

Report finds private health plans paid hospitals 254% of what Medicare would pay during 2022

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Prices paid to hospitals during 2022 by employers and private insurers for both inpatient and outpatient services averaged 254% of what Medicare would have paid, with wide variation in prices among states, according to a new RAND report. The report, "[Prices Paid to Hospitals by Private Health Plans: Findings from Round 5 of an Employer-Led Transparency Initiative](#)," is authored by Christopher Whaley, Rose Kerber, Daniel Wang and Aaron Kofner.

Some states (Arkansas, Iowa, Massachusetts, Michigan, Mississippi) had relative prices under 200% of Medicare, while other states (California, Florida, Georgia, New York, South Carolina, West Virginia, Wisconsin) had relative prices that were above 300% of Medicare.

Even as the number of hospitals and [insurance claims](#) analyzed has grown across multiple rounds of the RAND Hospital Price Transparency Study the state-level average price has remained above 200% of Medicare—from 247% of Medicare prices in 2018 to 224% in 2020 and to 254% in 2022.

"The utility of this work is that it gives employers important tools they can use to become better-informed purchasers of health care services," said Peter S. Hussey, director of RAND Health Care. "Hospitals account for the largest share of health care spending in the U.S. so this report also provides valuable information that may aid policymakers interested in curbing [health care costs](#)."

Spending on hospital services accounted for 42% of total U.S. personal health care spending for privately insured individuals in 2022, and hospital price increases are key drivers of growth in per capita spending among the 160 million Americans with [private insurance](#).

Recent federal policies require hospitals to post prices for at least 300 "shoppable" services and that insurers post their full set of negotiated rates. However, many hospitals have not complied with these policies, and insurer-posted data contain duplicative information that often makes file sizes so large that they are difficult to use.

The RAND study found that in 2022 relative prices for inpatient hospital facility services averaged 255% of Medicare prices, outpatient hospital facility services averaged 289%, and associated professional services averaged 188% of what Medicare would have paid for the same services.

Prices for common outpatient services performed in ambulatory surgical centers averaged 170% of Medicare payments.

"The widely varying prices among hospitals suggests that employers have opportunities to redesign their health plans to better align hospital prices with the value of care provided," said Brian Briscoombe, who currently leads the RAND hospital price transparency project. "However, price transparency alone will not lead to changes if employers do not or cannot act upon price information."

For the first time, the RAND study also reports the cost of specialty prescription drugs, comparing prices for medications administered in hospital settings versus those that are administered in physician offices.

Weighting each state's prices equally, RAND researchers found that commercial insurance prices for select administered drugs received in a hospital setting averaged 278% of average sales price, compared with 106% of average sales price paid by Medicare.

The report explains that very little variation in prices is explained by each hospital's share of patients covered by Medicare or Medicaid. A larger portion of price variation is explained by hospital market power.

The RAND study is based on information about more than 4,000 hospitals in 49 states and Washington D.C. from 2020 to 2022. (Maryland is excluded from the analysis because it long has had a system in place where the privately insured and Medicare recipients pay the same price.)

The analysis includes facility and professional claims for inpatient and outpatient services provided by both Medicare-certified short-stay hospitals and other facility types. Researchers analyzed health care claims obtained from self-insured employers, 12 state all-payer claims databases and from health insurance plans that chose to participate. In total, the study analyzed approximately 6% of U.S. commercial insurance hospital spending.

For each private claim, researchers re-priced the service using Medicare's grouping and pricing formulas. Each claim was benchmarked to what would be paid by Medicare—the federal insurance plan for Americans aged 65 and older—as a way to assess variation in health care costs nationally. Medicare prices are designed to provide modest profit margins for efficient hospitals.

Unlike many other studies that have examined health care price variation, the RAND study reports prices and identifies hospitals and groups of hospitals under joint ownership (hospital systems) by name.

A detailed list of both relative and standardized prices for each facility, identified by name and Medicare Provider Number, is included in the report's supplemental material. The supplemental material also includes CMS Hospital Compare star ratings for those hospital facilities.

Support for the study was provided by the Robert Wood Johnson Foundation and participating self-insured employers and was conducted in collaboration with the Employers' Forum of Indiana.

More information: Christopher Whaley et al, Prices Paid to Hospitals by Private Health Plans: Findings from Round 5 of an Employer-Led Transparency Initiative, [DOI: 10.7249/RR1144-2](https://doi.org/10.7249/RR1144-2)

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