Relative Hospital Prices:

A comparison of Medicare and Commercial prices for common hospital procedures in Oregon, 2020

January 2024

Executive Summary

In 2020, commercial insurance plans in Oregon paid more than Medicare for the same hospital services. Hospitals were paid a weighted average 193% of the Medicare Fee For Service (FFS) rate for inpatient services, 294% for outpatient services, and 158% for professional services. Combined, hospitals were paid a weighted average 208% of the Medicare FFS rate for all hospital services. In total, this translates to commercial plans paying Oregon hospitals $560 million above the median Medicare fee for service rate for the same hospital procedures.

If commercial prices for hospital services were capped at twice the amount Medicare pays (200% of the Medicare FFS rate), cost savings in Oregon would exceed $175 million per year.

	Average Percent of Medicare Rate	Savings at Medicare Rate	Savings if capped at 200%
All Hospital Services	**208%**	**$560M**	**$176M**
Hospital Inpatient	**193%**	**$163M**	**$30M**
Hospital Outpatient	**294%**	**$372M**	**$137M**
Imaging and Diagnostics	*209%*	*$90M*	*$30M*
Outpatient Surgery	*309%*	*$207M*	*$68M*
Radiation and Chemotherapy	*232%*	*$23M*	*$7M*
Lab and Pathology	*275%*	*$52M*	*$32M*
Professional Services	**158%**	**$25M**	**$8M**

Savings are estimated by pricing every procedure at 200% of the relative Medicare FFS rate for the same service and comparing the total estimated paid amount to the observed paid amount. Despite average paid amounts below 200% for some categories there are overall savings in every category due to the high number of procedures priced over 200% of the Medicare FFS rate. The savings of bringing high-cost procedures down to 200% of Medicare FFS is greater than the cost of raising lower cost procedures to the 200% amount.

High health care costs can lead to stagnant wage growth, less generous health insurance benefits, and great financial risk for individuals due to illness, as well as difficulties affording health care premiums, deductibles, and copays. Methods of controlling health care costs, such as reference pricing based on the Medicare FFS rate, are important tools to consider as Oregon works to ensure the cost of health care does not continue to rise at an unsustainable rate.

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Data Source

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Questions

For questions about this report, please contact: hdd.admin@odhsoha.oregon.gov

Alternative Formats

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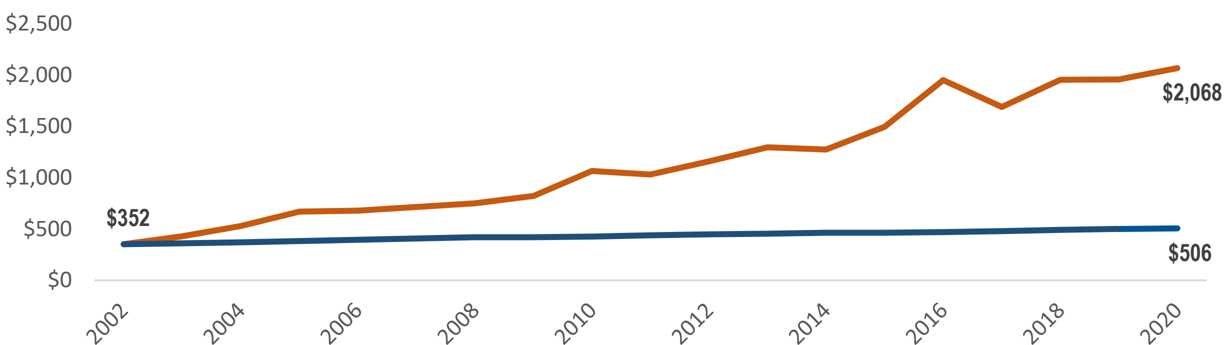
Background

According to the Oregon Health Insurance Survey, almost half (47.2%) of people in Oregon receive their health insurance from a private, employer-sponsored health care plan. [1] Nationally, among those that are privately insured, hospital care accounted for 37% of all health care expenditures in 2020.[2]

