

Private payments for hospital care in Indiana are high relative to Medicare, study finds

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The prices that large employers pay for hospital care in Indiana are high relative to national norms and are increasing over time relative to the prices that Medicare pays for the same services, according to a new RAND Corporation study.

The price of [hospital](#) care varied widely among groups of hospitals and hospital systems, ranging from less than two times the rate Medicare pays for the same services to more than 3.5 times what Medicare pays, according to the analysis. The state's largest hospital systems generally command the highest prices.

The study found the prices paid for hospital outpatient care in Indiana averaged 3.5 times what Medicare would have paid for the same services. Although there are no studies that benchmark the cost of such care nationally, other research has suggested that Indiana has high outpatient hospital costs.

"The prices that employer-sponsored health plans pay for hospital services in Indiana are unreasonably high, especially for outpatient services," said Chapin White, the study's author and a senior policy researcher at RAND, a nonprofit research organization. "With this information, employers can develop strategies over the next several years to gradually rein in the high prices they pay for hospital services."

While previous studies have examined the relative cost of hospital care, the RAND study is the first to include details about the prices paid to

individual hospitals and health systems rather than reporting results in an aggregated or blinded fashion.

RAND was asked by the Employers' Forum of Indiana to analyze insurance claims data to provide insight into the prices employers pay to hospitals. The goal was to provide information to help employers become better-informed purchasers of [health care](#) and stronger advocates on behalf of their employees.

Despite spending more than half a billion dollars on hospital care over a three-year period, the employers that participated in the study previously had only limited information about the prices they pay hospitals for their workers' health care, limiting their ability to negotiate lower prices.

The RAND study calculated the average prices paid for hospital services in Indiana by analyzing insurance claims data provided by a group of employers that chose to participate in the study. Participating employers provide coverage to 225,000 people, representing about 7 percent of the Indiana population with [employer](#)-sponsored health coverage. The study is based on claims for services provided from July 2013 through June 2016.

The study includes details about the payments to hospitals and hospital systems relative to the payments made by Medicare for the same services. Parkview Health system had the highest prices at 3.7 times the rate paid by Medicare, with Deaconess Health System at the low end with prices at 1.2 times the Medicare rate.

The overall average price for inpatient hospital care in Indiana was 2.17 times the Medicare rate. A recent study using national data on payments for inpatient hospital care found the average price paid by private plans was 1.75 times the Medicare rate.

The RAND study found that the relative price of [hospital care](#) in Indiana rose over the three-year study period, with particularly steep increases for two hospital systems—Parkview Health and Community Health Network.

"By itself, increased price transparency will not bring down prices, but it can enable employers and other purchasers to change their health benefit design in ways that reduce costs," White said.

The report suggests two approaches that employers in Indiana can take to reduce the amount they pay for services at the state's hospitals.

One would be to move away from agreements where employers pay a discount of the charges billed by hospitals. Paying hospitals discounted charges encourages hospitals to aggressively inflate charges, according to the report. A better approach is to contract with hospitals to pay a prospectively determined amount for each procedure, which could be accomplished by paying a fixed multiple of the prices set by Medicare.

A second approach might be to use benefit design to move patients away from high-priced hospitals and health systems to lower-priced providers.

"Employers play a key role in the U.S. [health](#) care system, but to be smart shoppers they need solid information on the care they are buying and the prices they are paying," White said. "Alternative payment models, like shared savings or bundling, get a lot of attention. But this study shows that we also need to focus on the basics, and do more to rationalize prices in existing fee-for-service payment systems."

Provided by RAND Corporation

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