Employer Action to (Re)Build a Better Healthcare System

MYTHS AND FACTS

Revealing Hospital Price Transparency Truths

NCBGH

NORTH CAROLINA BUSINESS GROUP ON HEALTH

NCBGH.org

National Alliance of Healthcare Purchaser Coalitions

Driving Health, Equity and Value

nationalalliancehealth.org

This "Myths and Facts" resource separates the business of healthcare from the delivery of healthcare. There is no question that hospitals are vitally important and that hospital workers are highly valued—more so than ever in light of their tireless and heroic service during the pandemic.

The aim of the National Alliance Hospital Pricing Transparency Initiative is to enable employers, patients and health plans to buy healthcare the way they buy other goods and services. The right thing to do is to demand transparency, value, and accountability and to reward hospitals that are providing high-quality, efficient, cost-effective care.

As the largest single provider and purchaser of health insurance in the US, employers are in a strong position to set forth increased value expectations. However, they often lack information to show what they are paying for and, in particular, whether the prices for those services are reasonable. The following myths and facts serve as a launch pad for employers to have meaningful conversations to drive long-overdue change in the hospital industry.

"We are troubled by the finding that 65 of the nation's 100 largest hospitals are clearly non-compliant with this regulation [CMS rule on hospital price transparency]. These hospitals are industry leaders and may be setting the industry standard for (non) compliance…this regulation is a necessary step for adding much needed price transparency into healthcare markets."

