Comparing Commercial and Medicare Payments:

A Hospital Payment Report Data Brief

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Oregon Health Authority

APAC
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Commercial payments vary widely compared to Medicare for routine hospital procedures

Commercial insurance payments to Oregon hospitals vary widely for common inpatient and outpatient procedures, as illustrated in the annual Hospital Payment Report. Medicare payments vary much less across Oregon hospitals. This data brief shows how much commercial payments vary compared with Medicare payments across the state for colonoscopies, a common outpatient procedure.

Factors influencing commercial payments to hospitals

Hospitals in areas with higher costs of living have higher operating costs, and a lack of competition can drive up payments for hospitals in remote service areas. Hospitals with higher patient volumes can generally accept lower payments for infrequent procedures, which they can offset by charging slightly more for more common procedures. Hospitals with lower patient volumes have less flexibility to offset losses. Patient case mix is also reflected in higher payments for hospitals that serve patients with greater disease severity or more complex needs.

All of these factors – hospital location, patient volume, and patient case mix – also influence commercial insurer rate negotiations. Each hospital in Oregon has an individual payment arrangement negotiated with each insurer for each procedure, which results in payment variation within and among hospitals for the same procedure. Additionally, in urban regions, the presence of multiple insurers creates competition that can lead to lower commercial rates. Rural regions with less competition among fewer insurers tend to have higher commercial rates.

Understanding Medicare payments to hospitals

In many cases, Medicare fee-for-service payments are made according to Centers for Medicare and Medicaid Services (CMS) prospective payment systems, which reimburse facilities based on a predetermined, fixed rate for a given procedure. Critical access hospitals, however, receive CMS reimbursement based on their reported costs. For more detail on prospective payment systems and critical access hospitals, please see the sidebar on page 2.

While insurers who offer Medicare Advantage plans can negotiate payment rates with hospitals, these payments tend to follow Medicare fee-for-service rates more closely than those in the commercial market.

Overall, because rates in the commercial market are based solely on negotiation, there is more variance in the commercial market in payments within and among hospitals than there is in the Medicare market, even after accounting for differences in payments to critical access hospitals, adjustments for wages, and negotiated Medicare Advantage rates.

INPATIENT PROSPECTIVE PAYMENT SYSTEM (IPPS)
IPPS adjusts a base payment rate for geographic factors based on area wages, for patient case mix based on assigning each inpatient stay to a Medicare severity diagnosis related group (MS-DRG), for transfers based on length of stay, and for certain other factors.

OUTPATIENT PROSPECTIVE PAYMENT SYSTEM (OPPS)
OPPS classifies outpatient services into ambulatory payment classifications (APCs), groups of services of similar type and cost. The same payment rate is assigned to all services in the same APC, and the OPPS formula adjusts this rate for geographic differences based on the hospital wage index.

CRITICAL ACCESS HOSPITALS
A CMS designation for small rural hospitals that serve patients with limited access to other hospitals. CMS pays 101% of the hospital's patient care costs for outpatient, inpatient, laboratory, and therapy services, rather than paying the hospital under prospective payment systems.

Variation in colonoscopy payments illustrates these dynamics

Outpatient colonoscopies are the most common outpatient surgical procedure in Oregon, making them an ideal case to illustrate the differences in commercial and Medicare payments. In 2020, commercial insurers paid for 8,842 colonoscopy procedures and Medicare fee-for-service and Medicare Advantage plans paid for 15,473.

The following section shows how much commercial payment rates vary compared with Medicare payment rates for different regions of the state. The section includes figures that present median, 25th percentile, and 75th percentile payments by hospital for the commercial and Medicare markets. (See Appendix for median commercial and Medicare payments for colonoscopies at all hospitals across the state.)

