Many Hospitals Charge Double or Even Triple What Medicare Would Pay

By **Reed Abelson**, www.nytimes.com
May 9th, 2019

In Indiana, a local hospital system, Parkview Health, charged private insurance companies about four times what the federal Medicare program paid for the same care, according to a study of hospital prices in 25 states released on Thursday by the nonprofit RAND Corp.

Colorado employers were shocked to learn they were paying nearly eight times what the federal government did for outpatient services like an emergency room visit, an X-ray or a checkup with a specialist at Colorado Plains Medical Center, northeast of Denver.

Across the nation, hospitals treating patients with private health insurance were paid overall 2.4 times the Medicare rates in 2017, according to the RAND analysis. The difference was largest for outpatient care, where private prices were almost triple what Medicare would have paid.

“It’s eye-opening, really, not just for the employers,” said Gloria Sachdev, the chief executive of the Employers’ Forum of Indiana, a coalition that helped with the study. “It’s eye-opening for the hospitals.”

The RAND study underscores the widening chasm between what the federal government and the private sector pay the nation’s hospitals.

The disparity shows how competition has faltered in an opaque market where the costs of care are secret and hospital systems are increasingly consolidated, gaining outsize clout in price negotiations with employers, some experts say.

This yawning spread in hospital rates will likely fuel the debate over Medicare-for-all proposals that would give the federal government authority to decide what to pay hospitals and that have proved popular with many Democratic voters on the presidential campaign trail. The plans, especially one championed by Senator Bernie Sanders, the Vermont independent, would provide universal coverage by replacing employer-based insurance with a government-run program.

Some proponents of Medicare for all argue that employers and private insurers have failed to control costs. About one-third of all health care spending in the country goes to pay for hospital care. Many supporters point to the billions of dollars that could be saved annually if hospitals and doctors were paid at the much lower Medicare rates.

“The shadow of single payer hangs all over this,” said Katherine Hempstead, a senior policy adviser at the Robert Wood Johnson Foundation, which helped fund the RAND research.

Because rates are normally a closely held secret between insurers and hospitals, the RAND study reveals a startling first glimpse of how much — and how steep a price — a broad swath of hospitals are charging private insurers. The lack of transparency, coupled with public outrage over rising hospital bills, has spurred calls for disclosure of the rates negotiated. This is the first time pricing information on a large group of individual hospitals has been made public.

Nationwide, employers provide coverage for most Americans under age 65, about 181 million people. And hospital care accounts for 44 cents of every personal health care dollar spent on those with private insurance.

The RAND study shows “market forces are clearly not working,” said Richard Scheffler, a health economist at the University of California, Berkeley. “Prices vary widely and are two and a half times higher than Medicare payment rates without any apparent reason,” he said.

The RAND researchers gathered information on 1,598 hospitals, about a third of the total number in the United States, using 4 million insurance claims from 2015 through 2017, a fraction of the total filed nationwide. The information was collected from employers, some insurers and state agencies. The study did not identify the employers, but researchers named individual hospitals through the information they obtained, a rare public listing.

The claims included a variety of services, ranging from a hospital stay for heart surgery to an outpatient visit to the emergency room. The researchers compared the claim as it would have been reimbursed by Medicare and what the private insurer paid to determine the overall difference in prices. The hospitals did not see the study before it was released.

The Indiana system, Parkview, says it is adopting new kinds of contracts. “At Parkview Health, we think the most important conversation is around what we can do moving forward, in strategic alignment with employers and insurance companies, to provide the highest quality care at the best cost,” said the company’s chief executive, Mike Packnett, in a statement.

Colorado Plains Medical Center did not respond to requests for comment.

In New York and Pennsylvania, private prices were less than two times the Medicare rates. Indiana, which has the highest private prices among the 25 states analyzed, pays roughly three times what Medicare does.

Many businesses that contract with insurance companies have no idea what their insurers are paying individual hospitals in their plan's network. "We've never seen what was agreed upon," said Jennifer Fairman, the benefits manager for people who work for Larimer County in Colorado. "We've been signing these blank checks."

But soaring hospital costs have become a significant burden, and many businesses have off-loaded more of the expense onto their employees through higher premiums and deductibles. Families have struggled to cope with surprise medical bills and increasing out-of-pocket costs. The trend toward consolidation in the last several years has also spurred higher costs, as hospitals merged into bigger, more powerful systems that dominated their local markets, demanding ever-higher prices.

