

# Variation in Prices for Hospitals' Services

April 14, 2022

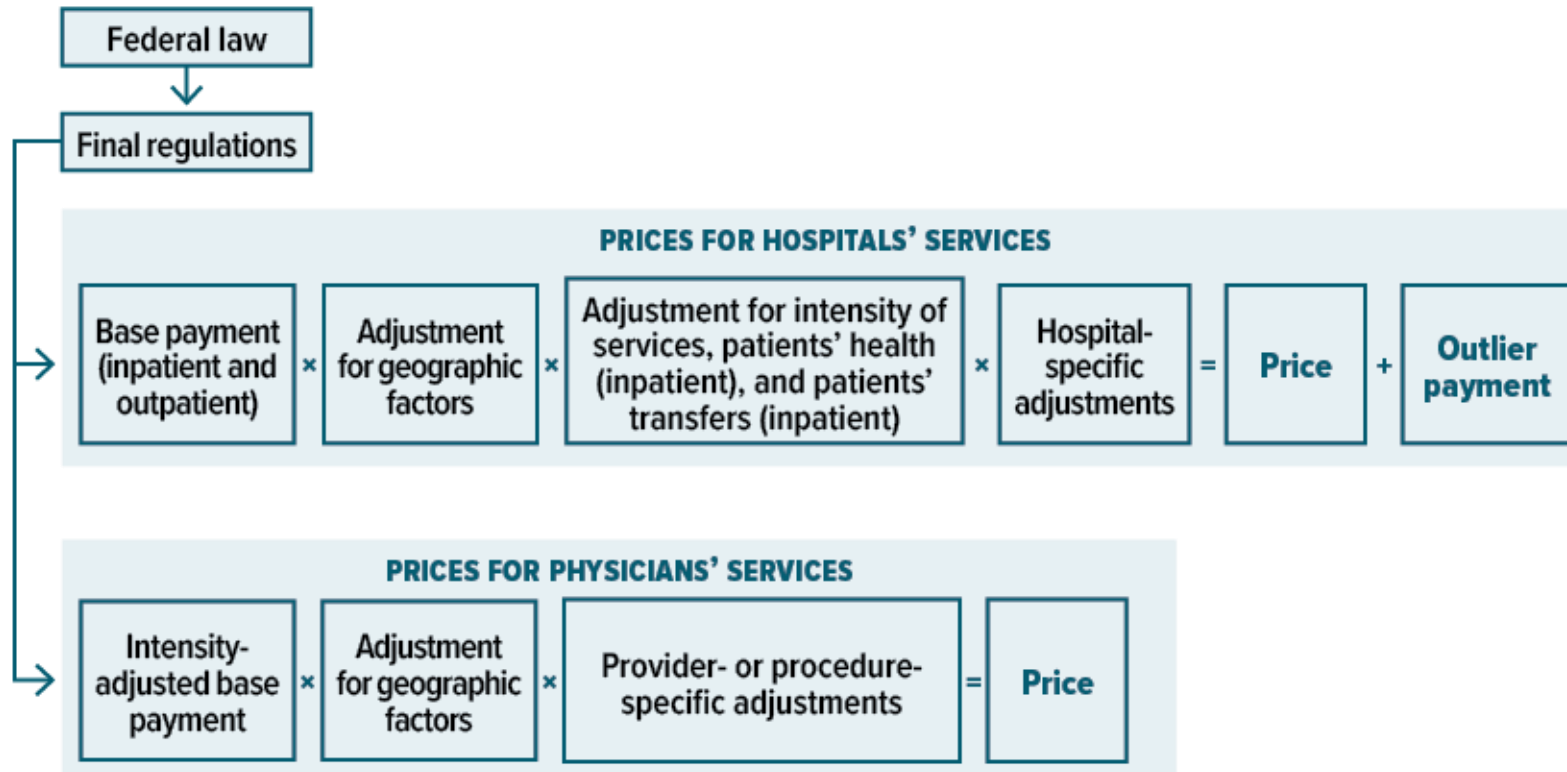
Presentation at the American Academy of Actuaries