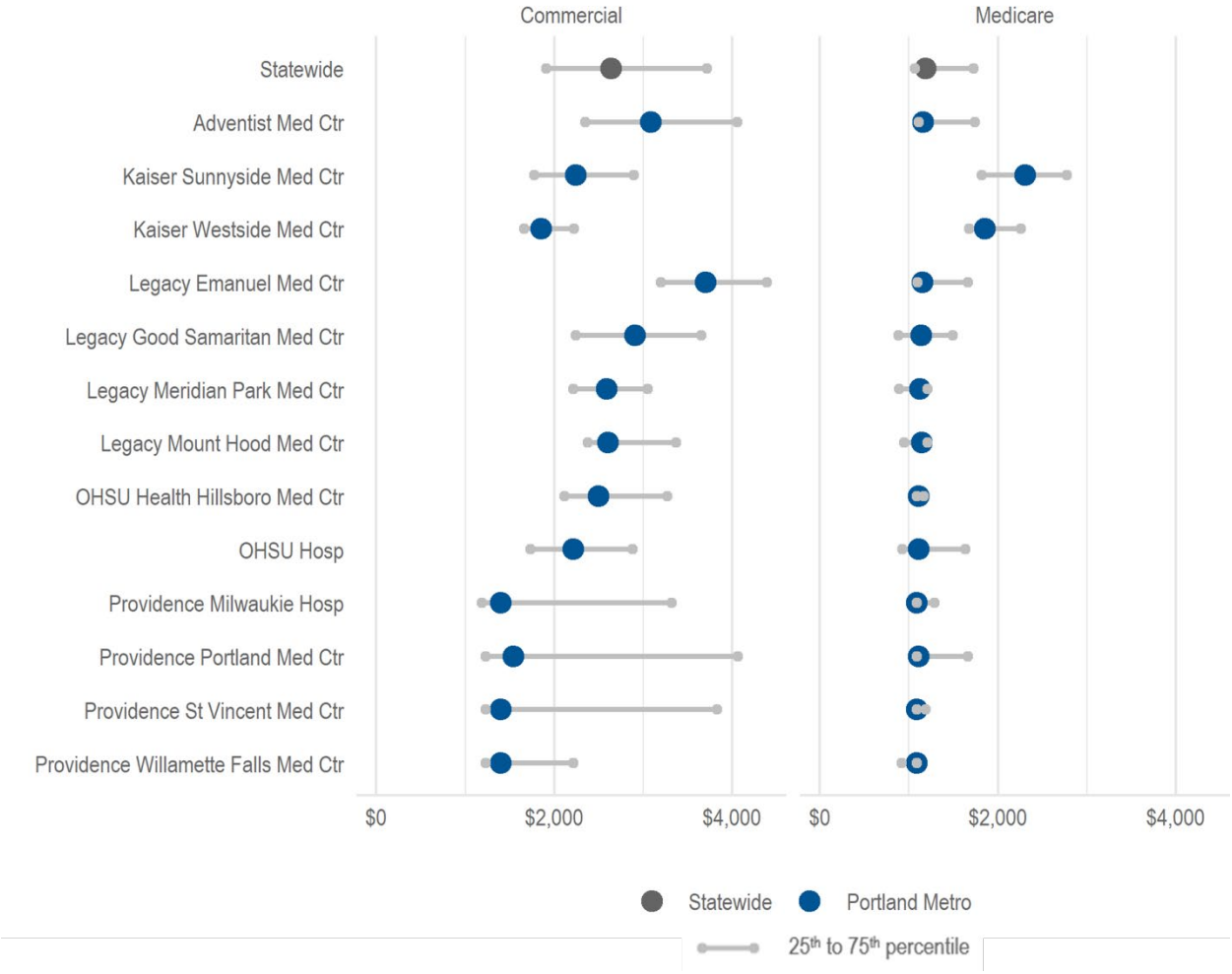
Portland Area

The reduced amount of variation in median payments in the Medicare market compared to the commercial market is particularly clear in the Portland metropolitan area, which includes 13 large DRG hospitals (Figure 1).

With the exception of the Kaiser hospitals, the Medicare median payments for colonoscopies are all around $1,100. (Kaiser's Medicare volume is primarily their own administered Medicare Advantage plan, which pays a higher rate than Medicare fee-for-service, making them outliers in the Medicare market.) In the commercial market, median payments range from $1,400 at Providence Milwaukie, St. Vincent, and Willamette Falls to $3,701 at Legacy Emanuel.

With fewer payment rates determined by negotiation and less variation among those rates in the Medicare market, there is also a smaller range between the 25th and 75th percentile payments, represented by the grey points and line on each graph, at each hospital in the Medicare market compared with the commercial market. At Providence Portland, for example, there is a $2,834 difference between the 25th and 75th percentile payments in the commercial market, but only a $571 difference in the Medicare market.

Figure 1. 2020 commercial and Medicare median colonoscopy payments – Portland metropolitan area



Columbia Gorge, Northeast, Central, and Eastern Oregon

In more rural parts of the state, including the Columbia Gorge, Northeast, Central, and Eastern Oregon regions, there tends to be greater variation and higher median payments in both the Medicare and commercial markets compared with the Portland area. There are different drivers of this variation based on market type.