Unlike Medicare, which sets the price it will pay for a type of care, insurers often try to negotiate discounts with hospitals over charges, especially for outpatient services, said Chapin White, an adjunct senior policy researcher at RAND and one of the authors of the study.

The insurers don't have a strong incentive to demand the lowest prices because many, working for employers that are self-insured, are "literally spending someone else's money," he said. Insurers are also frequently paid based on how much the employer spends; they take in more revenue when the employer spends more.

Insurers say they are motivated to keep hospital prices low and point to the battles they sometimes have over whether a high-priced system will be in their networks.

One outlier was Michigan, where private prices run about 1.5 times Medicare rates. The auto industry and unions that represent autoworkers have put pressure on the major Blue Cross plan to hold hospital prices down. “To keep the market in check, you need a plan to throw its weight around and employers to back them up,” Mr. White said.

Inpatient

services

Outpatient

services

MOST EXPENSIVE

OVERALL

Alta Vista Regional Hospital (N.M.)

College Station Medical Center (Tex.)

Midwestern Region Medical Center (Ill.)

Colorado Plains Medical Center (Colo.)

Franciscan Health Crawfordsville (Ind.)

University of Kentucky Hospital (Ky.)

Gerald Champion Regional Med. Center (N.M.)

Evanston Regional Hospital (Wyo.)

Memorial Medical Center (N.M.)

Parkview Whitley Hospital (Ind.)

100% of

Medicare

500%

1,000%

LEAST EXPENSIVE

Eastern Niagara Hospital (N.Y.)

Harris Health System (Tex.)

Frances Mahon Deaconess Hospital (Mont.)

UPMC Hamot (Pa.)

Eaton Rapids Medical Center (Mich.)

UHealth Tower (Fla.)

Medical Center Hospital (Tex.)

Woman's Hospital of Texas (Tex.)

Bay Area Regional Medical Center* (Tex.)

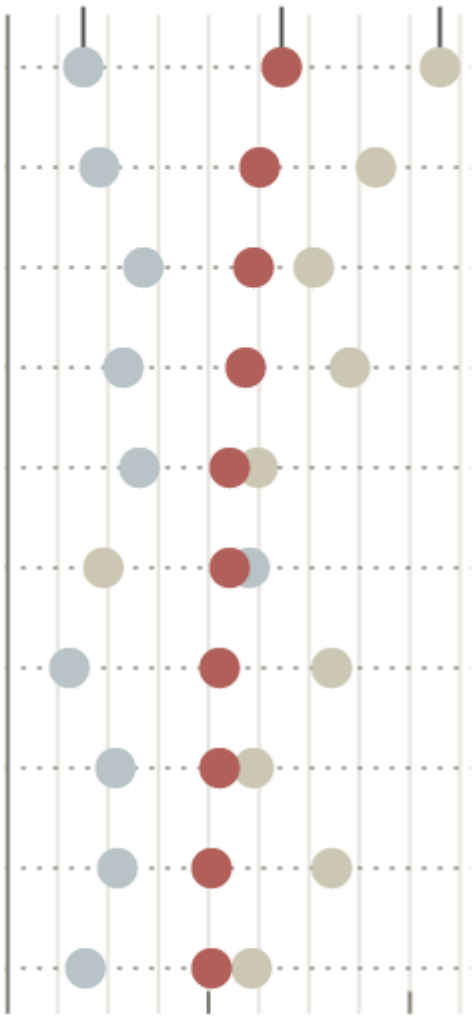
Jackson Park Hospital & Medical Center (Ill.)

