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# Private Health Plans Pay Hospitals 241% of What Medicare Would Pay, RAND Study Finds

An examination of U.S. hospital prices covering 25 states shows that in 2017, the prices paid to hospitals for privately insured patients averaged 241% of what Medicare would have paid, with wide variation in prices among states, according to a new RAND Corporation study.

Some states (Kentucky, Michigan, New York and Pennsylvania) had average relative prices that were 150% to 200% of what Medicare paid, while other states (Colorado, Indiana, Maine, Montana, Wisconsin and Wyoming) had average relative prices that were 250% to 300% of what Medicare would have paid.

The analysis of 1,598 hospitals is a broad-based study of prices paid by private health plans to hospitals and is unique in presenting price information about a larger number of hospitals across many states.

Researchers analyzed health care claims for more than 4 million people, with information coming from self-insured employers, two state all payer claims databases and records from health insurance plans that chose to participate. For each private claim, researchers re-priced the service using Medicare's grouping and pricing formulas.

The analysis was done in collaboration between RAND and the Employers' Forum of Indiana, an employer-led health care coalition. The Forum participated in study design and recruitment, while the analysis was done by RAND researchers.

"The widely varying prices among hospitals suggests that employers have opportunities to redesign their health plans to better align hospital prices with the value of care provided," said Chapin White, the study's lead author and an adjunct senior policy researcher at RAND, a nonprofit research organization. "Employers can exert pressure on their health plans and hospitals to shift from current pricing system to one that is based on a multiple of Medicare or another similar benchmark."

If employers and health plans participating in the study had paid hospitals using Medicare's payment formulas, total payments over the 2015-2017 period would have been reduced by $7 billion -- a decline of more than 50%.

"The purpose of this hospital price transparency study is to enable employers to be better shoppers of health care on behalf of their employees," said Gloria Sachdev, president and CEO of the Employers' Forum of Indiana. "We all want to know which hospitals provide the best value (best quality at best cost). Numerous studies have found that rising health care costs are due to high prices, not because we are using more health care services. Hospital quality transparency has been available thanks to the Centers for Medicare & Medicaid Services and others. This study allows us for the first time to compare hospital prices within a state and across states. With quality and price transparency now available, our aspiration of having improved, affordable health care seems within reach."

The RAND study found that hospital prices relative to Medicare increased rapidly from 2015 to 2017 in Colorado and Indiana, while they fell in Michigan over the same period. Prices also vary widely among hospital systems, ranging from 150% of Medicare prices at the low end to 400% of Medicare prices at the high end.

A large portion of private health insurance contracting for hospitals is done on a discounted-charge basis where the insurer agrees to pay a percentage of billed charges. By contrast, Medicare issues a fee schedule that determines the price it will pay for each service, with adjustments for inflation, hospital location, the severity of a patient's illness and other factors.

RAND researchers recommend that private insurers move away from discounted-charge contracting for hospital services and shift to contracting based on a percent of Medicare or another similar fixed-price arrangement.

"Employers can also encourage expanded price transparency by participating in existing state-based all payer claims databases and promoting development of such tools," White said. "Transparency by itself is likely to be insufficient to control costs so employers may need state or federal policy changes to rebalance negotiating leverage between hospitals and their health plans."

Such legislative interventions might include placing limits on payments for out-of-network hospital care or allowing employers to buy into Medicare or another public option that pays providers based on a multiple of Medicare rates.

Hospitals included in the analysis are from Colorado, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Maine, Michigan, Missouri, Montana, North Carolina, New Hampshire, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Vermont, Washington, Wisconsin and Wyoming.

Support for the study was provided by the Robert Wood Johnson Foundation, the National Institute for Health Care Reform, the Health Foundation of Greater Indianapolis and participating employers.

The report, “Prices Paid to Hospitals by Private Health Plans are High Relative to Medicare and Vary Widely: Findings from an Employer-Led Transparency Initiative,” is available at www.rand.org.

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