—MORGAN HENDERSON, MORGANE C. MOUSLIM, *Health Affairs*

https://www.healthaffairs.org/do/10.1377/hblog20210311.899634/full/

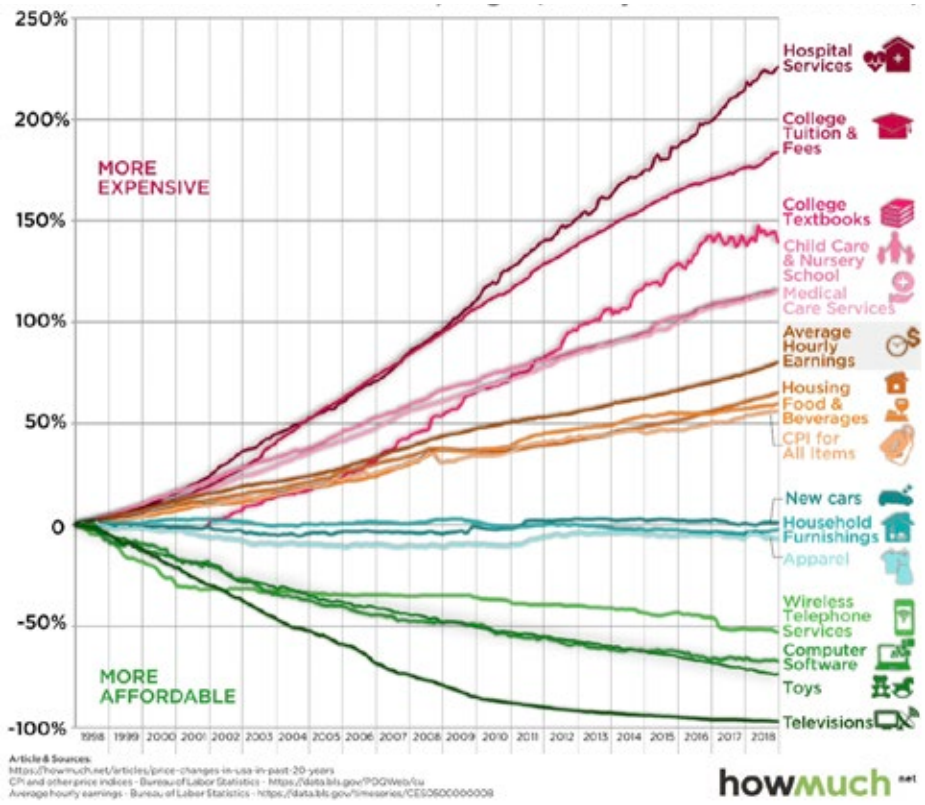
1

MYTH Hospitals are doing their part to control costs

FACT 20 years of price changes in the US say otherwise

20 Years of Price Changes in the United States

Selected Consumer Goods & Services, Wages *(January 1998 to December 2018)*



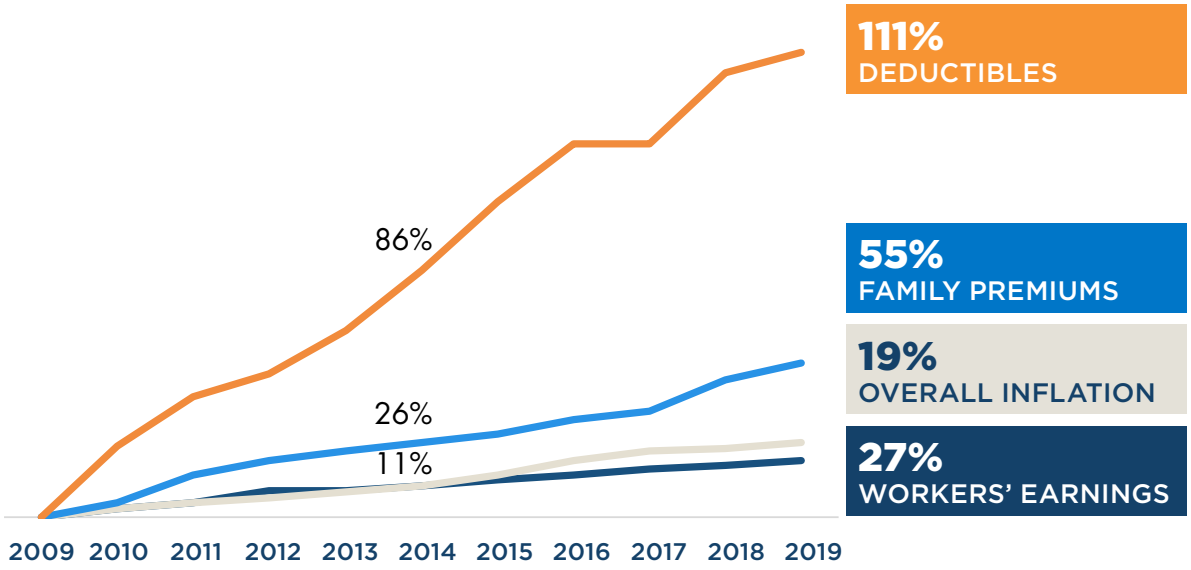
Hospital prices have been increasing at a higher rate than the consumer price index, wages and inflation. There is evidence that hospital mergers increase the average price of hospital services by up to 18%.

Source: https://www.ncci.com/Articles/Pages/II_Insights_QEB_Impact-of-Hospital-Consolidation-on-Medical-Costs.aspx

2

MYTH Health insurance shields patients from financial loss

FACT Premiums and deductibles have risen much faster than wages since 2009, seriously eroding family incomes



Employees and their families have participated disproportionately to address the excess rise in healthcare costs. A study published in the American Journal of Public Health in 2019 found that 66.5% of bankruptcies in the the US were due to medical issues like being unable to pay high bills.

NOTE: Average general annual deductibles are for single coverage and are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

Source: KFF: https://www.kff.org/health-costs/press-release/average-family-premiums-rose-4-to-21342-in-2020-benchmark-kff-employer-health-benefit-survey-finds/

KFF

Source: https://ajph.aphapublications.org/doi/abs/10.2105/AJPH.2018.304901?journalCode=ajph&

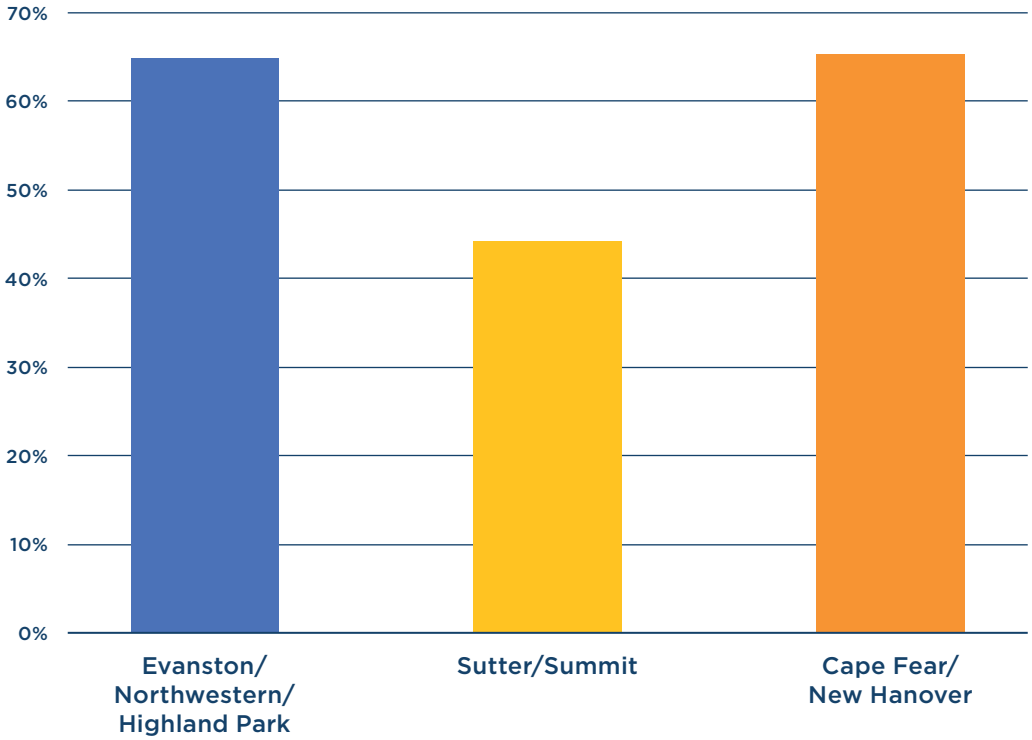
3

MYTH Hospital consolidation leads to greater efficiency and lower costs

FACT In metropolitan areas that experienced hospital consolidation, prices generally rose more sharply than in other areas of the state

