Prices Paid to Hospitals by Private Health Plans: Round 5

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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 high prices

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

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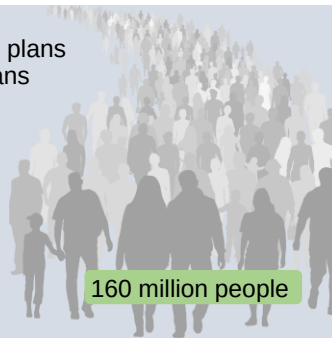
Employer-sponsored plans cover half of Americans

$1.3 trillion
health care costs

$490 billion
hospital costs



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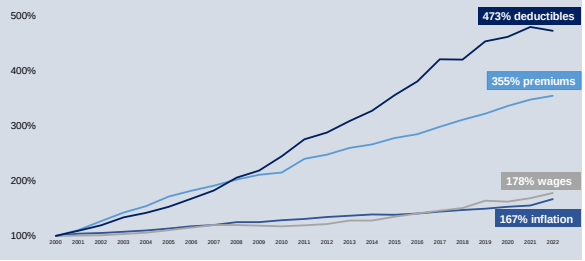
Premiums and deductibles outpace wages



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Rising hospital prices drive spending growth

5

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?

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Recent lawsuits target employers (and HR execs) for beach 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:

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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

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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

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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 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

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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

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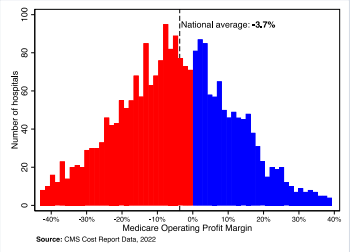
Medicare rates are nationally close to break even



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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
- 4.5% of US hospital commercial insurance spending
- 17 states with more than 5% of commercial spending

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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

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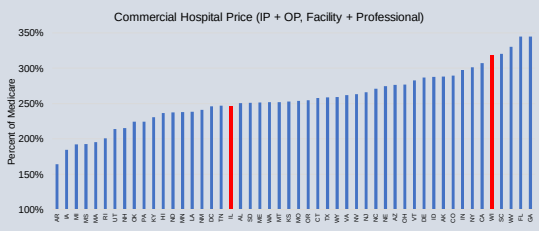
Hospital prices paid by employers are high and variable



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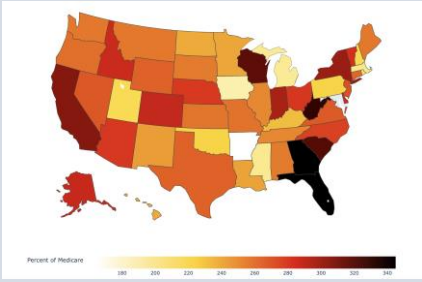
Hospital prices are all over the map



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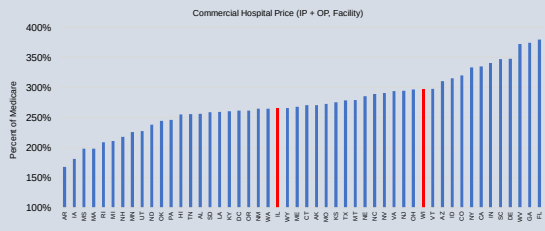
Facility fees drive hospital prices



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Less variation in professional fees, but WI leads nation

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Prices are similar as percent of Medicare or standardized prices

Inpatient

Outpatient

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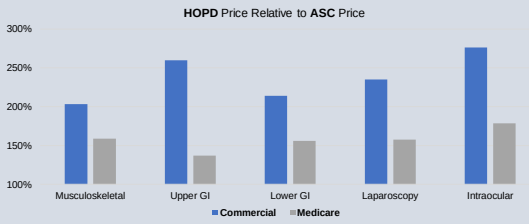
Site-of-care payment differentials are 50% larger in commercial than in Medicare



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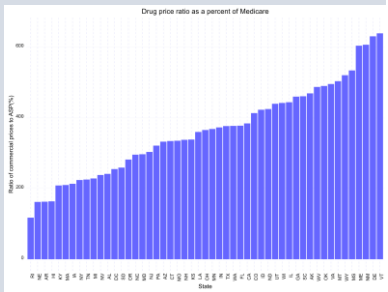
Hospitals charge high markups on cancer drugs

- Hospitals average 178% margins on administered, with large variation
- 340B hospitals able to acquire drugs for large discounts, but don't pass savings to patients (NEJM, 2024)



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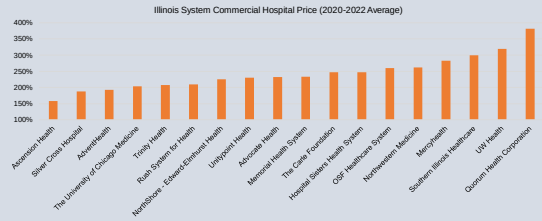
Illinois hospital prices vary widely



