

A photograph of a hospital hallway. In the foreground, a metal gurney is partially visible, covered with a blue sheet and a green bag. The hallway is long and brightly lit, with a chair visible in the distance. The walls are light-colored, and the floor is polished and reflective.

# Washington's Uneven Hospital Landscape: How Price Levels Vary Statewide

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## Table of Contents

<b>About this Report</b>	<b>2</b>
<b>Methodology</b>	<b>3</b>
<b>Key Findings</b>	<b>4</b>
<b>Charts</b>	<b>5</b>
<b>Are We Paying Too Much? Recommendations for Next Steps</b>	<b>10</b>
<b>References</b>	<b>11</b>

The Washington Health Alliance (Alliance) is a 501(c)(3) nonprofit nonpartisan organization working collaboratively to transform Washington state’s health care system for the better. The Alliance brings together more than 140 committed member organizations to improve health and health care by offering a forum for critical conversation and aligned efforts by health plans, employers, union trusts, hospitals and hospital systems, health care professionals, start-up companies, consultants, consumers, and other health care partners. The Alliance believes strongly in transparency and offers trusted, credible reporting of progress on health care quality, value, pricing, and overall spending. The Alliance publishes its reports at [www.WACommunityCheckup.org](http://www.WACommunityCheckup.org) and provides guidance for consumers at [www.OwnYourHealthWA.org](http://www.OwnYourHealthWA.org) so that individuals can make informed health care decisions.

## About this Report

In the face of a mounting health care affordability crisis, transparency in hospital pricing and costs, representing about a third of the total health care dollars,<sup>1</sup> has become a substantial concern among those who pay for and receive health care services across Washington state.

In this analysis, which includes a large volume of data from self-insured employers in Washington state, we found hospitals ranging from 150 percent to nearly 700 percent of the price of Medicare. **On average, Washington hospitals price levels are 288 percent of what Medicare pays.**

The price levels reported by the Alliance offer an independent view into the billions of dollars spent annually in acute care hospitals and outpatient facilities. For a more comprehensive view, our report includes cancer facilities, children's hospitals, as well as the two dozen critical access hospitals spread across our state.

The importance of understanding hospital price levels cannot be understated. It is a key piece in determining what is a fair price for hospital spending. Without this information, we fall short in taking the necessary steps to ensure affordable and equitable value-based care. In Washington, like much of the nation, hospitals face pressures driving up expenses, but the price paid for services delivered in hospitals needs to be balanced by reasonable expenses to come to a fair pricing level. This report is a start to that conversation.

Most Washington residents receive their health insurance through their employer.<sup>2</sup> These employers and union trusts have a fiduciary responsibility to operate their plans in the best interest of their participants,<sup>3</sup> yet it is not readily apparent if the price paid correlates with the cost of the delivery service, the quality of care to patients provided or the safety of the facility.

In Washington, hospital spending is a major source of health care spending, and it is increasing steadily.<sup>4</sup> Yet the picture is opaquer than ever. Against the backdrop of increased hospital network consolidation, hospital prices have become less transparent as contracts are negotiated among a smaller cohort of companies.

Patients and those paying for health care have little public information to openly compare the price for facilities in their networks. Health care purchasers must stand together to reduce unwarranted variation in prices.

To lift the veil on hospital price, the Alliance utilized its voluntary All-Payer Claims Database, comprised of data from 2.2 million commercially insured from health plans, self-funded employers, and union trusts, to determine how hospital price levels for a commercial plan differ from the Medicare rates.

This report provides a summary of the stark differences in hospital price levels across county lines or in the same city. Starting with the prices hospitals receive from commercial purchasers is a step toward finding a fair price.

What we do know is that individuals and families across Washington are bearing an increasing health care cost burden. The squeeze from rising health care costs, in part driven by pricing for services delivered in hospital, is being felt by families. A recent Commonwealth Foundation survey showed that 51 percent of working-aged Americans said it was difficult to afford their health care costs. For those with employer-sponsored plans, the rate was nearly as high.<sup>5</sup>

These increasing costs have a substantial impact on employers, who must allocate an even greater proportion of an employee's total compensation toward health care spending and away from wages. In a survey this fall, 9 in 10 employers said that rising health care costs are affecting their competitiveness in securing and retaining talent.<sup>6</sup>

We must dive deeper to understand how health care purchasers, plans and providers can work together and with policymakers to better respond to rising costs by addressing the realities of hospital pricing. Hospitals should be paid for the actual cost to deliver the service plus a reasonable margin for profit. To ensure everyone benefits, the service must be high quality, and patient safety is a must.