Michael Cohen

Health Analysis Division

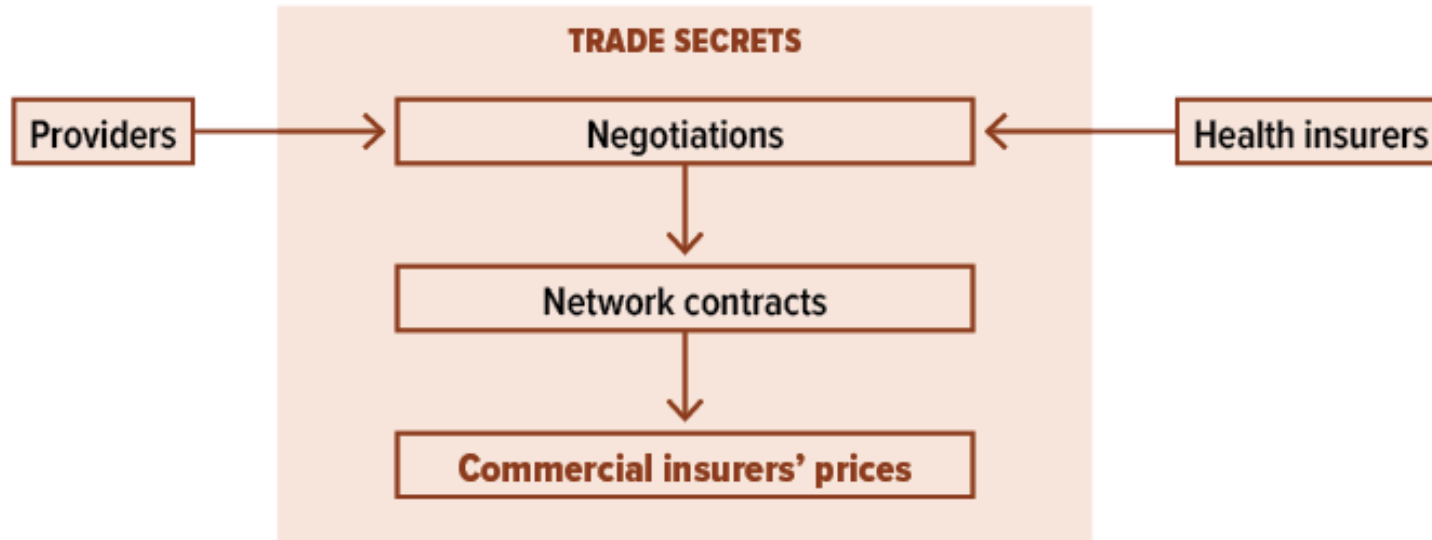


# How Medicare's Prices Are Determined



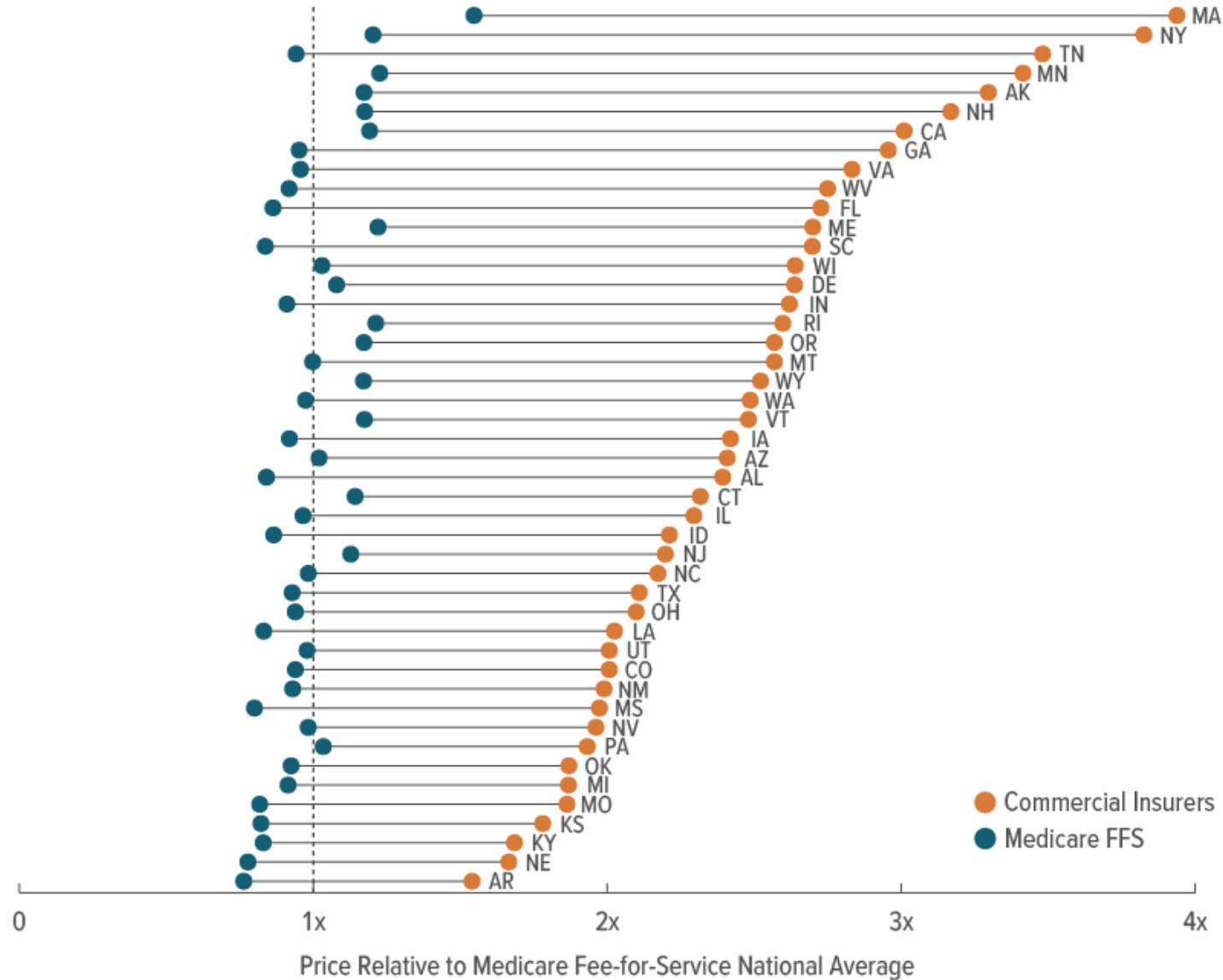
The Medicare fee-for-service program's prices for inpatient, outpatient, and physicians' services are set administratively by the federal government. Base-payment rates are adjusted for specifics of the provider, patient, or service.