Examples of Hospital Price Increases Following a Merger

Percentage Increase in Price



Source: "Consolidation and Competition in US Health Care"; presented by Martin Gaynor, E.J. Barone University Professor of Economics and Health Policy, H. John Heinz III College of Public Policy, Carnegie Mellon University, to the House Committee on Health Care; Oregon State Legislature; February 8, 2021

Consolidation enables hospitals to charge noncompetitive rates—in other words, *whatever the market will bear*.

- A 10% decrease in hospital market concentration would lower hospital prices by one half of one percent or about $25B annually.
- When hospitals merge, they face less competition and charge, on average, as much as 40% to 50% higher prices than if they had not merged or consolidated.

Sources: onepercentsteps.com/wp-content/uploads/brief-hc-210208-1700.pdf
ncbi.nlm.nih.gov/pmc/articles/PMC6170097/

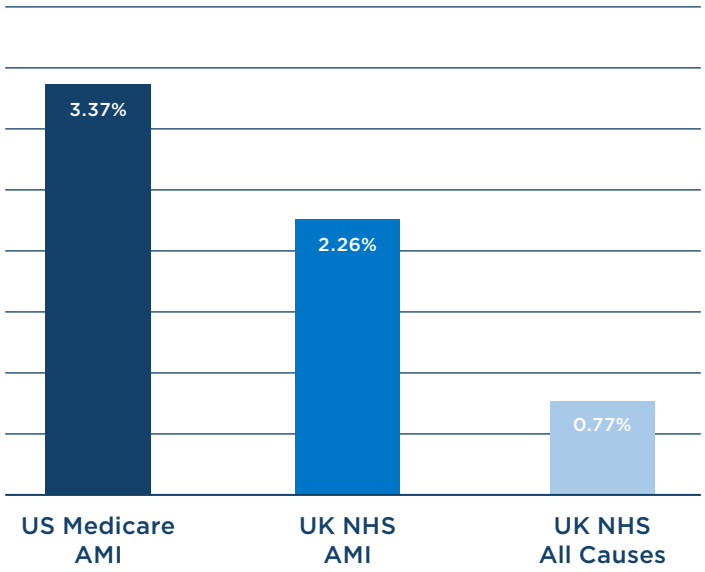
4

MYTH Hospital consolidation leads to better patient outcomes

FACT Physician-hospital consolidation has not led to either improved quality or reduced costs

Mortality Rate Increases Due to Market Concentration

Percentage Increase in Mortality Rate



Less competition leads to worse outcomes:

- Consolidation could lead to "Triple Aim" benefits:
  - Care coordination, less fragmentation
  - Investment in care coordination, quality
  - Reduction of costly, unnecessary duplication
  - Achievement of scale
  - Population health

BUT

- Consolidation is not integration and evidence does not support claims:
  - Costs are not lower
  - Little evidence of improved quality
  - No evidence of increase charity care
  - Nonprofits are not cheaper or better

Sources: ncbi.nlm.nih.gov/pmc/articles/PMC6170097/
"Consolidation and Competition in US Health Care"; presented by Martin Gaynor, E.J. Barone University Professor of Economics and Health Policy, H. John Heinz III College of Public Policy, Carnegie Mellon University, to the House Committee on Health Care; Oregon State Legislature; February 8, 2021

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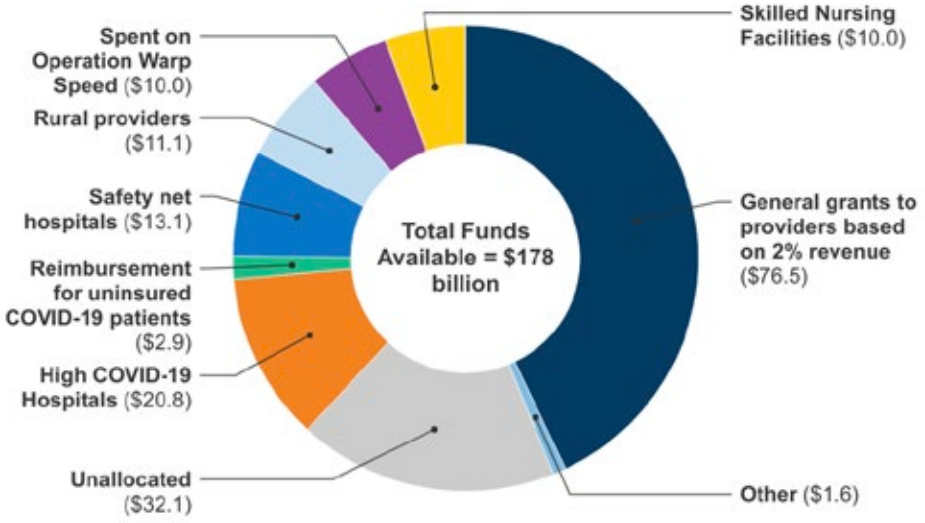
MYTH Hospitals suffered huge losses during COVID-19