# Methodology

## Our Data (what is and is not included)

For this analysis, the Washington Health Alliance relied on calendar year 2022 claim data from our voluntary All-Payer Claim Database, which includes more than 2.2 million commercially insured lives in Washington state. Our data comes from self-insured employers and union trusts, and health plans.

The results in this report are combined for commercial payers in the Washington Health Alliance Voluntary All-Payer Claims Database. The methodology relies upon privately negotiated contractual prices (also known as **allowed amounts**) and Milliman’s Global Relative Value Units.

These results are not actual prices but are relative price levels. Specifically, commercial prices are compared to corresponding Medicare prices, and reported as “percent of Medicare.” For example, 200 percent of Medicare means that commercial prices are about twice what Medicare is likely to have paid. The results consider the varying treatment intensity at different hospitals.

The Medicare pricing reference we use is the published Medicare conversion factor for the United States overall. Apart from categorizing hospitals into broad groups such as acute care and critical access, no other hospital-specific adjustments have been made. Examples of these might include whether a facility is an academic teaching hospital, the share of low-income patients treated, or regional differences in prevailing wages.

The report includes over \$3 billion worth of allowed payments.

## Service Setting

Utilizing Milliman’s Health Cost Guidelines (HCG) grouper, claims were defined by service setting as “facility inpatient,” “facility outpatient,” and “professional” claims to capture the widest representation of hospital visits.

Claims under the “professional” service setting are those services related to the hospital inpatient or outpatient services to offer a comprehensive view to the total hospital encounter.

Facilities were identified by the Centers for Medicare and Medicaid Services (CMS) certification number and the Washington Health Alliance Master Facility List.

## Difference between Medicare and Commercial Insurance

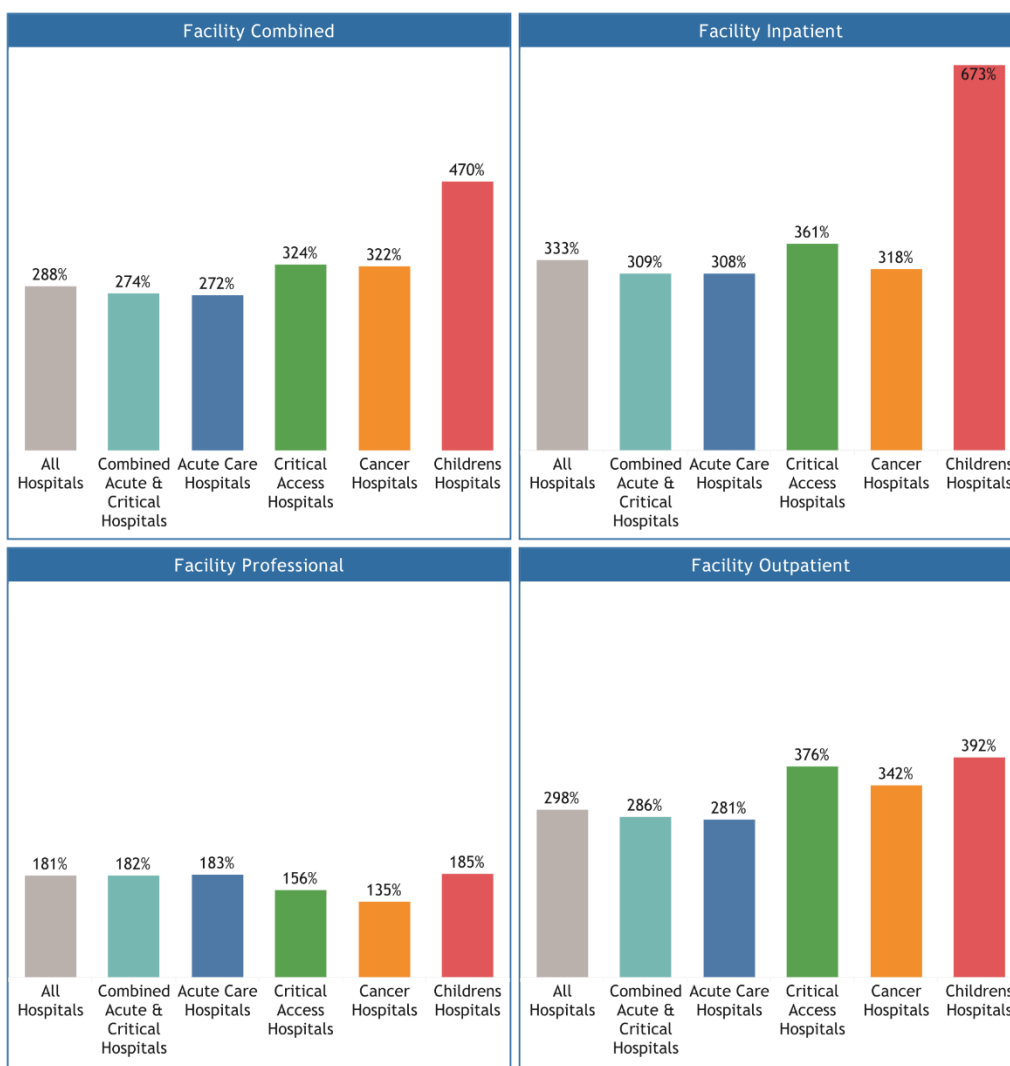
Commercial insurance is different from Medicare in several ways and as such each incurs a different volume of certain claims. Notably, given that Medicare is primarily for adults age 65 and older, reproductive, and maternity care is not a significant source of claims, while it is for commercial insurance. We chose to include maternity services and care for children for a more comprehensive view of the commercial market.