The high costs of health care, and associated high payments made by private health plans ("commercial" insurance), affects patients. As the cost of health care grows, the amount patients are responsible for paying in deductibles and co-payments continues to grow as well. The average deductible for a single person in Oregon was $2,068 in 2020 and has grown by 500% since 2002, about four times the rate of inflation (CPI-U) in the same time period. [3]

Figure 1. Average individual deductible in Oregon, 2002 to 2020 compared with the estimated deductible at the rate of inflation (CPI-U)



Commercial insurance can absorb price increases by increasing premiums and the amounts that patients are responsibility to pay, while public payers such as Medicare and Medicaid are limited in their capacity to pass costs on to patients by a variety of state and federal laws. Due to these limitations, increases in health care prices can lead to public payers reducing eligibility or restricting services to try to stay within their program budget.

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[1] Oregon Health Insurance Survey. Insurance coverage by type, 2021. https://www.oregon.gov/oha/HPA/ANALYTICS/Pages/Insurance-Data.aspx

[2] Centers for Medicare and Medicaid Services (2020). National Health Expenditure Data, 2021. Table 4. https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData

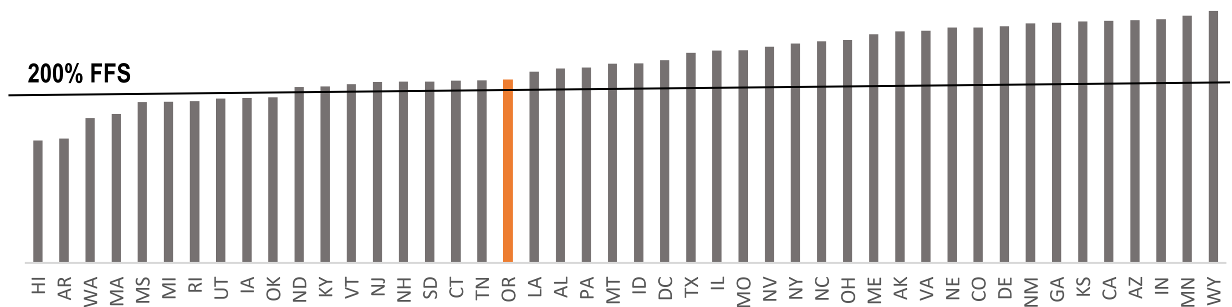
[3] Agency for Healthcare Research and Quality (2023). Medical Expenditure Panel Survey (MEPS)- Insurance Component, 2002-2022; Tables II.F.1, II.F.2, X.F.1, and X.F.2

Nationwide Evaluation of Health Care Prices Paid by Private Health Plans

The RAND Corporation has published a series of research papers under their Hospital Price Transparency Study examining the prices paid by private health plans for hospital services and comparing those prices with the Medicare payment amount for the same service.[4] The purpose of these papers is to provide price transparency and analysis using Medicare prices as a reference point. The reports analyzed hospital claims data and reported relative prices of hospital services in terms of a percentage of the average Medicare price.

In a recent iteration of this research, RAND included limited Oregon-specific data and reported relative prices of hospital services in terms of a percentage of the average Medicare price for the state. Overall, RAND reported that in 2020, commercial insurance paid 223% of Medicare prices for inpatient services and 217% of Medicare prices for outpatient services in Oregon.[5] In aggregate, RAND found that commercial insurance pays Oregon hospitals 220% of the Medicare fee for service rate.