FACT Starting early in the pandemic, Congress and the Administration adopted policies to ease financial pressure on hospitals and other healthcare organizations

Allocation of provider Relief Fund

as of April 14, 2021

Provider Relief Grants (in billions)



NOTE: General grants were distributed in phase 1, 2 and 3 and amounted to a minimum of 2% of patient revenue for each provider and phase 3 grants may include additional funding beyond the 2% of revenue to cover COVID-19-related losses and expenses; $10B for SNFs includes $2.25B in incentive payments. "Other" includes Indian Health Services ($0.52B) and children's hospitals ($1.06B).
SOURCE: KFF analysis of HHS announcements regarding provider relief grant allocations and distributions of funds to providers treating uninsured COVID-19 patients and R. Cohrs "The Trump

KFF

After collecting billions of dollars in US coronavirus aid, many of the nation's wealthiest hospitals with "massive cash reserves" also have tapped into disaster relief funds experts say they don't need, according to Reuters.

Source: https://www.reuters.com/article/us-health-coronavirus-hospitals-aid-insi/wealthy-hospitals-rake-in-u-s-disaster-aid-for-covid-19-costs-idUSKBN29310X

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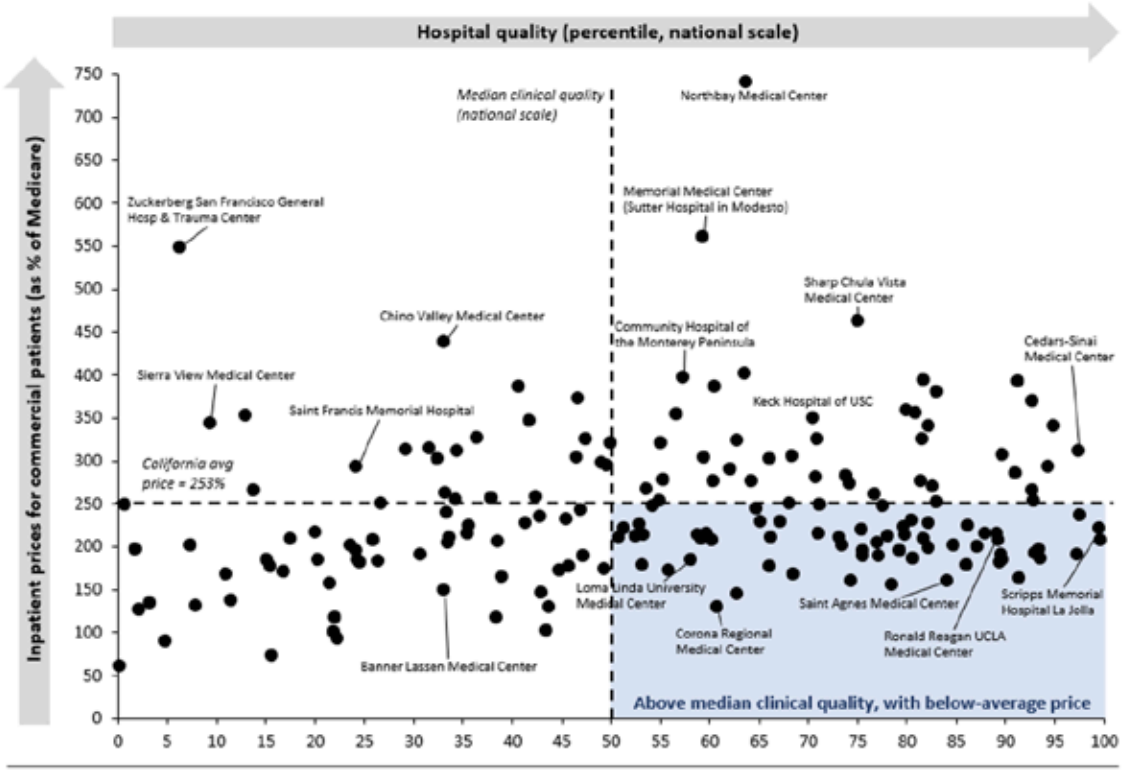
MYTH Higher costs mean higher quality

FACT Differences in quality of patient mix do not explain price variation; hospital pricing can vary 10-fold for the same service and outcomes in the same areas

Hospital clinical quality & inpatient service prices for privately insured patients in California



Source: Data from RAND Corporation & Lown Institute

Hospitals that have implemented lean practices demonstrate that high-quality care costs less to produce than low-quality care. True value includes cost and quality considerations.

