RAND Hospital Price Transparency Project

Vermont Green Mountain Care Board

October 21, 2020

Christopher Whaley

RAND CORPORATION

Outline

- Background
- Study approach
- Study findings
- Implications & conclusions

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Background

Study approach

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Acknowledgments

- Funding provided by the Robert Wood Johnson Foundation and participating employers

- Study conceptualized by Employer's Forum of Indiana

- The study team:

Rose Kerber
Research Programmer

Aaron Kofner
Research Programmer

Brenna O'Neill
Research Programmer

Brian Briscombe
Quantitative Analyst

Christine Gallagher
Contract Administrator

Employer-sponsored plans cover half of Americans

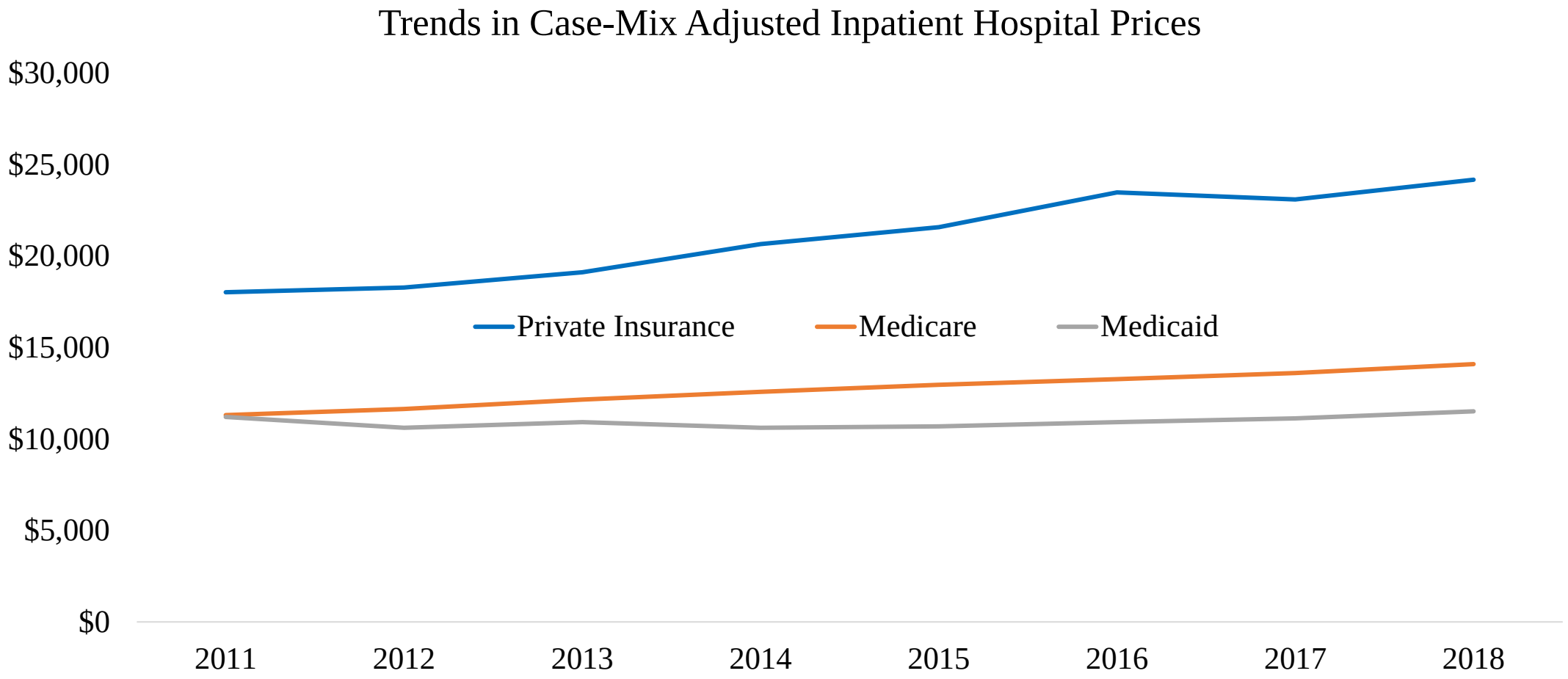
$1.2 trillion

health care costs in 2018

$480 billion

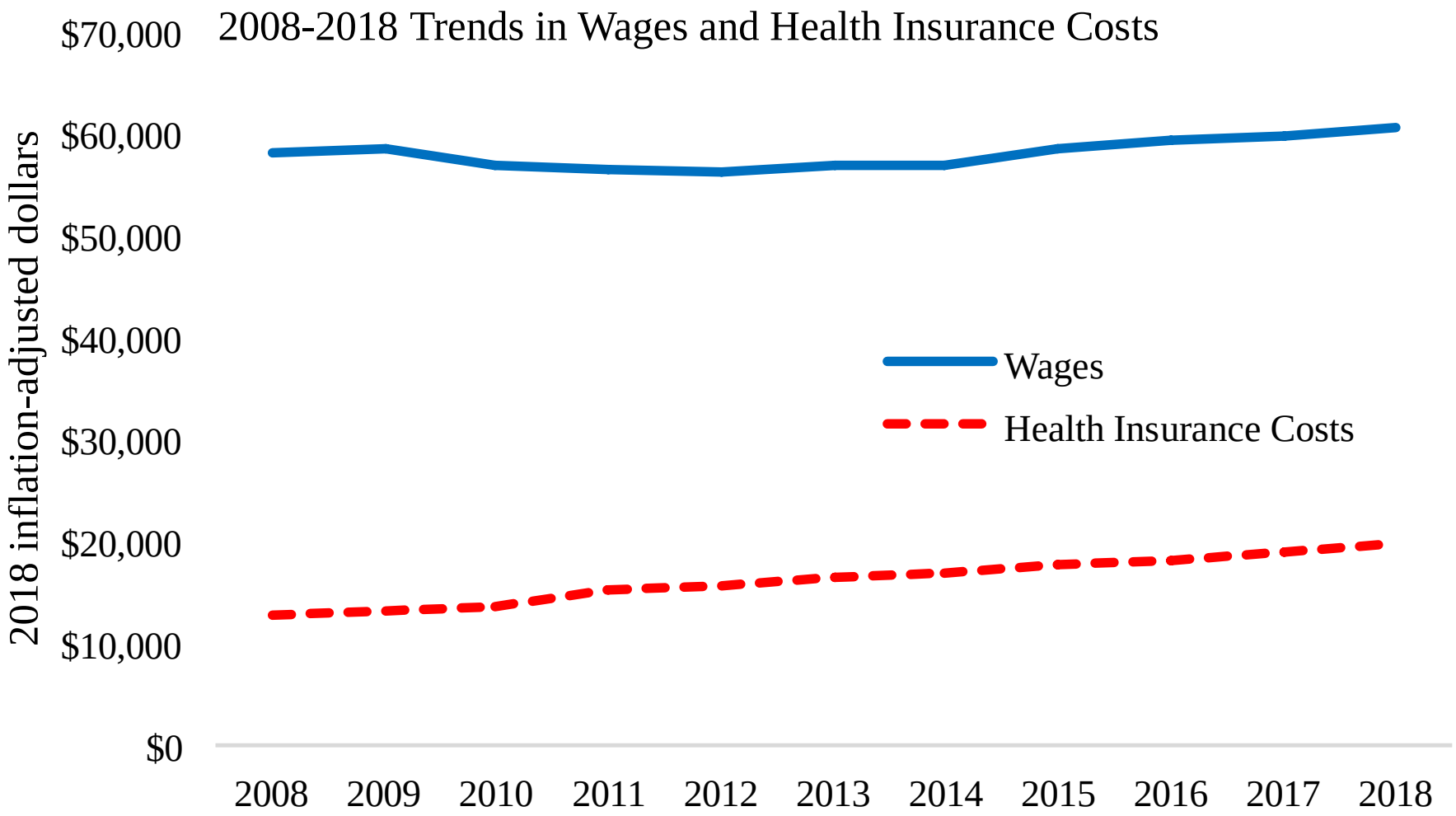
hospital costs in 2018

Prices paid by employers are rising rapidly



Source: CMS Hospital Cost Report Data

Why should we care about health care spending?



