Widening Payment Gap between Medicare and Commercial Insurance

On May 9, 2019, the nonprofit Research and Development (RAND) Corporation published a research report, which found that private insurance companies pay approximately four times more for hospital services than Medicare.\(^1\)

The report reviewed data from self-insured employers, state-based all-payer claims databases from Colorado and New Hampshire, and health plans during the period of 2015 to 2017.\(^2\) In total, these sources included approximately 4 million beneficiaries and 1,598 Medicare-certified acute care hospitals across 25 states, representing $13 billion in allowed amounts.\(^3\) RAND examined both the charges and the allowed amounts per service (including payments from the health plan and the patient), and compared those to the Medicare reimbursement rates for those same procedures and facilities.\(^4\)

The purpose of the report’s review was to "describe hospital price levels, variation, and trends."\(^5\) The publication notes that "[t]his is the first broad-based study that reports prices paid by private health plans to hospitals [and hospital systems] identified by name..."\(^6\) Specifically, the report found that relative prices (i.e., "the ratio of the actual private allowed amount divided by the Medicare allowed amount for the same services provided by the same hospital") increased from 236% of Medicare in 2015 to 241% of Medicare in 2017, with a wide distribution among states.\(^7\) The states with the largest increase in relative prices were Colorado, Montana, Wisconsin, Maine, Wyoming, and Indiana, with relative prices ranging from 250-300% of Medicare.\(^8\) Relative prices ranged even more broadly among health systems, from 150% of Medicare to over 400% of Medicare.\(^9\) In addition to the variation among states and systems, relative prices also varied between inpatient and outpatient services. Relative prices for outpatient services were 293% of Medicare, compared to 204% of Medicare for inpatient care.\(^10\)

RAND also reviewed the relative prices for these hospitals and health systems in the context of quality. Comparing the hospital/system’s relative price to its Hospital Compare rating (which is based on a five-star system), the report found that while higher-priced hospitals generally had higher quality rating than lower-priced hospitals, there were low-priced hospitals that were highly rated.\(^11\) This finding indicates that providing high-quality services at a lower cost is possible, and this data transparency may allow employers to seek out those options.\(^12\)

These findings are significant due to the large proportion of the U.S. population who receive insurance through their employer and the amount of total personal healthcare spending attributable to hospital services. As of 2017, 56% of the U.S. population had insurance coverage through their employer, and 17.2% were covered through Medicare.\(^13\) Further, in 2017, hospital care expenditures were 44% of total personal spending for privately-insured individuals, and 33% of total expenditures for Medicare beneficiaries.\(^14\) Any change to private insurance prices in the hospital sector would almost certainly have a significant effect on overall healthcare costs.

As the RAND report points out, the relatively high prices charged to private insurers by hospitals, and the wide variations in those charged prices, indicate that there is room for employer health plans to negotiate lower prices with these providers. With the increasing transparency of data such as that examined by RAND, health plans will likely have a better negotiating position, as these plans can move away from the hospitals and health systems that are found to be more expensive.\(^15\) However, as the RAND report notes, transparency alone will likely not serve as the panacea for this complex problem, and may require further regulatory intervention, such as limiting out-of-network hospital payments or providing a public option that pays via the Medicare fee schedule – an avenue that is likely to further intensify the rhetoric surrounding Medicare-For-All.\(^16\)


Ibid, p. viii.


Ibid, p. viii.


Ibid, p. viii.


Ibid, p. viii.


White and Whaley, 2019, p. ix.

Ibid, p. ix; Abelson, May 9, 2019.
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