Reining in Hospital Prices:

Modeling Reforms in Indiana, Massachusetts, and North Carolina

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BACKGROUND

Consumers, employers, and state and federal governments are increasingly bearing the brunt of the high prices charged by hospitals. Rampant provider consolidation – when hospitals merge with one another or acquire other provider practices – is causing markets to become more concentrated allowing hospitals monopolistic bargaining that results in higher prices. Payers then pass those higher prices onto consumers through higher premiums and out-of-pocket costs. Further exacerbating the problem are hospitals acquiring physician groups and provider practices, hitting patients with higher prices and facility fees (i.e. additional fees charged by hospitals on top of professional fees).

Increased facility fee exposure and hospital price hikes occur against a backdrop of broader economic concerns that have strained average household budgets. **Almost 40 percent of Americans could not afford an unexpected $400 expense without selling assets or borrowing money,** which is concerning given that the average facility fee can be hundreds of dollars.

USofCare partnered with the Brown University Center for Advancing Health Policy through Research (CAHPR) to evaluate the impact three different policies would have on consumer premiums and out-of-pocket costs in 3 states (Indiana, Massachusetts, and North Carolina). We also analyzed the impact these policies would have on hospital financial health. We believe these policies – all within the purview of state policymakers – will move the needle to lower costs for purchasers while also informing federal policymaking in a meaningful way.

Our analysis looked at:

1. Site-Neutral Payments

A policy requiring a payer to charge the same rate for a service, regardless of where it is delivered, typically tied to Medicare payments in either the outpatient setting or the lower cost setting (i.e., doctors' offices or Ambulatory Surgery Centers).

2. Bans on facility Fees

A policy prohibiting providers from collecting a facility fee for a subset of routine services.

3. Caps on Commercial Hospital Payments

A policy setting a price cap, typically tied to the Medicare outpatient payment, for what hospitals can charge for a broader set of services and settings than those covered by site-neutral payment.

KEY FINDINGS

We found that people could experience lower out of pocket costs and lower premiums across all three of the policies we analyzed, but the magnitude of savings vary from state-to-state and how the policy solution is designed. Additionally, we found that implementing these policies would have little impact on hospital operating margins. These policies can also be structured in ways that minimize the impact on hospital finances–including critically-important safety net hospitals–which state and federal policymakers should keep in mind as they design policy solutions for the people they serve.

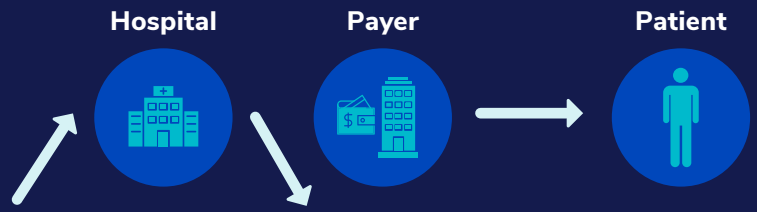
Average savings across the three policies in Indiana, Massachusetts, and North Carolina, 2022

	Site-Neutral Payments		Facility Fee Bans	Commercial Payment Caps	
	Cap at 100% of Medicare	Cap at 400% of Medicare		Cap at 100% of Medicare	Cap at 400% of Medicare
AVERAGE TOTAL SAVINGS PER MEMBER PER YEAR					
Indiana	$304	$57	$93	$2,832	$108
Massachusetts	$239	$23	$65	$1,402	$0
North Carolina	$175	$20	$25	$2,263	$39
AVERAGE OUT-OF-POCKET SAVINGS PER MEMBER PER YEAR					
Indiana	$122	$23	$37	$263	$10
Massachusetts	$61	$6	$16	$130	$0
North Carolina	$62	$7	$9	$210	$4
AVERAGE PREMIUM SAVINGS PER MEMBER PER YEAR					
Indiana	$182	$34	$56	$2,568	$98
Massachusetts	$179	$18	$48	$1,271	$0
North Carolina	$113	$13	$16	$2,052	$36

MOVING FORWARD

This analysis makes it clear that consumers and other health care purchasers would benefit from these policy reforms. State and federal policymakers have the opportunity to leverage the information included in this report to inform policy development and tailor policies that are best suited to protect consumers. It's possible to reduce the cost of premiums and out-of-pocket expenses for consumers and recognize the vital role hospitals play as part of the health care safety net—while delivering on the growing need to address unaffordable hospital costs.

1. Site Neutral
2. Facility Fee Ban
3. Commercial Hospital Payment Cap



PAYER SAVINGS

Commercial payers accrue savings because of reduced or eliminated facility fees and/or reduced across-the-board hospital reimbursement rates for all three policies

CONSUMER SAVINGS

Consumer share of deductibles and coinsurance go down as underlying price of services drop

Payers pass on savings from reduces prices to consumers in form of lower premiums

To read the full report, click here.