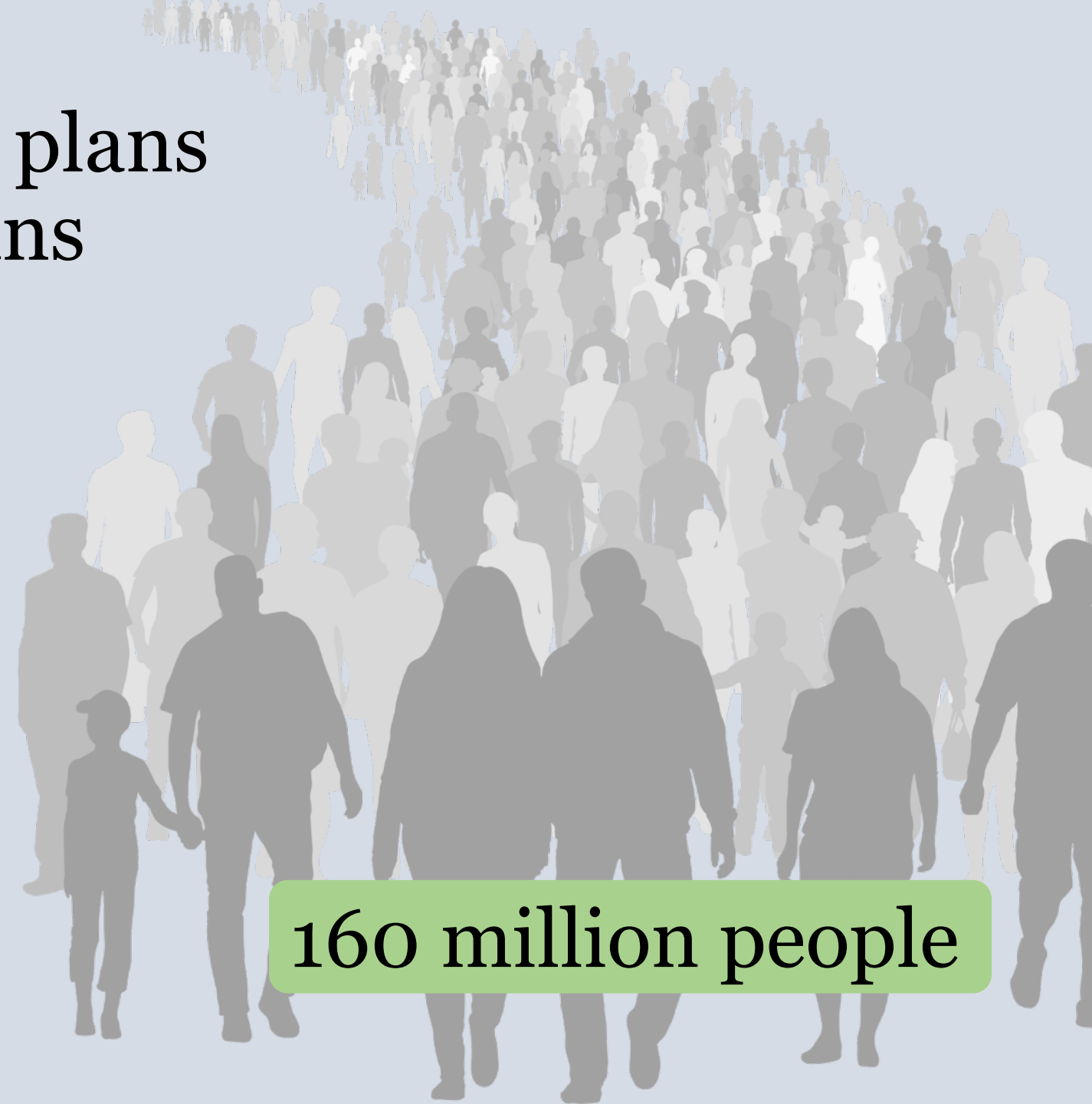
2. We spend a lot because of the high prices

3. Prices are highly variable, not transparent, and not linked to quality

Employer-sponsored plans cover half of Americans

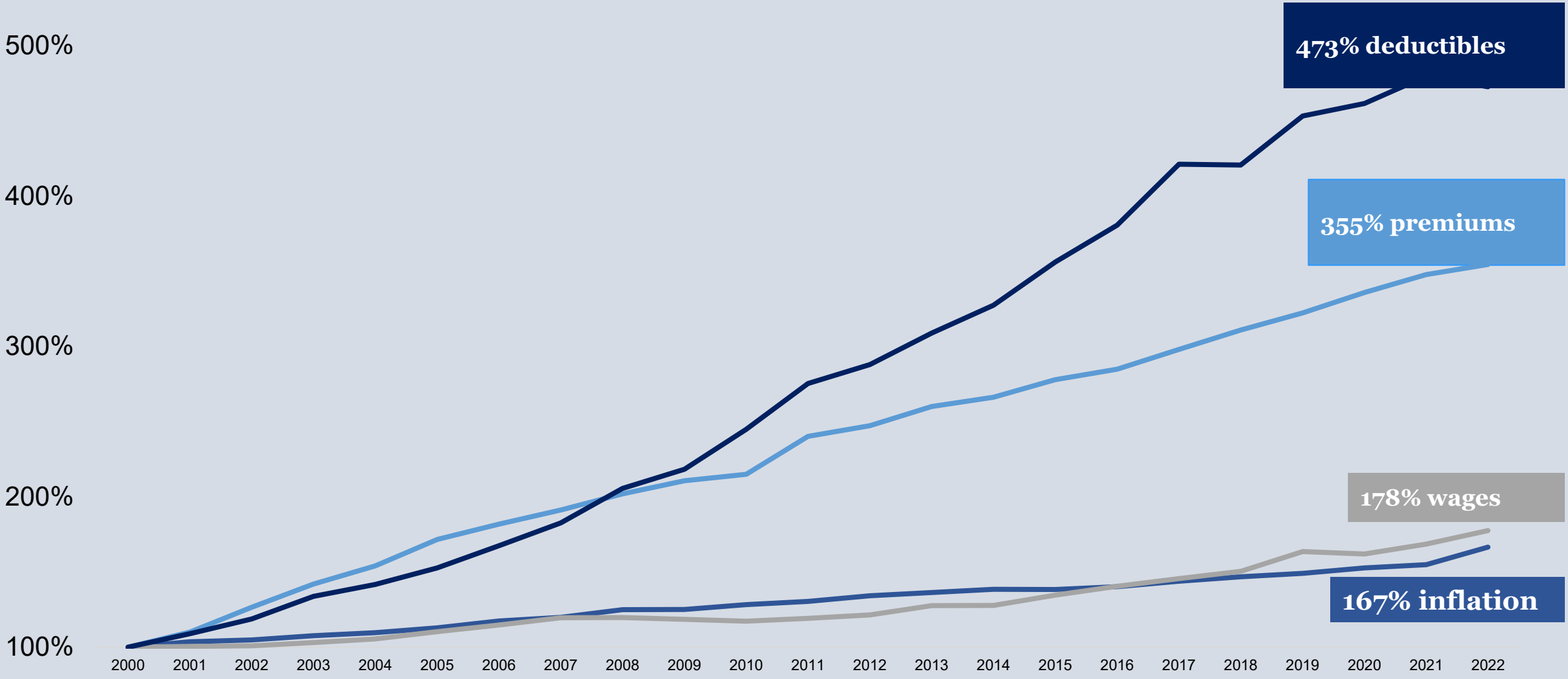
$1.3 trillion
health care costs

$490 billion
hospital costs

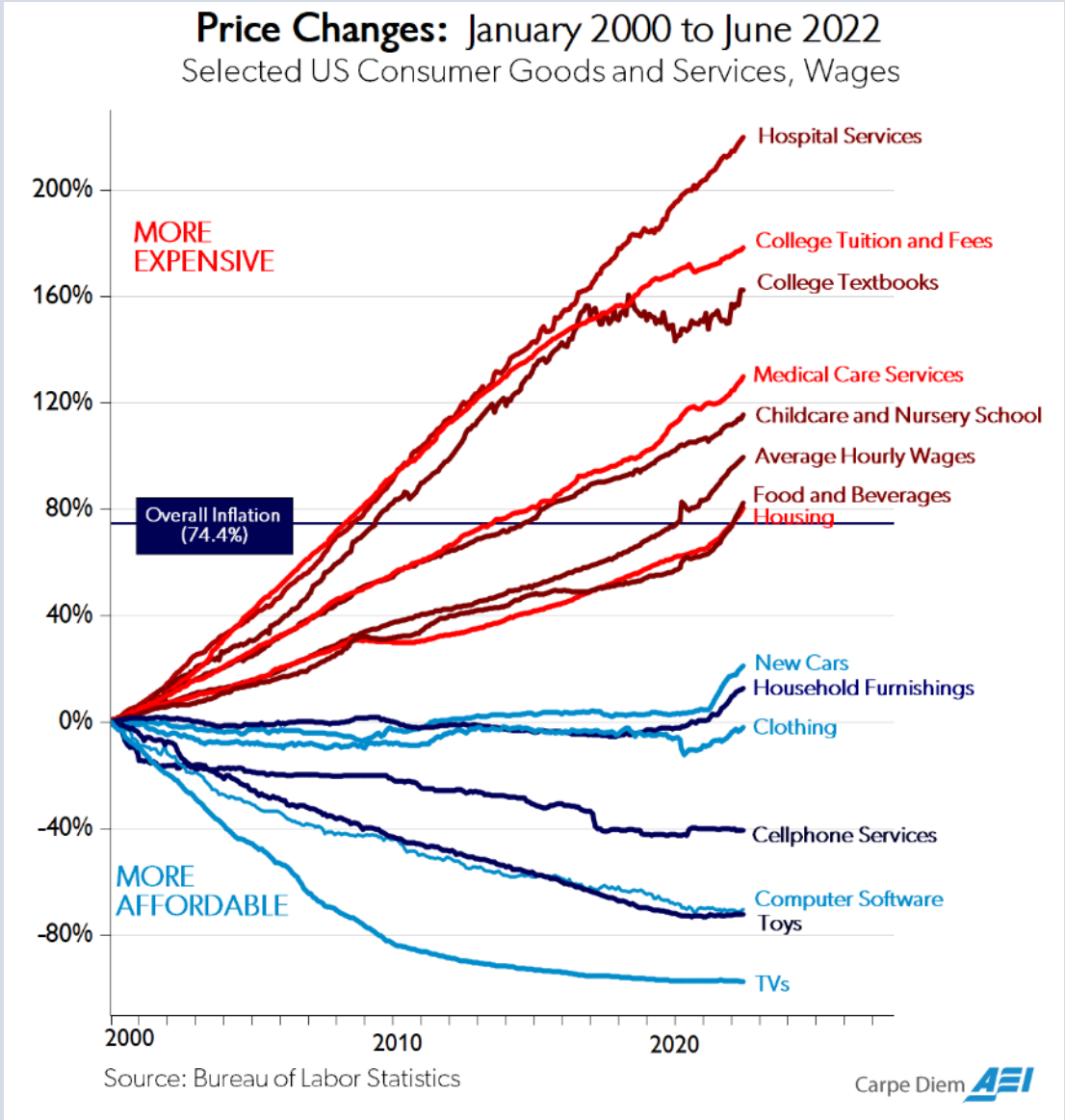


160 million people

Premiums and deductibles outpace wages



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

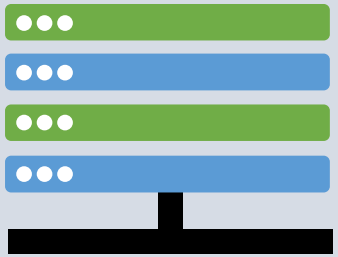
Plaintiff Ann Lewandowski, individually, and on behalf of all others similarly situated, brings this action under 29 U.S.C. § 1132 against Defendants Johnson and Johnson; The Pension & Benefits Committee of Johnson and Johnson; and the members of the Pension & Benefits Committee of Johnson and Johnson, 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

Hospital Price Transparency Study – Round 5



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?