## Key Findings

This first-ever report from the Washington Health Alliance offers a number of findings that merit further research and can inform efforts to address the rising cost of care across our state.

- For all types of hospitals, the average price level for services provided in hospitals statewide is 288 percent of Medicare.
- The hospital price levels compared to Medicare were highest in children’s hospitals – 470% -- and lowest on average in acute care hospitals – 272%.
- Critical access hospitals, which make up more than one-third of all hospitals in Washington state, on average had hospital price levels that were 324%. However, these hospitals are a small percentage of overall hospital spending. Variations of hospital price levels compared to Medicare were most significant among these critical access hospitals.
- The average hospital price level was highest in facility inpatient – 333% of Medicare.

**Figure 1: Average percentage of Medicare for services provided in hospitals by service group.**



# Charts

Figure 2: Commercial insurance percent of Medicare pricing level by hospital (Bubble size relates to allowed dollars).

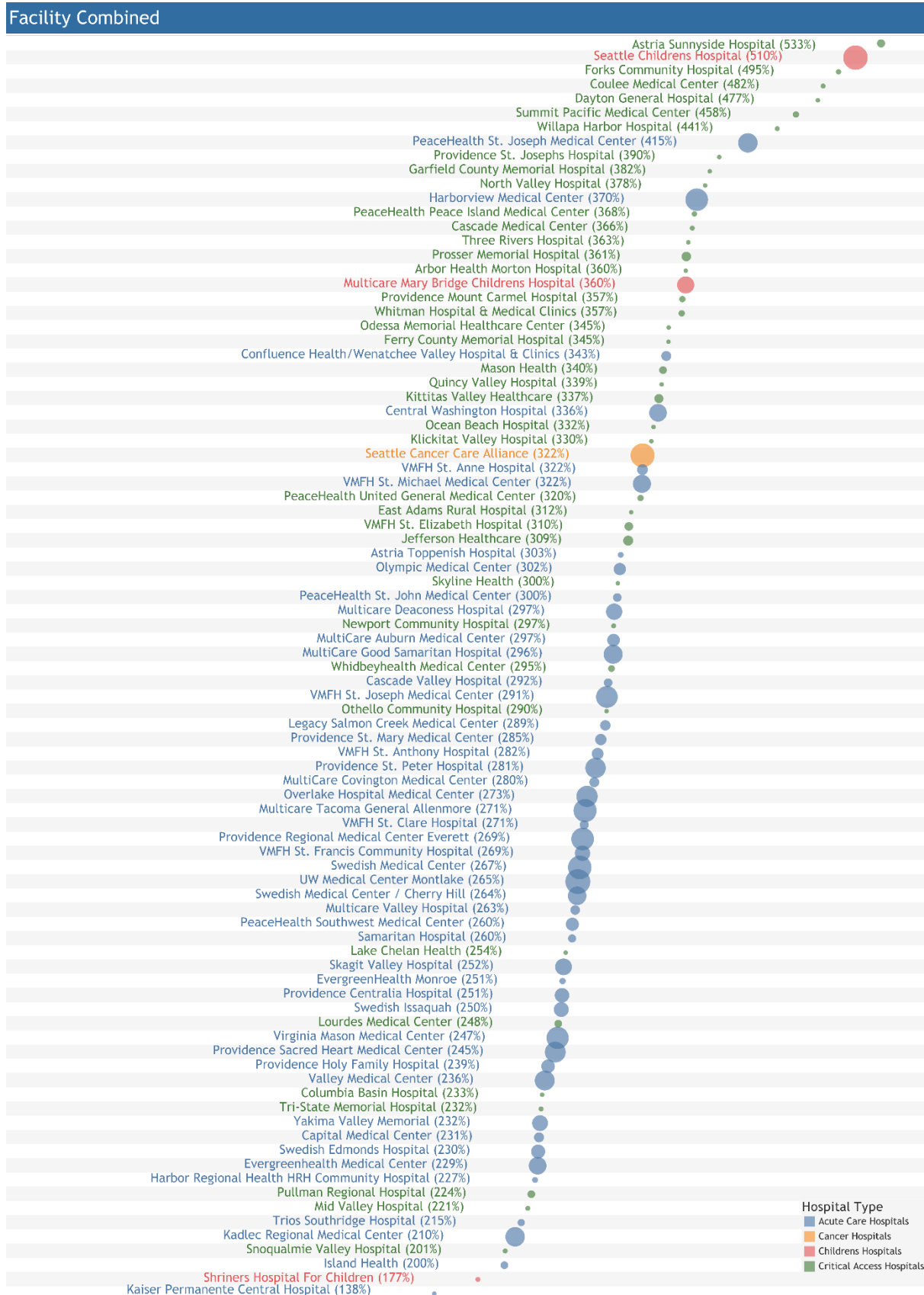


Figure 3: Commercial insurance percent of Medicare pricing level by hospital for facility inpatient services. (Bubble size relates to allowed dollars)

