UNITED STATES of CARE

Get the Facts: Hospital Cost Shifting

In recent years, states have turned their attention to meaningfully reducing the cost of health care for people. **With hospitals accounting for 31% of the nation's health care spending, addressing unaffordable health insurance premiums and out-of-pocket costs requires focusing on hospitals and their costs.**

As health care prices continue to climb, a larger-than-ever financial burden is placed on patients, with nearly one in four avoiding or delaying care because of costs, and about half of the country reporting difficulty affording health care. **In addition, this unfair burden is also falling on employers and state and federal governments.** This reality stands in stark contrast to the fact that hospitals continue to charge people more than the cost of providing care. Patients say the status quo isn't working, but hospitals continue to falsely assert that changing the status quo will be harmful, including forcing hospitals to "cost shift" in response. **Here, we provide an overview of what cost shifting means, why this doesn't happen, and the impact high prices have on people.**

What Does Cost Shifting Mean?

The concept of "cost shifting" is often used by industry stakeholders as a reason for opposing policies that bring people more affordable health care, such as public options, as well as reforms that balance provider reimbursement rates, require site neutral payments, and prohibit the practice of charging facility fees. Health systems and hospitals, in particular, argue that these policies – which lower costs for people – require them to offset losses caused by expanding public coverage by "shifting costs" to patients with private plans. Hospitals also justify higher reimbursement rates from private plans by claiming they are needed to offset lower reimbursement rates from public payers like Medicare and Medicaid. Despite the fact that there has consistently been little to no evidence to back up these repeat claims, the industry has been consistent in citing this as a reason not to support policies aimed at lowering their prices.

Does Cost Shifting Happen?

As more data has become available, researchers have consistently found that **hospitals do not cost shift**. If cost shifting did occur, for example, the Affordable Care Act's Medicaid expansion, which newly provided millions of previously under- and uninsured people with public health coverage, would have led to significant cost shifting, which didn't happen. In fact, uncompensated care as a share of hospital operating costs dropped as more people became eligible for Medicaid, all while commercial insurance rates did not rise at a rate expected to cover this new payer mix. There is also mounting research showing that when public insurance payments go down, commercial insurance payments tend to follow. Additionally, the Congressional Budget Office found that between 2016–2018, each *1 percentage-point*

increase in a hospital's share of Medicare and Medicaid discharges is associated with only a *0.1 percentage point* increase in reimbursement rates paid by private plans. States, too, have analyzed cost shifting following policy changes they've made, resulting in similar conclusions - that the "cost shift" argument does not bear out in the data.

Given this evidence, we can expect similar outcomes as states continue to respond to rising hospital prices by creating policies that establish more reasonable reimbursement rates for new public programs they create.

Why are Hospital Prices High?

It is clear that hospitals and other providers charge higher private rates because they can and the current system allows them to, not because they are forced to "make up for" lower rates paid by public payers. Research shows that lower rates by public payers has little to no impact on rates paid by private plans. Instead, as rates from private plans increase, hospitals respond by spending more. This extra revenue allows health systems to develop a financial cushion that enables them to be less efficient and spend more on investments, administration, or improvements that don't advance patient care.

Hospital prices are not rooted in the need to "shift" costs to different payers, but rather the result of hospital consolidation. Insurance plans are required to meet certain standards, like ensuring their provider networks meet adequacy requirements tied to things like time and distance standards. As a specific hospital's market share goes up due to consolidation, insurers have little negotiating power in order to meet these standards. Thus, insurers are stuck paying higher prices for services.

The Impact of High Prices

High hospital prices have a direct effect on cost, quality, and equity.

- **Cost:** The high amounts paid to hospitals contribute to the high cost of health care overall. People see this through higher insurance premiums and higher out of pocket costs, such as coinsurance and deductibles.
- **Quality:** Research demonstrates that receiving health care from high-priced hospitals in consolidated areas has no effect on the quality of services, nor produces better health outcomes.
- **Equity**: Rising health care costs have a disproportionately harmful impact on marginalized communities, including low-income, Black, Hispanic and older adults.

Understanding these dynamics can help policymakers advance meaningful solutions to make care more affordable for people.