Figure 2. RAND analysis of relative prices for all hospital services paid by commercial insurance, by state, 2020



In a January 2022 report, the Congressional Budget Office (CBO) found that commercial insurers' per-person spending on hospital and physician services has grown more quickly than spending by the Medicare Fee For Service (FFS) program, and that the main reason for this growth is the rapid increase in the prices that commercial insurers pay for these services.[6]

CBO found that increases in the prices that commercial insurers pay are associated with increases in premiums for employers or employees, increases in out-of-pocket costs for

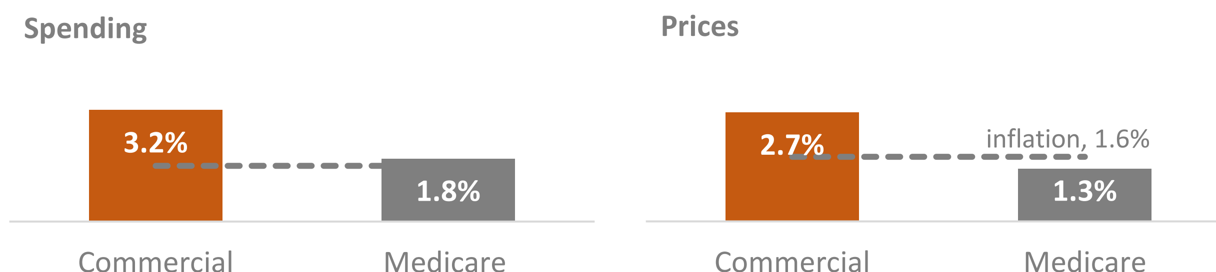
[4] https://www.rand.org/health-care/projects/price-transparency/hospital-pricing.html

[5] Whaley, CM.Briscombe, B, Kerber R, O'Neil Bl, and Kofner A (2022) Prices Paid by Private Health Plans: Findings from Round 4 of an Employer-Led Transparency Initiative. Santa Monica, CA: RAND Corporation, https://www.rand.org/pubs/research_reports/RRA1144-1.html

[6] Congressional Budget Office (CBO) (2022). The Prices that Commercial Health Insurers and Medicare Pay for Hospitals' and Physicians' Services. https://www.cbo.gov/system/files/2022-01/57422-medical-prices.pdf

members, reductions in covered benefits, slowdowns in wage growth for employees, or declines in firms' profits.

Figure 3. CBO analysis of average annual growth rates of spending and prices for hospital services, 2013 to 2018.



From 2013 to 2018, commercial insurers' spending per person on inpatient and outpatient hospital care and physicians' services grew by an average of 3.2% each year. Prices rose by an average of 2.7% each year, about 1 percentage point faster than average inflation during that period (as measured by the change in the gross domestic product price index).

Per-person spending grew more slowly for Medicare FFS than for commercial insurers during this time period, 1.8% a year on average. This spending growth also stemmed mostly from price increases, which rose by an average of 1.3% a year.

Oregon Analysis

Analyzing prices across markets is crucial for Oregon to achieve its health care cost containment goals put forth by the Oregon Legislature and implemented by the Health Care Cost Growth Target program.[7] This analysis reports metrics similar to the RAND and CBO reports but uses more complete and comprehensive data for the Oregon market to provide transparency around the relative prices paid by commercial insurance in comparison with Medicare FFS rates. This report also provides more granular detail about price differences between specific inpatient and outpatient services.

We did not attempt to directly replicate the study produced by RAND, but instead leveraged existing procedure groupings and methods established for the Oregon Hospital Payment Report program to conduct a relative price analysis. In addition to reporting on larger categories of inpatient and outpatient, this report looks at smaller groupings of similar procedure types to get a more detailed look at pricing discrepancies. See the Appendix below for key differences between the RAND analysis and the Oregon Health Authority analysis and methodology.

