RESEARCH BRIEF

Reducing Hospital Spending

Three Policy Options

THE ISSUE

Hospital care accounts for one-third of total U.S. health care expenditures, which in 2018 totaled $1.2 trillion. Private insurers pay 40 percent of these costs. To address concerns about high and growing health care spending, policymakers have proposed reforms to reduce hospital prices.

STUDY FOCUS

The authors analyzed three policy options that have been proposed as ways to reduce hospital prices paid by private health plans: regulating prices, improving price transparency, and decreasing concentration in hospital markets to enhance price competition. Prices could be regulated by setting prices or capping prices. *Setting prices* at a given rate means that prices above that rate are reduced, while prices below that rate are increased—which offsets some of the savings. *Capping prices* puts a ceiling on prices without raising prices below the cap. Improving price transparency could help patients, employers, and health plans shift care toward less expensive hospitals and could put pressure on hospitals to reduce prices. Decreasing hospital market concentration reduces hospital market power to drive prices toward competitive levels.

KEY FINDINGS

- Of the three options, regulating prices would reduce hospital spending the most. Setting prices at 100 to 150 percent of Medicare rates would reduce hospital spending by an amount between $62 billion and $237 billion. This change would reduce national spending by approximately 2 percent to 7 percent. Capping prices would reduce hospital spending even more than setting prices and would allow for savings with rates up to 200 percent of Medicare rates.
- Increasing hospital price transparency would also reduce prices, but not as much as regulating hospital prices would. This option would reduce hospital spending by an amount between $9 billion and $27 billion, depending on how effective price transparency initiatives are in getting patients and employers to seek lower prices.
- An increase in hospital market competition would also reduce prices but is unlikely to save as much as regulating hospital prices for all private plans. This option would reduce hospital spending by an amount between $6 billion and $69 billion, depending on the change in market concentration and response by hospitals.

POLICY IMPLICATIONS AND CHALLENGES

- Each policy option has a range of savings, and there are potential trade-offs in access to and quality of hospital care.
- Although price regulation would reduce hospital spending by more than the other options would, it would likely face strong political resistance from provider groups. It could also have broader impacts on hospital finances and quality of care.
- The effectiveness of the price transparency option depends on other factors, most notably improved benefit designs that incentivize price shopping.
- Improving hospital competition would require policymakers to radically restructure these markets for prices to approach competitive levels.

This brief describes research conducted in RAND Health Care and documented in *Impact of Policy Options for Reducing Hospital Prices Paid by Private Health Plans* by Jodi L. Liu, Zachary M. Levinson, Nabeel Shariq Qureshi, and Christopher M. Whaley, RR-A805-1, 2021 (available at www.rand.org/pubs/research_reports/RRA805-1). To view this brief online, visit www.rand.org/t/RBA805-1. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.