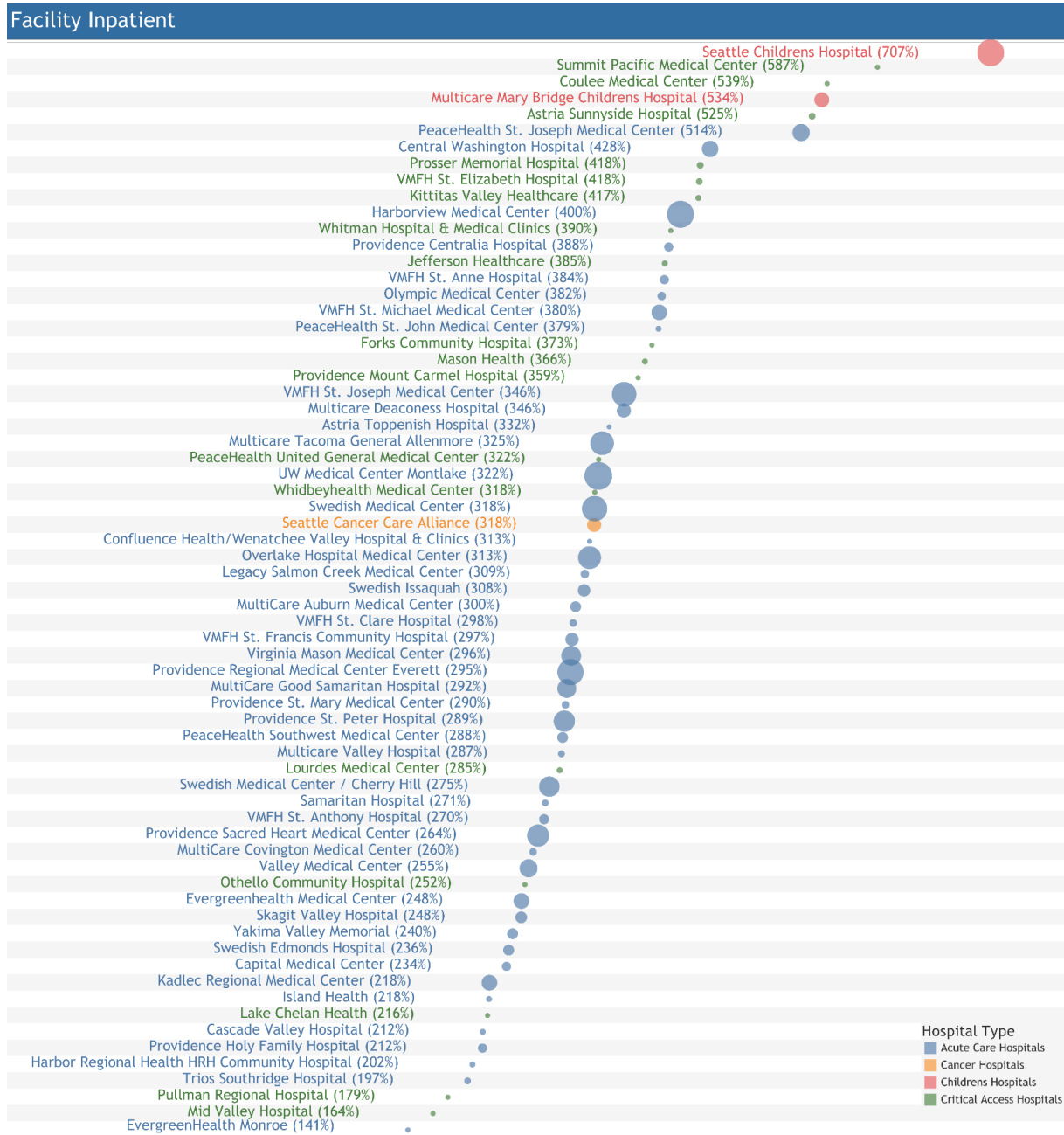


Figure 4: Commercial insurance percent of Medicare pricing level by hospital for facility outpatient services. (Bubble size relates to allowed dollars)