Source: Arnold and Whaley, Who Pays for Health Care Costs? The Effects of Health Care Prices on Wages. RAND Corporation, 2020.

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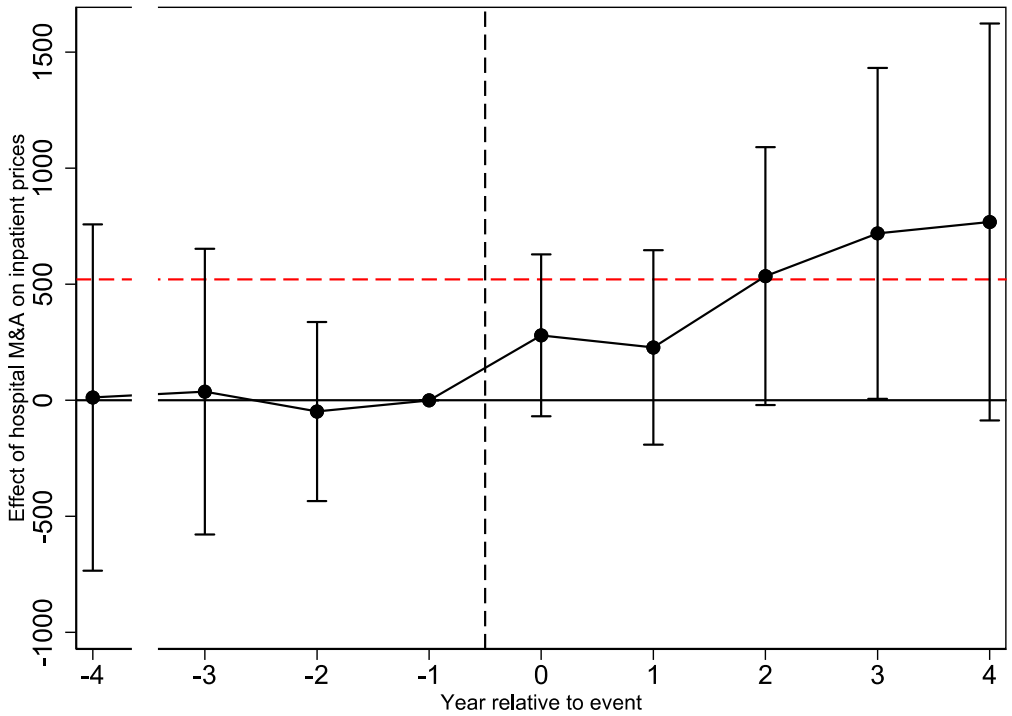

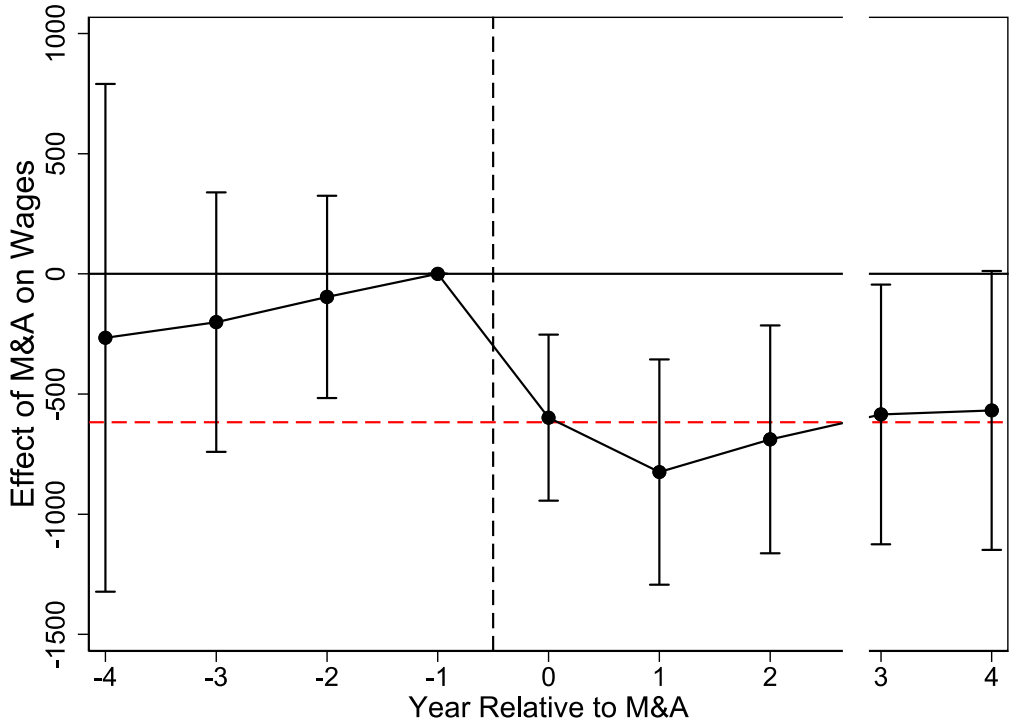

Source: Arnold and Whaley, Who Pays for Health Care Costs? The Effects of Health Care Prices on Wages. RAND Corporation, 2020.

What do we know already?

- Prices paid by private health plans are higher and growing faster than Medicare
- Increases in spending are driven by price growth, not utilization
- Prices vary widely from market to market, and from hospital to hospital within markets

What do we *not yet* know?

- How do prices compare across the country?
- Are hospital prices continuing to rise?
- Which hospitals/systems are getting the highest prices?
- ***What are the prices that individual self-funded employers are paying, and are these prices in line with the value that employers are getting?***

Self-funded employers have a fiduciary responsibility

- Fiduciaries have a responsibility to "*act solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them*." (Department of Labor)
- How can self-funded plans fulfill fiduciary obligations without knowing prices?

Hospital prices in the time of COVID-19

- COVID-19 is placing enormous financial pressure on both hospitals and employers
- Hospitals and health professionals are critical members of their communities
- Health benefits are one of the largest expenses for employers
- Now more than ever, employers need transparent information about hospital prices

Why did RAND undertake this study?

- We do not know what the "right" price is for hospital care
- Self-funded employers cannot act as responsible fiduciaries for their employees without price information
- Employers can use the information in this report—together with knowledge of their own employee populations—to decide if the prices they and their employees are paying align with value

RAND's hospital study journey:

Phase 1

- Just Indiana
- employers
- facility fees
- relative prices

Phase 2

- **25 states**
- employers, **health plans, and 2 APCDs**
- **inpatient/outpatient**
- facility fees
- relative **and standardized prices**

Phase 3.0

- **49 states (excluding Maryland)**
- employers, health plans, and **6 APCDs**
- inpatient/outpatient
- facility **and professional fees**
- **service-line prices**

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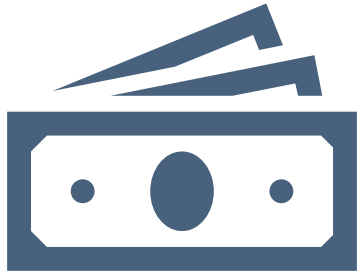
Obtain claims data from:

- self-funded employers
- APCDs
- health plans



Measure prices in two ways:

- relative to a Medicare benchmark
- price per case-mix weight

Create a *public* hospital price report:

- posted online, downloadable
- named facilities & systems
- inpatient prices & outpatient prices

Create *private* hospital price reports for self-funded employers

Comparing prices can be challenging

- Every hospital is different and performs different services
- The Medicare system can help us standardize and make an "apples-to-apples" comparison
- So let's make an apple pie—but with two recipes

Recipe #1: **Percent of Medicare**

- What do employers pay relative to what Medicare would have paid at the exact same hospitals?
- Easy to interpret and compare across hospitals
- Medicare adjusts for cost of living and wage differences

Recipe #2: **Standardized prices**

- Medicare has figured out how much more to pay for different services
  - e.g., Medicare pays 34.65 times for a heart transplant (DRG 103) than for chest pains (DRG 143)
  - we can use these weights to make an apples-to-apples comparison across hospital services
  - average "walk out the door" amount
- Don't have to worry about teaching, DSH, etc. payments

Comparison to Medicare

- We leverage the Medicare payment system as a **benchmark**, not as a price endpoint
- Medicare prices and methods are empirically based and transparent
- Benchmarking to Medicare allows employers to compare prices between hospitals, relative to the largest purchaser in the world

