

Private U.S. Health Plans Pay Hospitals 247 Percent of What Medicare Would Pay

THE ISSUE

Low levels of price transparency make it hard for employers and other purchasers of health care to know how much they pay for hospital care.

STUDY FOCUS

RAND researchers used information from 49 states and Washington, D.C., to assess hospital prices paid by private health plans. Data sources included \$33.8 billion in spending from 3,112 community hospitals—more than half of community hospitals nationwide.

KEY FINDINGS

- In 2018, employers and private insurers paid hospitals 247 percent of what Medicare would have paid for the same services at the same facilities.
- Prices varied across states. Some states (such as Arkansas, Michigan, and Rhode Island) had relative prices under 200 percent of Medicare. Others (such as Florida, South Carolina, and West Virginia) had relative prices that approached 350 percent of Medicare.
- High-value hospitals do exist. In many parts of the country, employers have options for high-value facilities that offer high-quality care at lower prices.

IMPLICATIONS FOR EMPLOYERS

Addressing prices paid by employer-sponsored and other private insurance plans is a tangible way to reduce health care spending. Employers can take several steps:

- Where provider quality and convenience are comparable, employers can use network- and benefit-design approaches to move patients toward lower-priced, higher-value providers.
- Employers can use this information to monitor how contracts are negotiated on their behalf.
- Employers can exert pressure on health plans and hospitals to shift from discounted charge contracts to other forms of contracting that limit price variability. If a sufficient number of employers within a market aggressively design benefits with provider prices in mind, providers might respond by lowering prices.
- Employers might need state or federal policy changes to strengthen health plans' leverage in negotiating with hospitals. Such changes could include addressing noncompetitive health care markets, limiting payments for out-of-network hospital care, and allowing employers to buy into a public option that pays providers prices based on Medicare.

This brief describes research conducted in RAND Health Care and documented in *Nationwide Evaluation of Health Care Prices Paid by Private Health Plans: Findings from Round 3 of an Employer-Led Transparency Initiative*, by Christopher M. Whaley, Brian Briscoe, Rose Kerber, Brenna O'Neill, and Aaron Kofner, RR-4394-RWJ, 2020 (available at www.rand.org/t/RR4394). To view this brief online, visit www.rand.org/t/RBA1144-1.

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