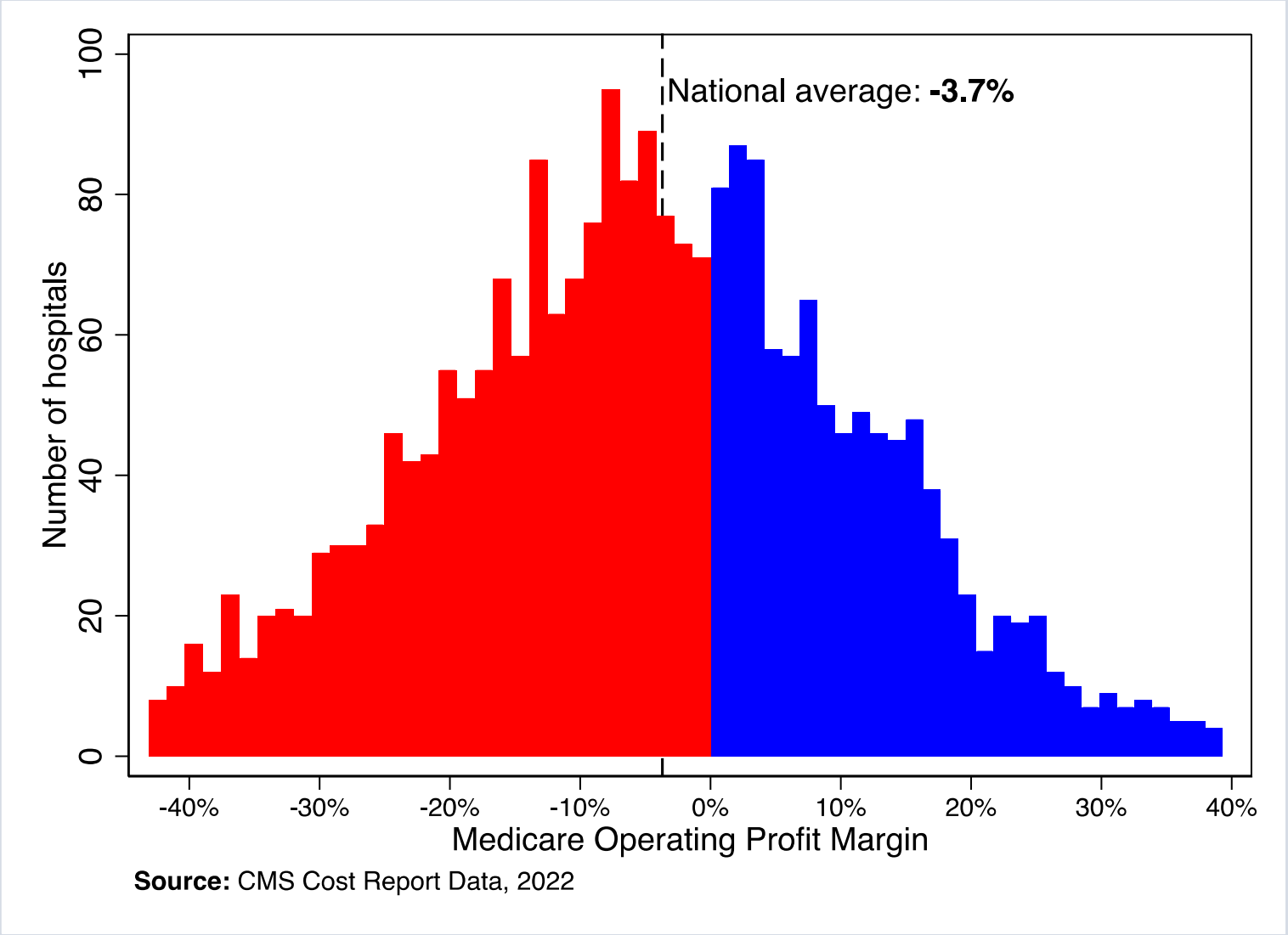
- Prices are the lever to allocate goods and resources throughout the economy
- Without transparent prices and market competition, it is impossible to have an efficient allocation of goods and services

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



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

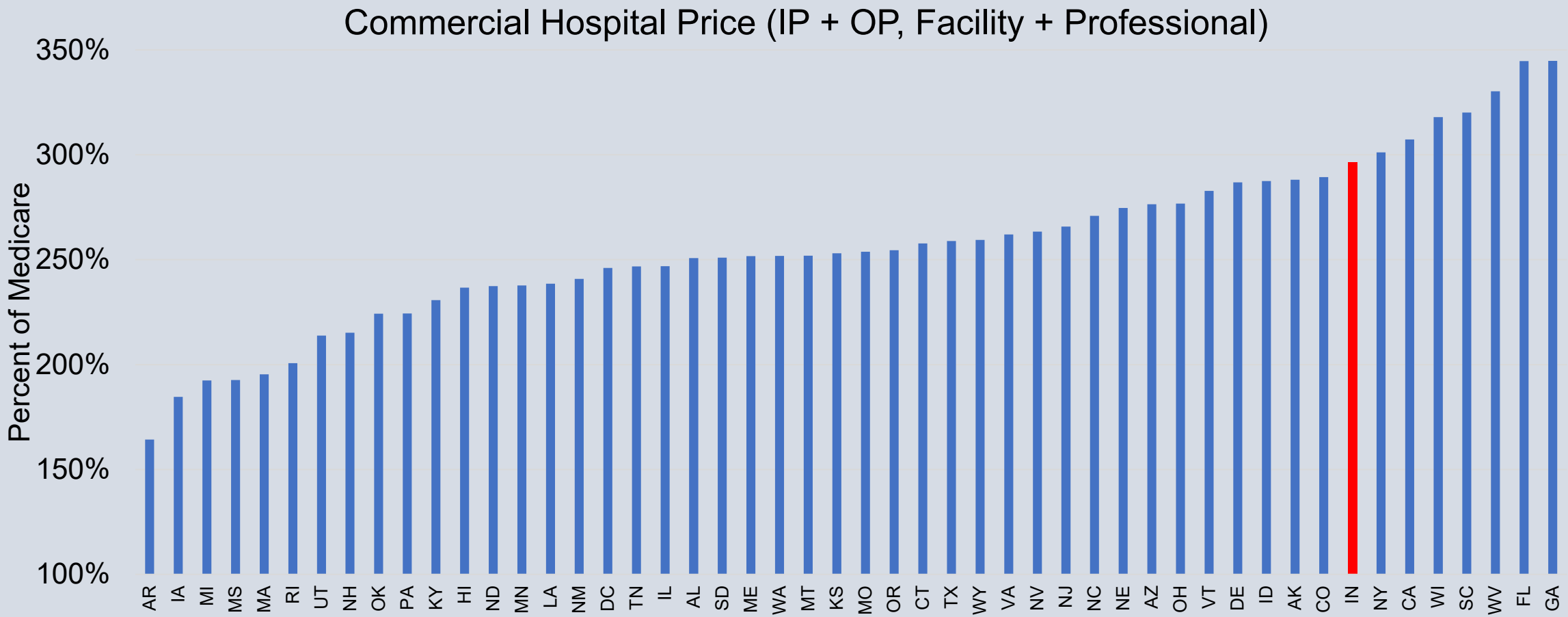
Three Main Findings

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

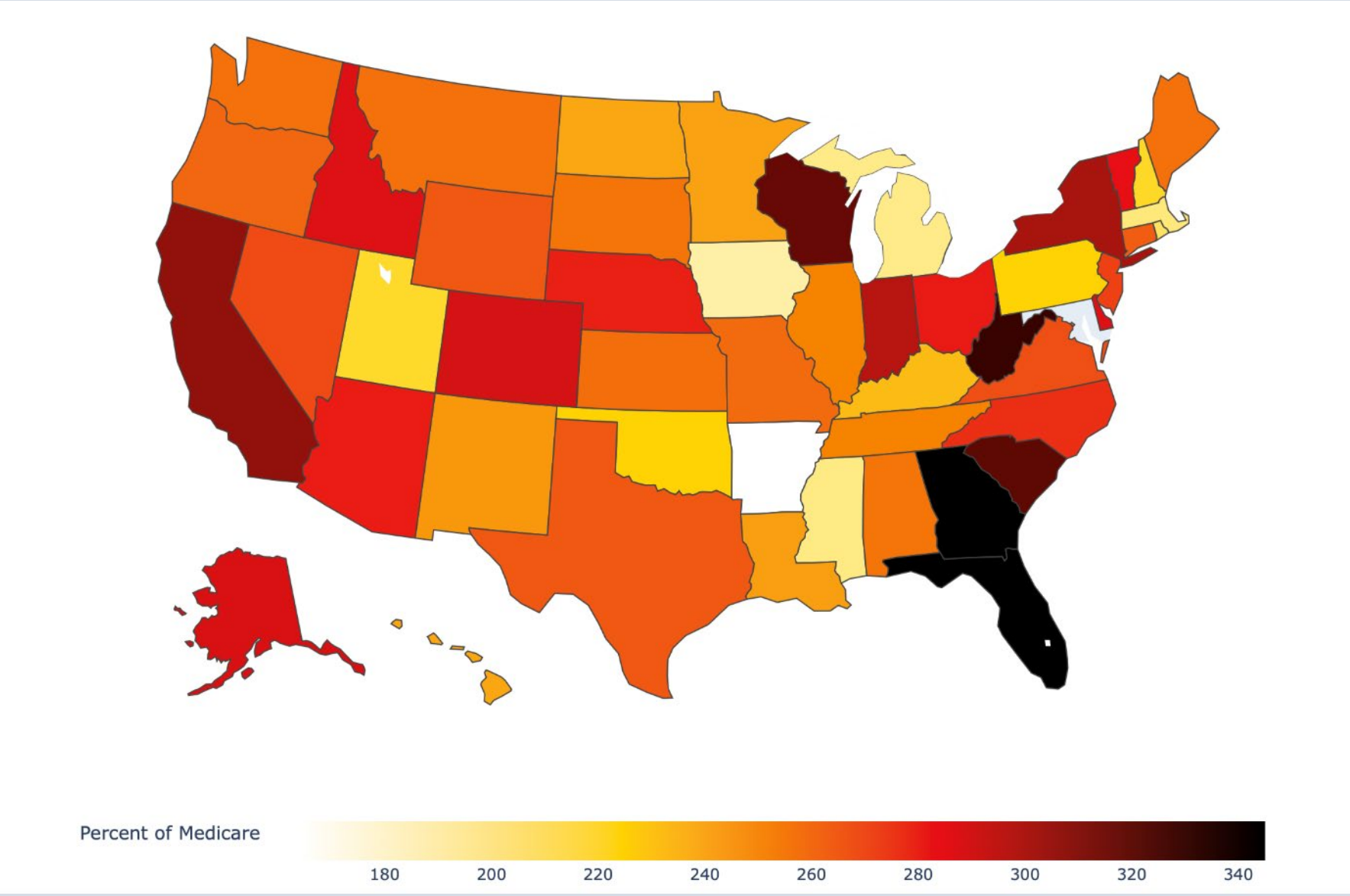
2. Large variation in prices that is not explained by quality or cost-shifting

