

*An American Academy of Actuaries  
Virtual Briefing*

**Hospital Prices: Can Greater Price  
Transparency Drive Lower Prices  
and Reduce Price Variation?**



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# Presenters

## SPEAKERS

**Michael Cohen, Ph.D.**

Analyst, Congressional Budget Office

**Krutika Amin, Ph.D.**

Associate Director, Program on the ACA, KFF (Kaiser Family Foundation)

**Andrea Rome, MAAA, FSA, CERA**

Member, Academy Health Care Delivery Committee

## MODERATOR

**Rebecca Owen, MAAA, FSA, FCA**

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# Michael Cohen Presentation



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# Variation in Prices for Hospitals' Services

April 14, 2022

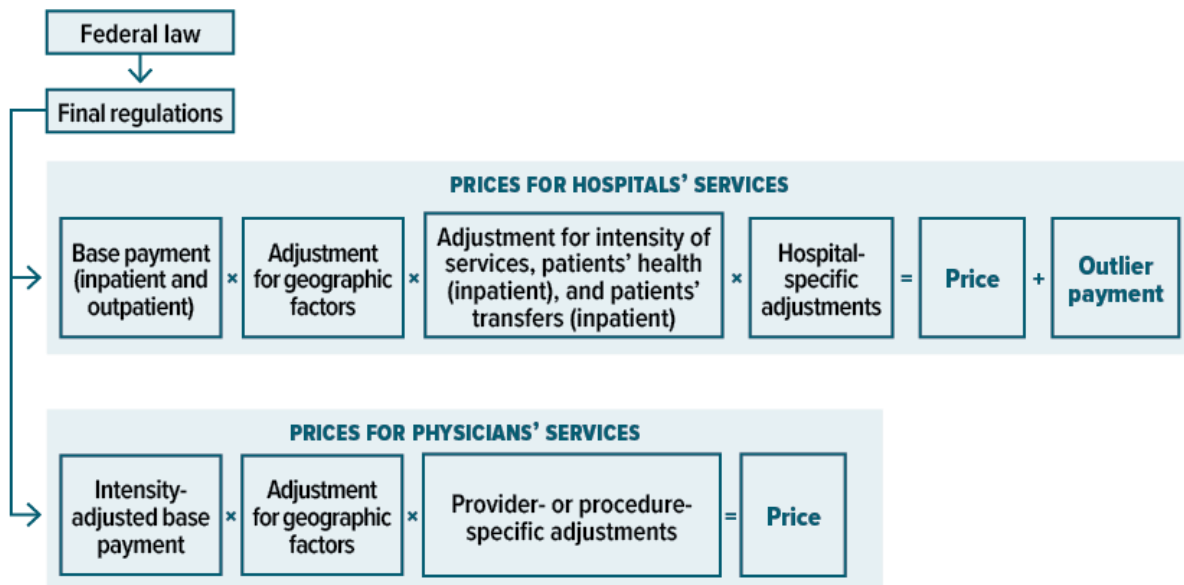
Presentation at the American Academy of Actuaries