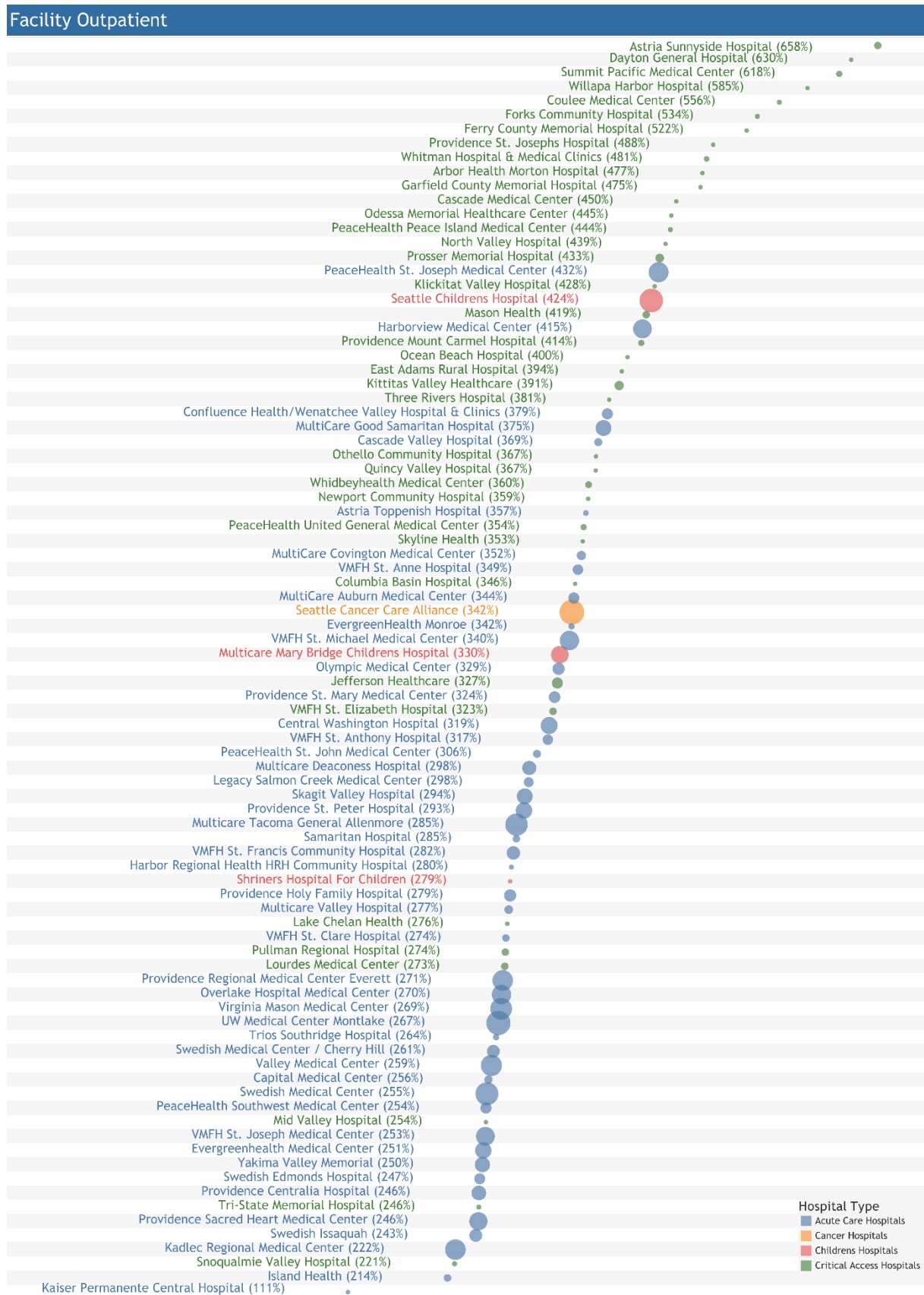