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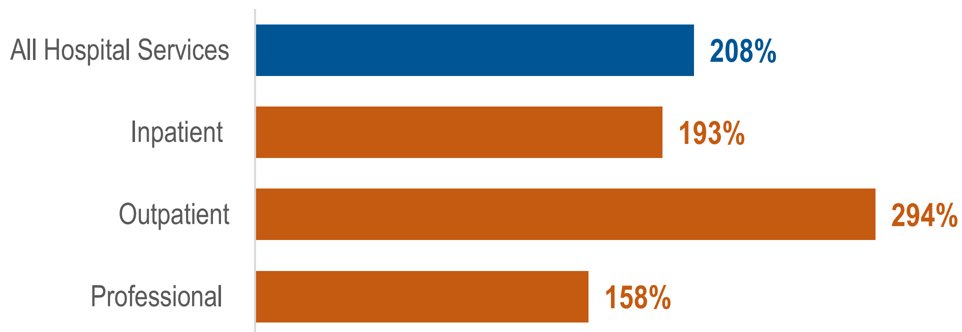
[7] https://www.oregon.gov/oha/HPA/HP/Pages/Sustainable-Health-Care-Cost-Growth-Target.aspx

This is the second time Oregon has published this analysis. Improvements from the 2019 report include adding professional services, laboratory, and pathology services, and providing more detailed categories of outpatient services.

Key Findings

In 2020, commercial health insurance plans in Oregon paid a weighted average 193% of Medicare FFS for equivalent hospital inpatient services, a weighted average 294% for equivalent outpatient services, and a weighted average 158% for professional services. This combines for a weighted average 208% of the Medicare FFS for all hospital services in total.

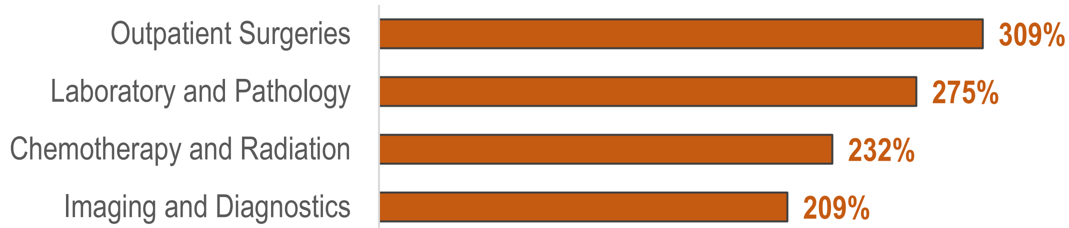
Figure 4. Weighted average of commercial prices relative to Medicare FFS, 2020



Professional services represent facility fees collected by hospital for the evaluation, management, and treatment of patients by physicians or other licensed health care providers. This category of hospital service occurs in both inpatient and outpatient settings, and thus is reported as its own category. Professional services are considered when evaluating the relative price of all hospital services but are not included when evaluating inpatient or outpatient services.

In this report, Oregon also reports inpatient and outpatient services in more granular categories to better understand disparities in pricing that are not apparent when looking at payments in aggregate. For example, within all outpatient hospital services, outpatient surgeries are paid the highest rate relative to the Medicare FFS rate, at a weighted average of 309%.