3. Market concentration drives prices

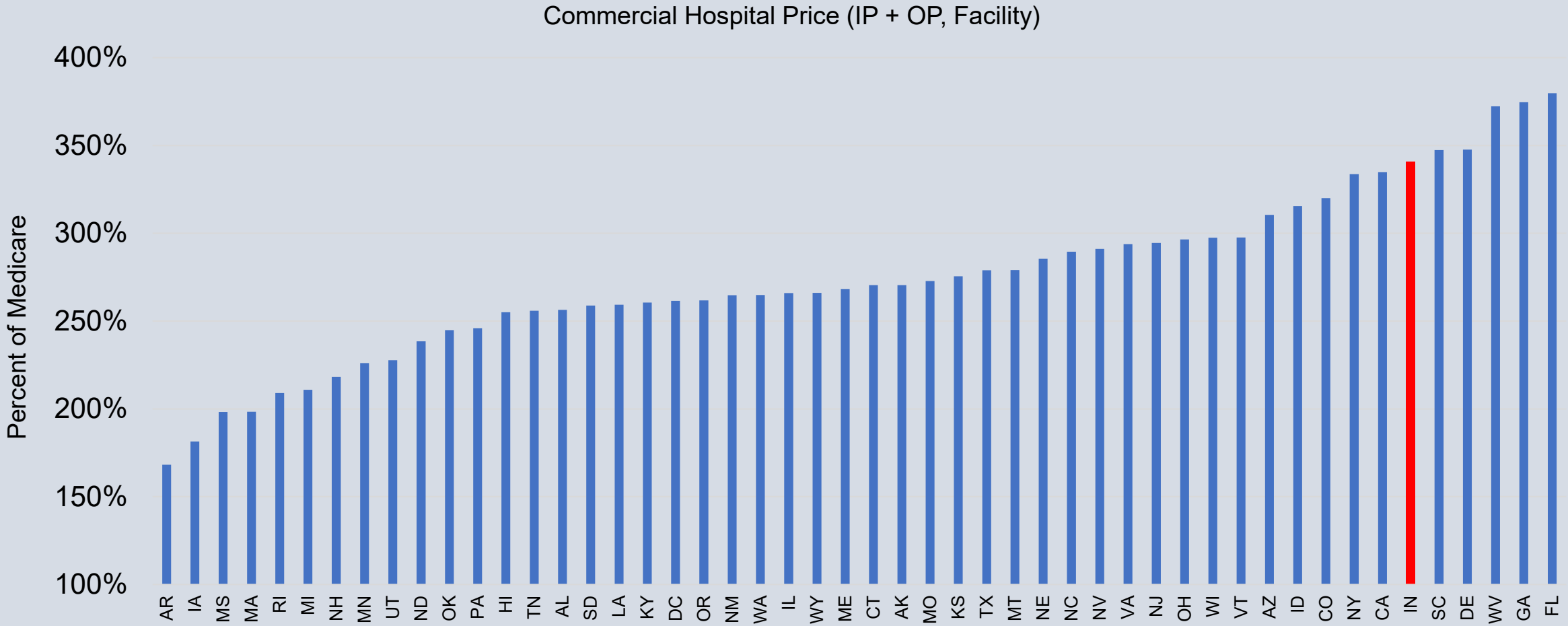
Hospital prices paid by employers are high and variable



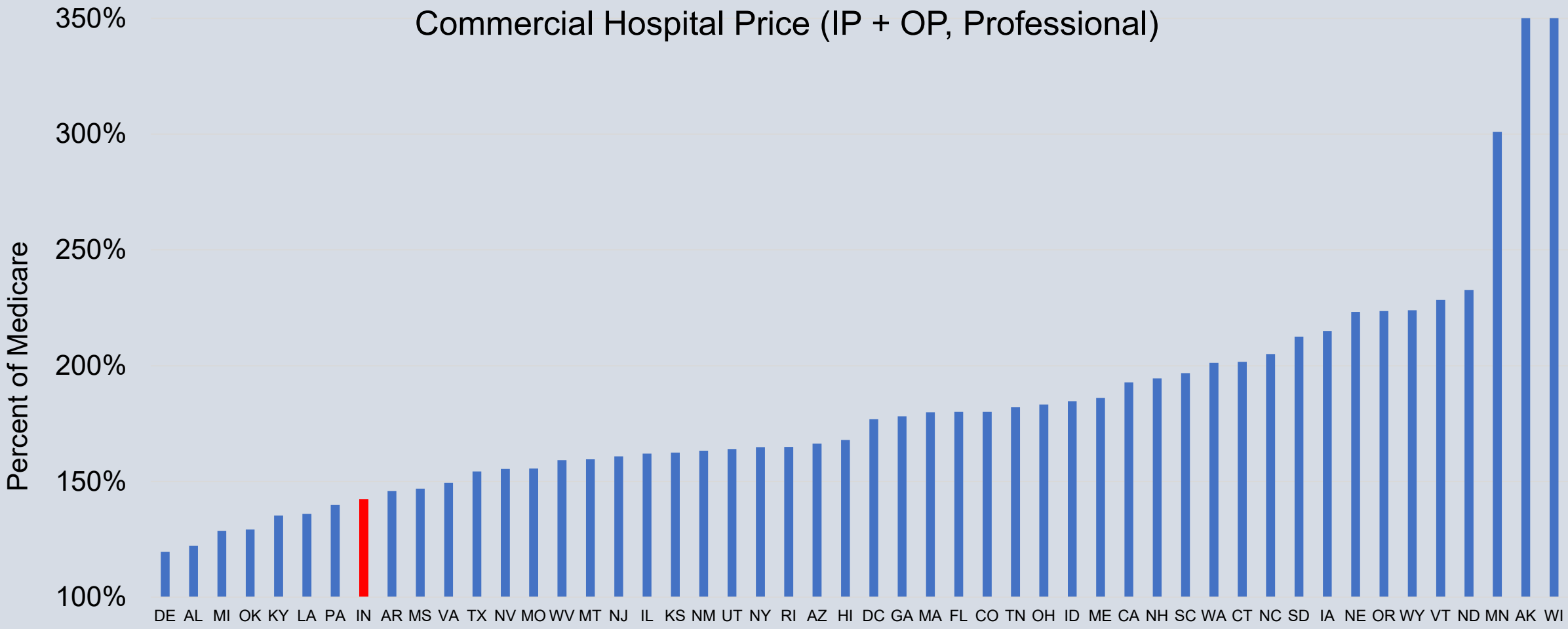
Hospital prices are all over the map



Facility fees drive hospital prices



Less variation in professional fees

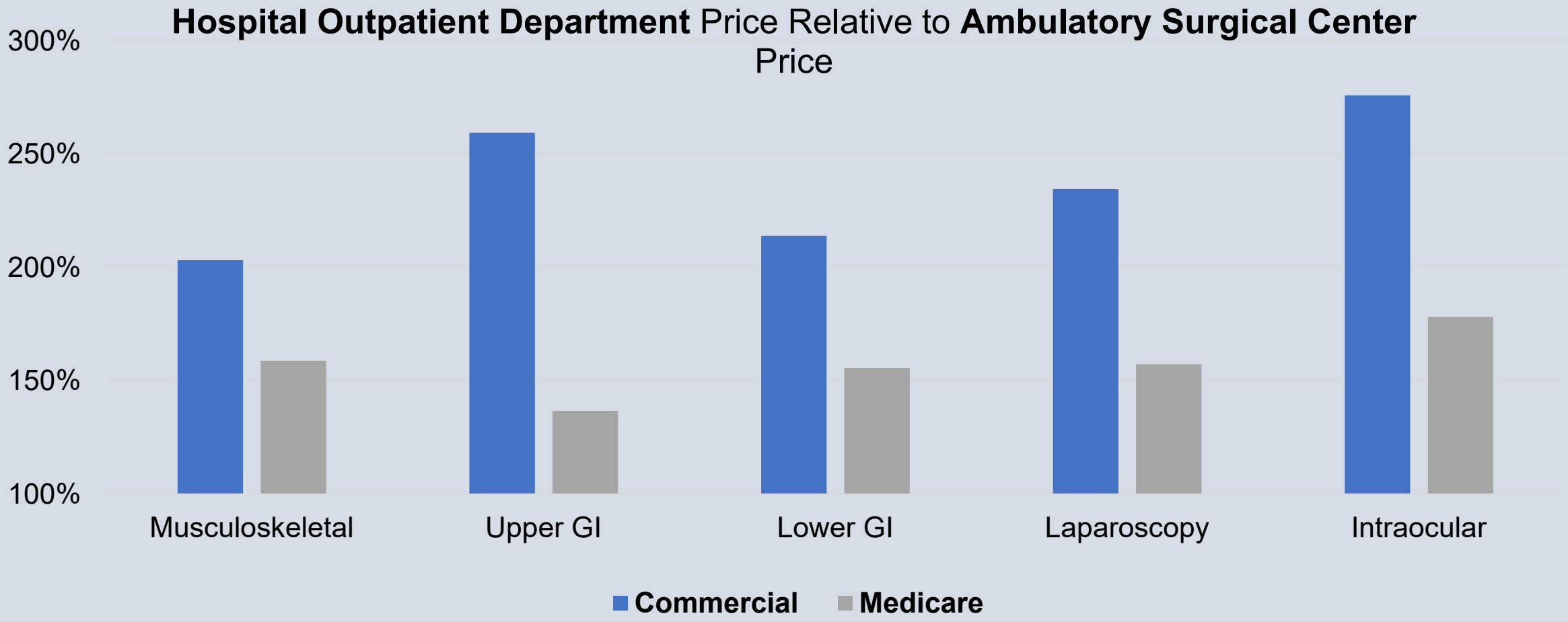


Prices are similar as percent of Medicare or standardized prices

Inpatient

Outpatient

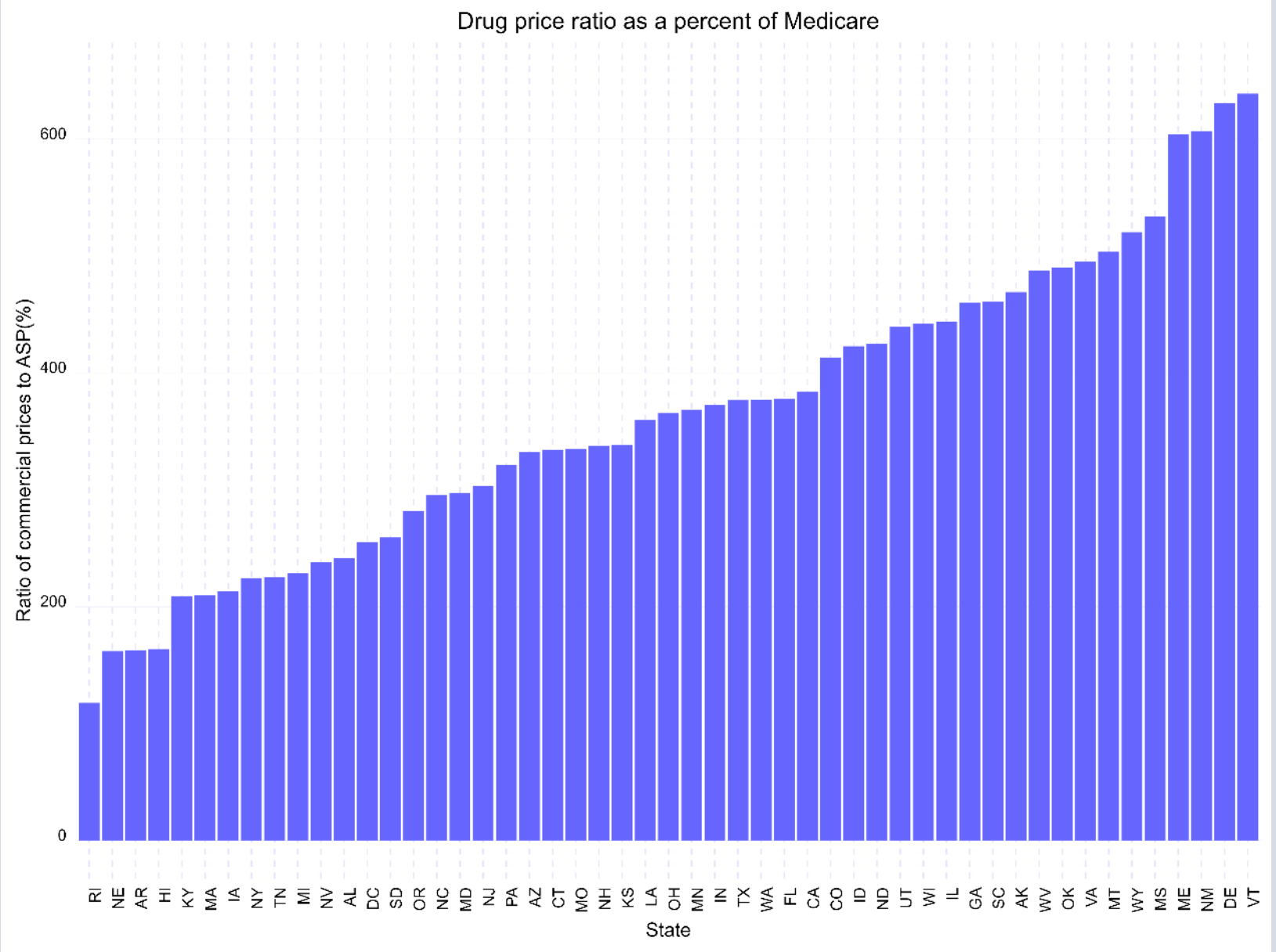
Site-of-care payment differentials are 50% larger in commercial than in Medicare