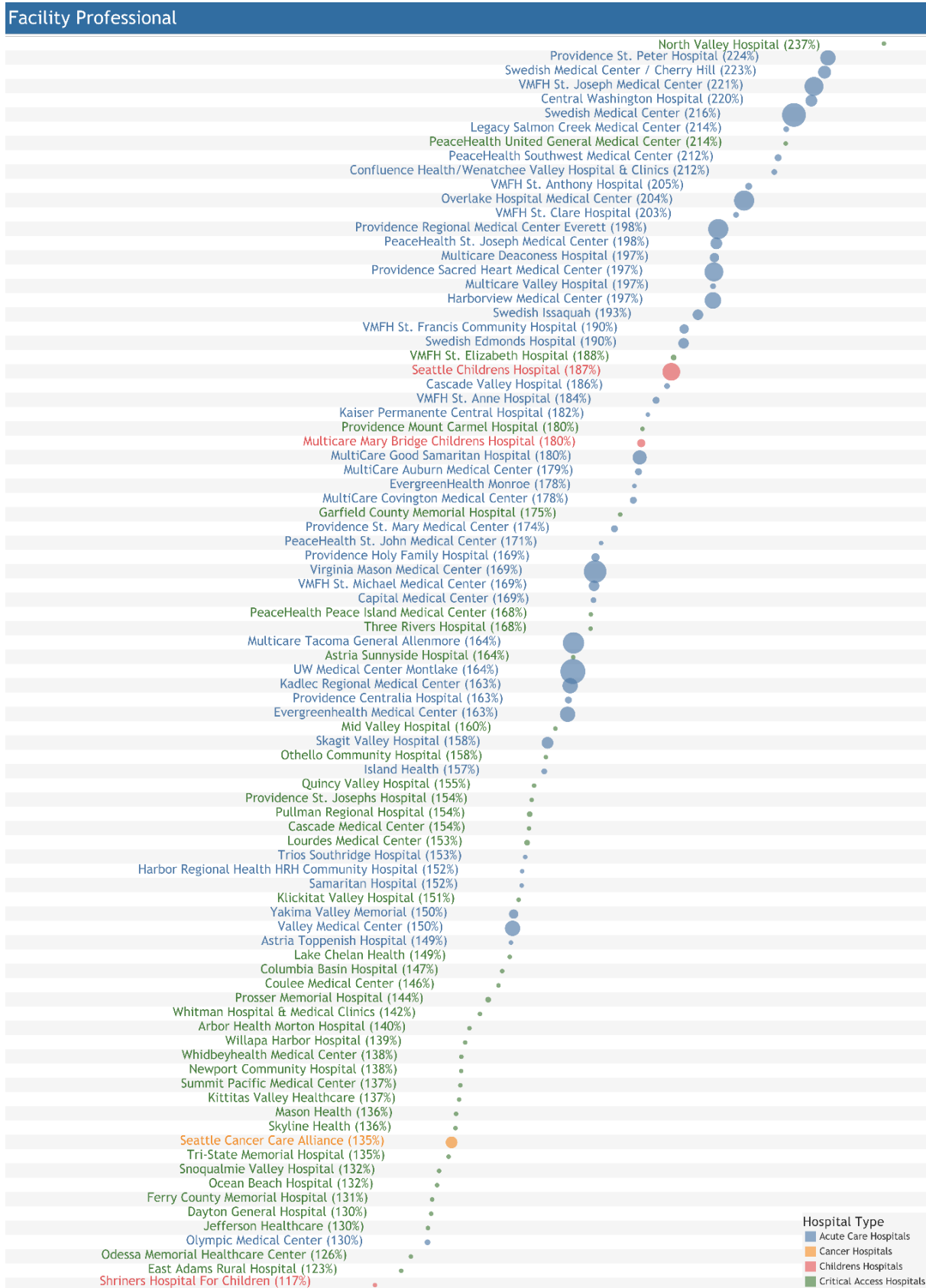