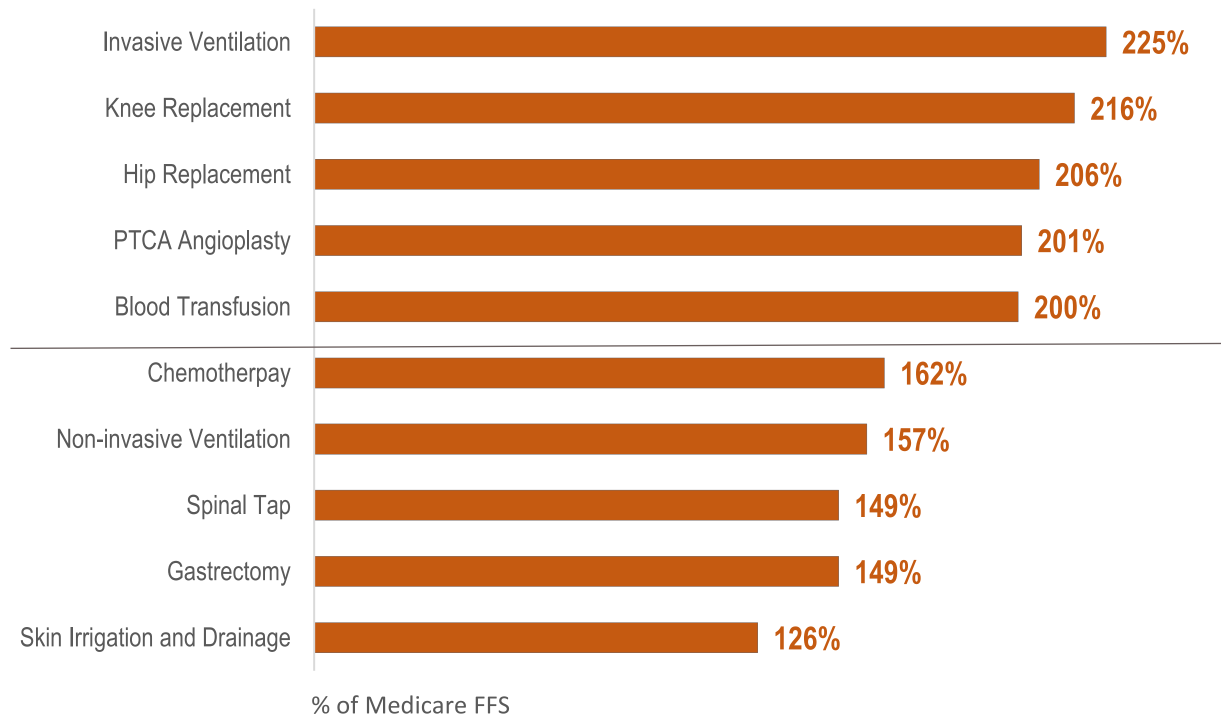
Figure 5. Weighted average of commercial prices relative to Medicare FFS for types of outpatient services, 2020



Variation in relative prices for inpatient procedures

The relative difference in prices varies by setting and procedure. For inpatient procedures, commercial prices range from 149% of Medicare FFS for skin irrigation and drainage, various treatments for infections, to around 225% of Medicare FFS for invasive mechanical ventilation, or treatments for patients that were sedated and breathing tubes placed into their lungs.

Figure 6. Top five highest & lowest commercial priced inpatient procedures, relative to Medicare FFS, 2020



There is less overall variation between Medicare FFS and commercial prices for inpatient procedures than outpatient procedures. This is likely due to the commercial insurance industry adopting similar reimbursement strategies to Medicare by making lump payments for entire

hospital stays based on MS-DRGs, rather than paying for individual components of the inpatient stay.

