RAND Hospital Price Transparency Project

EMPLOYER’S FORUM OF INDIANA

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- Study conceptualized by Employer’s Forum of Indiana

Study team

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  Quantitative Analyst
Employer-sponsored plans cover half of Americans

- $1.2 trillion in health care costs in 2018
- $480 billion in hospital costs in 2018
- 160 million people
Over the past decade, premiums and deductibles have outpaced wages.

Self-funded employers 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?
Is the current system working?

“The market is working, and we should let it continue in the most consumer- and business-friendly manner possible.”

OPINION
Indiana’s hospital systems committed to health care affordability

April 7, 2022
Econ 101: Efficient markets require information

Prices should make sense

Hip Replacement (DRG 470) Price

- Signature-EPO
- Anthem HMO/PPO/Traditional
- Signature-Dual Choice
- Aetna
- Medicare Managed Care-UHC
- Managed Health Services
- UHC
- Medicaid Managed Care-Anthem
- ACA Caresource
- Medicare Managed Care-Humana
- Medicare Managed Care-Anthem
- Medicare Managed Care-Aetna

|$0| $15,000| $30,000| $45,000| $60,000| $75,000| $90,000 |

Why did RAND undertake this study?

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

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

Employers can use the information in this report—together with knowledge of their own employee populations—to decide if the prices they and their employees are paying align with value
Hospital prices in the time of COVID-19

• COVID-19 is placing enormous financial pressure on both hospitals and employers
• Hospitals and health professionals are critical members of their communities
• Health benefits are one of the largest expenses for employers
• Now more than ever, employers need transparent information about hospital prices
**RAND’s hospital study journey**

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
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<tbody>
<tr>
<td>Indiana</td>
<td>25 states</td>
<td>49 states (not Maryland)</td>
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<tr>
<td>Employers</td>
<td>Plus health plans and 2 APCDs</td>
<td>Plus 4 APCDs</td>
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<tr>
<td>Facility fees</td>
<td>Plus inpatient/outpatient fees</td>
<td>Plus professional fees</td>
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<tr>
<td>Relative prices</td>
<td>Plus standardized prices</td>
<td>Plus service-line prices</td>
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## RAND 4.0

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<tr>
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<td>Plus ASC prices and COVID hospitalizations</td>
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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

Create private hospital price reports for self-funded employers
Comparing prices can be challenging

- Every hospital is different and performs different services
- The Medicare system can help us standardize and make an “apples-to-apples” comparison

We make an apple pie—but with two recipes
Recipe #1: Percent of Medicare

- What do employers pay relative to what Medicare would have paid at the exact same hospitals?
- Easy to interpret and compare across hospitals
- Medicare adjusts for cost of living and wage differences
Recipe #2: Standardized prices

• Medicare has figured out how much more to pay for different services

For example: Medicare pays 34.65 times for a heart transplant (DRG 103) than for chest pains (DRG 143)

We can use these weights to
• Make comparisons across hospital services
• Compute average "walk out the door" amount

• Don’t have to worry about teaching, DSH, etc. payments
Comparison to Medicare

**RAND’S RECIPE**

- We leverage the Medicare payment system as a benchmark, not as a price endpoint
- Medicare prices and methods are empirically based and transparent
- Benchmarking to Medicare allows employers to compare prices between hospitals, relative to the largest purchaser in the world
Main findings

- Over 4,000 hospitals and 4,000 ASCs
- Wide variation in hospital prices across states
- Facility fees much higher than professional fees
- Prices for COVID hospitalizations mirror inpatient prices
- Prices for ASCs lower than HOPDs
Relative prices vary widely

Inpatient and Outpatient Relative Price

Indiana: 7th highest
Indiana facility prices are high relative to Medicare

Inpatient and Outpatient Relative facility prices

Indiana: 4th highest
Indiana inpatient facility prices are high relative to Medicare
Indiana Outpatient facility prices are high relative to Medicare
Indiana professional fees low relative to Medicare

Relative price, professional

Indiana: 4th lowest
States with APCDs have lower prices

Inpatient and Outpatient Relative Price

Percent of Medicare

0%  100%  200%  300%  400%
Wide range in COVID-19 hospitalization prices

Private standardized price, inpatient Covid stays
COVID hospitalizations mirrored inpatient prices

COVID inpatient care relative price ratio, commercial to Medicare
Top 20 highest-priced hospital systems

Relative price for inpatient services

New York Presbyterian Healthcare
John Muir Health
Sharp Healthcare
UC Health
WellStar Health System
Froedtert and The Medical College
Tidelands Health
McLeod Health
The University of Kansas Health S
Adventist Health System
Cottage Health System
Palmetto Health
Lee Health
Regional West Health Services
Adena Health System
Wellspan Health
Parkview Health System
Barton Healthcare System
Stanford Health Care
Archbold Medical Center
Some link between price and quality, but there are many high-quality hospitals with low prices.

CMS hospital star ratings by relative price group

Leapfrog hospital grades by relative price group
Non-private patients doesn’t explain hospital prices, but market share does

Circles represent number of beds

Price relative to Medicare

Share of non-private insurance discharges

Market share
ASC relative prices have remained stable, and lower than HOPD prices.
ASC relative prices vary across states
ASCs are lower-priced than HOPDs, and price gap is larger for Commercial than Medicare

Mean prices
ASC: $2,404
HOPD: $6,304
How can employers and policymakers use price transparency?

Finally have information about prices

Benchmark prices

Change hospital networks
Employers are collecting information about prices

- The Colorado Business Group on Health used RAND 2.0 data to produce a report on value of Colorado hospitals
- The report proposed options for Colorado employers to address prices in their specific markets
Employers are using data to benchmark prices

A similar RAND study commissioned by self-insured employers in Indiana spurred action…In response, 12 self-insured companies asked Anthem Blue Cross and Blue Shield to develop new health plan options.

Harris Meyer (2020) “Self-insured employers go looking for value-based deals” Modern Healthcare
Anthem is attempting to support a core goal of the RAND study by holding hospital systems accountable for their prices, which in turn will benefit our employees' mental and physical health and their financial wellness.

—Purdue Senior Director of Benefits
Conclusions

Rising health care costs place pressure on employers and worker wages—especially during the COVID-19 pandemic.

The wide variation in hospital prices presents a potential savings opportunity for employers.

Employers need to demand transparent information on the prices they—and their employees—are paying.

Employers need to use transparency to inform benefit strategy.
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