Michael Cohen

Health Analysis Division

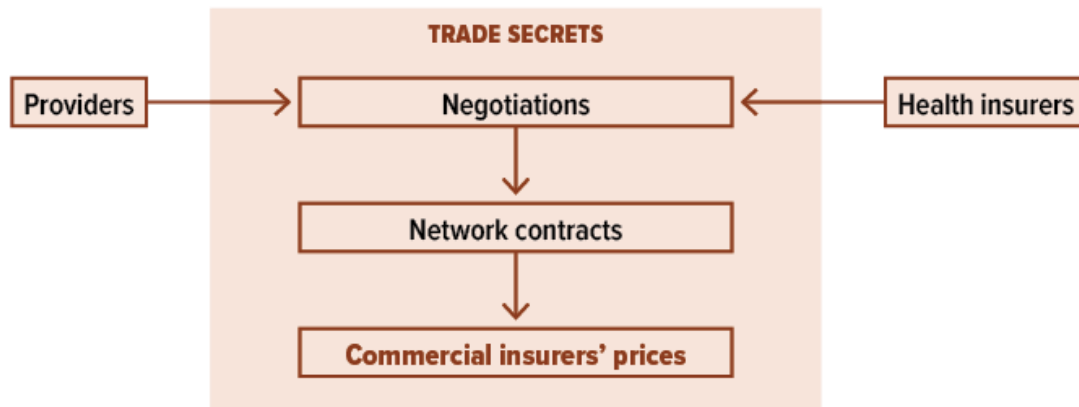


# How Medicare's Prices Are Determined



The Medicare fee-for-service program's prices for inpatient, outpatient, and physicians' services are set administratively by the federal government. Base-payment rates are adjusted for specifics of the provider, patient, or service.

# How Commercial Insurers' Prices Are Determined

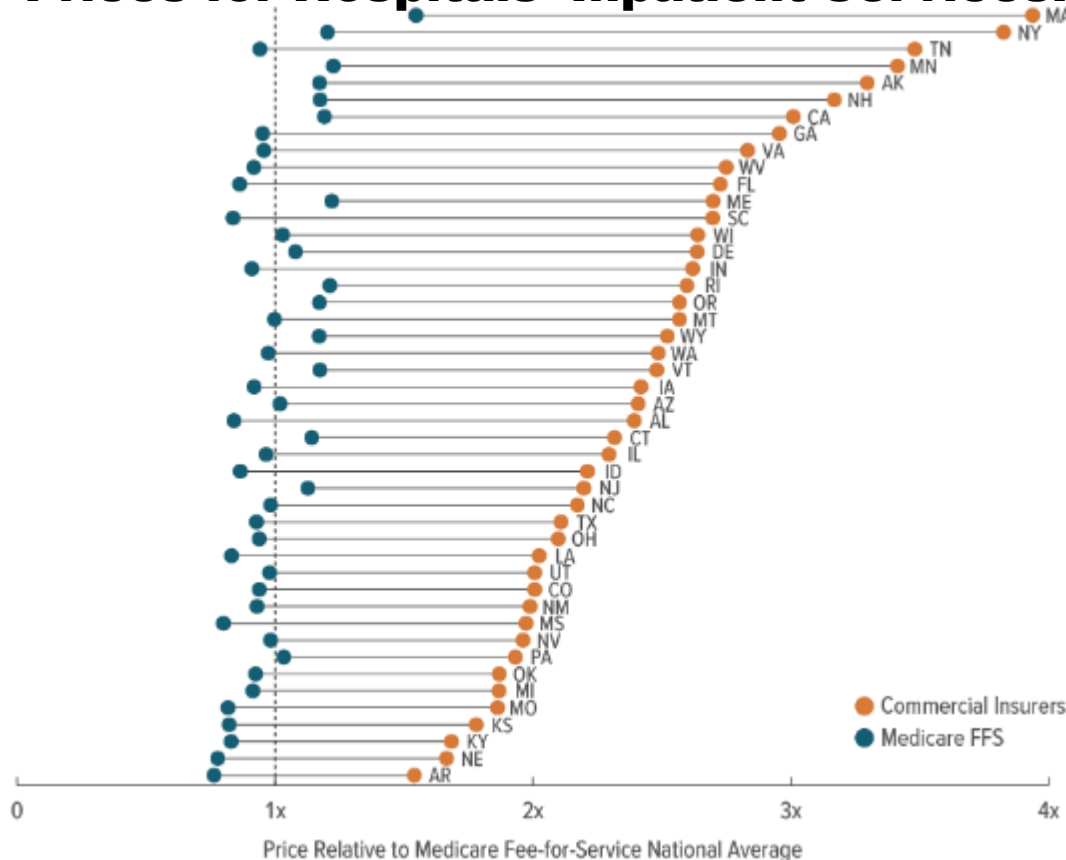


The prices paid by commercial insurers are determined through confidential negotiations between individual insurers and individual providers or groups of providers.





