

# Approximate Savings from Lowering Indiana Not-for-Profit Commercial Hospital Facility Prices to 260% of Medicare

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## KEY FINDINGS

Per the RAND 4.0 study, the hospital commercial facility price mean in Indiana was 329% of Medicare prices in 2020, while the average in the U.S. was 260% of Medicare prices. The mean price for the subset of Indiana non-critical access, non-profit hospitals that would be affected by a benchmark of 260% of Medicare was 365%. If the average prices for this subset of hospitals were to decrease to 260% of Medicare, the following would be observed:

- **The Impact for Working Families/Employers: approximately \$2.0 billion in savings in 2020.**
- The Impact for this subset of Hospitals: The \$2.0 billion represents a reduction in net income for non-profit hospitals from a total of \$3.5 billion to \$1.5 billion. This means that Indiana non-CAH, not-for-profit hospitals' net income margin would have declined from 18.6% to 8.8%.

## Background

The RAND 4.0 study compares hospital commercial prices (which represent what employers and their employees pay) to what Medicare would have paid for the exact same services and reports these as a percentage of Medicare prices. It also provides data on standardized prices. In 2020, Indiana's total hospital commercial facility prices (which represents both hospital inpatient and outpatient facility prices without physician payment) averaged 329%. This means that, on average, Indiana commercial hospital prices are over 3 times what Medicare would have paid for the same hospital services. The 2020 U.S. hospital commercial facility mean was 260% of Medicare. Indiana had the 4<sup>th</sup> highest hospital facility prices in the country.

The National Academy for State Health Policy created the Hospital Cost Tool (HCT), an online searchable website that contains 11 years of hospital financial data for over 4600 hospitals. The data source for the HCT is the CMS Cost Reports, which are reports that hospitals executives submit to CMS annually.

## Purpose

The purpose of this analysis is to estimate the amount of money that would be saved annually if the Indiana legislature benchmarked non-Critical Access (non-CAH), not-for-profit Indiana hospital commercial facility prices to 260% of Medicare.

## Methods

Publicly available data sources used for this analysis include the National Academy for State Health Policy's HCT, the Rand 4.0 study, the UC Berkeley Petris Center analysis of Indiana insurance markets, and the American Community Survey. This analysis uses 2020 financial data from the HCT. 2021 HCT

data was not used because information from Indiana University Health-Indianapolis (the largest hospital in Indiana) was not yet available in the HCT at the time of this analysis. The individual hospital facility price information is from the Rand 4.0 study using 2018-2020 price data.

**Analysis – Refer to Supplement Excel Spreadsheet for tabs, cells, and column numbers**

From the HCT information:

1. Summed net patient revenue (cell K38) and net income (cell K38) for all reporting Indiana hospitals for 2020 (Excel Tab #1 and Tab #2).
2. Determined commercial net patient revenue for all acute care Indiana hospitals by dividing reported commercial operating gains by operating profit margins (Excel Tab #3).
3. Identified the non-CAH, non-profit hospitals and computed net patient revenue (cell R55) and net income (cell T55) in the analysis tab (Excel Tab #4).
4. Determined that, of the \$25.1 billion in net patient revenue, \$14.8 billion (or 59%) was reported as “commercial” revenue for the state of Indiana.
5. Determined that 76% or \$11.298 billion, (cell CI55 of Tab #4) of this commercial patient revenue accrued to non-CAH, non-profit hospitals. This is what would potentially be impacted by an Indiana benchmark.

**Indiana 2020**

<i>Total Revenue and Net Income</i>	All Hospitals	Not for Profit Only	NFP %
Total Net Patient Revenue	\$25,142,495,178	\$18,970,587,098	75.5%
Total Net Income	\$4,243,408,086	\$3,527,576,657	83.1%
Net Income Margin	16.9%	18.6%	
<i>Commercial Revenue and Operating Gains</i>			
Commercial Net Patient. Revenue	\$14,800,374,917	\$11,298,906,090	76.3%
Commercial % of total Revenue	58.9%	59.6%	
Commercial Operating Gains	\$8,174,460,171	\$6,535,956,698	80.0%
Commercial Operating Margin	55.2%	57.8%	

The information from the RAND 4.0 study for Indiana is derived from self-funded and fully-insured employers, primarily from the two largest health insurance companies per request of Indiana employers. The RAND study does not include price information from marketplace plans, Veterans Affairs community (VA-Community), Tri-care, HMOs and other regional or local plans.

To estimate savings, the hospitals with RAND prices above 260% of Medicare are analyzed. Their commercial net patient revenue was \$10.682 billion (Tab #4, cell CI62). The next step is to estimate the proportion of hospital-reported commercial revenue that was reflected in the RAND study. The proportion of commercial revenue that is covered by employer sponsored insurance (ESI) is estimated based on the American Community Survey (using a 5 year average to offer stability in this number). Then, the proportion of that revenue that is covered by the largest health insurance companies in Indiana is applied. This is based upon public information from the UC Berkeley Petris Center Indiana report. This produces an estimate that of the \$10.682 billion in commercial revenue, the benchmark would apply to \$7.089 billion.