Data protections

- This study was regulated by RAND's Human Subjects Protection Committee
- We conducted our data analysis in a secure computing environment—similar to the environment used to analyze confidential Medicare data
- RAND data analysts undergo HIPAA and human subjects training
- NDAs and DUAs were put in place to protect data confidentiality

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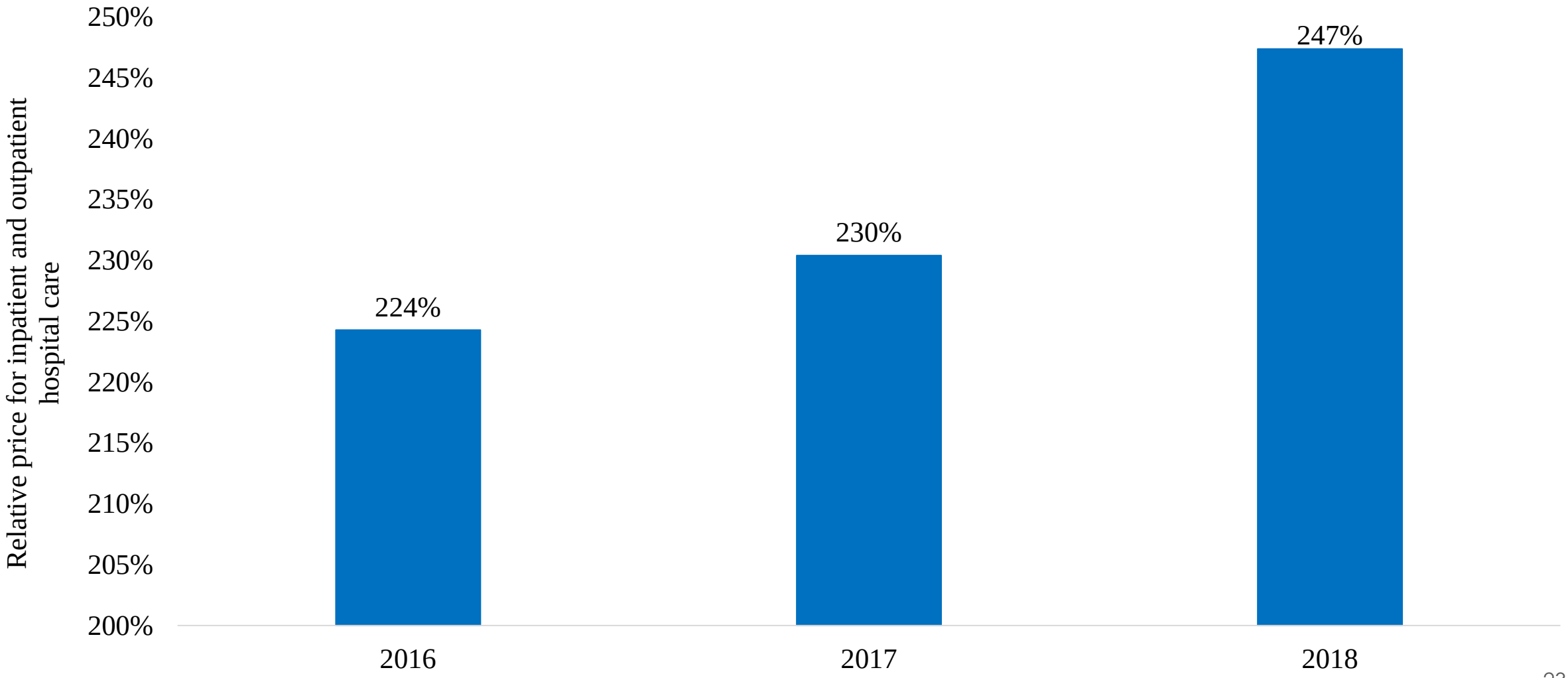
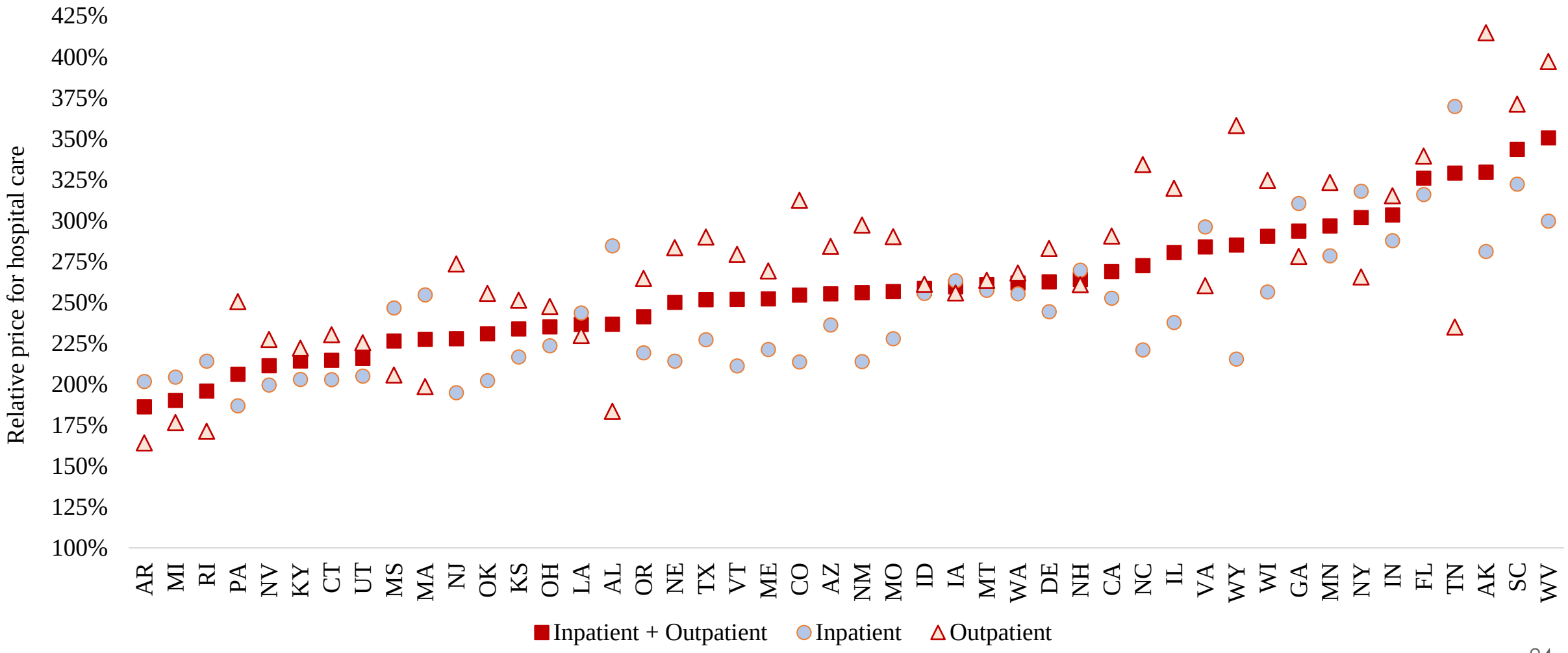
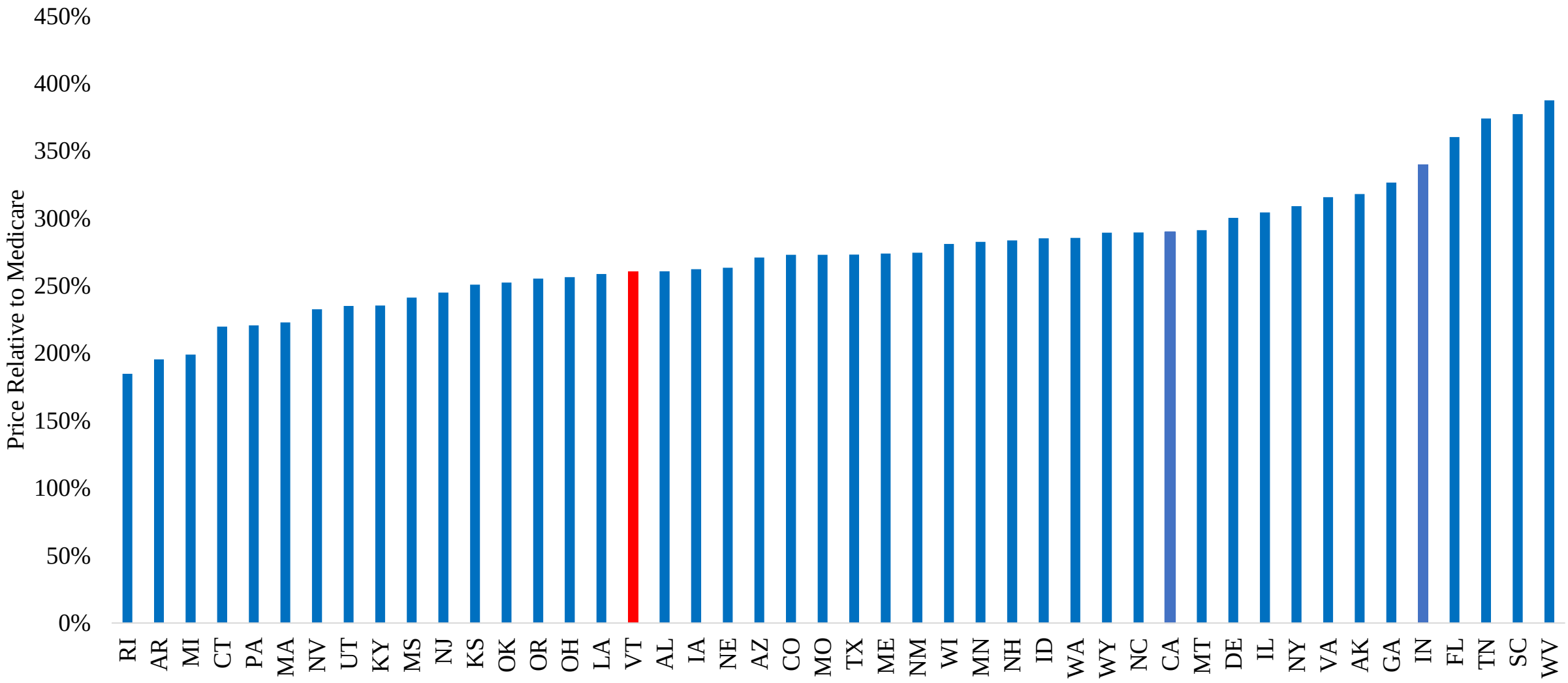
Commercial prices relative to Medicare have increased steadily