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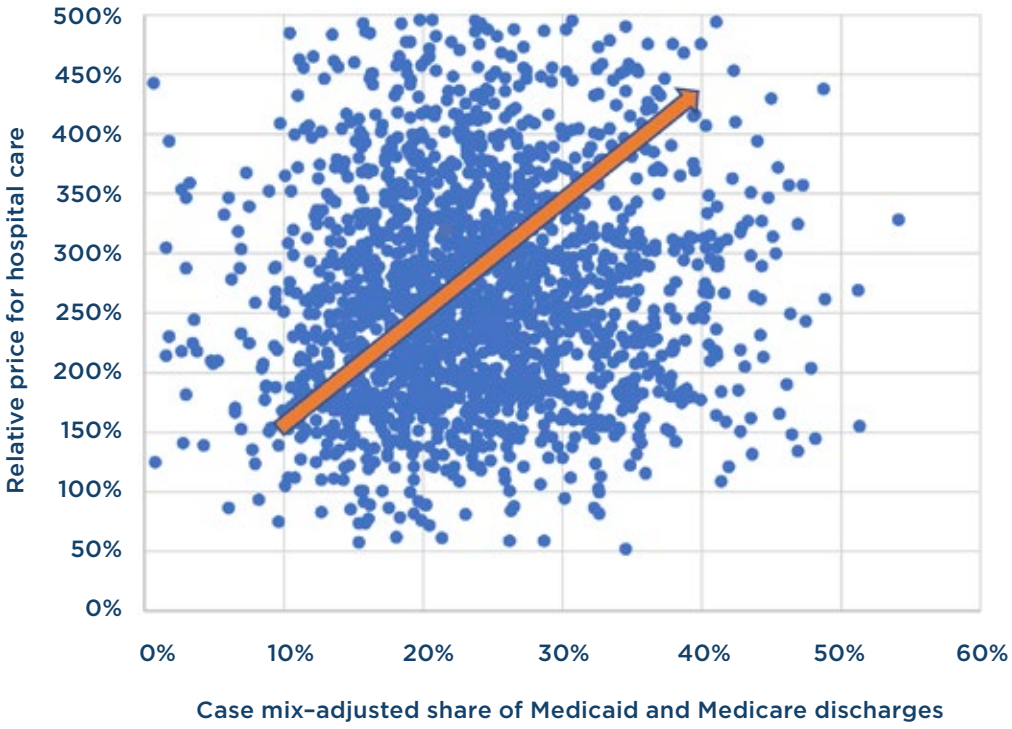
MYTH Hospitals are underpaid by Medicare and Medicaid

FACT High prices being charges by hospitals are not tied to Medicare and Medicaid

Patient mix doesn't explain price variation



RAND found no correlation between the case mix and commercial prices. If government funding led to higher prices:

- Hospitals that treat a higher percentage of Medicare and Medicaid patients would have the highest relative commercial prices
- Hospitals that treat a lower percentage of these patients should have lower relative commercial prices.
- The data plotted on this chart would align along the arrow.

Source: https://www.rand.org/pubs/research_reports/RR4394.html

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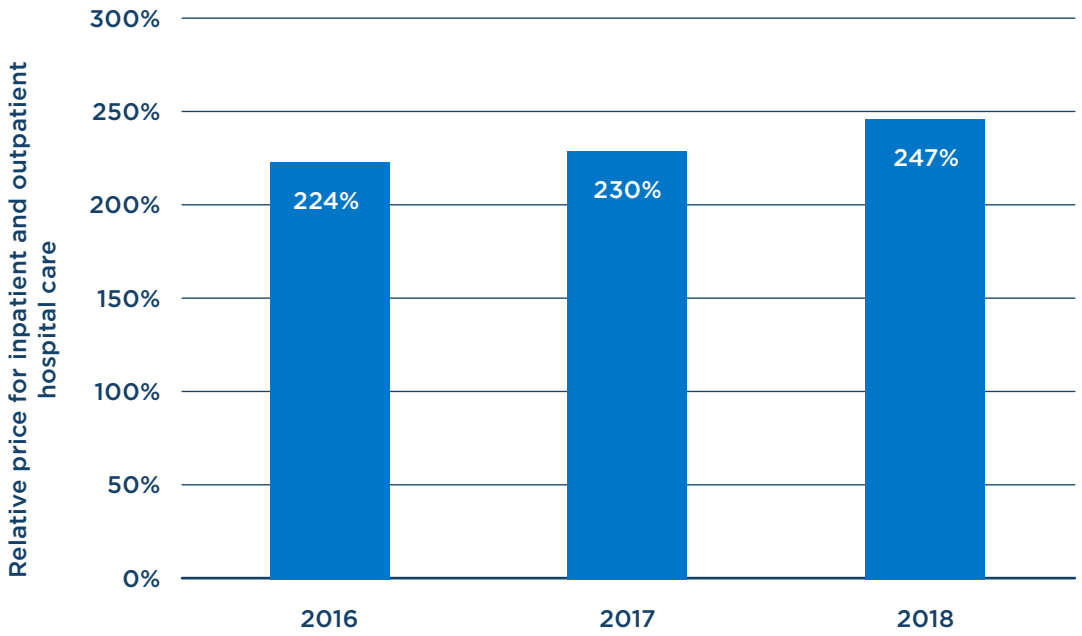
MYTH Hospitals charge payers/plans sponsors prices that are reasonably higher than Medicare

