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## Gap Between Medicare and Commercial Hospital Prices Increases

A recent study examined the growth in hospital prices paid by commercial health insurance companies compared to Medicare over a seven-year period and found that commercial health plan rates were, on average, 180% higher than Medicare rates as of 2019.[1] While the national ratio between commercial and Medicare hospital payment growth rates remained relatively stable during the seven-year study period, ratios varied widely on a regional basis. This Health Capital Topics article will discuss this recent study and its implications.

In evaluating "the extent to which trends in commercial hospital prices have differed across the" U.S., researchers obtained cost report data submitted by hospitals to the Healthcare Provider Cost Reporting Information System (HCRIS) between 2012 and 2019. After going through several "data cleaning steps and sample restrictions," the data contained information from 3,612 hospitals across 306 hospital referral regions (HRRs).[2] This data was then applied to Medicare rates to create commercial-to-Medicare payment rate ratios.

This analysis indicated that commercial-to-Medicare price ratios were fairly steady overall between 2012 and 2019, increasing approximately 7%, from an average of 173% of Medicare in 2012 to 180% of Medicare in 2019; however, these ratios varied significantly across HRRs.[3] For example, in HRRs that had high ratios (i.e., wide gaps between commercial and Medicare rates) in 2012, they had large swings (increases and decreases) in those ratios – both increases and decreases averaged around 38 percentage points (i.e., in places with large increases, that increase was an average of 38%, while places with large decreases saw an average decrease of 38%).[4]

Between 2012 and 2019, the top five HRRs that had high ratios at the beginning of the study period and experienced large increases during the study period were:

1. Tacoma, WA (increase of 115%, to 337% of Medicare);
2. Chico, CA (increase of 101%, to 338% of Medicare);
3. San Mateo County, CA (increase of 83%, to 329% of Medicare);
4. Santa Barbara, CA (increase of 80%, to 362% of Medicare); and
5. Salinas, CA (increase of 69%, to 290% of Medicare).

At the other end, the top five HRRs that had high ratios at the beginning of the study period but experienced large decreases during the study period were:

1. Gulfport, MS (decrease of 109%, to 158% of Medicare);
2. Lafayette, IN (decrease of 78%, to 279% of Medicare);
3. Pueblo, CO (decrease of 78%, to 197% of Medicare);
4. Lawton, OK (decrease of 54%, to 167% of Medicare); and
5. Casper, WY (decrease of 52%, to 193% of Medicare).[5]

As highlighted by these lists, the large ratios and large increases occurred largely in California (of the 19 HRRs with large increases, 11 of them were in California), while the large ratios with large decreases were more geographically diverse.[6] Interestingly, some of the HRRs with the largest price increases were adjacent to HRRs with the lowest ratios or largest decreases.[7]

At the other end of the spectrum, those HRRs that had low ratios (i.e., commercial and Medicare rates were more similar), their large increases averaged 31% while their large decreases only averaged 16%.[8] In both circumstances, this resulted in some HRRs trending up or down closer to the national average, while some trended in the other direction, creating more extreme outliers.[9]

Overall, researchers attributed these observed trends to changes in the commercial prices set by hospitals.[10] Although researchers did not specifically identify the reasons for why the ratios increased in some areas while decreasing in others, they did assert that some of their results aligned with anecdotal changes in various markets. For example, the Seattle-Tacoma area saw a number of health system mergers over the past several years.[11] Alternatively, the low price ratios in Massachusetts, with "only modest" growth, may be attributed to the 2012 establishment of the Health Policy Commission "to monitor and reduce health care spending, with the objective of limiting growth to the state gross domestic product."[12]

Nevertheless, the study's authors believe that the price ratio variation across HRRs may indicate an opportunity to constrain growth: "Had the HRR-level percentage-point increases in commercial-to-Medicare price ratios been capped at the increase observed at the national level


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(7 percentage points), then the average ratio would have been 164 percent in 2019—that is, 9 percent less than the level observed (180 percent)..”[13] In other words, “restraining the growth rate of HRR commercial hospital price ratios to the national average during [the] sample period would have reduced aggregate spending by $39 billion in 2019.”[14]

The study’s authors identified a number of possible options to tackle high prices, and price growth, among hospitals, including: directly regulating prices similar to Rhode Island, which put a cap on commercial price inflation based on Medicare growth rates plus 1%; capping price levels rather than price growth; and, enhancing competition through increased antitrust scrutiny and/or price transparency.[15]

The U.S. spent $1.2 trillion on hospital care in 2019, accounting for 32% of all healthcare expenditures and over 5% of the U.S. gross domestic product.[16] Consequently, any changes made to hospital prices could have a significant impact on overall spending. Numerous efforts toward that end are in the works, including the recently-finalized price transparency rule for hospitals[17] and recent comments by the Federal Trade Commission and Department of Justice indicating forthcoming changes to horizontal and vertical merger guidelines.[18] Whether these initiatives can stem the tide of ever-increasing hospital prices remains to be seen.

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2 *Ibid.*
3 *Ibid.*
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7 “Hospital prices for health plans vary widely across the U.S., study finds” By Mari Devereaux, Modern Healthcare, April 4, 2022, https://www.modernhealthcare.com/payment/hospital-prices-health-plans-vary-widely-across-us-study-finds (Accessed 4/20/22).
8 Levinson, et al., Health Affairs, April 2022.
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11 Devereaux, Modern Healthcare, April 4, 2022.
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13 Levinson, et al., Health Affairs, April 2022.
14 *Ibid.*
15 *Ibid.*
16 *Ibid.*
17 “2022 OPPS Final Rule Overview: CMS Finalizes Policies on 340B, Hospital Price Transparency, and Inpatient-Only List” National Law Review, November 8, 2021, https://www.natlawreview.com/article/2022-opps-final-rule-overview-cms-finalizes-policies-340b-hospital-price (Accessed 11/8/21).
18 “FTC, DOJ ask for public input in antitrust ‘overhaul’” By Alex Kacik, Modern Healthcare, January 18, 2022, https://www.modernhealthcare.com/mergers-acquisitions/ftc-doj-ask-public-input-antitrust-overhaul (Accessed 3/31/22).




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