# How Commercial Insurers' Prices Are Determined



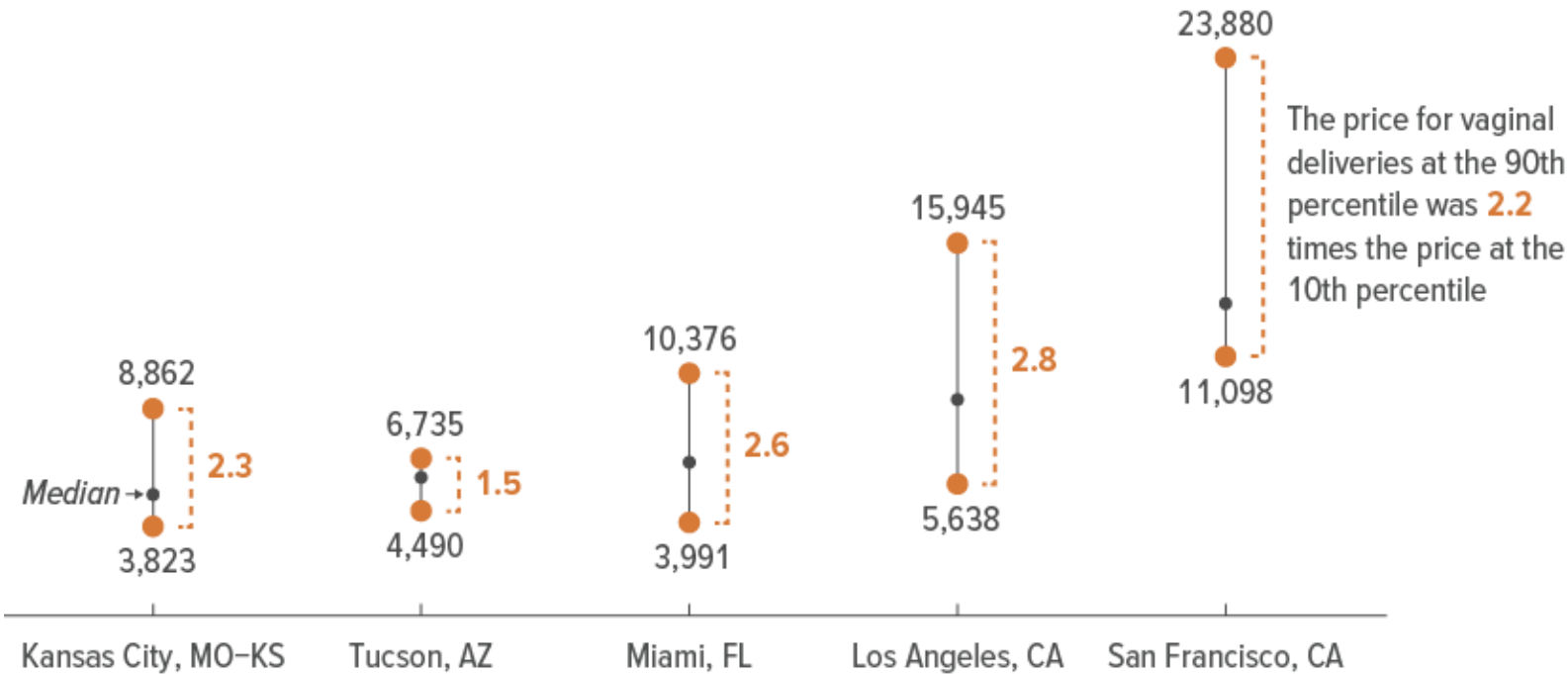
The prices paid by commercial insurers are determined through confidential negotiations between individual insurers and individual providers or groups of providers.

