Medical Xpress

Setting hospital prices would save more than increasing competition or price transparency

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Among strategies to curb hospital prices among the commercially insured population in the U.S., direct price regulations such as setting rates are likely to achieve greater savings than other approaches like increasing competition or improving price transparency, according to a new RAND Corporation study.

But price regulations face the greatest political obstacles and historically have been strongly opposed by medical providers, according to the report.

Setting prices for all commercial health care payers could reduce hospital spending by $61.9 billion to $236.6 billion annually if the rates were set as high as 150% to as low as 100% of the amounts paid by the federal Medicare program, a change that would cut overall national health spending by 1.7% to 6.5%, according to the analysis.

Researchers estimate that improving health care price transparency could reduce U.S. spending by $8.7 billion to $26.6 billion per year. Meanwhile, increasing competition by decreasing hospital market concentration could reduce hospital spending by $6.2 billion to $68.9 billion annually, depending on the magnitude of the change and how sensitive hospital prices are to market concentration.

"Improving markets through increased price transparency and competition could help reduce prices, but would not reduce hospital spending to the extent that aggressively regulating prices could," said Jodi Liu, the study's lead author and a policy researcher at RAND, a nonprofit research organization. "Direct price regulation could have the largest impact on hospital spending, but this approach faces the biggest political challenges."

Spending on hospital services is the largest health spending category in the United States, accounting for one-third of national health expenses.

Private insurers such as employers and insurance companies cover about 40% of hospital spending. Compared with public payers, private insurers pay higher prices to hospitals and those costs have risen faster over time.

The RAND study analyzes the impact of three policy options—regulating hospital prices, improving price transparency and increasing competition among hospitals—on hospital spending by employer-sponsored and individual market plans and their enrollees.

Using nationwide data from the federal Hospital Cost Report Information System, researchers explored key considerations for each strategy and estimated the potential impact on hospital prices and spending.

The report provides a menu of policy scenarios to help policymakers understand how key design choices or stakeholder responses might affect the impact of a given policy.

For example, the effectiveness of price transparency initiatives would depend on details such as whether patients would use price transparency tools to choose lower-cost providers. RAND researchers modeled both patient-driven scenarios, in which patients use price information to seek lower prices, and employer-driven scenarios, in which employers use price information to create health plans that steer patients toward lower-cost hospitals.

For rate-setting scenarios, researchers changed average commercial plan prices to an amount relative to Medicare prices for a given hospital. Prices were pegged to multiples of the Medicare price, as well as blended rates in between commercial and Medicare prices (such as using 25% of the Medicare rate and 75% of the commercial rate).

Researchers modeled competition scenarios by reducing hospital market concentration in hospital referral regions, computing a price reduction with respect to the change in market concentration.

However, researchers concluded that given how concentrated today's hospital markets are, policymakers would need to radically restructure hospital markets beyond what the study modeled for prices to approach competitive levels.

"Regulating commercial hospital prices is a direct way to create significant reductions in spending, but doing so could potentially lead to hospital closures, erode quality, and face daunting political hurdles," said study co-author Christopher Whaley, a RAND policy researcher. "As policymakers consider options for reducing hospital prices paid by private health plans, they will need to weigh the potential impact of different policies on hospital revenues and the quality of care, and they will also need to take into account the political and administrative feasibility of each option."

More information: "Impact of Policy Options for Reducing Hospital Prices Paid by Private Health Plans," www.rand.org

Provided by RAND Corporation