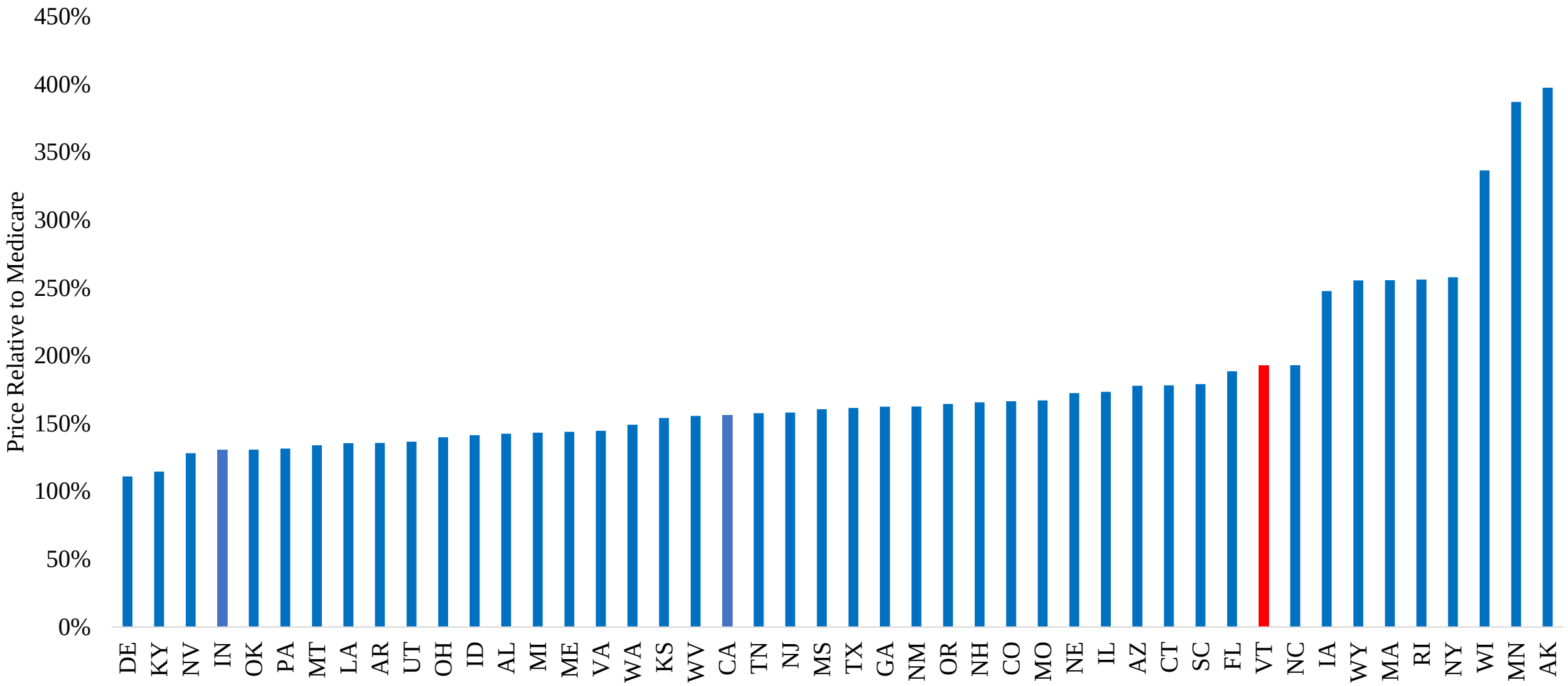
Commercial prices relative to Medicare vary widely across states



Facility prices relative to Medicare, by state:

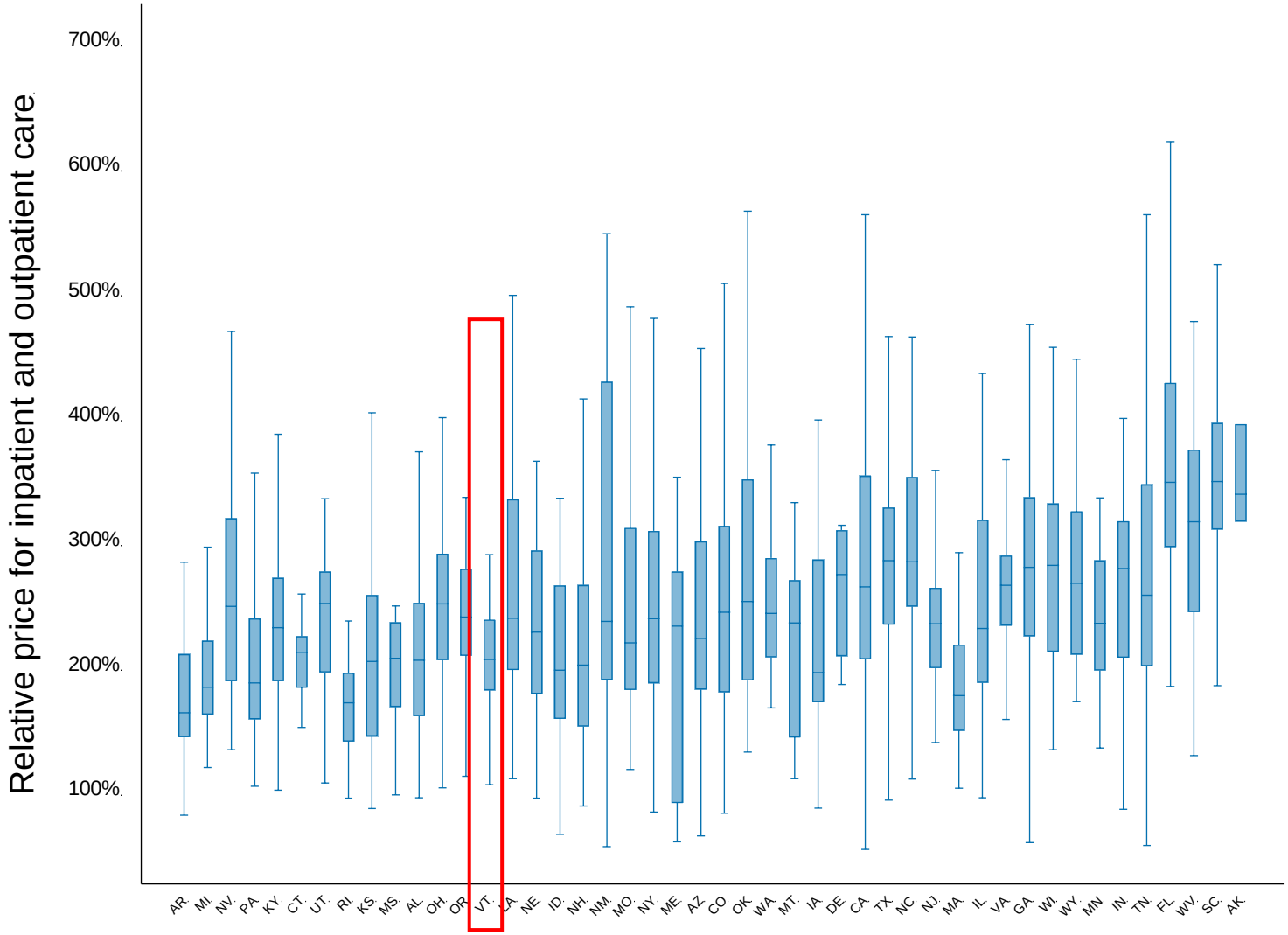


Professional prices relative to Medicare, by state:

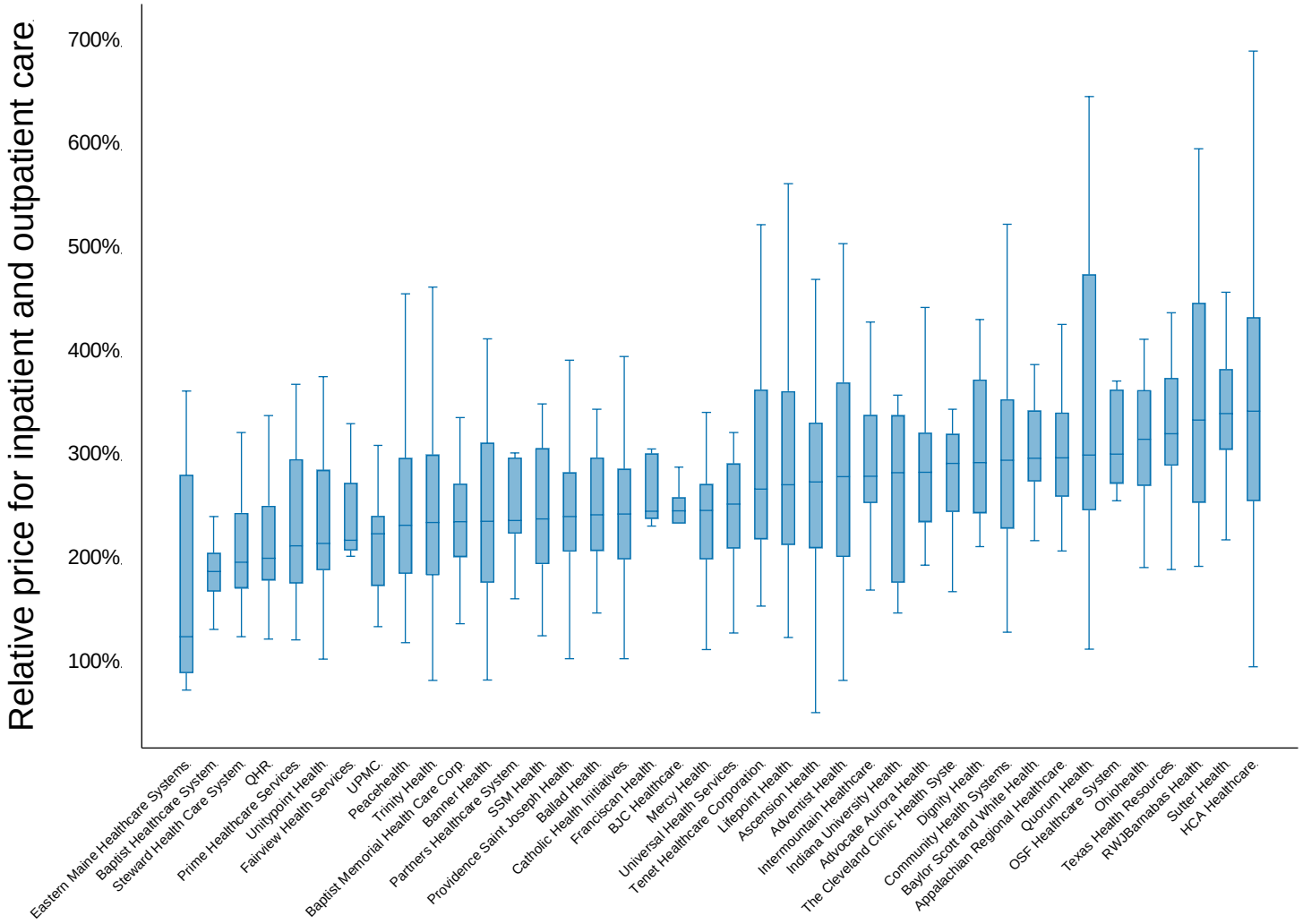


In many states, there is a gap between professional and facility fees

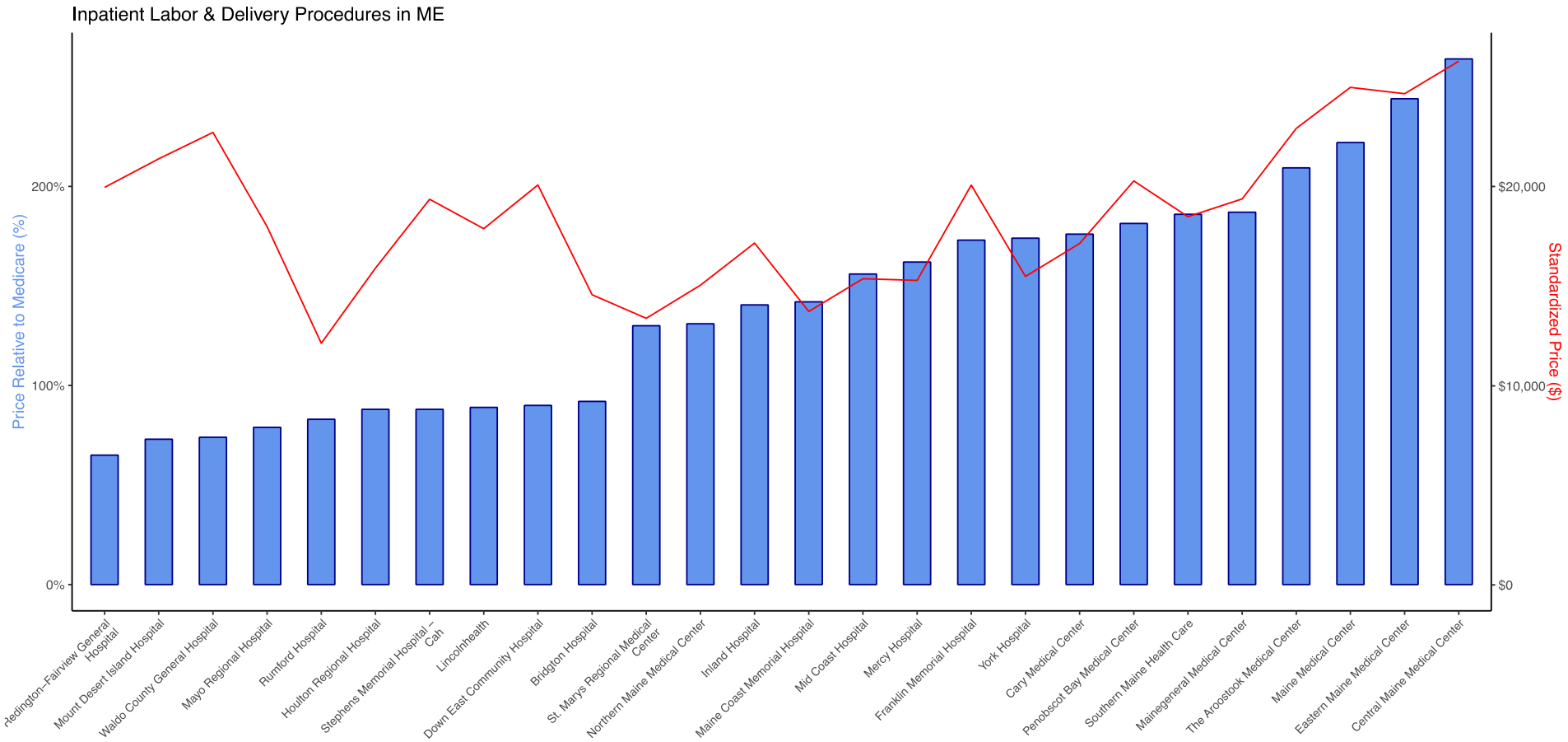
Prices vary widely within states



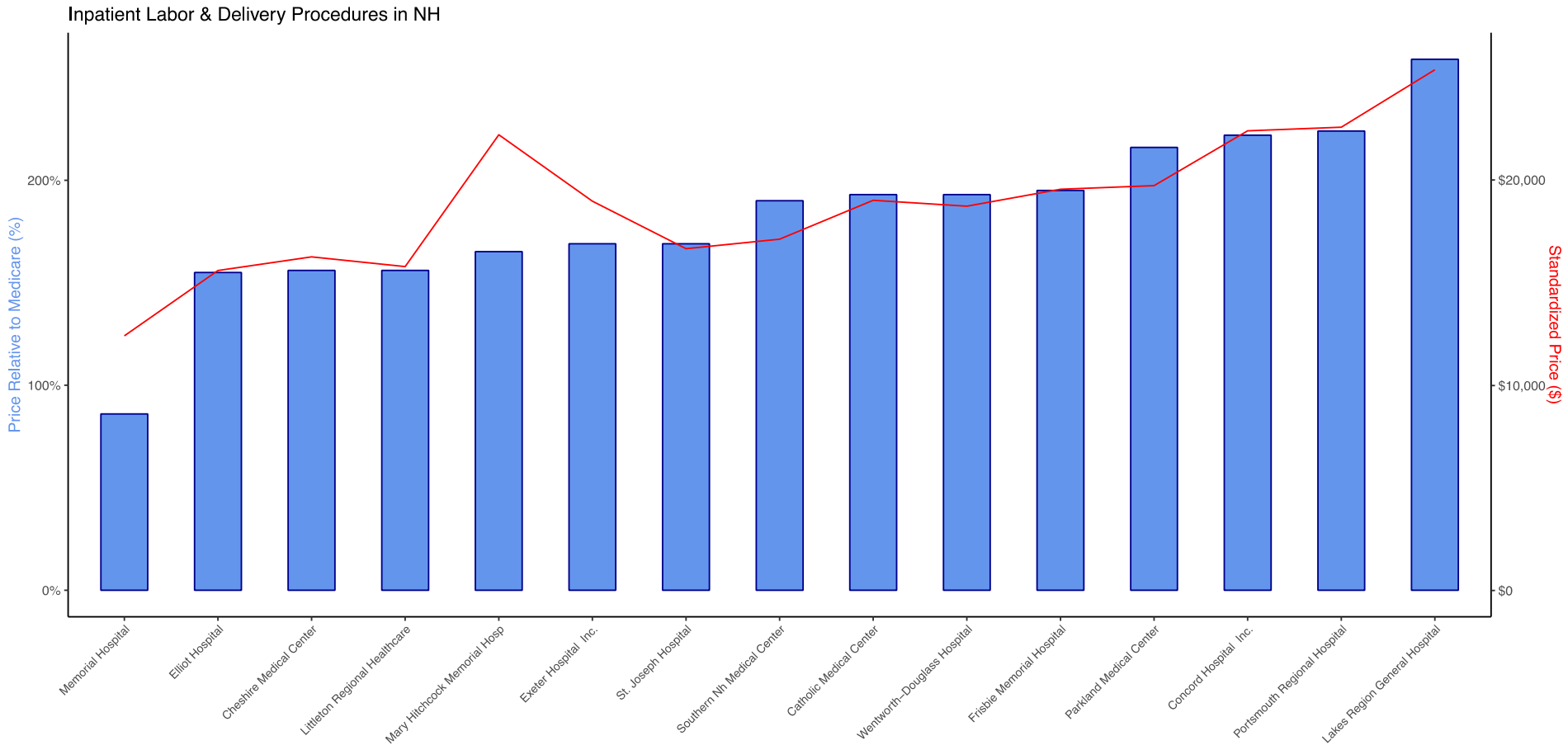
And also within hospital systems



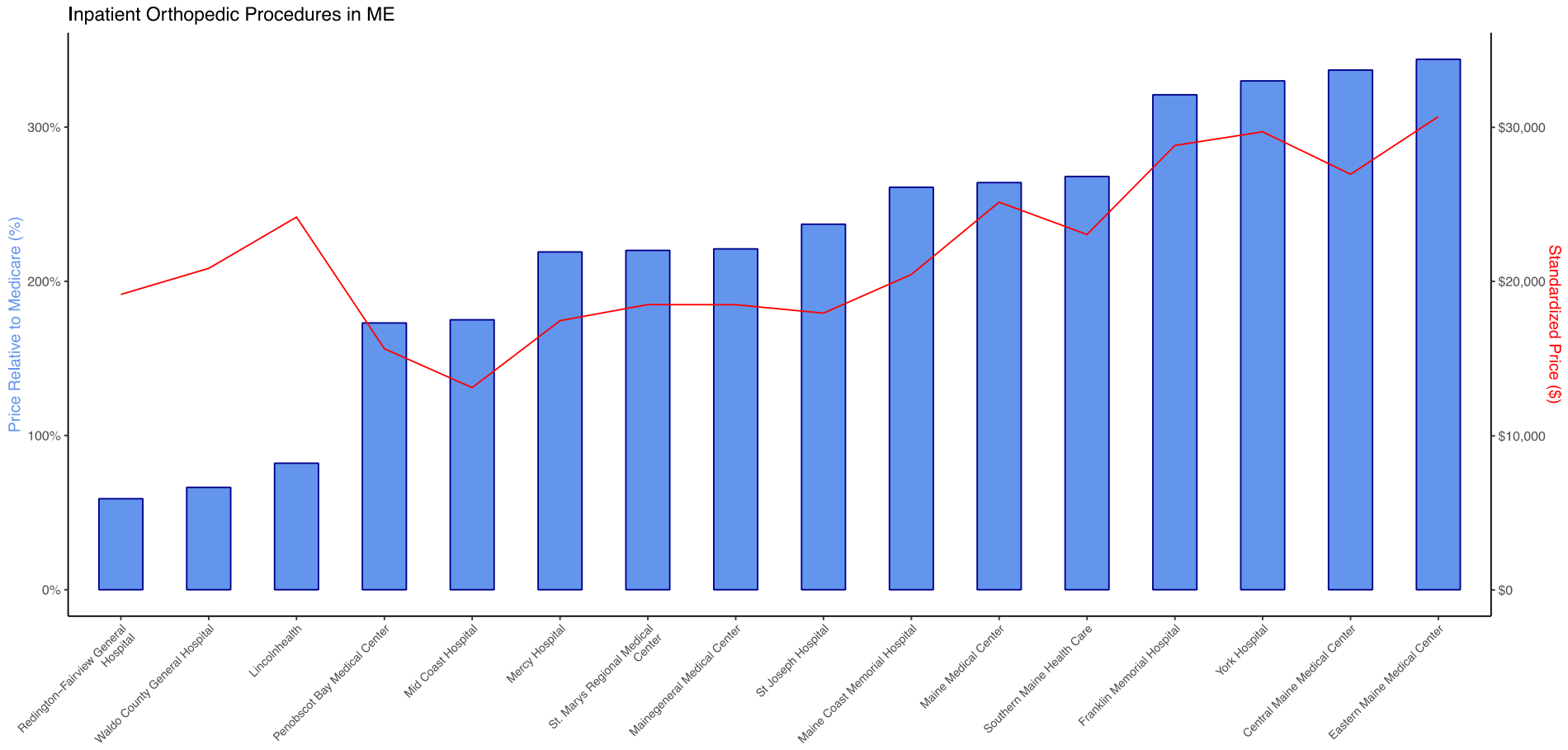