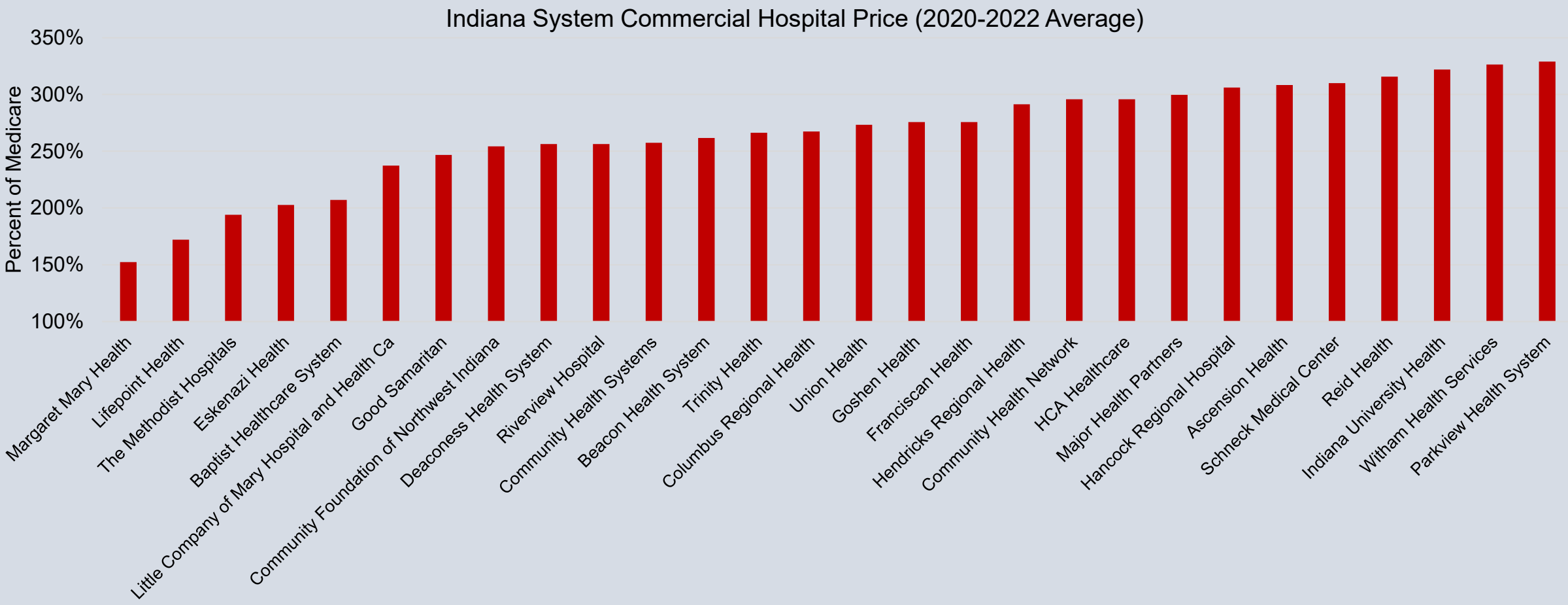
Hospitals charge high markups on cancer drugs

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

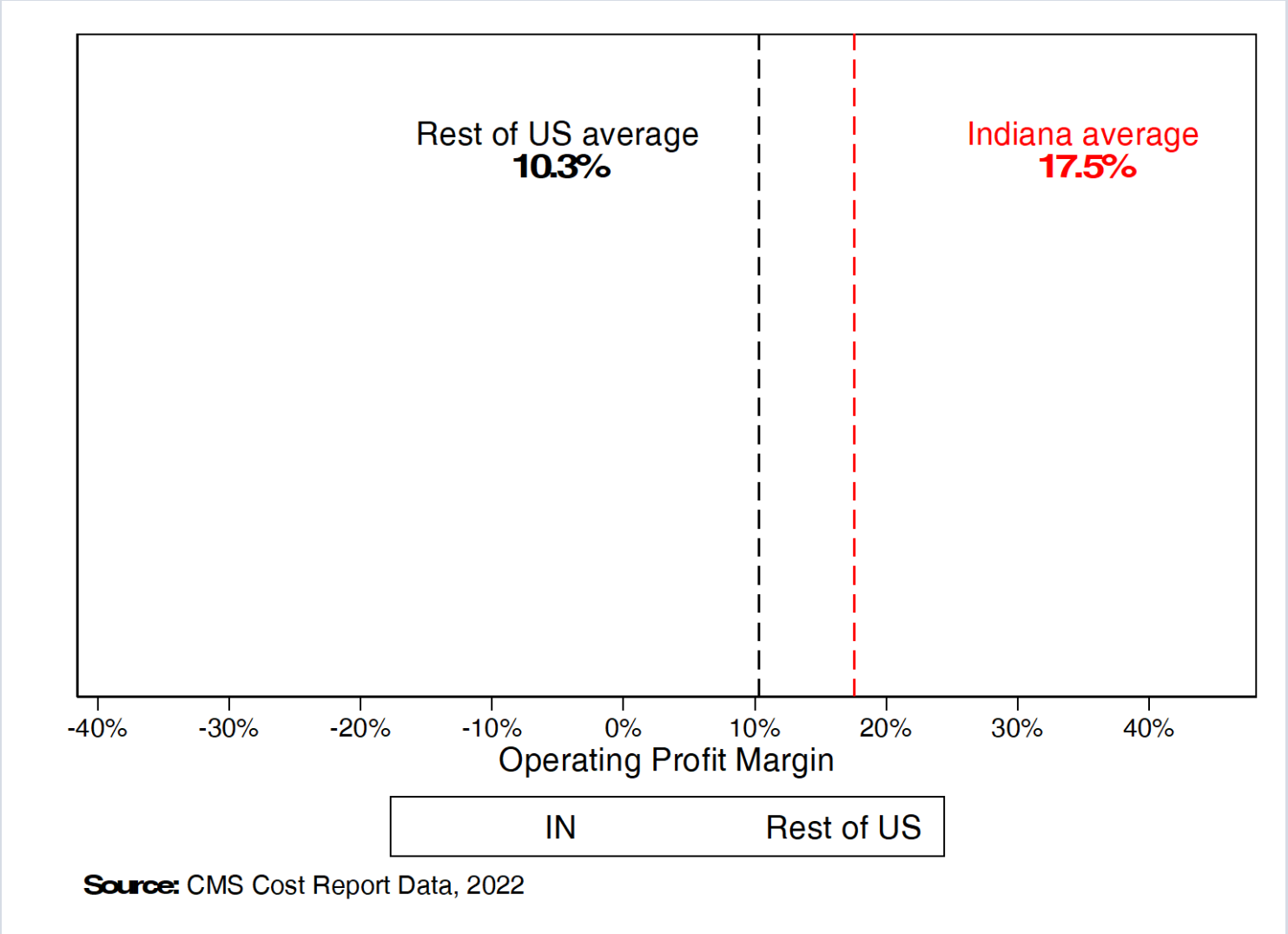
- 340B hospitals are able to acquire drugs for large discounts, but don’t pass savings to patients (NEJM, 2024)



Hospital prices vary widely within markets



Indiana hospital operating margins are above national average



Our study has contributed to contract negotiations

The New York Times

Many Hospitals Charge Double or Even Triple What Medicare Would Pay

Parkview, via CC2.0

The Journal Gazette

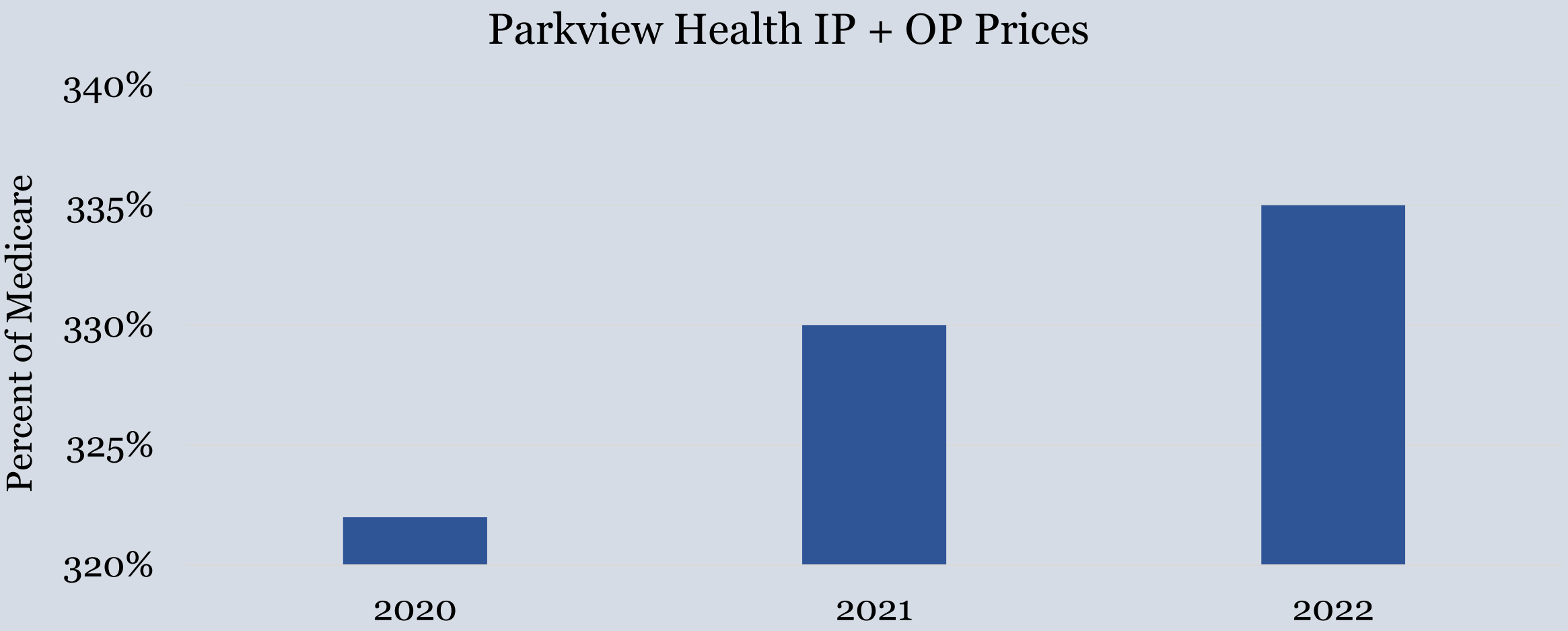
Insurer pushes Parkview on costs

Says charges too high, citing study hospital calls unfair

“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.