# Prices for Hospitals' Inpatient Services: Variation Among States



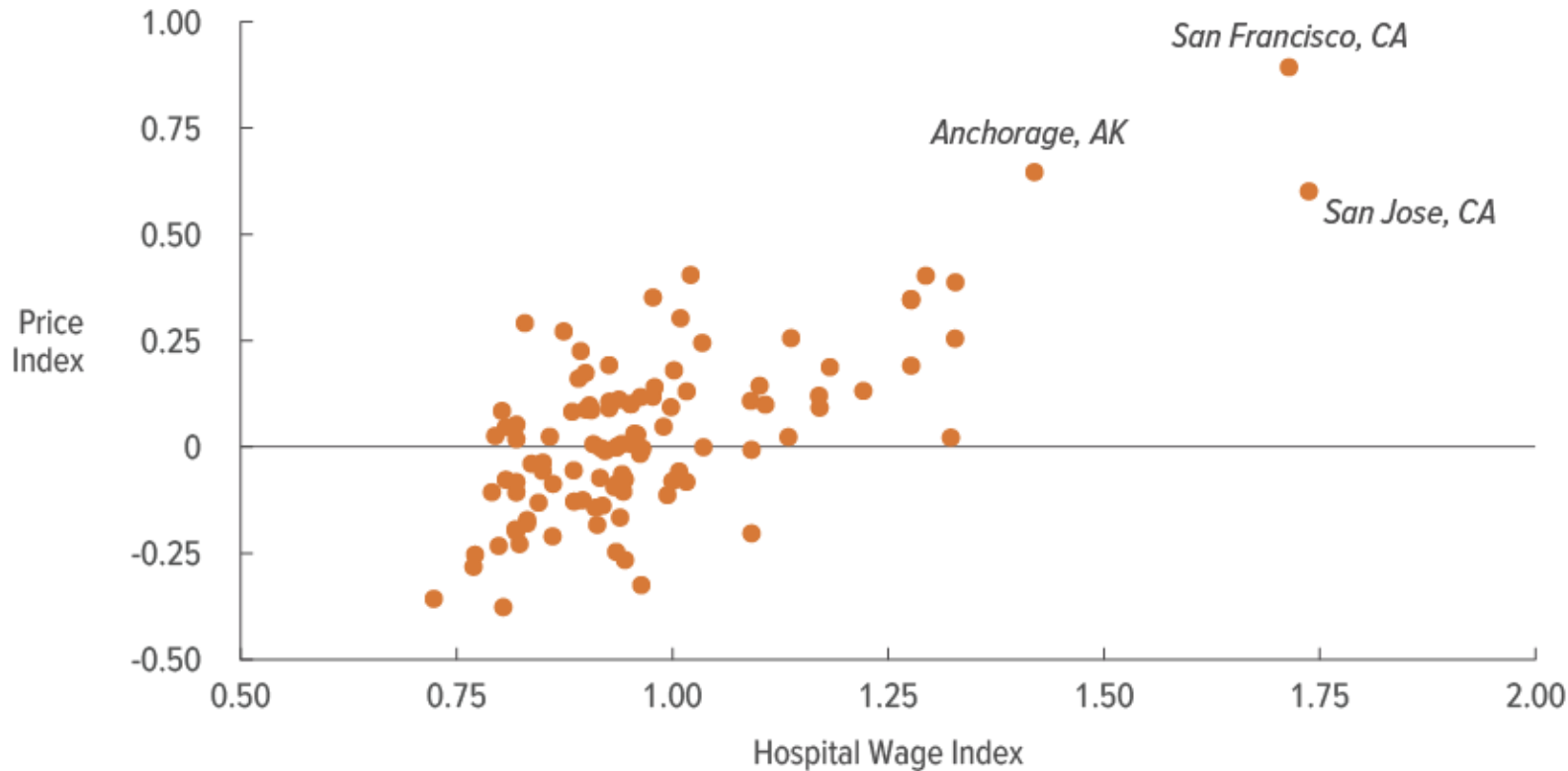
In 2018, commercial insurers' prices for hospitals' inpatient services varied substantially among states, as did the gap between their prices and Medicare's prices. The difference between commercial prices and Medicare's prices was highest in Massachusetts, New York, and Tennessee. (Source: CBO's analysis of data from Whaley and others, 2020.)

# Prices for Hospitals' Inpatient Services: Variation Within Metropolitan Areas



In 2016, commercial insurers' prices for the same hospital service, such as a vaginal birth, varied substantially within each geographic area. The range of prices varied among areas. (Source: CBO's analysis of data from Kennedy and others, 2019.)