FACT Payers/plan sponsors pay, on average, 247% of what Medicare pays

Commercial Prices Relative to Medicare Have Increased Steadily



Note: Relative prices equal the ratio of the amounts actually paid divided by the amounts that would have been paid—for the same services provided by the same hospitals—using Medicare's price-setting formulas. Prices include prices for inpatient and outpatient services and group facility and professional fees.
Source: RAND 3.0 Hospital Price Transparency Study

- Because Medicare prices and methods are empirically based and transparent, benchmarking to those prices allows payers to compare prices between hospitals, relative to the largest purchaser in the world.
- Simply knowing hospital prices is not enough to align payment with value. The Employer-led Price Transparency Project website compiles studies conducted by RAND researchers.

Sources: https://employerptp.org/

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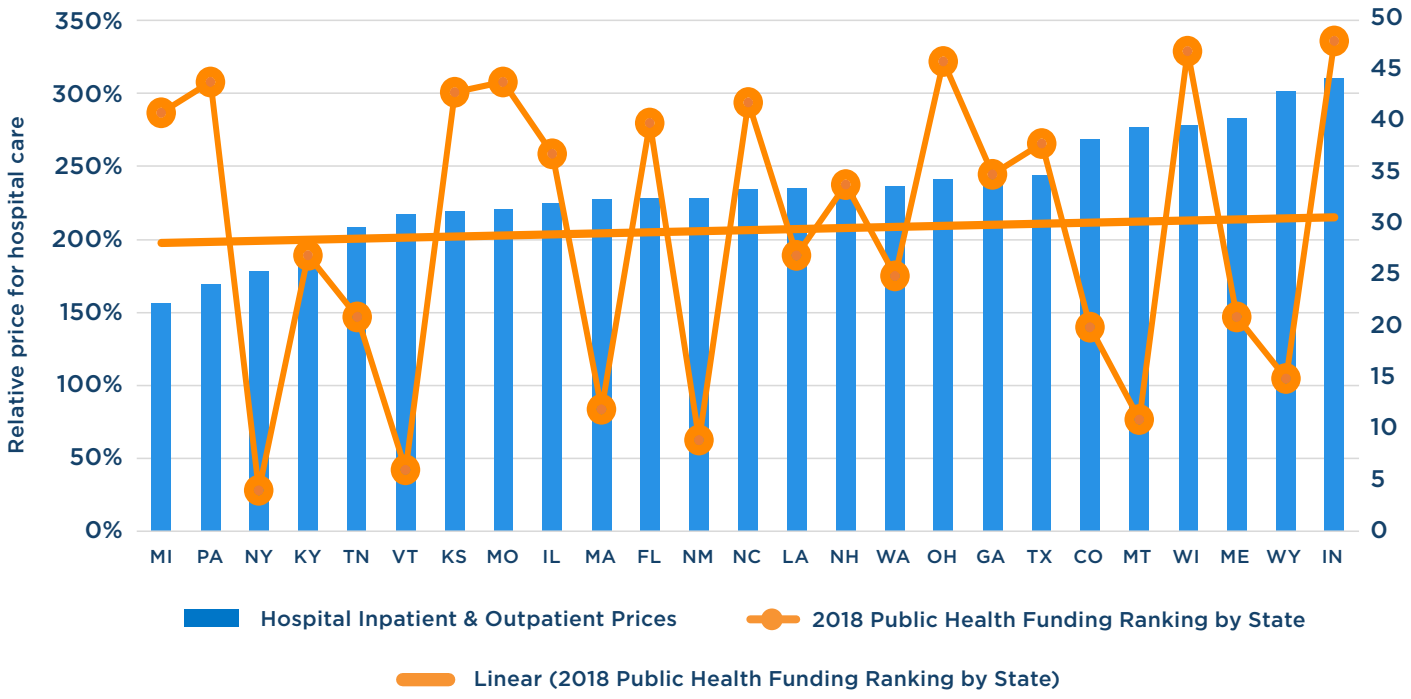
MYTH Higher hospital prices are needed when there is lower public health funding

FACT There is no correlation between hospital prices per state and state public health funding



If there were a correlation between hospital prices and public health funding, the straight orange line would be a diagonal line following the trend of the blue bars.

