

Here's one reason why US healthcare costs so much

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Credit: Anne Lowe/public domain

There is substantial waste in U.S. healthcare, but little consensus on how to identify or combat it.

New research from the University of Chicago Booth School of Business identifies one specific source of waste: long-term care hospitals.

In the working paper, "[Long Term Care Hospitals: A Case Study in Waste](#)," Chicago Booth Professor Neale Mahoney, Stanford University's Liran Einav and MIT's Amy Finkelstein, find that most patients in long-term care hospitals would receive similar or better care at a skilled nursing facility at a lower cost.

The paper, released as a National Bureau of Economic Research Working Paper, concludes that Medicare could save about \$4.6 billion a year—with no harm to patients—by simply eliminating the concept of long-term care hospitals as an institution with its own reimbursement schedule, and reimbursing the institutions as skilled nursing facilities instead.

The long-term care [hospital](#), which provides an average inpatient stay of at least 25 days, came into being in the early 1980s when Congress carved out this small group of hospitals from a payment reform. The regulations made it possible for these long-term care hospitals to receive substantially higher reimbursements than traditional hospitals.

This loophole, the researchers write, prompted the number of long-term care hospitals to soar from a few dozen in the 1980s to more than 400 today. In 2014, they accounted for \$5.4 billion in annual Medicare spending, the study says.

"They are unique to the U.S. health care system, and, to the best of our knowledge, do not exist in any other country," Booth's Mahoney and fellow economists write.

The study focused on new long-term care hospitals entering local hospital markets between 1998 and 2014. The researchers tracked patients leaving a general acute-care hospital for the new long-term care hospital. Moving the patient to the long-term care hospital triggered a significant increase in Medicare spending and out-of-pocket costs for

patients, researchers wrote.

Long-term care hospitals cost the federal government three times as much as less expensive facilities, the study finds. In 2014, for example, long-term care hospitals were reimbursed at about \$1,400 per day compared to about \$450 at skilled nursing facilities that provided medically similar care. Yet, even at the higher cost, the researchers found no evidence that long-term care hospitals increased the probability of patients going home or reduced the chances of the [patients](#) dying within the 90 days after being admitted.

The authors conclude with a note of caution about the political impediments to payment reform.

"The \$4.6 billion of incremental spending generated by long-term care hospitals every year may look like "waste" to the health economist, but to the (largely for-profit) industry it might more accurately be referred to as "rents." This suggests a large financial incentive on the part of long-term care hospitals to block major regulatory changes, and may help explain their continued survival."

Provided by University of Chicago

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