#### Coverage Information

Total hospital commercial revenue above 260%*	\$10,682,918,141	
Share of commercial population covered by ESI+	84.0%	
ESI revenue	\$8,973,651,239	Combined %
Estimated ESI Market Share of included insurers**	79.0%	<b>66.4%</b>
Estimated ESI spending of included insurers	<u>\$7,089,184,478</u>	

\* HCT database, Not for Profit, Non-CAH

+ American Community Survey, 5-year estimates

\*\*Petris Center Report

#### Estimated Savings for non-CAH, non-profit hospitals (Excel Tab #4):

The Indiana state mean commercial hospital facility price in 2020 was 329% of Medicare. When RAND prices are applied to individual, non-CAH, non-profit hospitals and only to those hospitals whose prices are above 260% of Medicare, the mean commercial hospital facility price of this hospital subset increases to 365% of Medicare (cell CM62). If this subset of hospitals whose average is 365% were to fall to 260% of Medicare, prices at these hospitals would decline by 28.73% and **this would result in \$2.037 billion per year in savings for Hoosier working families and their employers** (cell CS31).

#### Benchmark

Rand 4.0 Facility-only Medicare %, 2020, Sup 7-1, Table 3	365%
Benchmark	260%
Necessary Reduction	-28.73%
Applicable to this \$ amount	\$7,089,184,478
Necessary Reduction to meet benchmark	<b>(\$2,036,911,726)</b>

This \$2.036 billion represents a reduction in net income for hospitals from a total of \$3.527 billion to just under \$1.5 billion. **As a result, Indiana not-for-profit hospitals' net income margin would have fallen from 18.6% to 8.8%.<sup>i</sup>**

#### 6. The Effect on Indiana's 5 Largest Health Systems (Excel Tab #5).

The financial effect on the 5 largest non-profit health systems is estimated using various benchmarks by starting with 350% of Medicare and reducing this in steps to 260%. First, the commercial revenue for the non-profit hospitals in each system is determined (columns CI-CM), and then the estimated proportion of this revenue that is affected by a benchmark is calculated (cell CP6-CU6). Then, an average price for each health system based upon the RAND prices in each hospital, weighted by their commercial revenue volume, is calculated (cell CP7-CT7). Finally, prices are compared to the various benchmarks to produce an estimate of savings at each step. All savings in the following table are cumulative. For example, the savings at benchmark 325% of Medicare (\$174.5 million for Ascension) includes the savings of \$105 million shown immediately above for the 350% of Medicare benchmark.

Not for Profit Hospitals of Large Systems	Ascension Health	Community Health Network	Franciscan Health	IU Health	Parkview Health	Total
# of Hospitals	6	5	9	6	4	30
Commercial Pt. Revenue	\$1,623,676,593	\$1,225,231,578	\$1,251,715,009	\$3,289,928,683	\$997,791,056	\$8,388,342,919
Proportion affected*	\$1,077,471,787	\$813,063,675	\$830,638,080	\$2,183,196,674	\$662,134,145	\$5,566,504,361
Prices in RAND 4.0	<b>388%</b>	<b>369%</b>	<b>320%</b>	<b>368%</b>	<b>425%</b>	
<b>Cumulative Savings at Benchmark:</b>						
350%	\$105,067,126	\$42,383,686		\$109,106,155	\$117,316,508	\$373,873,475
325%	\$174,524,602	\$97,432,256		\$257,255,478	\$156,232,053	\$685,444,390
300%	\$243,982,078	\$152,480,827	\$51,839,518	\$405,404,801	\$195,147,599	\$1,048,854,823
275%	\$313,439,553	\$207,529,398	\$116,739,398	\$553,554,124	\$234,063,144	\$1,425,325,617
260%	\$355,114,039	\$240,558,540	\$155,679,326	\$642,443,717	\$257,412,472	\$1,651,208,094
<b>*Proportion affected by Benchmark</b>		<b>66.4%</b>				

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## References

1. RAND 4.0 study, titled *Prices Paid to Hospitals by Private Health Plans, Findings from Round 4 of an Employer-Led Transparency Initiative*, using July 2022 data file update: [https://www.rand.org/pubs/research\\_reports/RRA1144-1.html](https://www.rand.org/pubs/research_reports/RRA1144-1.html)
2. National Academy for State Health Policy (NASHP) Hospital Cost Tool (HCT), using November 2022 data file update: <https://tool.nashp.org/>
3. UC Berkeley Petris Center. *Indiana's Soaring Hospital Prices and Unaffordable Insurance Premiums: Causes and Potential Solutions*, October 2022: <https://petris.org/wp-content/uploads/2022/10/Petris-Center-Report-on-Indianas-Hospital-Prices-and-Insurance-Premiums-10.06.22.pdf>.
4. American Community Survey data, obtained from the Integrated Public Use Microdata Series: IPUMS USA, University of Minnesota, [www.ipums.org](http://www.ipums.org)

<sup>i</sup> This is computed by subtracting the reduction (\$2.036) from both the net patient revenue and net income of the not-for-profit hospitals in the first table above and then dividing net income by net patient revenue.