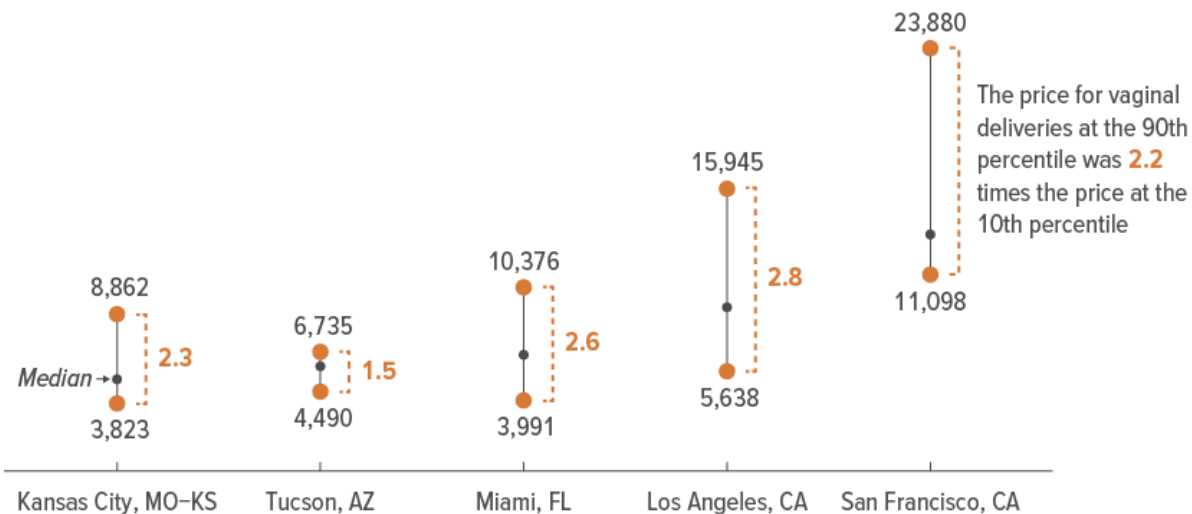
## Prices for Hospitals' Inpatient Services: Variation Among States



In 2018, commercial insurers' prices for hospitals' inpatient services varied substantially among states, as did the gap between their prices and Medicare's prices. The difference between commercial prices and Medicare's prices was highest in Massachusetts, New York, and Tennessee. (Source: CBO's analysis of data from Whaley and others, 2020.)