Maine Labor and Delivery Prices



New Hampshire Labor and Delivery Prices



Maine Orthopedic Surgery Prices



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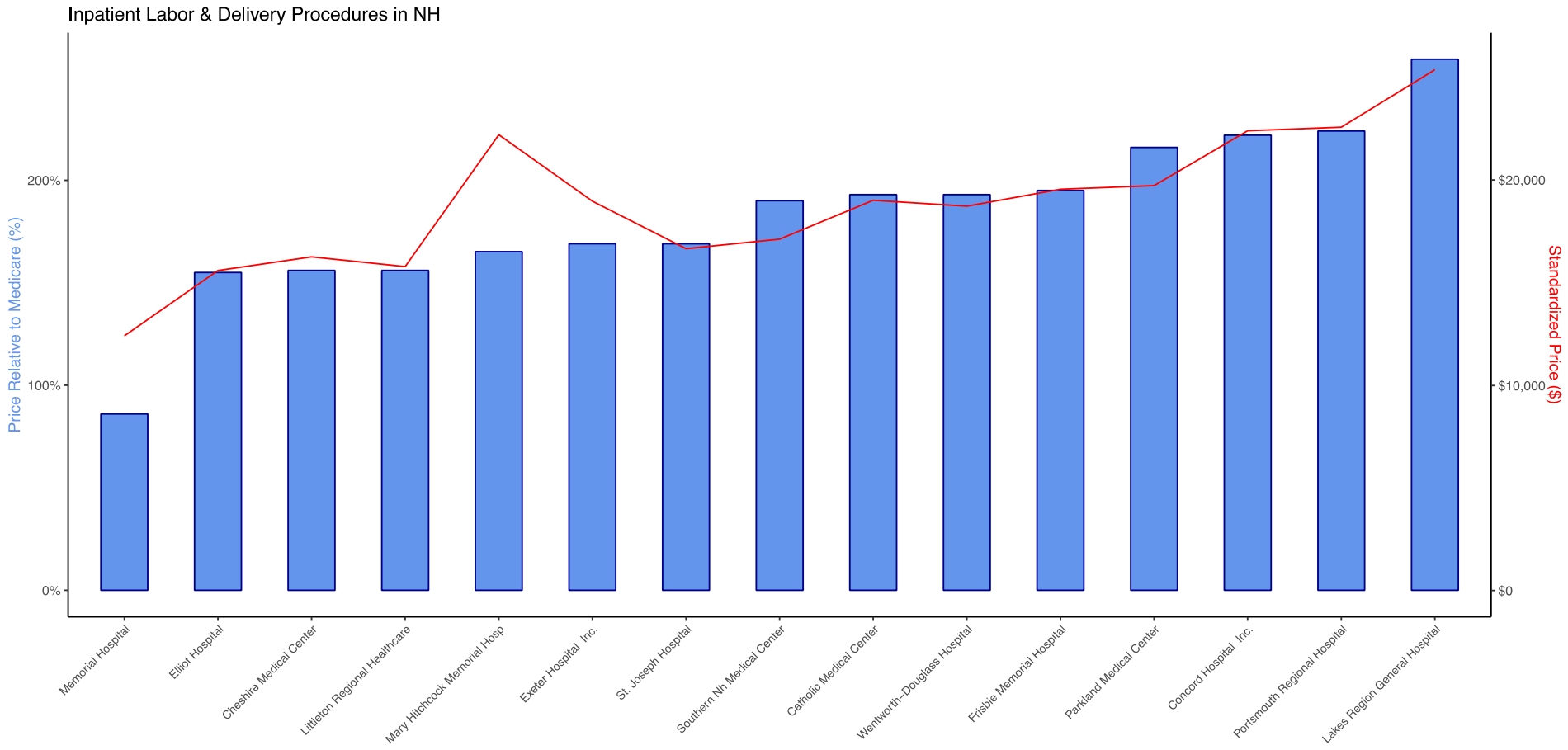
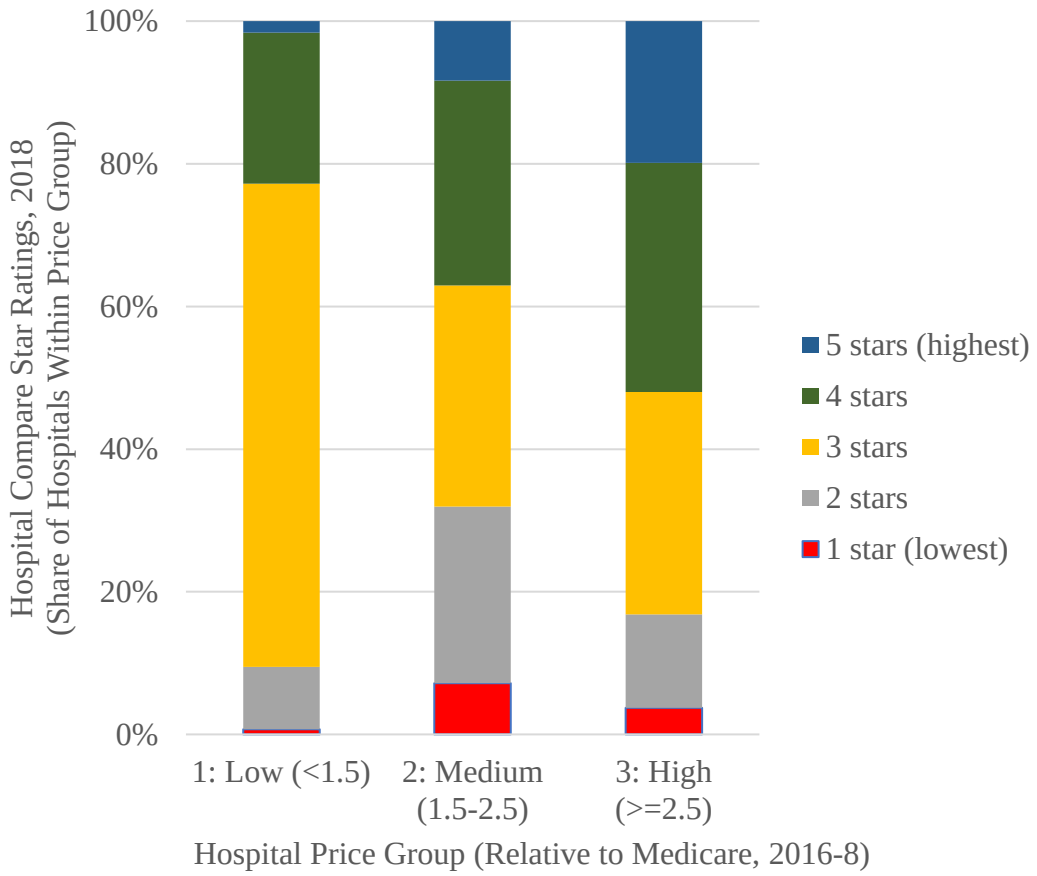
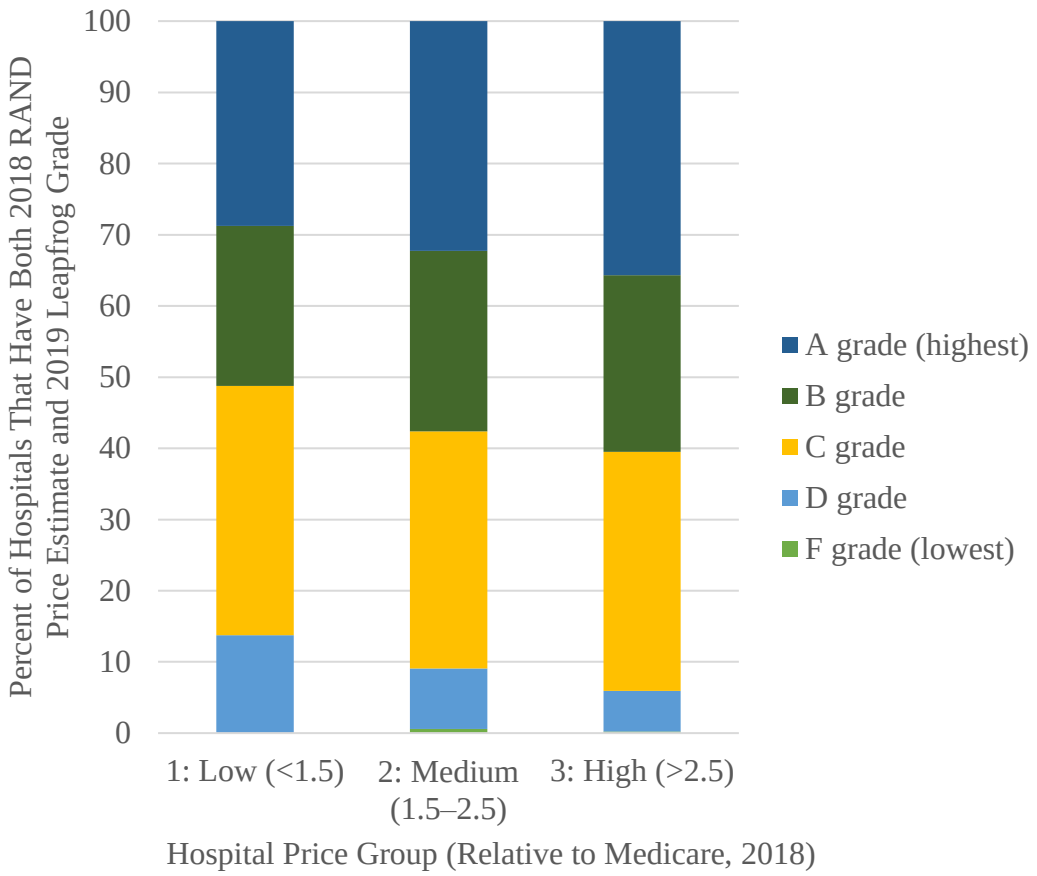
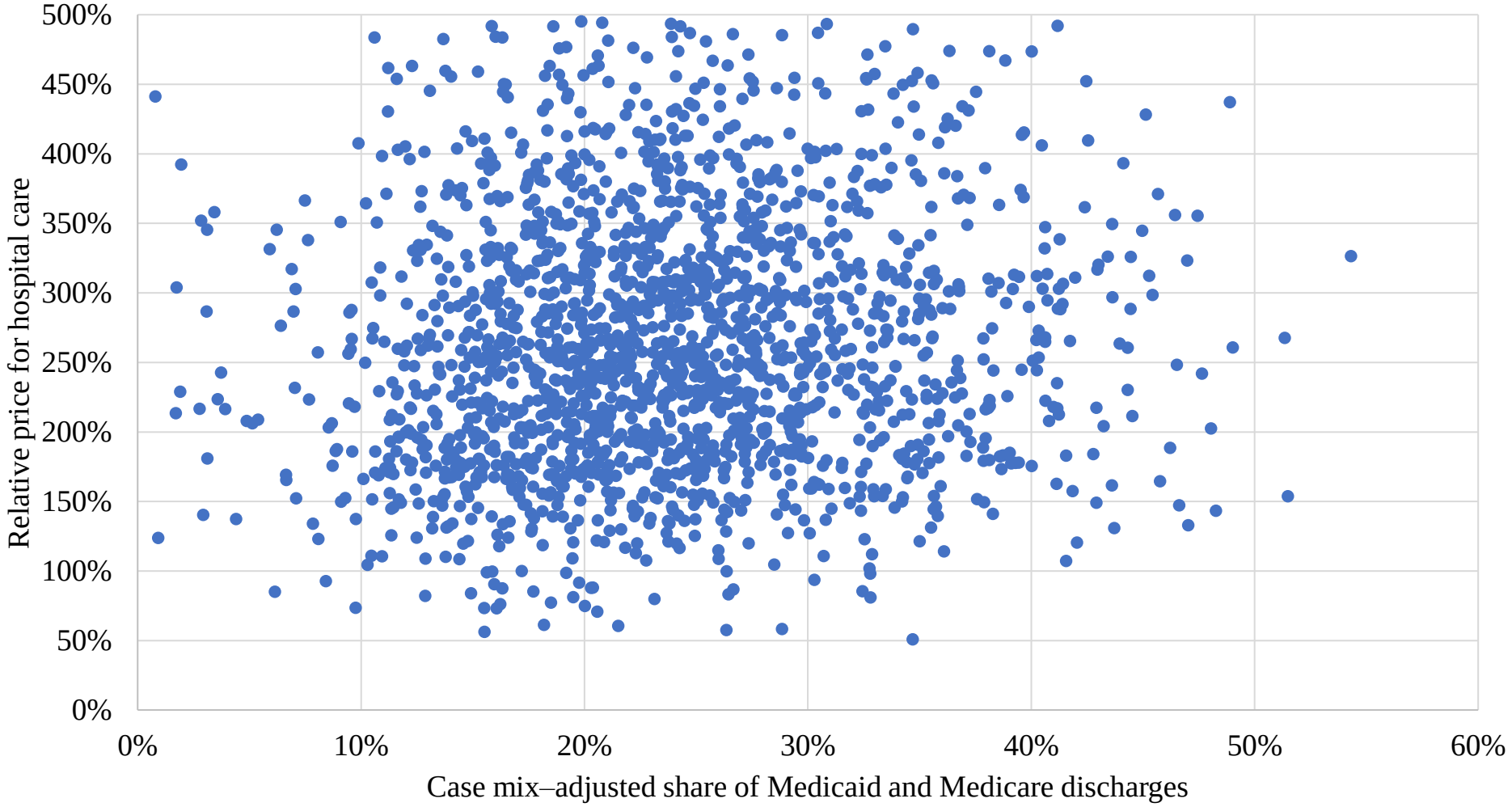