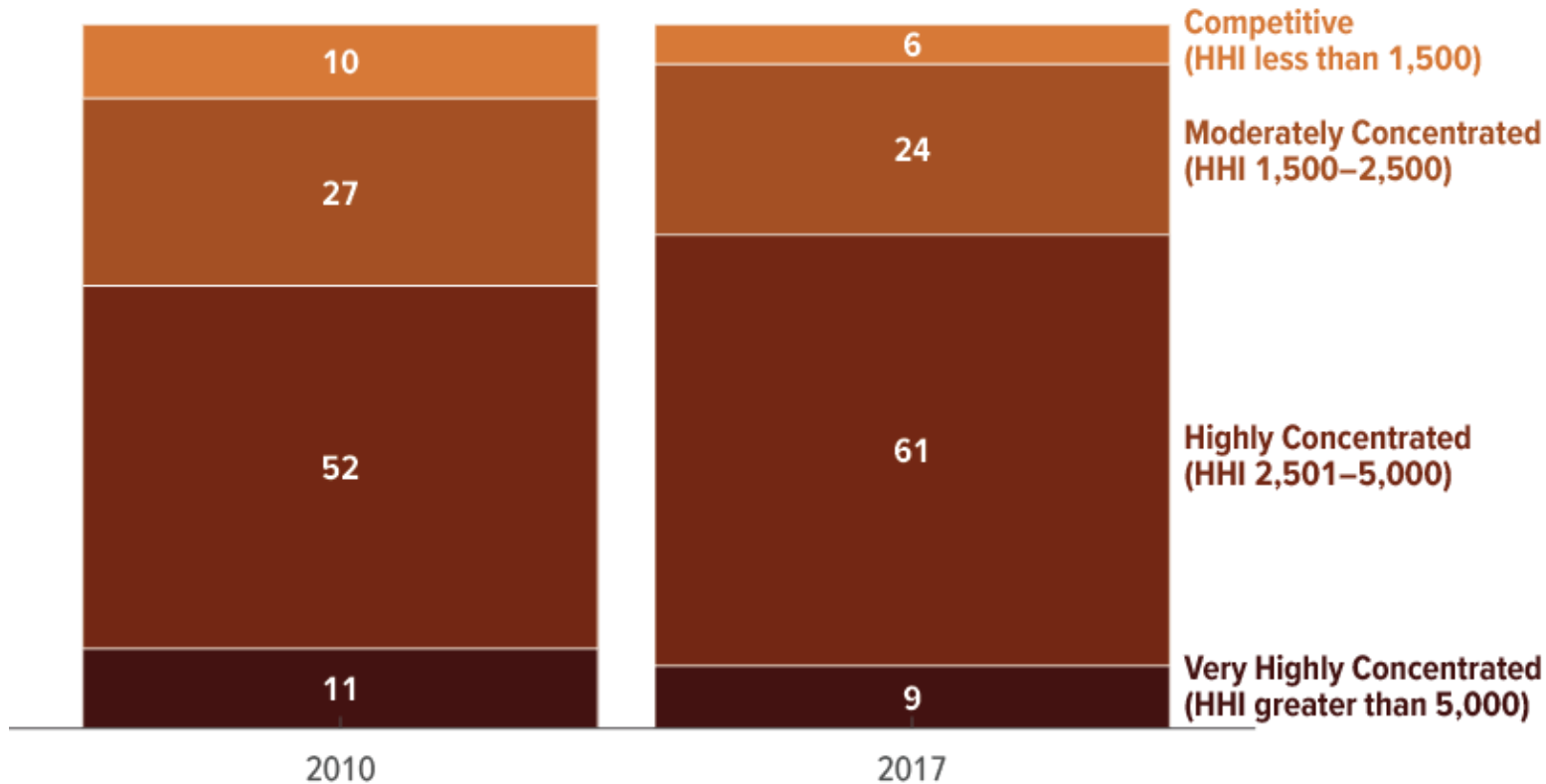
# The Relationship Between Hospitals' Wages and Commercial Insurers' Prices for Inpatient Services, 2017



Variation in the prices that commercial insurers pay for hospitals' inpatient services is associated with variation in hospitals' wages. (Source: CBO's analysis of aggregate data from HCCI and the Centers for Medicare & Medicaid Services.)

# Concentration in Hospital Markets and Commercial Insurers' Prices

Percentage of MSAs



The percentage of metropolitan areas with highly or very highly concentrated hospital markets (as measured by a Herfindahl-Hirschman Index of more than 2,500) increased from 2010 to 2017. (Source: CBO's analysis of data from HCCI.)

CBO's review of the literature generally found that hospitals' prices were higher in areas where consolidation was greater and that some of the difference in prices was attributable to providers' market power.