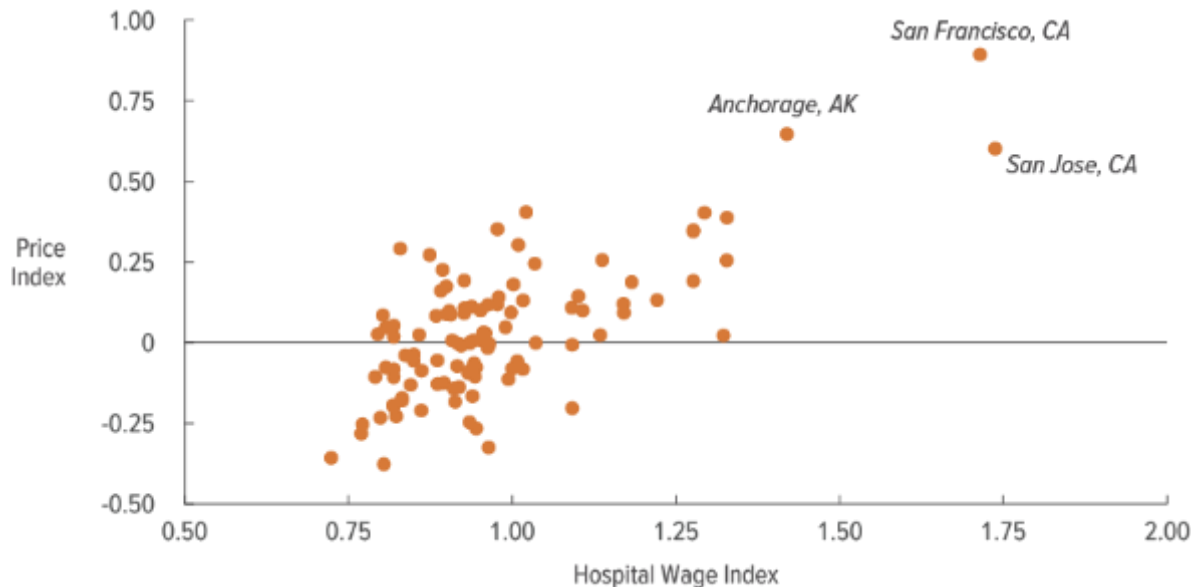


## Prices for Hospitals' Inpatient Services: Variation Within Metropolitan Areas



In 2016, commercial insurers' prices for the same hospital service, such as a vaginal birth, varied substantially within each geographic area. The range of prices varied among areas. (Source: CBO's analysis of data from Kennedy and others, 2019.)

# The Relationship Between Hospitals' Wages and Commercial Insurers' Prices for Inpatient Services, 2017

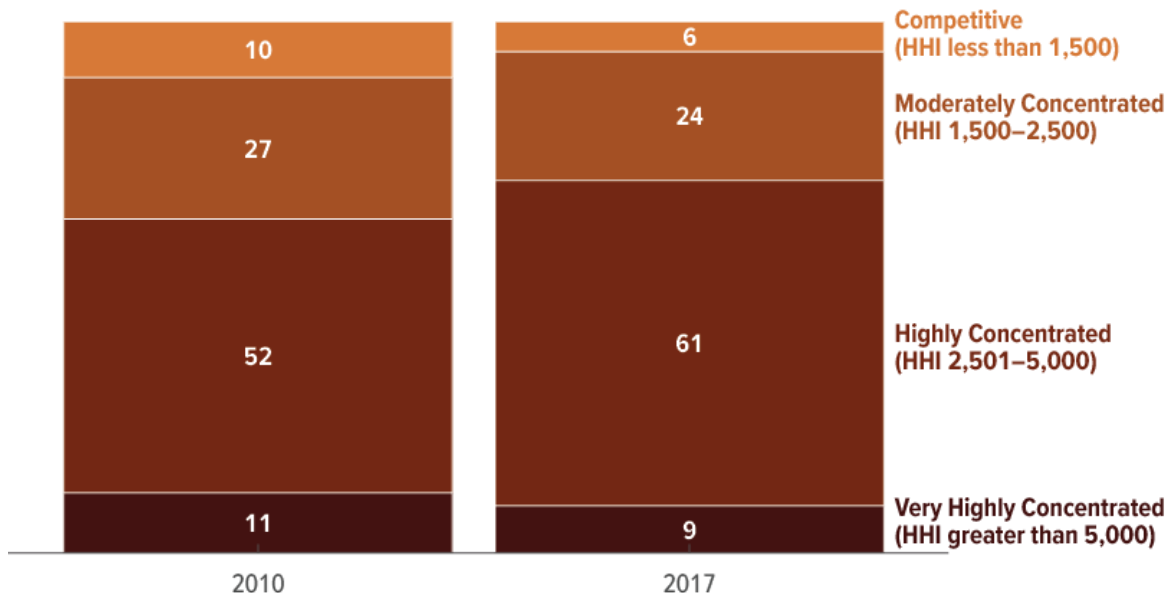


Variation in the prices that commercial insurers pay for hospitals' inpatient services is associated with variation in hospitals' wages. (Source: CBO's analysis of aggregate data from HCCI and the Centers for Medicare & Medicaid Services.)



# Concentration in Hospital Markets and Commercial Insurers' Prices

Percentage of MSAs



The percentage of metropolitan areas with highly or very highly concentrated hospital markets (as measured by a Herfindahl-Hirschman Index of more than 2,500) increased from 2010 to 2017. (Source: CBO's analysis of data from HCCI.)

