

Insuring a Price Increase

How current hospital and insurance relationships hike up medical costs

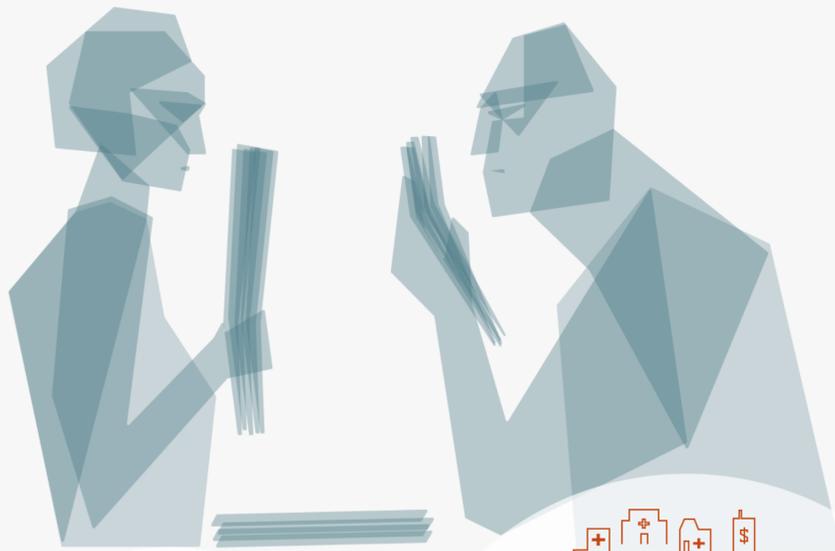
Most hospitals don't know the true cost of a hip replacement

Although historically patients have paid fee for service, most hospitals in the US have never measured and managed the cost of each service.

This is partially because the actual cost of care can be difficult to measure. Physicians are paid different amounts for the same procedure, take different amounts of time, use different types and quantities of resources, etc. Additionally, hospitals use a large host of distributed services which complicates the equation.

WITHIN PRIVATE INSURANCE

Hospitals and insurance set prices based on leverage and incentives



Monopoly hospitals have higher prices than other hospitals by 12%³

Insurance companies need to sign with monopoly hospitals or miss out on the population they serve. This gives the hospital most of the negotiation power.

Investor-owned, for-profit hospitals mark up their prices more than non-profit hospitals³

A 2015 study found that **63% of investor-owned, for-profit hospitals had extreme markups** compared to **19% of non-profit hospitals** and **8% of government hospitals**

Insurers have to cater to ERs, which will always cover local patients

Patients typically use the closest ER available. Thus, ERs have negotiation power to raise prices, since not signing the deal could result in a much higher charge master price for the insurer.⁵

With hospitals to choose from, big insurance have the negotiation power

However, insurance companies don't always cut the hardest deals when it's not their money, but the patient's, on the line.

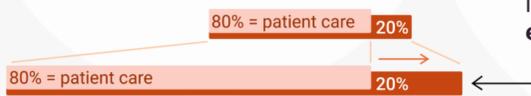
Insurance companies have been mandated to spend 80% of their revenue on patient care. Because their profits should not exceed 20% of their revenue, insurers are incentivized to **scale everything up to gain greater profits.**⁷



Private insurance have less incentive to cover hospitals with small patient populations

Hospital financial distress outpaces that of the general economy, and about **3/4ths** of those hospitals are in rural areas.⁴