Sources: CDC; Americas Health Rankings, 2018 Annual Report: Overall Public Health Funding Ranking
White, 2019, Prices Paid to Hospitals by Private Health Plans are High Relative to Medicare and Vary Widely-Findings from an Employer-Led Transparency Initiative

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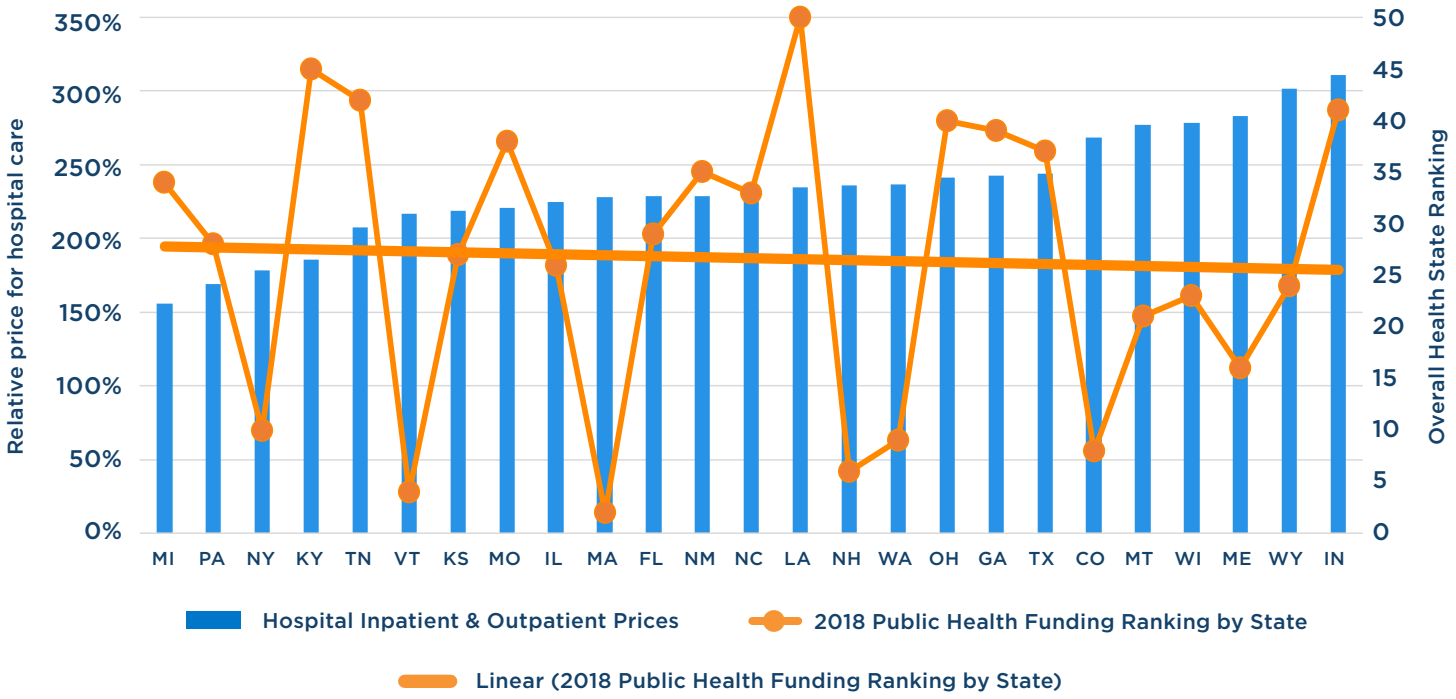
MYTH Higher hospital prices are needed when state public health ranking is lower, meaning patients are more unhealthy

FACT There is no correlation between hospital prices per state and state public health ranking



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White, 2019, Prices Paid to Hospitals by Private Health Plans are High Relative to Medicare and Vary Widely-Findings from an Employer-Led Transparency Initiative

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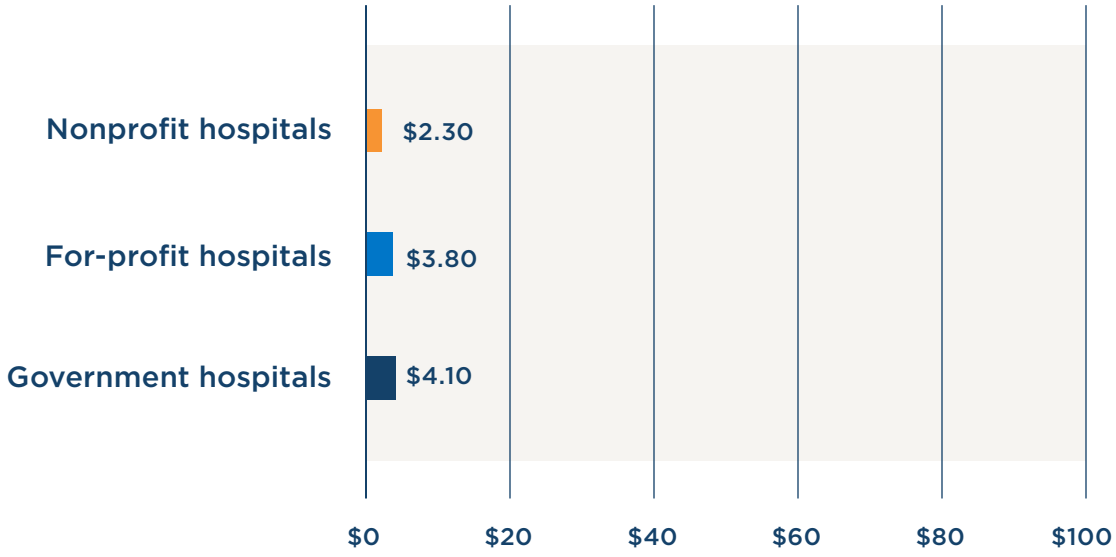
MYTH Nonprofit hospitals provide significant amounts of charity care, necessitating cost shifting