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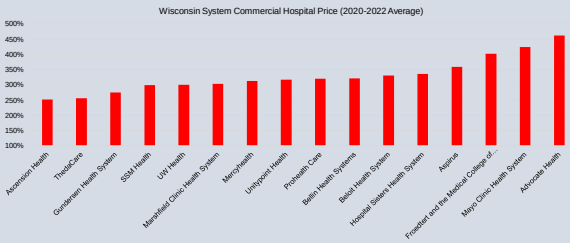
Wisconsin hospital prices vary widely



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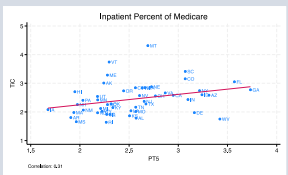
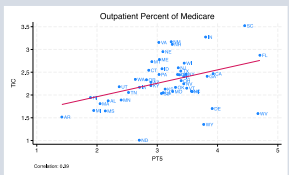
PT Study prices align with Transparency-in-Coverage prices

Inpatient



Outpatient



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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

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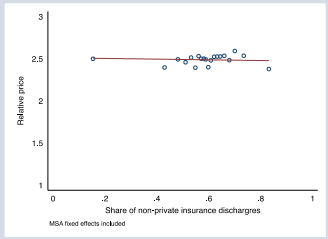
Cost-shifting doesn’t explain hospital prices



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Prices are not linked to quality

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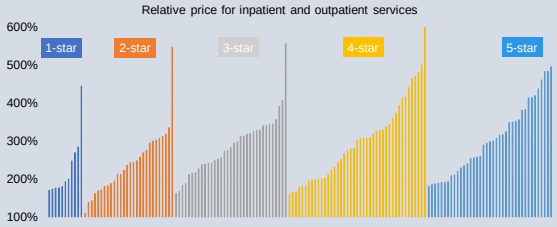
No relationship between price and quality for Illinois and Wisconsin hospitals



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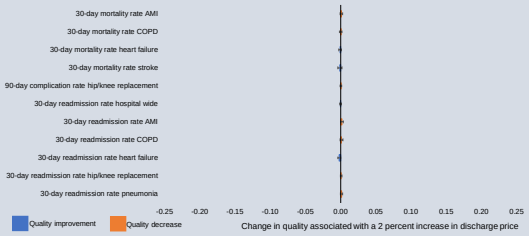
Hospital Price Increases Don't Lead to Quality Improvements



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

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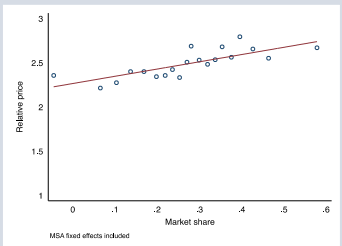
Market concentration drives prices



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Over 2,000 hospital mergers since 2001

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US hospital markets lack competition

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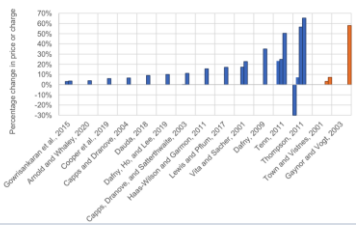
Hospital mergers increase spending and reduce wages

- Hospital mergers over the 2012 to 2022 period have led to
  - $3.7 trillion increase in employer spending
  - $840 billion lower wages
- Hospital 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

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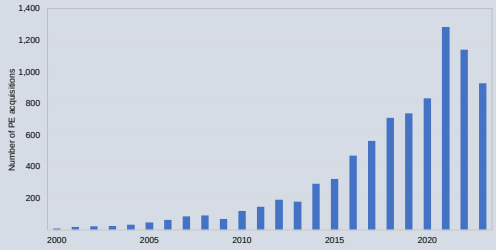
Private Equity health care acquisitions have skyrocketed and are a new wave of consolidation



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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*

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What is the road ahead?


It's Time For Employers To Bring Health Care Decisions In-House

- 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

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What can employers and purchasers do?

Transparency and access to their own data is key for employers to be responsible fiduciaries

Several employers and purchasers have used price transparency to break the mold and innovate

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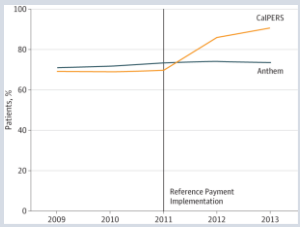
CalPERS saves money by increasing use of ASCs

- 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*

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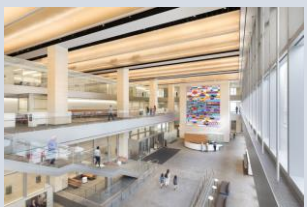
32BJ Health Fund uses data to inform tradeoffs

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.

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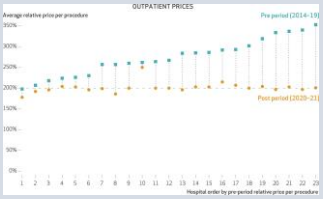
Reference-based pricing saves money

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

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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

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Thank you

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