CBO's review of the literature generally found that hospitals' prices were higher in areas where consolidation was greater and that some of the difference in prices was attributable to providers' market power.

# Krutika Amin Presentation



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# Hospital price transparency: Early results and challenges

Krutika Amin, Ph.D.

April 14, 2022



Filling the need for trusted information on national health issues.

# Hospitals required to publish the price of health services by payer starting January 2021

300  
shoppable  
services

70 specified  
by CMS

230 hospital  
selected

Consumer-  
friendly plain  
language

Made  
available free  
of charge

Updated at  
least  
annually

## Data elements required

- Code (CPT/HCPCS, DRG)
- Description
- Gross charge (charge master)
- Discounted cash price
- Payer-specific negotiated rate
- Minimum negotiated rate
- Maximum negotiated rate

# Few hospitals provide the public with payer-negotiated rates

Among the two largest hospitals in each state and D.C. (102 hospitals), the number and share that provide prices for health services on consumer tools and machine-readable files

	Consumer tool	Machine-readable file
<b>Gross charge</b>	80 hospitals (78%)	83 hospitals (81%)
<b>Discounted rate (uninsured/self-pay rate)</b>	57 hospitals (56%)	43 hospitals (42%)
<b>Payer-specific negotiated rates (2 or more payers)</b>	3 hospitals (3%)	35 hospitals (34%)

Notes: Hospitals were counted as providing prices if they were accessible without having to personally identifying information or insurer ID information. Hospitals were counted as providing payer-specific negotiated rates if they provided rates for 2 or more payers. See Methods.

Source: KFF analysis of price transparency files and tools on the public websites of the two largest hospitals in each state and D.C.

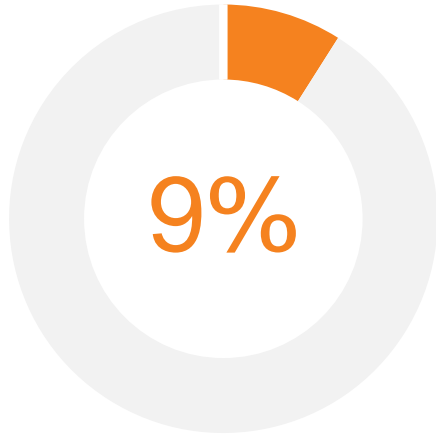
Peterson-KFF  
**Health System Tracker**

SOURCE: KFF Analysis <https://www.healthsystemtracker.org/brief/early-results-from-federal-price-transparency-rule-show-difficultly-in-estimating-the-cost-of-care/>

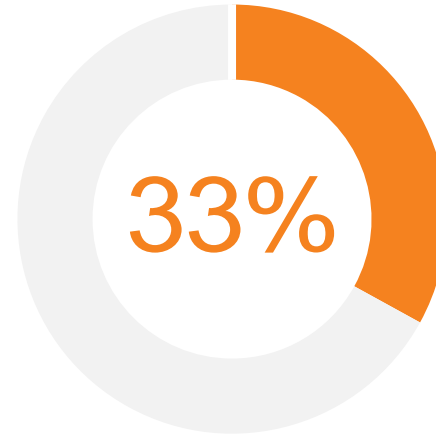




# Few adults are aware of hospital price transparency requirements



About one in ten (9%) are aware hospitals are required to disclose the prices of treatments and procedures on their websites.



Adults who did search for hospital prices were somewhat more likely to incorrectly say that there is no federal requirement (33%) than those who did not search for hospital prices (20%).