Some link between price and quality, but there are many high-quality hospitals with low





Patient mix doesn't explain price variation



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How can employers use price transparency?

Employers are collecting information about prices

- The Colorado Business Group on Health used RAND 2.0 data to produce a report on value of Colorado hospitals
- The report proposed options for Colorado employers to address prices in their specific markets

Employers are using data to benchmark prices

Anthem's home state innovation

A similar RAND study commissioned by self-insured employers in Indiana spurred action when researchers concluded that Hoosier companies paid hospitals an average of 272% of Medicare rates from 2013 to 2016.

In response, 12 self-insured companies asked Anthem Blue Cross and Blue Shield to develop new health plan options that would steer members to lower-cost, high-quality providers, as alternatives to their traditional PPOs with wide-open networks. Up to that point, Indiana employers had been reluctant to limit their workers' provider choices for fear of backlash, said Gloria Sachdev, CEO of the Employers' Forum of Indiana.

*Harris Meyer (2020) "**Self-insured employers go looking for value-based deals**" Modern Healthcare*

And they're citing RAND's study in their negotiations

The New York Times

Many Hospitals Charge Double or Even Triple What Medicare Would Pay

The Parkview Health System in Indiana had among the highest overall hospital prices compared to Medicare rates, according to a study of 25 states' hospital pricing. Tom Strattman For The New York Times

By Reed Abelson

May 9, 2019

616

Sunday, March 01, 2020 1:00 am

Insurer pushes Parkview on costs

Says charges too high, citing study hospital calls unfair

SHERRY SLATER | The Journal Gazette

Anthem is attempting to support a core goal of the RAND study by holding hospital systems accountable for their prices, which in turn will benefit our employees' mental and physical health and their financial wellness.

—***Purdue Senior Director of Benefits***

Role for state and federal policymakers

Market structure limits ability for employer innovation

- many markets have limited provider options
- 70% of U.S. markets are concentrated (HCCI, 2019)

Employers can also push for regulatory reforms

- all-payer claims databases
- policies that promote competition and eliminate gag clauses
- limits on out-of-network charges
- all-payer or global budget programs

Conclusions

- Rising health care costs place pressure on employers and worker wages—especially during the COVID-19 pandemic
- The wide variation in hospital prices presents a potential savings opportunity for employers
- Employers need to demand transparent information on the prices they—and their employees—are paying
- Employers need to use transparency to inform benefit

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