Increased Cost and Variation for Medicare Payments Driven by Reimbursement to Critical Access Hospitals

While there are no critical access hospitals in the Portland area, 10 out of the 14 hospitals that performed colonoscopies in 2020 in the Columbia Gorge, Northeast, Central, and Eastern Oregon regions were critical access. The high proportion of critical access hospitals in these regions leads to greater variation in Medicare payments compared with the Portland area. Instead of receiving a fixed rate per procedure under a prospective payment system, critical access hospitals receive 101% of their reported patient care costs for Medicare fee-for-service outpatient services.

Median Medicare payments at critical access hospitals in this area range from $983 at Grande Ronde Hospital to $2,906 at Wallowa Memorial Hospital. The four non-critical access

hospitals in these regions – St. Charles Bend, St. Charles Redmond, Mid-Columbia Medical Center, and St. Alphonsus Ontario – have similar Medicare median payments of around $1,100 while the critical access hospitals tend to have higher median payments (Figure 2).

The difference between non-critical access median payments and the highest median payment in these regions in the Medicare market ($1,100 to $2,906) is modest when compared with the variation among hospitals in the commercial market. There, the median payments range from $1,359 at Grande Ronde Hospital to $6,135 at Blue Mountain Hospital.

Figure 2. 2020 commercial and Medicare median colonoscopy payments – Columbia Gorge and Northeast, Central, and Eastern Oregon

Increased Cost and Variation in the Commercial Market Driven by Lower Competition

The Columbia Gorge, Northeast, Central, and Eastern Oregon regions have higher median payments and greater variation in the commercial market compared with the Portland metropolitan area, which has the highest level of competition in the state among hospitals and insurers. While the Portland-area median payments range from $1,400 to $3,701, the commercial colonoscopy median payments in the Columbia Gorge, Central Oregon, and Eastern Oregon range from $1,359 to $6,135, with six hospitals having median payments above $4,000.

In the Columbia Gorge, Northeast, Central, and Eastern Oregon regions, there are greater distances between hospitals that can provide the same services. This lends hospitals greater market power when negotiating rates compared with more urban areas. In addition, lower procedure volumes lead these hospitals to require more payment per service. Hospitals in urban areas can more easily cover their labor costs because their providers perform a higher volume of procedures, generating greater revenue for the hospitals. Providers at rural hospitals see fewer patients but are not paid substantially less than their urban counterparts, so rural hospitals must cover their labor costs with higher payment rates per procedure. In short, higher payments are more likely to be necessary for these hospitals to keep their doors open.

A notable observation among critical access hospitals in the Columbia Gorge, Northeast, Central, and Eastern Oregon regions is that there is not evidence of cost-shifting, which is a decrease in payment rates in one market as a result of an increase in payment rates in another market, or vice versa. Higher Medicare payments for colonoscopies in these regions are not associated with reduced commercial insurance rates, but rather the opposite. Each rural hospital with increased Medicare payments has a commercial median payment above the statewide median of $2,641, and for Blue Mountain, Providence Hood River, St. Charles Madras, and Wallowa Memorial, this difference above the statewide commercial median is substantial.

Data and Methodology

The data source for this report is Release 14 of the Oregon All Payer All Claims (APAC) database. Oregon's APAC database contains information about Oregon's insured population and the health care services they receive, such as diagnoses, visits, and payments made. The information comes from administrative records called insurance claims kept by insurers, also known as payers.

This report includes payment data from the commercial and Medicare markets for colonoscopies performed in 2020. Medicare data includes both Medicare fee-for-service and Medicare Advantage claims. The commercial market data presented in this report is the same data included in the 2021 Oregon Hospital Payment Report, and the Medicare data was analyzed using the same methodology.

To calculate total payment for outpatient surgical procedures, including colonoscopies, a unique claim ID within APAC is used to identify all itemized portions of the claim together as one. The payment for each itemized portion of this unique claim ID is then summed to provide the total payment for the outpatient surgical procedure. This total payment includes both the payer paid amount (i.e., what the commercial insurer, Medicare, or Medicare Advantage plan paid the hospital) and any patient paid amounts, such as co-pays, deductibles, or co-insurance.

This analysis excludes claims from payers outside the commercial and Medicare markets (e.g., Medicaid or the Department of Veterans Affairs), claims from non-Oregon facilities and all non-hospital facilities, claims with a denied status, claims with no bill type or revenue code, and claims with a zero-paid total amount.

For more information about how claims data are analyzed, please refer to the methodology for the Oregon Hospital Payment Report.

If you have questions, please contact

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Appendix

Figure 3. 2020 commercial and Medicare median colonoscopy payments – all regions