The RAND Studies

RAND Hospital Price Transparency Studies

- Pilot Study in Indiana
- RAND 2.0
- RAND 3.0
- RAND 4.0?

Hospital Price Comparisons in Indiana (RAND 1.0)

- Sponsored by Employers Forum of Indiana
- Utilized claims from large self funded plans from 2013 to 2016
- Measured amounts paid from plan and employee
- Compared to Medicare allowable as a benchmark
- Summarized as a percentage of Medicare allowable
- Summary report issued in 2017

RAND 2.0

- Expansion of first study in Indiana
- Sponsored by Robert Wood Johnson Foundation, the National Institute for Health Care Reform, the Health Foundation of Greater Indianapolis and participating employers
- Utilized claims from 4 million people from 2015 to 2017
- Data from 1,598 hospitals in 25 states
- Amounts paid for claims averaged 241% of Medicare allowable
- Report published in 2019

RAND 3.0

- Research project to expand upon RAND 2.0
- Report utilized by numerous employer health focused groups from across the nation
- Utilized Hospital Cost Report Information System (HCRIS) data from 2018
- Data from 4,034 hospitals in 49 states
- Amounts paid for claims averaged 224% in 2016, 230% in 2017 and247% in 2018 of Medicare allowable
- Report published in 2020

RAND 4.0

- RAND has started the fourth round of data gathering
- They promise to gather information with more claims on more hospitals

Impact on Hospitals

- Increased focus on price transparency with new CMS regulations
- In Indiana, state legislators starting to look at employer and insurance ideas for more contract guidance (HB 1421)
- All data is based on Medicare allowable as a basis
- Price transparency will make insurance contracted reimbursement part of public information
- When and where will this end?

Rand Impact of Policy Options for Reducing Hospital Prices Paid by Private Health Plans

The 3-Model Report

Phil Ellis, MBA

IN Rural Health Association

Why So Important?

- Private Insurance is 40% of all hospital spend in US (AHA)
- Employers and employees are heavily impacted by health insurance costs
- Employers drive the US economy
- Healthcare consumes nearly 20% of our GDP, the highest of any western economy.

Indiana Ranking

- When *combining* Professional and Facility prices in Indiana relative to Medicare reimburse…
- Indiana 2nd highest among 49 states (MD excluded)
- THIS is why we are addressing this today
- IN Employers know this
- IN Employers are demanding action

3-Option Report

- Rand identified 3 most referenced options considered by Policy Makers
  - Regulating hospital pricing through rate setting or cap setting
  - Increased Price Transparency
  - Increasing Competition

Option 1: Price Setting or Capping

- Do we “Set” or “Cap” prices
  - At what price level
- Key limitations:
  - Political opposition from provider groups
  - Could lead to reductions in quality of care
- Setting vs. Capping prices:
- *Capping* is the favored model: Would reduce prices above the cap
- *Setting* prices could reduce prices above the set price but increase prices below the set cap

Evaluating the Outcome

- Methodology
  - Rand set rates to target 150% of Medicare allowed
- Using 3 scenarios:
  - Set rates in all private plans Saves $61.9 billion
  - Set rates in a public option plan Saves $ 4.7 billion
  - Set rates for dominate hospitals Saves $ 1.0 billion

Back to the “Quality” comment

- Rand Research
  - Methodology
    - Assigned each hospital in their study (3,112 hospitals) to 1 of 3 categories:
      - Prices Less than 150% of Medicare allowed
      - Prices at 150-250% of Medicare allowed
      - Prices >250% of Medicare allowed
    - Within each of the three groups, measured the share of hospitals receiving each of the 5-star ratings

Price & Quality

- Hospitals with prices >250% of Medicare include 20% with 5-star rating
  - Only 4% were 1-star
- Hospitals with prices <150% of Medicare included only 2% with a 5-star rating
  - 1% were 1-star
- Source: Rand 3.0

Option 2: Price Transparency

- Good in theory, not so much in results
- Various benefits for various parties
  - Patients: Shop for less expensive providers
  - Insurers: “Could” realize they pay more than others and decrease reimbursement
  - Employers: “Could” leverage insurance plans against each other using the data
  - Physicians: “Could” use the data to promote “high-value of care” perception

Price Transparency (cont.)

- Does Price Transparency Work?
  - New Hampshire model: Yes
- Overall analysis: No
- Too many services not shoppable (Frost, Newman, 2016)
- Patients tend to associate price with quality and place high value on provider relationship (Sinaiko & Rosenthal 2011)
- Despite availability for years in the past, seldom used (Sinaiko & Rosenthal 2011)

Price Transparency (cont.)

- Providers would be less likely to extend price discounts to certain groups if forced to report (Cutler & Dany)
- Fear of price collusion among large systems

Option 3: Increased Competition: Key Points

- Reduce the hospital market power and challenge anticompetitive behavior
- Prevent or discourage consolidation
- Facilitate market entry
- Challenge anticompetitive practices
- Strengthen insurer's bargaining power
- Policymakers would have to radically restructure hospital markets for prices to approach competitive levels

Option 3: Increased Competition

- Proposed methods
  - Increased funding for antitrust enforcement
  - Expand standing of antitrust agencies in court
  - Expand definition of unfair methods of competing
  - Create specialized courts to hear antitrust cases

* Increase oversight of cross-market mergers
* Establish agency to monitor healthcare markets
* Eliminate Certificate of Public Advantage

Herfindahl Hirschman Index

- Long-time model for evaluating level of competition
- Used by Dept. of Justice and Federal Trade Commission
- Scores range from 0-10,000 with 10,000 being pure monopoly
- Score <1,500 = Unconcentrated
- Score 1,500 t0 2,500 is moderately concentrated
- Score over 2,500 is highly concentrated
- Indiana score = 4,839

Increased Competition

- Summary of Rand research indicated that efforts to increase competition among commercial rates would decrease prices to only 149-178% of Medicare allowed amounts.
- Would likely result in highest cost and time in litigation.

Unintended Impacts of Reduced Pricing

- Rand acknowledges unintended results of hospitals lowering prices:
  - Reduced wages in healthcare
  - Less investment in research, technology, investment, and thus, quality.
  - Increased hospital layoffs, service lines eliminated, possible closings.

Summary

- Rand reports are out there.
- Indiana employers are now aware.
- Their employees are now aware.
- Each provider must understand this and solidify their position.