# Challenges in price transparency data quality and usability

MAJ JOIN REP/REAT LE W/O M Replacement Of Hip Joint  
Anesht Removal Of Rib KNEE OR HIP JOINT REPLACEMENT  
PARTIAL RIB RESEC NOS-ANS Physical Therapy - Visit Charge  
Major joint replacement or reattachment of lower extremity w/o MCC  
Major hip and knee joint replacement or reattachment of  
Anesthesia for partial rib resection; not otherwise specified  
REPLACEMENT OF LOWER EXTREMITY JOINT (HIP, KNEE, ANKLE)  
MAJOR JOINT REPLACEMENT OR REATTACHMENT OF LOWER EXTREMITY W-O MCC  
Medical and Surgical Major joint replacement (Hip/Knee)  
Anes Removal Rib AIH PARTIAL RIB RESECTION NP Day 2, Day 3  
MSDRG 470 Hc Pr 00470 Anesth Removal Of Rib Orthopedic Surgery  
Laboratory - Hematology Knee replacement 470  
Major Joint Replacement Operating Room Services - General Classification Day 4 and beyond  
Replacement Of Knee Joint RR Orthopaedic Care ungroupable  
MAJ HIP&KNEE JT REPL/REATTACH LE W/O MCC Specific DRG  
Day 1 Recovery Room - General Classification  
DRG Package 470 MAJ JNT REPLCMNT/REATTCH LWR EXTRMTY W/O MCC  
Pharmacy - IV Solutions ANESTH- REMOVAL OF RIB Laboratory - Chemistry  
MS-DRG 470  
PR ANESTHESIA PARTIAL RIB RESECTION NOS  
CRNA ANS REMOVAL OF RIB  
MAJOR JOINT REPLACEMENT OR REATTACHMENT OF LOWER E

SOURCE: KFF Analysis. <https://www.healthsystemtracker.org/brief/early-results-from-federal-price-transparency-rule-show-difficulty-in-estimating-the-cost-of-care/>

# Even if price transparency worked perfectly, it is not an end-all be-all for issues consumers face in U.S. health care

Quality of care can be conflated with higher price

Effects of price transparency on costs could go either way

Variation in prices within hospital, depending on patient situation

## Example

For instance, at University of New Mexico Hospitals, for an MRI of the lower spine, the range of negotiated rates varied between:

- \$486 – \$1821 in the private insurance market
- \$221 – \$331 for Medicare Advantage plans
- \$350 – \$485 for Medicaid managed care plans.



**KFF**

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# Andrea Rome Presentation



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# Impact of Hospital Transparency Rules

Andrea Huckaba Rome, MAAA, FSA, CERA  
Member, Academy Health Care Delivery Committee



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# Questions to Ask

- How will transparency rules impact stakeholders?
- Will transparency rules change behavior or practices?
- Will transparency rules lower costs?



# Implications for Hospitals

- Comparison to the market, up and down
- Greater scrutiny, especially on outlier prices
- Movement toward average
  - \*Except in highly concentrated markets
- Labor-intensive data may not show whole picture





# Implications for Payers

- Provider contracting impacted, up and down
- Market dynamics heightened
- Large plan sponsor scrutiny



# Implications for Consumers

- Cost estimation tools most helpful for shopping
  - Depends on consumer coverage
  - Depends on consumer benefits
  - Depends on electability of service



# Actuarial Considerations: Expected Changes

- Direct price changes:
  - ▣ Outliers
  - ▣ Comparisons to other hospitals
  - ▣ Comparisons to other payers
- Increased network design
- Market dynamics: Who has leverage?



# Actuarial Considerations: Premiums

- Change in premiums depends upon:
  - Changes in unit price
  - Shifting of utilization
  - Patient shopping behavior
- Necessary, but not sufficient



# Questions?



# For More Information

- Read the Academy's related issue brief, [\*Implications of Hospital Price Transparency on Hospital Prices and Price Variation\*](#), released in March 2022.

## Issue Brief

### Implications of Hospital Price Transparency on Hospital Prices and Price Variation

MARCH 2022



For more information, please contact:

Matthew Williams, JD, MA  
Senior Health Policy Analyst  
American Academy of Actuaries

[williams@actuary.org](mailto:williams@actuary.org)