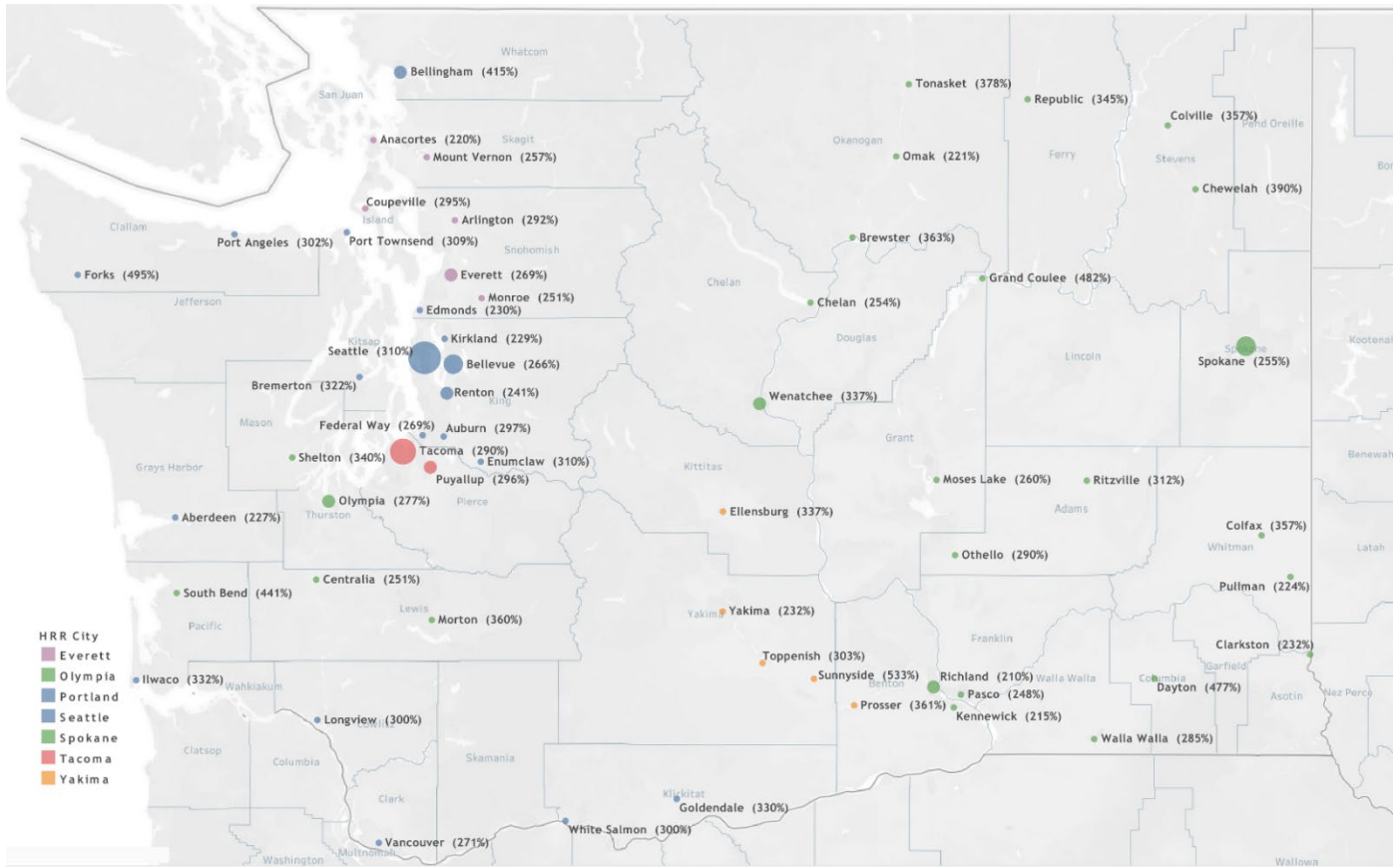




