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Hospital Prices Drive Healthcare Spending

According to a newly-released *Health Affairs* article analyzing *Health Care Cost Institute* (HCCI) claims data between 2007 and 2014, hospital prices grew substantially faster than physician prices for total inpatient care and hospital-based outpatient care, as well as for four high-volume services: cesarean section, vaginal delivery, hospital-based outpatient colonoscopy, and knee replacement.[1] A recent *Health Capital Topics* article discussed the latest release of the *Centers for Medicare & Medicaid Services* (CMS) national health expenditures (NHE) growth analysis, which stated that spending for hospital care and physician and clinical services has slowed in 2017 compared to recent years.[2] The overall decrease in growth for hospital care was attributed to decreased utilization, largely due to the high costs of hospital care that put financial strain on healthcare consumers.[3] Although the overall spending growth rate has declined, hospitals will encounter policy measures seeking to tackle the high prices that decrease the utilization of hospital services. This *Health Capital Topics* article will examine the *Health Affairs* study, as well as the potential and already implemented policies addressing high healthcare prices.

During the 2007-2014 period, physician prices for inpatient care increased by 18%, faster than the 6% rate at which outpatient hospital care grew.[4] However, hospital prices grew significantly more than physician prices, increasing by 42% and 25% for inpatient and outpatient hospital care, respectively, over the same timeframe.[5] To quantify the difference, hospital prices increased more than twice as much for inpatient care than physician prices, and increased approximately four times as much for outpatient care.[6] For the high-volume services evaluated, physician prices rose from a range of 4.1% to 34.1%, while hospital facility prices rose from a range of 27.4% to 46.8%.[7] Additionally, the growth in facility prices (i.e., both hospital and physician fees) ranged from 77% for a colonoscopy to 97% for a knee replacement.[8] Further, physician prices have grown roughly at the pace of inflation, indicating that hospital prices are the true driver of healthcare costs.[9] This data suggest that physicians may not have as much bargaining leverage with insurers as hospitals.[10]

However, there has been backlash regarding the limitations of the *Health Affairs* study from the *American Hospital Association* (AHA). The AHA asserts that the study uses "*limited data to draw broad conclusions*."[11] These limitations include the HCCI data being restricted to individuals under the age of 65 whom are insured through *employer-sponsored insurance* (ESI), and only includes claims from three large insurers, representing only 27.6% of individuals with ESI coverage.[12] The AHA statement recalls the most recent analysis of NHE, which illustrates that price growth for hospital care services was just 1.7% in 2017.[13] Additionally, according to the Altarum Center for Value in Healthcare,[14] year-over-year hospital price growth was 1.7% during 2018.[15] The AHA notes that a major drawback to this study is the lack of regard for costs that hospitals and health systems manage, and physicians do not occur, such as regulatory requirements.[16] These regulatory requirements often increase administrative and staffing expenses, with the average-sized community hospital spending $7.6 million per year to support compliance with federal regulations.[17]

Despite the limitations identified by the AHA, the *Health Affairs* study outlines possible causes and potential policies to address these causes. According to a recent PricewaterhouseCoopers report, healthcare mergers and acquisitions increased 14.4% in 2018 over 2017.[18] This trend is likely to continue through 2019, with *Catholic Health Initiatives* (CHI) and *Dignity Health* recently finalizing a merger that creates the largest nonprofit health system by revenue at approximately $29 billion, spanning 21 states.[19] Regardless of claims that consolidated organizations have larger economies of scale, and thus are able to offer better care and at lower costs, studies have indicated that consolidations lead to increased pricing due to more negotiation leverage,[20] as well as poorer healthcare outcomes (higher rates of mortality, higher readmission rates, etc.).[21] Because of the increasing the number of mergers and acquisitions, the *Health Affairs* article suggests that increased antitrust enforcement may address the growth in spending by preventing harmful consolidations that would dominate the market.[22]

In terms of vertical integration (i.e., the combination of separate sections in the supply chain of an industry),[23] recent studies have found that referring physicians have influence on where their patients receive care, and vertically integrated physicians often refer their patients to more expensive locations.[24] Therefore, payors should incentivize physicians to refer patients to hospitals that deliver the most efficient care.[25] Finally, the study suggests policies that would regulate hospital payments

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in markets that are already highly concentrated or practice reference pricing to lower rates.[26] An example of this type of regulation would be instituting a policy that would set inpatient prices at 120% of Medicare rates, which is estimated to lower private spending by 20% if implemented.[27]

Some states have already taken unilateral measures to decrease hospital prices. In California, a bill introduced in February of 2018 proposes to allow state officials to regulate hospital and physician prices in the commercial healthcare market.[28] This bill would "*establish a commission that would set rates for healthcare services based off what the government pays for such services under Medicare.*"[29] This proposal is similar to the Maryland model, wherein the state sets the prices paid by all payors for hospital services.[30]

The Trump Administration has also implemented policies that may curb this growth through price transparency, which has the potential to drive consumers to lower priced care, subsequently forcing hospitals to reduce their prices in order to compete. Effective January 1, 2019, hospitals are required to post their charge master online, in a machine-readable format, as a first step in CMS's price transparency effort.[31] From a *Kaiser Health News* analysis, prices varied greatly on basic procedures, even when comparing hospitals close in proximity; some hospital procedure prices were seven times as much as other hospitals in the area.[32] As the hospital industry becomes more transparent, patients will be able to more efficiently "*shop*" for healthcare, and drive prices down.

However, this transparency policy, in its current format, is difficult to understand for shopping patients, as the charge master has codes and medical terms that may be hard to interpret for the consumer and does not account for any amounts that may be paid by the patient's respective insurance coverage.[33] Additionally, these lists may be difficult to find on a hospital's website, hindering a patient's ability to research and compare prices.[34] To mitigate patient confusion, some hospitals have calculators to estimate healthcare costs by inserting patient information (e.g., insurance policy number, demographics) to receive a more accurate estimate based on the hospital's charge master list.[35] The Trump Administration will likely continue to address this price transparency policy's inefficiencies through supplementary changes, in order to achieve the level of transparency needed for a patient to make an informed decision.

As demonstrated in the *Health Affairs* study, hospital prices have increased rapidly over the years, faster than the rate of physician prices, causing various policy changes with the aim of targeting high healthcare prices. As a result, hospitals will be under increased pressure to accommodate these new policies and undertake further efforts to decrease prices. Further, hospitals seeking to merge may be under increased scrutiny, as studies continue to show that highly concentrated markets lead to increased spending and poorer outcomes. Although there is debate on whether or not hospital prices are the true driver in the growth of spending, hospitals should expect increased regulation in the future in attempts to lower the cost of care.

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