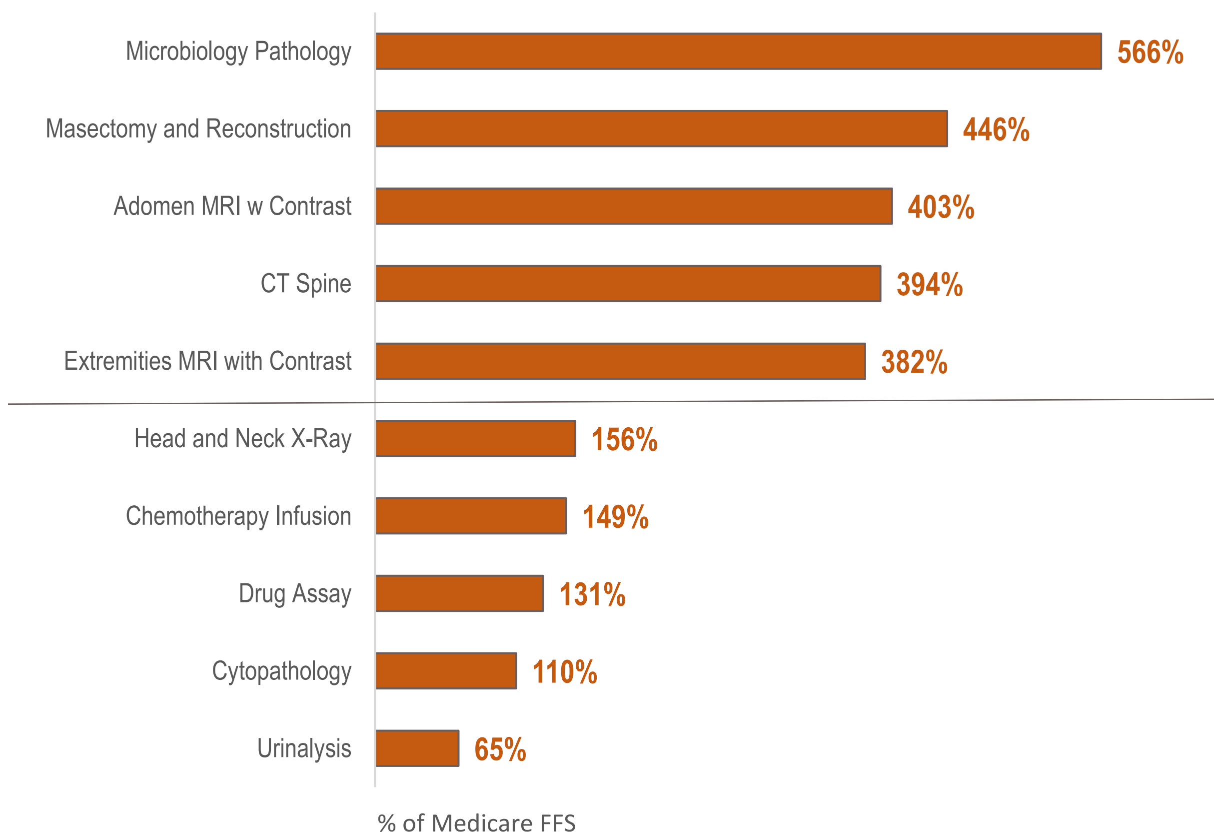
Variation is further limited because complex and complicated hospital admissions are isolated to the few large urban hospitals. Smaller or rural hospitals will transfer high acuity patients, ultimately reducing the overall diversity of discharges across the state.

Variation in relative prices for outpatient procedures

The variation in relative price is much wider for outpatient procedures, ranging from 65% of Medicare FFS for urinalysis to 566% of Medicare FFS for microbiology pathology examinations.

An example of this high variation is that Laboratory and Pathology outpatient services occupy both the overall lowest and highest paid procedures relative to Medicare FFS. Imaging and diagnostic services claim four of the five highest priced procedures relative to Medicare FFS.

Figure 7. Top five highest & lowest commercial priced outpatient procedures, relative to Medicare FFS, 2020



Overall, there is more variety in types of outpatient services which helps explain why there is more variance in relative prices. Outpatient services are also less concentrated in large hospitals, with most smaller hospital clinics offering a full range of outpatient services.