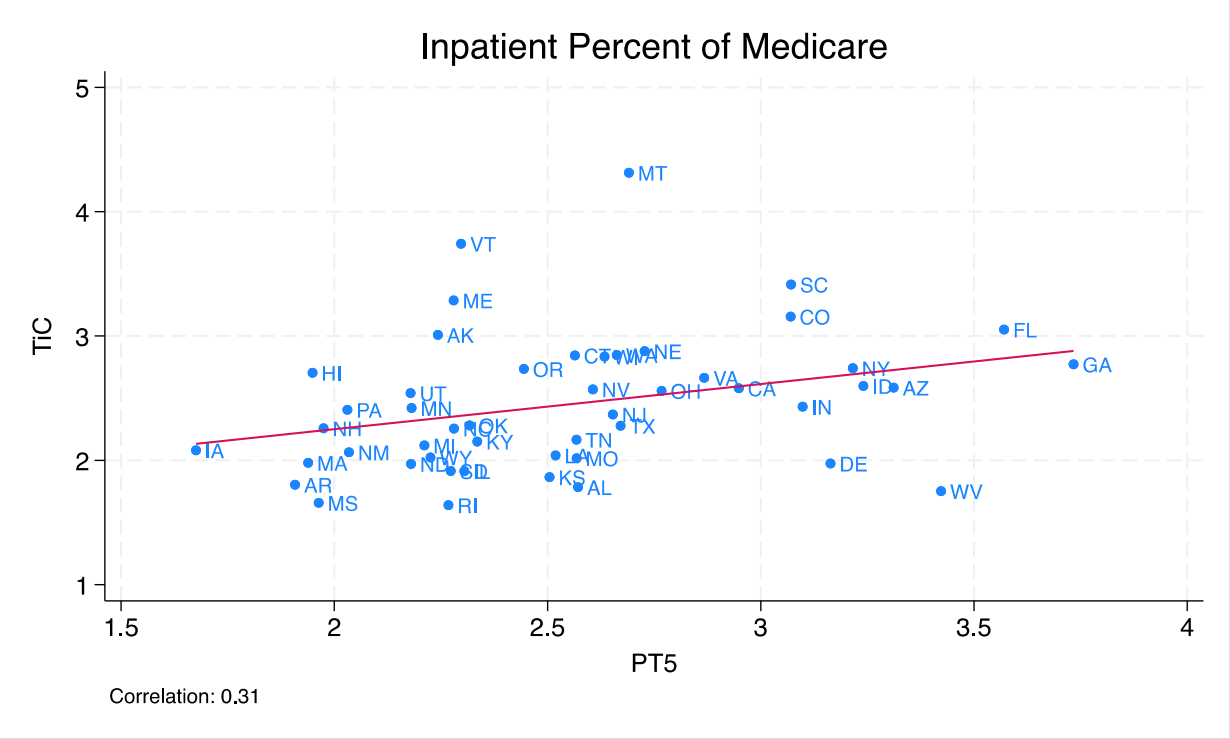
—Mike Packnett, Parkview Health

But, prices have increased…

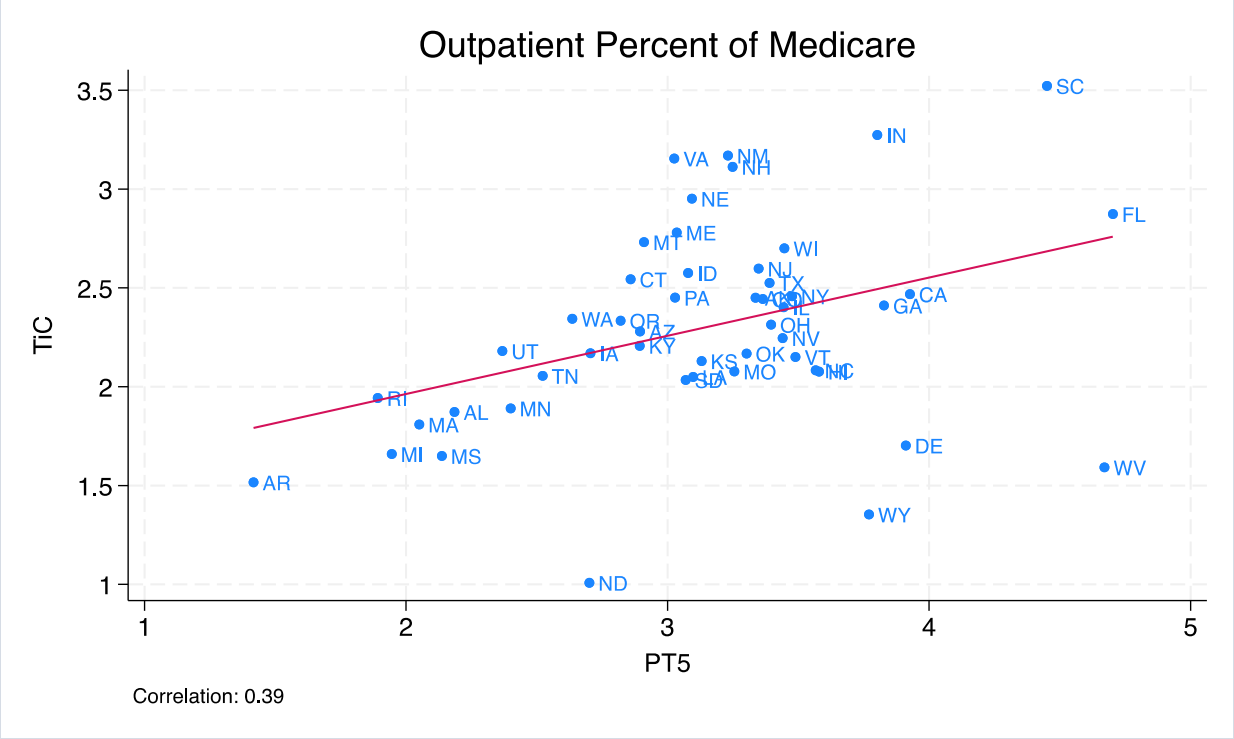


PT Study prices align with Transparency-in-Coverage (TiC) prices

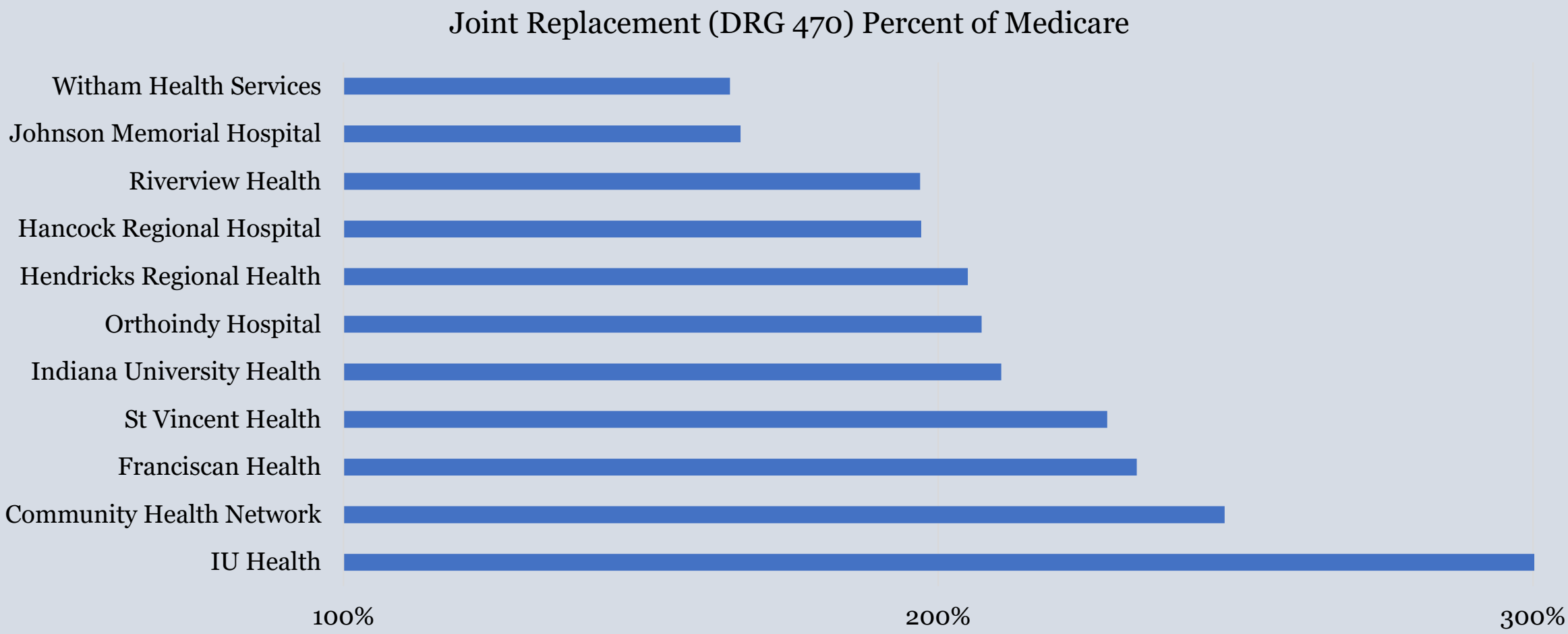
Inpatient



Outpatient



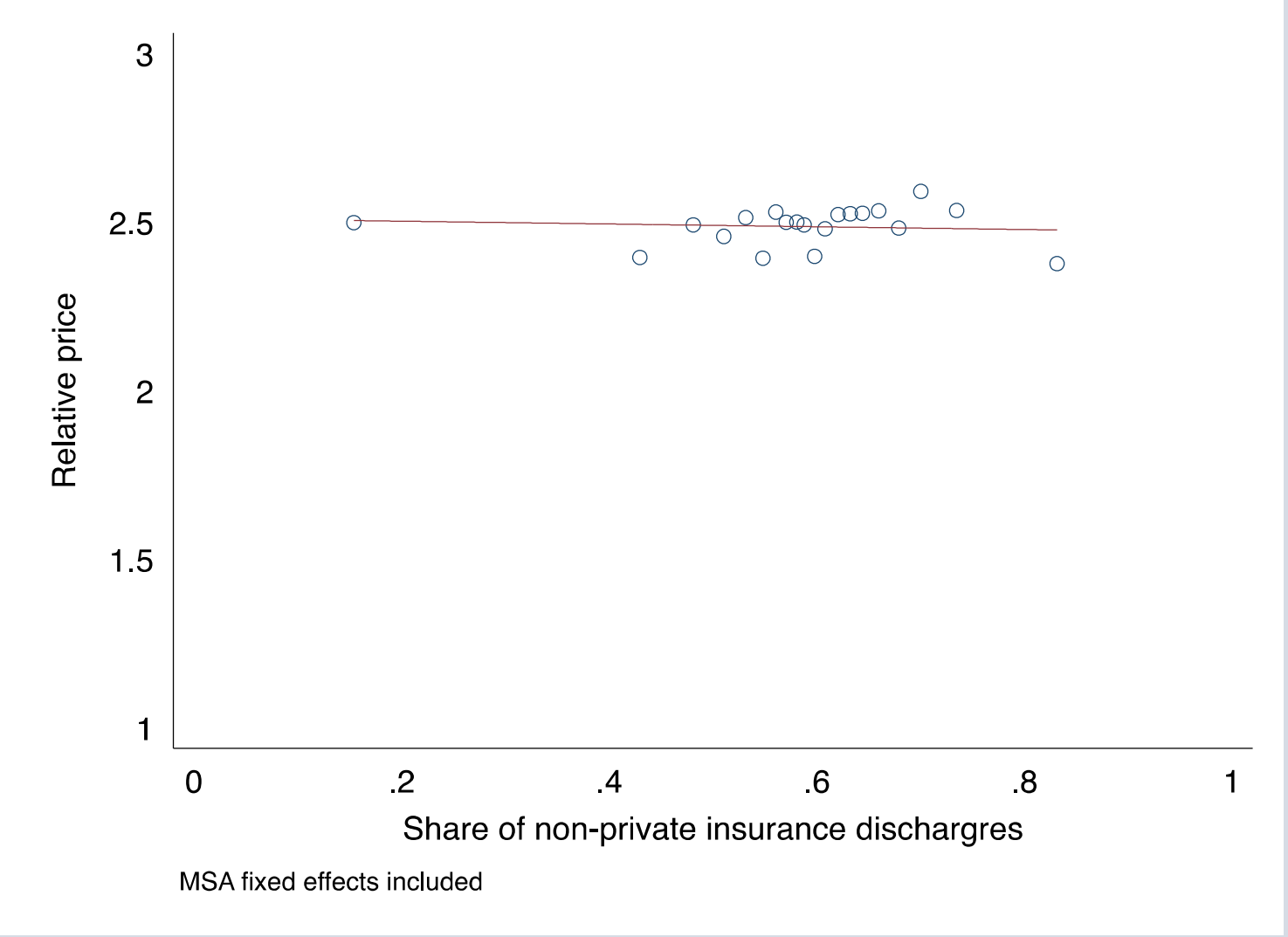
TiC data show wide variation in Indianapolis joint replacement prices



What drives prices?