+ many other factors impact hospital deals with private insurance



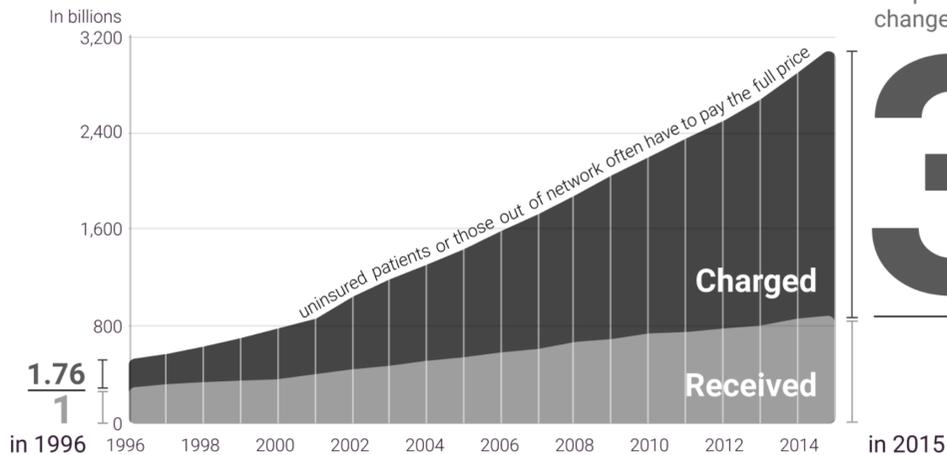
THE IMPACT

It incentivizes the inflation of chargemaster prices

Inflating the costs in their master list of charges can give hospitals **negotiation power** over insurers.

This becomes a problem when uninsured patients or those out of network get **billed for the full price.**

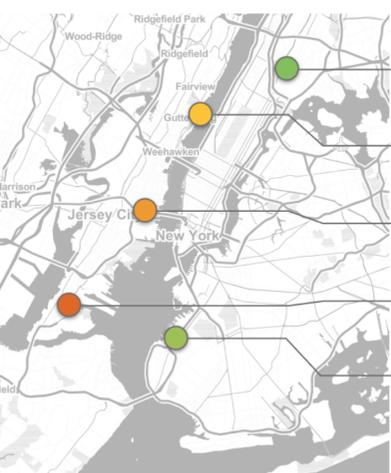
Annual hospitals billing charges vs actual payments¹



"There is no penalty for billing too much for a service, but if the hospital doesn't bill enough, it short changes itself."²

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Hospital charges vary significantly



The cost of treating COPD at select hospitals in the NY area⁸

When hospital charges are steep and uncertain, patients are less likely to get the care they need.

A recent poll found that "americans fear crippling medical bills more than illness," and regularly skip care and prescriptions.⁶

¹ Belk, D., M.D. (n.d.). Hospital Financial Analysis. Retrieved from http://truecostofhealthcare.org/hospital_financial_analysis/
² Belk, D., M.D. (n.d.). Hospital Billing. Retrieved February 27, 2019, from <http://truecostofhealthcare.org/hospitalization/>
³ Cooper, Z., Craig, S., Gaynor, M., & Reenen, J. V. (2018). The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured. The Quarterly Journal of Economics, 51-107. doi:10.1093/qje/qjy020
⁴ LaPointe, J. (2018, November 08). Hospital Bankruptcies Are On the Rise, Hitting Rural Areas Hard. Retrieved from <https://revcycleintelligence.com/news/hospital-bankruptcies-are-on-the-rise-hitting-rural-areas-hard>
⁵ Melnick, G. (2018, September 05). Blame Emergency Rooms for the Out-of-Control Cost of Health Care. Retrieved from <https://www.nytimes.com/2018/09/05/opinion/emergency-rooms-cost-insurance.html>
⁶ Preidt, R. (2018, March 29). Poll: Americans Fear Crippling Medical Bills More Than Illness. Retrieved from <https://consumer.healthday.com/public-health-information-30/health-cost-news-348/poll-americans-fear-crippling-medical-bills-more-than-illness-732362.html>
⁷ Rosenthal, E., & Plunkert, D. (n.d.). How health insurance changed from protecting patients to seeking profit. Retrieved February 27, 2019, from <https://stanmed.stanford.edu/2017spring/how-health-insurance-changed-from-protecting-patients-to-seeking-profit.html>
⁸ Young, J., & Kirkham, C. (2013, August 05). Hospital Prices No Longer Secret As New Data Reveals Bewildering System, Staggering Cost Differences. Retrieved from https://www.huffingtonpost.com/2013/05/08/hospital-prices-cost-differences_n_3232678.html