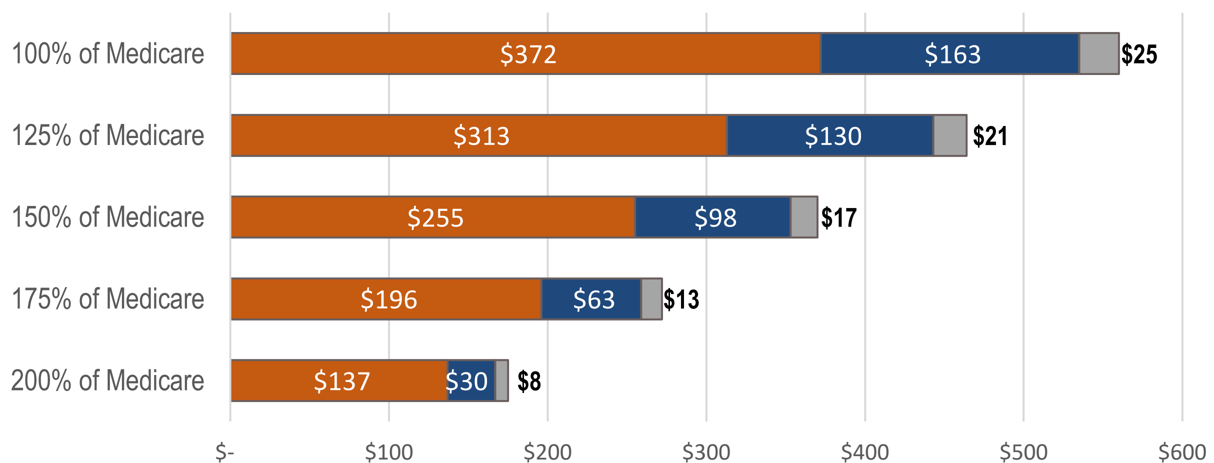
However, smaller hospitals may not have enough utilization of some services to offset costs, leading smaller hospitals to negotiate for higher payments from commercial carriers.

Impact on health care costs

Overall, commercial insurers paid more than double what Medicare FFS would have spent for the same hospital services. If commercial insurers had paid for every hospital service included in this analysis using the Medicare FFS rates, the total paid amount in 2020 would have been reduced by $163 million for inpatient services, $372 million for outpatient services and additional savings of $25 million from professional services across the two major settings.

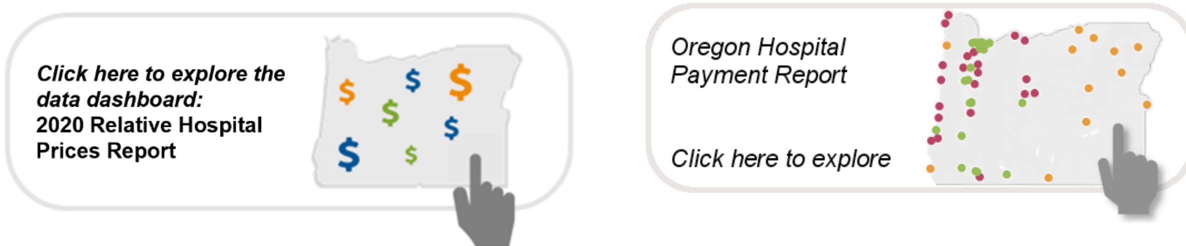
If commercial payers continued to pay more than Medicare FFS but closed the gap slightly, savings would result. Even if commercial payers had paid 200% of Medicare FFS rates for every procedure measured, the cost savings in 2020 would still have been $30 million for inpatient, $137 million for outpatient services and shared savings of $8 million from professional services. See Figure 8 below.

Figure 8. Potential savings if commercial payers had paid for inpatient, outpatient, and professional procedures at % of Medicare FFS rates instead of the commercial rates (in millions), 2020



For more information

The full list of procedures and corresponding price comparisons between commercial and Medicare FFS, as well as estimates of potential savings are available in an online dashboard. More information about how commercial prices for these procedures vary by hospital across Oregon is also available in an online dashboard.



Appendix

Differences between the RAND and OHA analyses

Identifying Procedures: The RAND report identifies services by MS-DRGs or Ambulatory Payment Classifications (APCs) which are categories of services defined by the Centers for Medicare and Medicaid Services. The hospital price reporting performed by OHA also aggregates similar procedures into categories but does so at a more granular level than MS-DRG or APC. An example of the difference in categorization between the two reports is that the RAND report produces a single price for MS-DRG 470: major joint replacement of the hip or knee, whereas OHA produces separate prices for knee replacements and for hip replacements.

Calculating Prices: the RAND report calculates a standardize price in a way that is similar to producing an average, i.e., the total sum of payments in a given MS-DRG or APC is divided by the number of units provided. OHA does not calculate an average, but rather uses the median, or 50th percentile observation, as the service price.