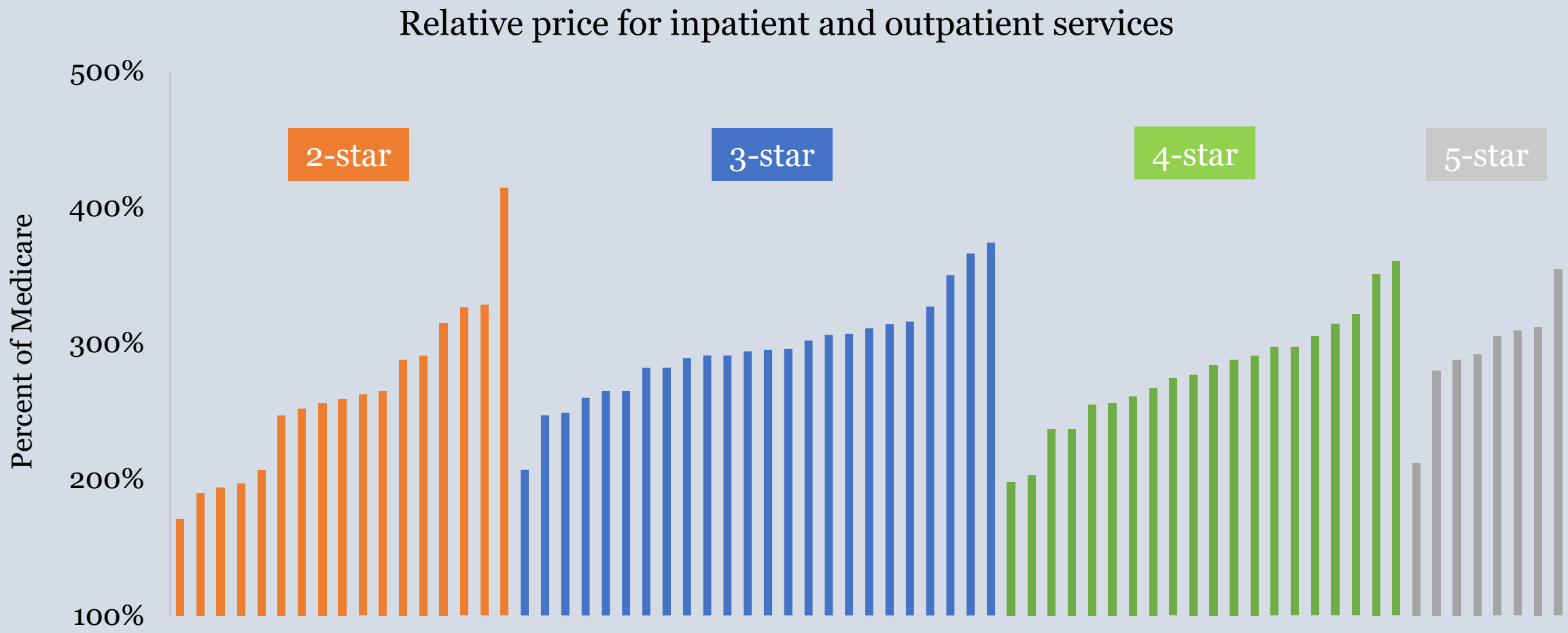
- **No correlation** with Medicare, Medicaid, or uncompensated patients (“cost shifting” not true)
- **Minimal correlation** with quality and outcomes
- **Strong correlation** with market power and concentration

Cost-shifting doesn't explain hospital prices

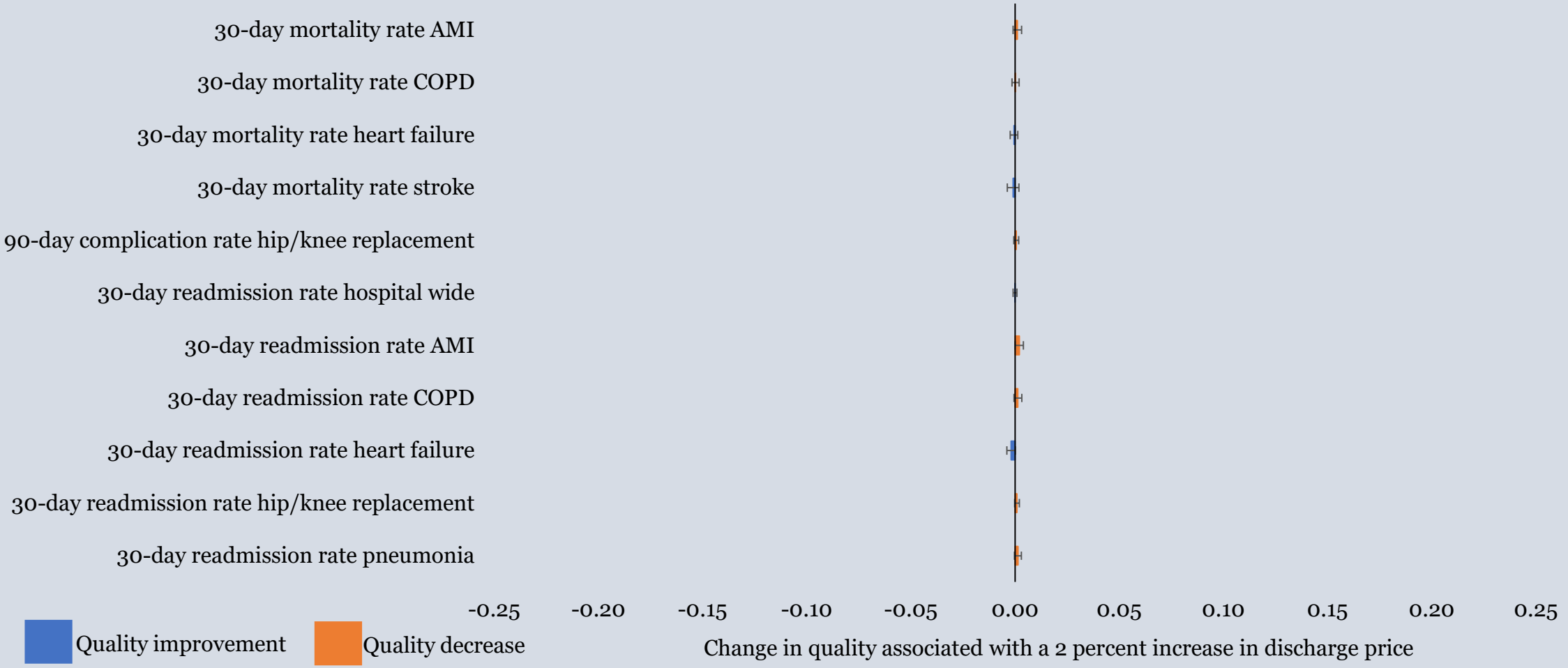


Prices are not linked to quality

No relationship between price and quality for Indiana hospitals

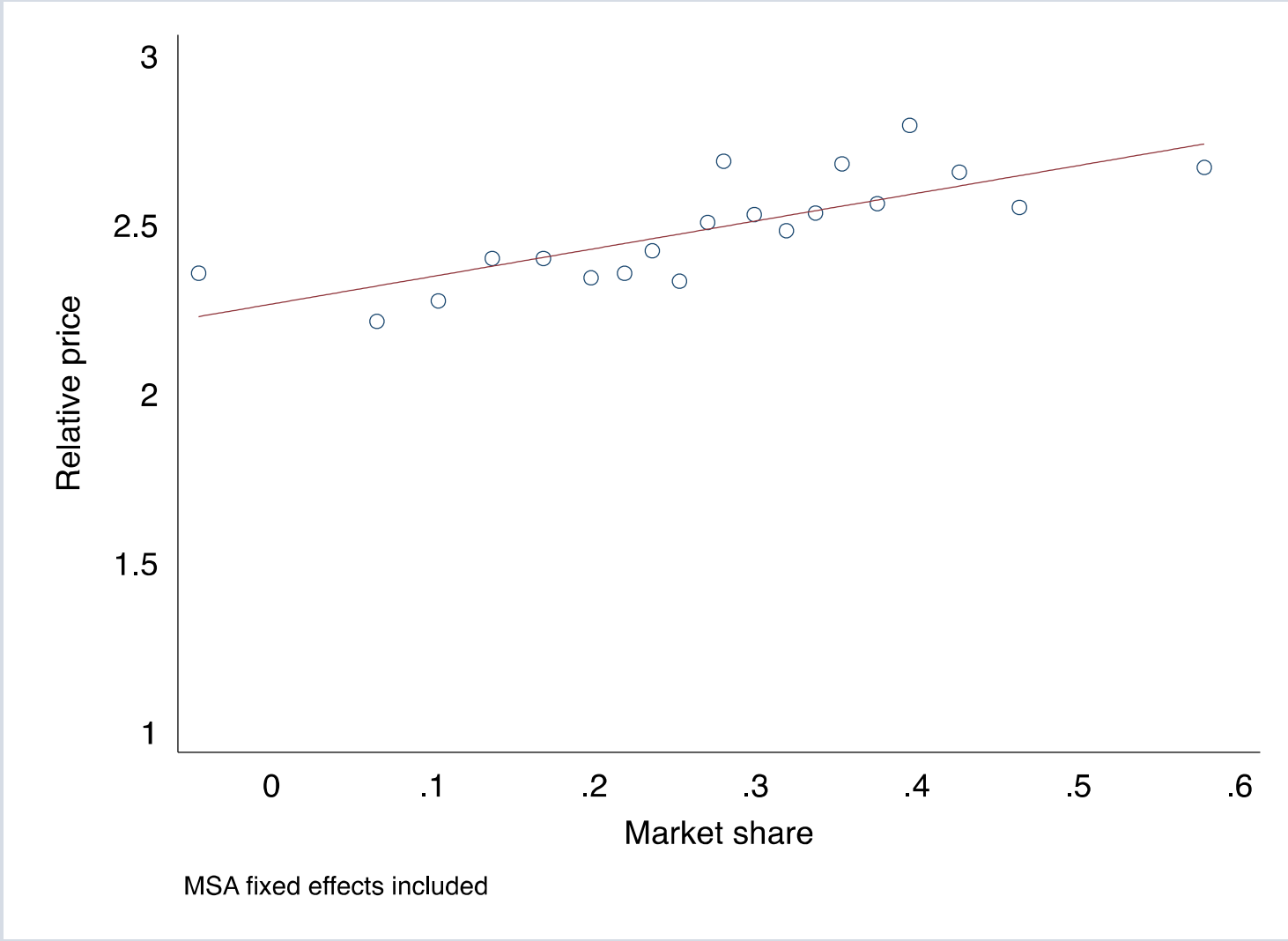


Hospital Price Increases Don’t Lead to Quality Improvements

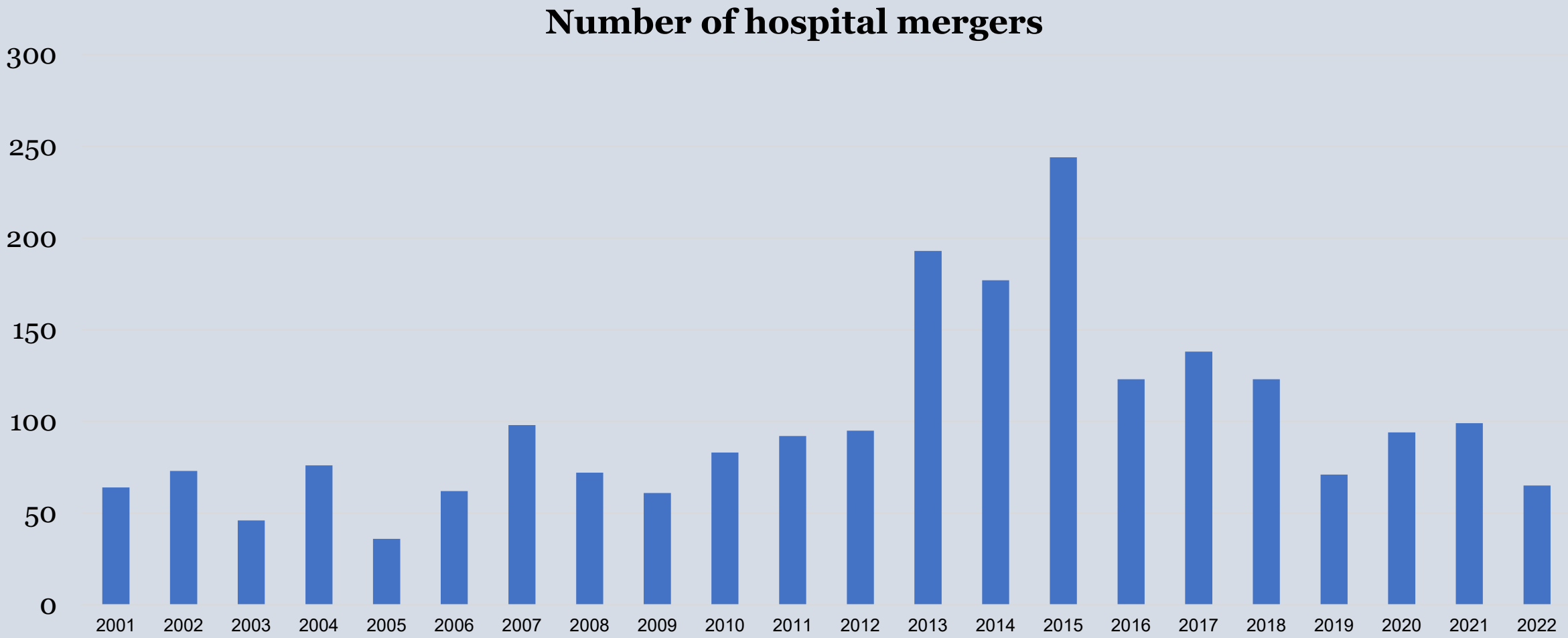


Source: Crespin and Whaley. 2022. “The Effect of Hospital Discharge Price Increases on Publicly Reported Measures of Quality.” *Health Services Research*.