FACT Nonprofit hospitals spent less on charity care for the uninsured compared to for-profit and government hospitals

Hospital Spending on Charity Care as Part of Total Facility Expenses



For-profit and government hospitals are providing more charity care while nonprofits spend less and reap the extra benefit of being exempt from federal, state and local taxes—estimated to be a $30B tax break subsidized by taxpayers.

Sources: Fierce Healthcare, "Nonprofit Hospitals Spend Less on Charity Care than For-profits, Study Finds," April 7, 2021; Charity Care and Community Benefit in Nonprofit Hospitals: Definition and Requirements; Sage Journals; published June 24, 2021; accessed online September 26, 2021

Hospitals adopting creative, effective practices to mitigate the unending burden of unaffordable and incomprehensible pricing practices deserve to be recognized and rewarded.

But there is much work to be done among those hospitals that have broken the public trust by continuously ratcheting up and obfuscating costs. They have the power to bring a level of affordability back to the American healthcare system by managing themselves responsibly. Employers and other purchasers, as plan fiduciaries, need to expect and advocate for fair prices, transparency and quality.

The Employer Hospital Price Transparency Project offers customizable tools, resources and strategies purchasers can use to translate hospital pricing data into meaningful action. Paying for hospital value, including through innovative payment relationships, can reward high performance, sound financial management, and lead to a more accountable, affordable and responsive system of care.

Hospital Price Transparency Resources for Employers

- AJMC Study: Large Self-insured Employers Lack Power to Effectively Negotiate Hospital Prices

  ajmc.com/view/large-self-insured-employers-lack-power-to-effectively-negotiate-hospital-prices

- Hospital Payment Strategies: Setting Price and Quality Expectations

  https://higherlogicdownload.s3.amazonaws.com/NAHPC/3d988744-80e1-414b-8881-aa2c98621788/UploadedFiles/iFOdoooQSFiE8SyOzwql_Hospital%20Payment%20Strategies.pdf

- The Cost Shift Myth: New State Report Suggests Existing Policies Haven't Controlled Hospital Costs. What New Strategies are Needed?

  coloradohealthinstitute.org/sites/default/files/file_attachments/Cost%20Shift%20Report.pdf

- What to do About Health-care Markets? Policies to Make Health-care Markets Work

  https://www.brookings.edu/research/what-to-do-about-health-care-markets-policies-to-make-health-care-markets-work/

- Few Adults are Aware of Hospital Price Transparency Requirements

  https://www.healthsystemtracker.org/brief/few-adults-are-aware-of-hospital-price-transparency-requirements/

- What We Know About Provider Consolidation

  kff.org/health-costs/issue-brief/what-we-know-about-provider-consolidation/#:~:text=While%20provider%20consolidation%20holds%20the,lead%20to%20lower%20quality%20care

- Employers Paying More than Twice what Medicare Pays for Hospital Care: What can Policymakers and Payers do About it?

  https://www.milbank.org/news/employers-paying-more-than-twice-what-medicare-pays-for-hospital-care-what-can-policymakers-and-payers-do-about-it/

- Rhode Island: Legal and Regulatory Options for Addressing Health System Consolidation

  https://www.milbank.org/news/rhode-island-legal-and-regulatory-options-for-addressing-health-system-consolidation/

- How can Employers and Government Control Rising Hospital Prices? A Conversation with Robert Galvin and Robert Murray

  https://www.milbank.org/news/how-can-employers-and-government-control-rising-hospital-prices-a-conversation-with-robert-galvin-and-robert-murray/

- New JAMA Viewpoint: State and Employer Reactions to High Commercial Health Insurer Prices for Hospital Services

  https://www.milbank.org/news/new-jama-viewpoint-state-and-employer-reactions-to-high-commercial-health-insurer-prices-for-hospital-services/

"A more aggressive policy aimed at anti-competitive mergers and consolidation in the hospital industry would aim right at high hospital prices that drive up health spending. And while the industry would resist it, it might appeal to both Democrats who favor regulation and Republicans who favor competitive markets."

—DREW ALTMAN, Kaiser Family Foundation

From: *Biden Policy Aimed at Competition Could Impact Hospital Consolidation*