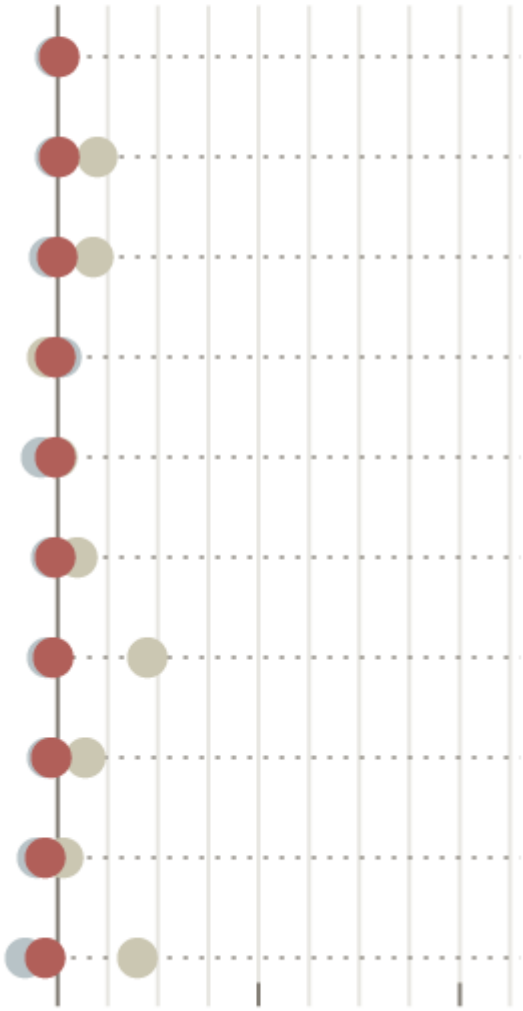
100% of

Medicare

500%

1,000%





In-

patient

OVER-

ALL

Out-

patient

MOST EXPENSIVE

Alta Vista Regional (N.M.)

College Station M.C. (Tex.)

Midwestern Reg. M.C. (Ill.)

Colorado Plains M.C. (Colo.)

Francisc. Crawfordsville (Ind.)

Univ. of Ky. Hospital (Ky.)

G. Champion R.M.C. (N.M.)

Evanston Regional (Wyo.)

Memorial M.C. (N.M.)

Parkview Whitley (Ind.)

100% of

Medicare

500%

900%

LEAST EXPENSIVE

Eastern Niagara (N.Y.)

Harris Health System (Tex.)

F. M. Deaconess (Mont.)

UPMC Hamot (Pa.)

Eaton Rapids M.C. (Mich.)

UHealth Tower (Fla.)

Medical Center Hosp. (Tex.)

Woman's Hosp. of Tex. (Tex.)

Bay Area Reg. M.C.* (Tex.)

Jackson Park H. & M.C. (Ill.)

100% of

Medicare

500%

900%

Hospital prices are not always linked to overall costs, however. In Michigan, for example, insurance premiums are relatively high, even though hospital prices are low.

In contrast to private insurers, “Medicare has been much more zealous about keeping its payments down,” said Sherry Glied, dean of the Robert F. Wagner Graduate School of Public Service at New York University.

Hospitals argue that they lose money under Medicare, and many say they are aggressively trying to lower costs. Paying the hospitals at Medicare rates would have a significant impact on the industry, causing many hospitals to close, according to some experts.

“Medicare payment rates, which reimburse below the cost of care, should not be held as a standard benchmark for hospital prices,” said Melinda Hatton, general counsel for the American Hospital Association, an industry trade group, in an emailed statement. “Simply shifting to prices based on artificially low Medicare payment rates would strip vital resources from already strapped communities, seriously impeding access to care.”

Policy experts say the hospitals have come to rely on higher payments from employers and insurers. “The whole system is symbiotic,” Ms. Glied said. If private insurers paid the hospitals less, they “would look different and have a different cost structure.”

But some critics say hospitals are clearly flush and that private insurers are paying too much.

“It explains some of the market behaviors we’ve seen,” said Robert J. Smith, executive director of the Colorado Business Group on Health, which represents employers. Although the hospitals in his state are only two-thirds full, they are building new facilities and buying physician practices.

The purpose of the research, Ms. Hempstead said, was to arm employers with information about prices. While previous efforts focused on giving consumers information so they could be smarter shoppers, employers are the ones that can benefit, she said. “The real consumers are the employers,” she said.

Employers can use Medicare as a starting point for how much they should be paying the hospitals, for example, or combine information about the quality of individual hospitals with the prices they charge to steer workers to those facilities that offer the best value. “What was missing was price,” said Ms. Sachdev of the Indiana employers group.

In Indiana, where a pilot study on hospital prices led to the Rand research, the realization that insurers were paying so much has already altered how insurers are contracting with hospitals. Anthem, the for-profit insurer headquartered there that operates the state’s Blue Cross plan, now uses Medicare as a basis for how much it will agree to pay the hospitals.

Anthem says it is now developing new networks made up of significantly fewer hospitals and will steer people to places that deliver the best quality at lower prices, said Paul Marchetti, a senior vice president at Anthem. “That’s where we are headed as a company,” he said.

But employers are still paying much higher prices than the government. “We should not be allowing this,” said Mr. Smith, with the Colorado employer group. It plans to combine pricing information with quality data so businesses can better judge the value of care at individual hospitals.

It will be up to the employers to prove that they can exert discipline on controlling health care costs, which he called an open question: “Can the U.S. market become more effective or more efficient or do we need a single payer?”