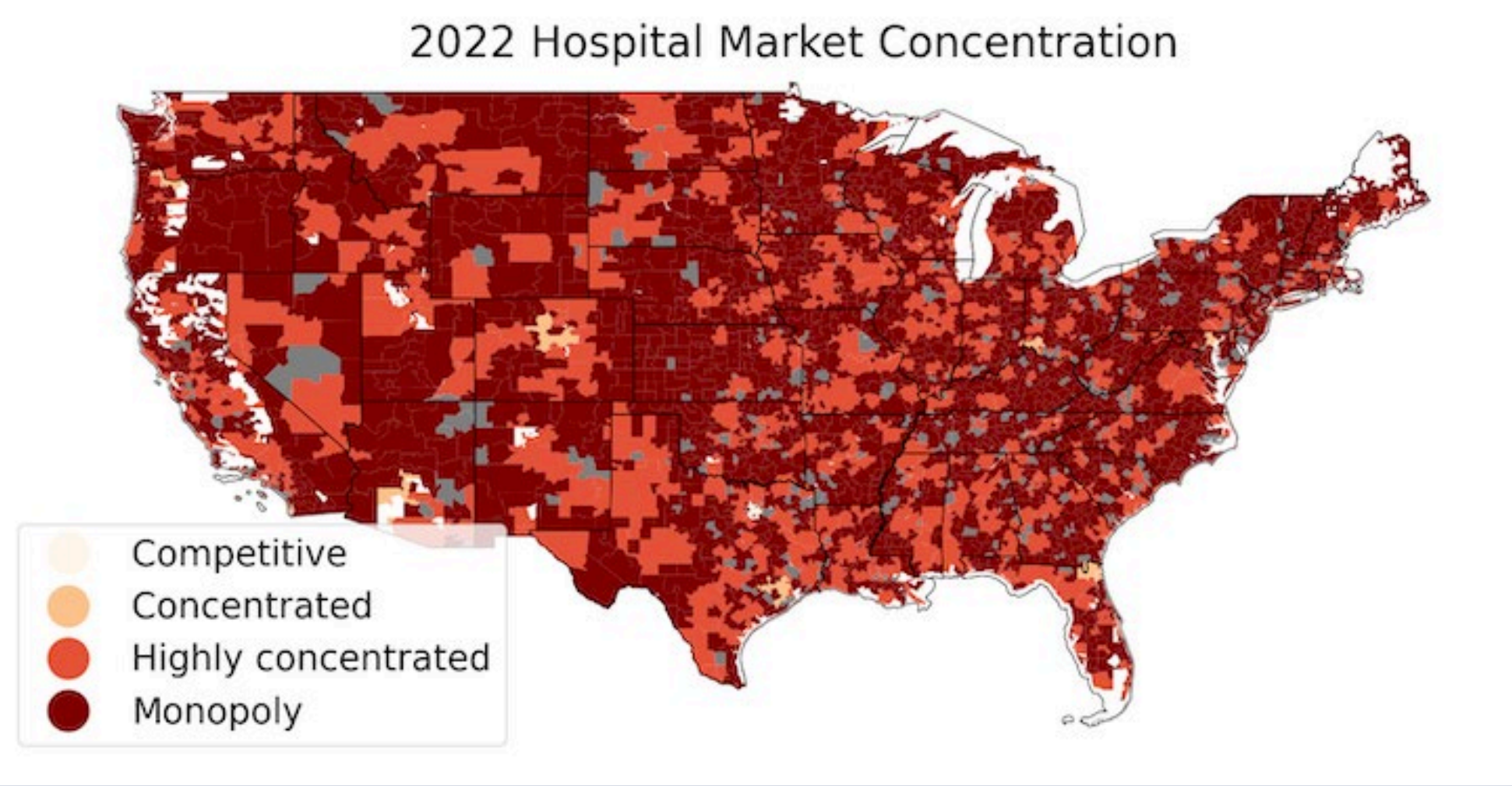
Market concentration drives prices



Over 2,000 hospital mergers since 2001

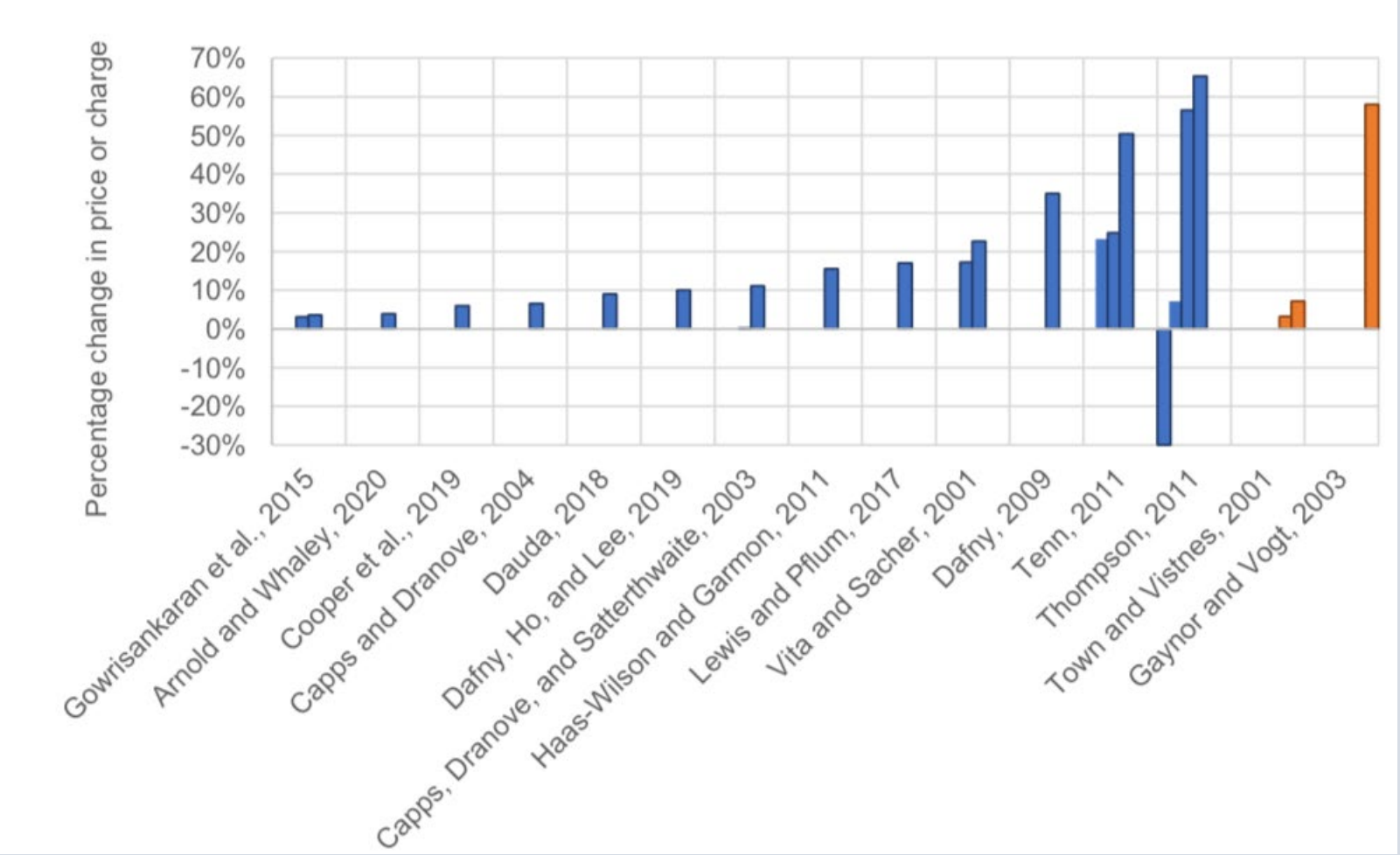


Hospital markets are not competitive



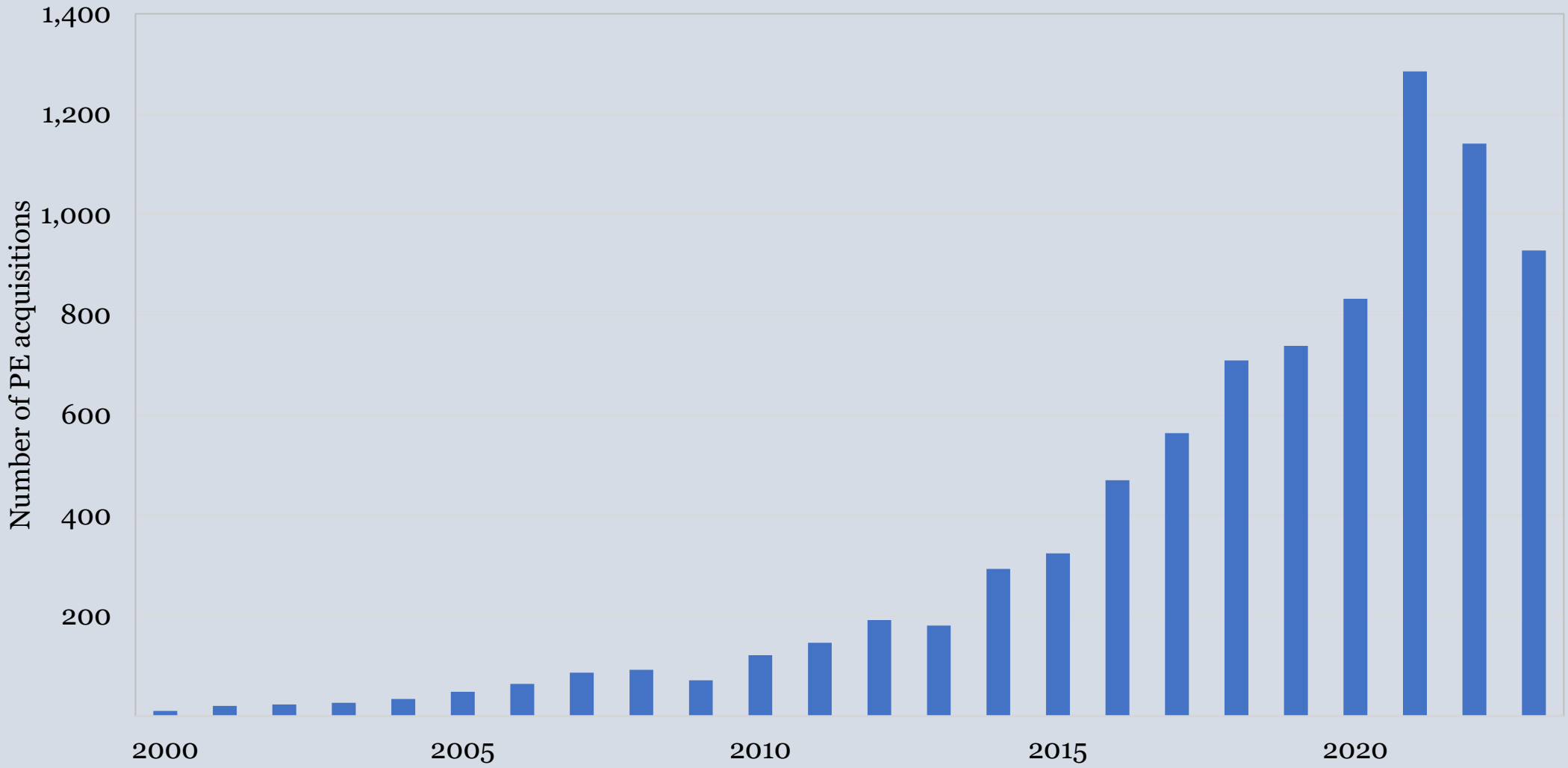
Hospital mergers increase spending and reduce wages

- 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."