OHA Methodology

Since 2015, OHA has reported annually on the median amount paid by private insurance plans for the most common hospital inpatient and outpatient services. Using the established methodology for the Oregon Hospital Payment Report, we analyzed Oregon's All Payer All Claims (APAC) data from 2020 and derived median paid amounts for 21 inpatient procedures and 85 outpatient procedures for both the commercial insurance market and the Medicare fee for service market. Paid amounts for procedures were then weighted by frequency to create an overall weighted average paid amount for inpatient and outpatient services. The sum of the weighted paid amounts results in the overall weighted average.

Details about the underlying methodology for reporting median paid amounts and the inpatient and outpatient procedures are available online at:
https://www.oregon.gov/oha/HPA/ANALYTICS/Pages/Hospital-Reporting.aspx

Understanding Medicare reimbursement

It is important to understand how Medicare sets reimbursement rates when interpreting relative price information. Medicare sets rates differently depending on the type of service.

Hospital Inpatient Services: Medicare uses the Inpatient Prospective Payment System (IPPS). This system assigns a base payment rate to each of 761 categories —called MS-DRGs— of hospital services CMS defines. Any patient discharged from the hospital will have their service categorized as one of these predefined MS-DRGs. The base payment then has adjustments for labor costs and case mix applied, based on local geographic factors. This adjusted payment amount can be modified further by a variety of add-on payments and incentive payments designed to either reward high quality care, or further supplement hospitals that have unusually high percentages of low-income patients.

Hospital Outpatient Services: Hospital outpatient services are reimbursed in a similar manner using the Outpatient Prospective Payment System (OPPS). The primary difference is the system used to categorize services. Instead of using the MS-DRG categories for base payments, outpatient services are defined as Ambulatory Payment Classifications (APCs). Like MS-DRGs, a base payment rate is adjusted for labor costs unique to the hospital’s geographical region.

Medical providers and non-hospital-based clinics are paid on a different basis than hospitals, however their payments are not compared in this paper and thus are not discussed.

Medicare Advantage reimburses differently than standard Medicare:
A Medicare Advantage plan (or Medicare part C) is a plan that is administered by a commercial health insurance company. The company collects a monthly premium amount from CMS for each member enrolled and is then responsible for providing Medicare services to the member. The private health insurance company is then able to collect additional premium amounts from the member to offer expanded services from standard Medicare.

This paper compares Medicare fee for service rates with private insurance rates and excludes Medicare Advantage payments.

Medicare Spending in Oregon

Medicare reimbursement varies significantly across the United States. In 2020, CMS reported standardized total per capita Medicare spending in the US that ranged from a low of $6,681 in

Hawaii to a high of nearly $12,110 in Louisiana. [8] At $7,478 in 2020, Oregon is on the lower end of per capita total Medicare spending. This is due to the large number of ways the base reimbursement amount to a hospital can be modified. As noted above, base rates are modified by unique hospital factors. In addition to labor cost and case mix, CMS will increase payments to facilities that meet certain quality metrics and decrease payments to facilities that fail to meet those metrics.

Total Medicare spending is also influenced by the characteristics of the enrollment in the state.[9] In Oregon, there is a lower-than-average number of disability-eligible Medicare enrollees, meaning Oregon has fewer Medicare members receiving benefits based on disability status rather than age compared with national averages. Additionally, Oregon has a higher-than-average Medicare Advantage enrollment percentage. As of 2020, 49% of all Medicare beneficiaries in Oregon are enrolled in a Medicare Advantage plan.

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[8] Centers for Medicare and Medicaid Services (2023) Geographic Variation in Standardized Medicare Spending. Interactive web interface accessed 11/29/2023 available at: https://data.cms.gov/summary-statistics-on-use-and-payments/medicare-geographic-comparisons/medicare-geographic-variation-by-national-state-county

[9] Kaiser Family Foundation (2023) State health facts. Interactive web interface accessed 11/29/2023 available at: https://www.kff.org/statedata/