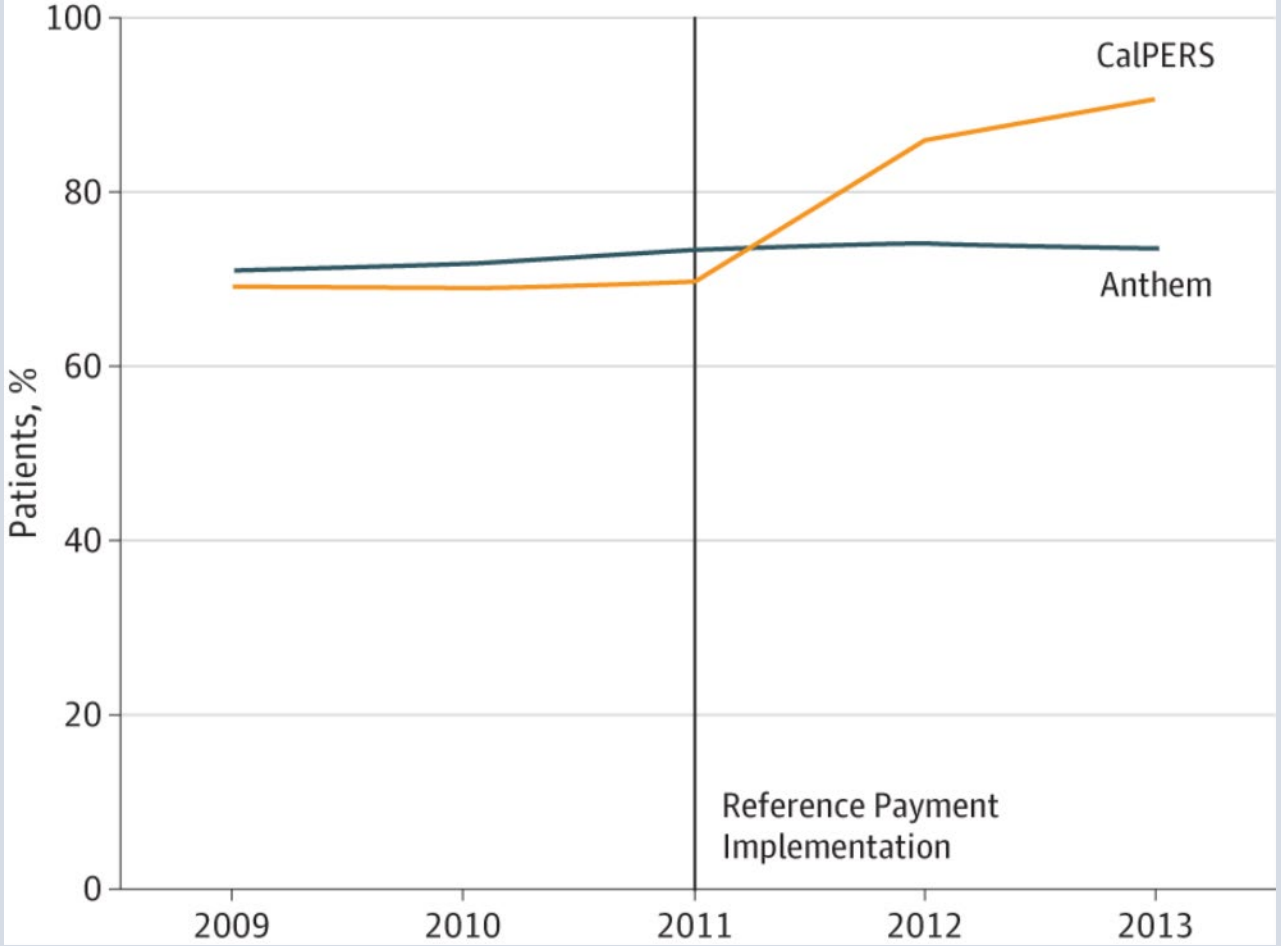
- *State legislator from low-priced state*

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

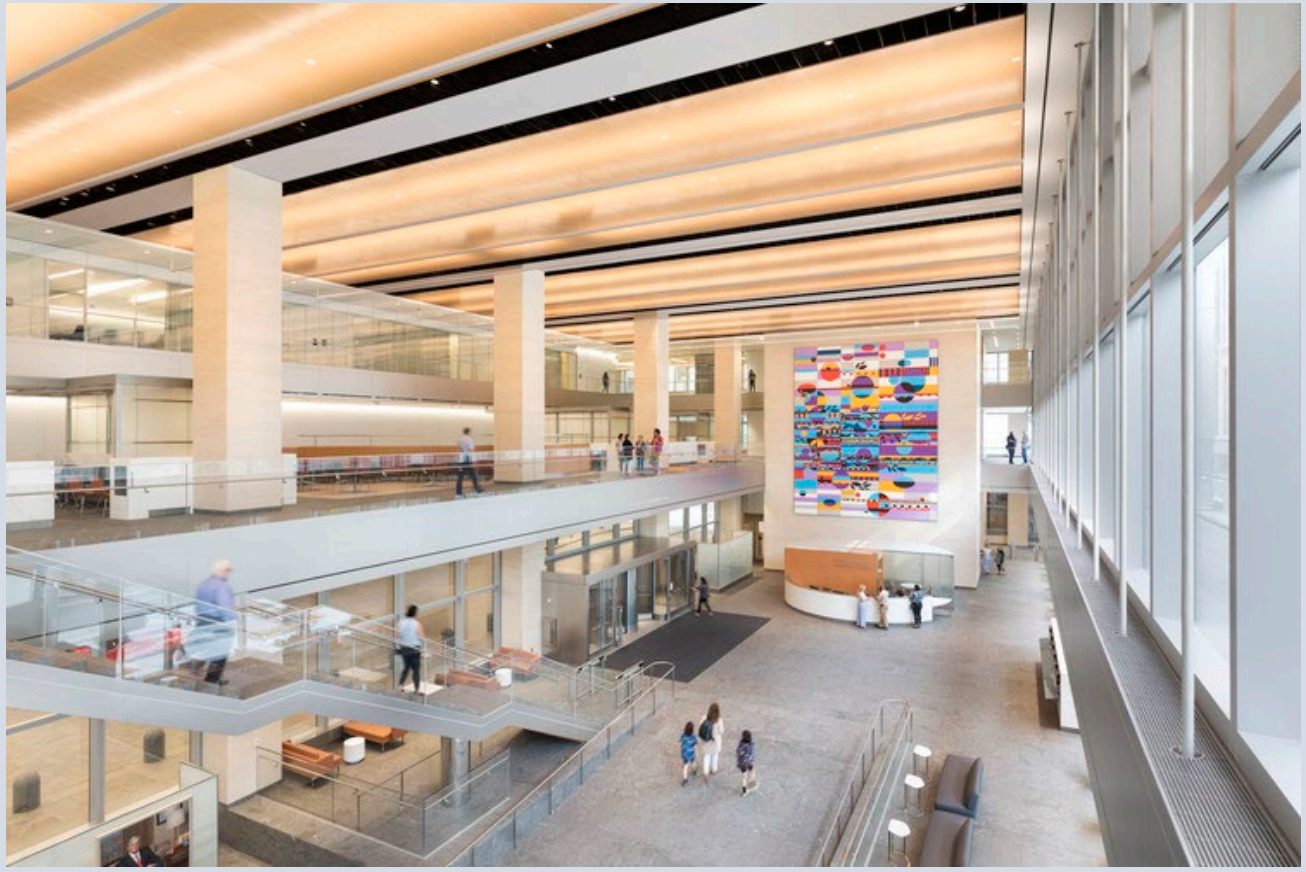
- Targeted financial incentives to use ASCs vs. HOPDs
- 20% savings on shoppable services
- $100 billion savings / year nationally



Source: Robinson, Brown, Whaley (2017) *Health Affairs*

32BJ Health Fund uses data to inform tradeoffs

New York Presbyterian: Over 300% of Medicare



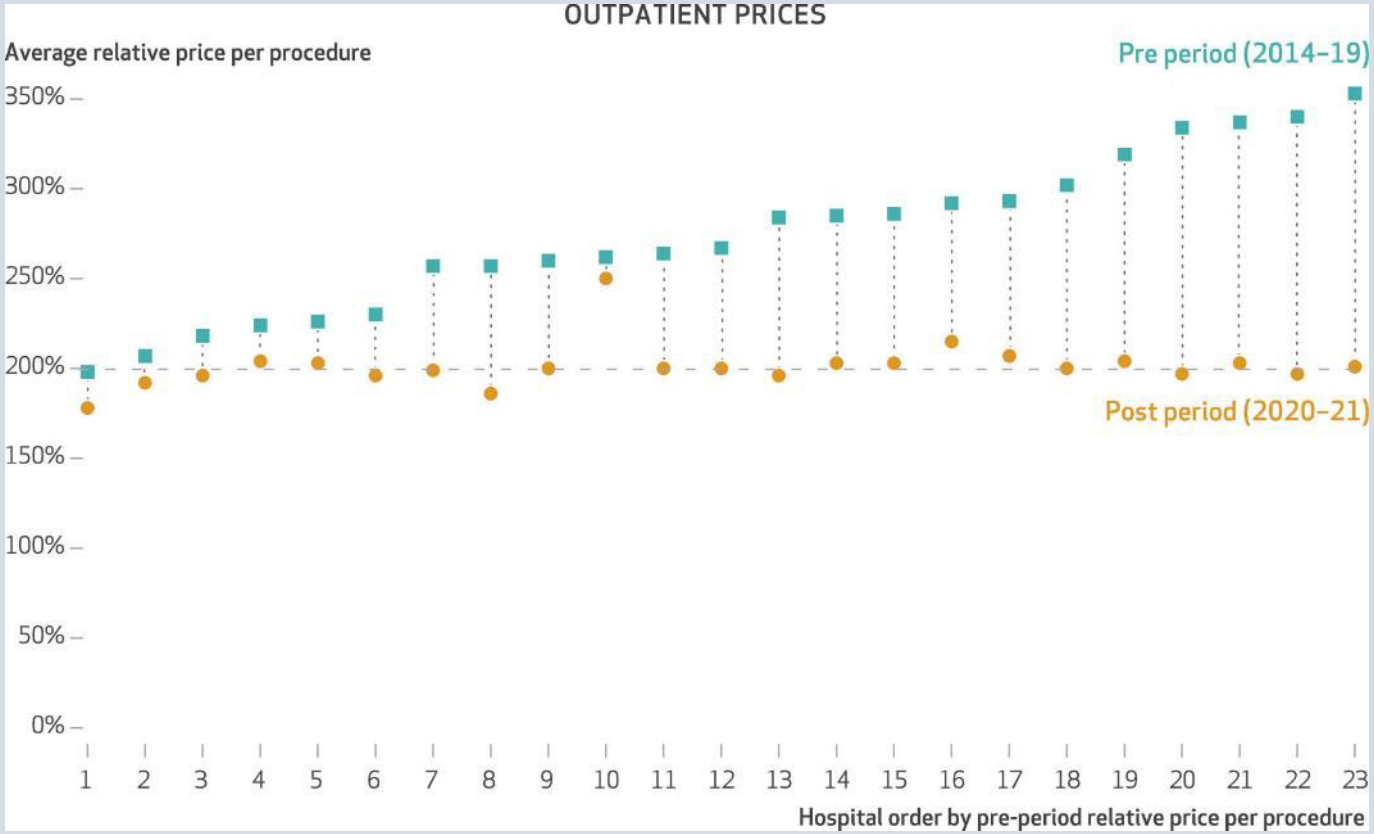
Who should pay?

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

Christopher Whaley
christopher_whaley@brown.edu