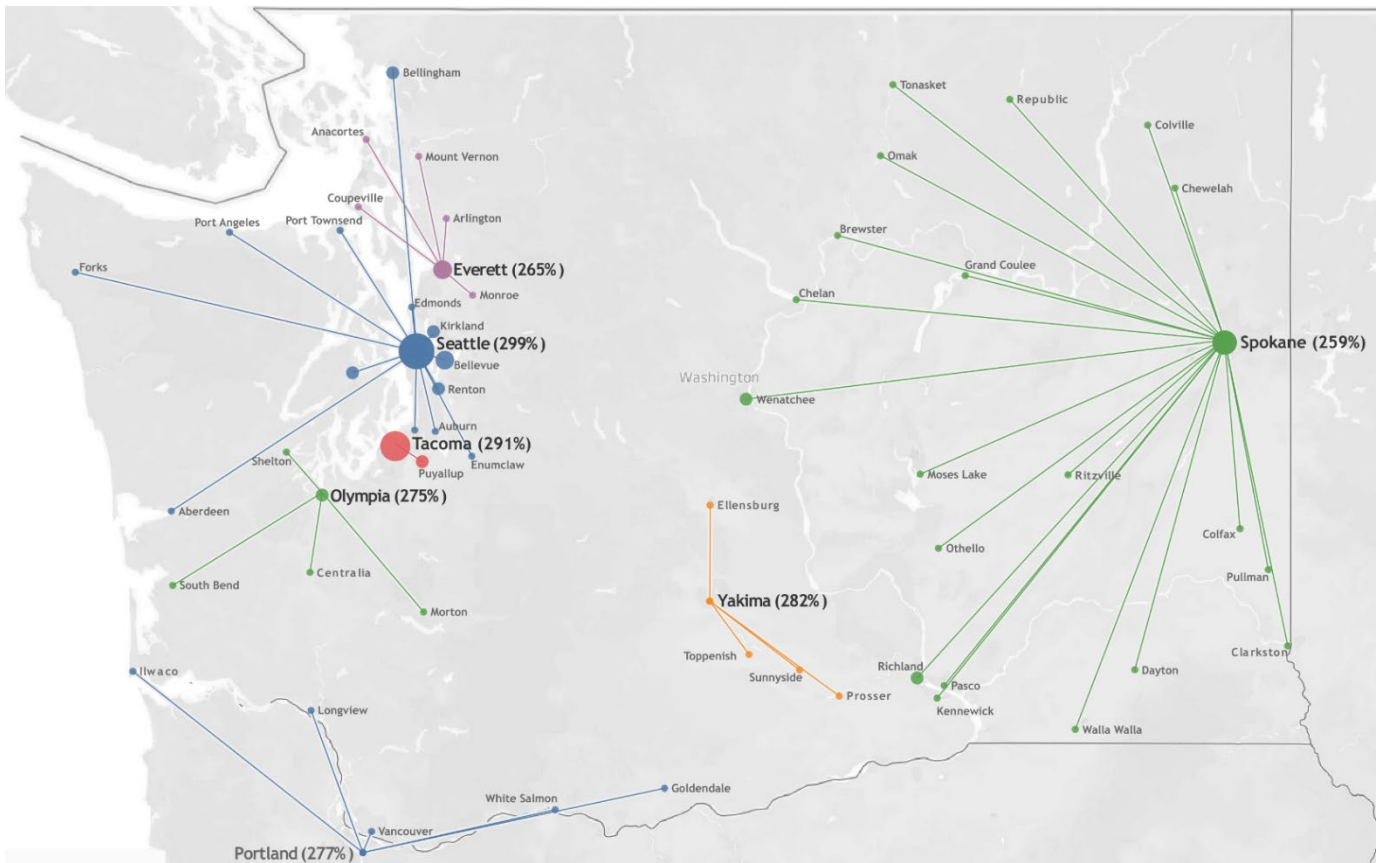
Figure 5: Commercial insurance percent of Medicare pricing level by hospital for facility professional services. (Bubble size relates to allowed dollars)



**Figure 6: Percent of Medicare price levels by city in a Hospital Service Area\***



**Figure 7: Percent of Medicare price levels by city in a Hospital Referral Region\*\***



## Are We Paying Too Much? Recommendations for Next Steps

Our analysis, among the first from an independent organization in Washington state, offers a high-level view of hospital price levels, but much more is needed to understand what a fair price is.

### **Charity Care, patient medical debt burden:**

Washington state is home to more than 40 nonprofit hospitals with obligations to provide charity care and give back to their respective communities. This could influence the overall costs to run the organization. However, a recent Lowry Institute report shows that 98% of these hospitals are falling short when it comes to their charity obligations by a total amount of almost \$1 billion.<sup>7</sup>

Washington boasts one of the lowest uninsured populations in the country, but medical debt is still high among insured and underinsured populations – 6.5 percent carry medical debt in the state.<sup>8</sup> Further research would be needed to understand how unpaid medical debt could be affecting hospital net revenue.

### **Rising staffing costs:**

Given that the COVID-19 pandemic and its aftermath led to increased strains on staffing at Washington hospitals, it would be useful to understand how increasing labor costs may impact the hospital price levels for commercial insurance.

### **Plan, service line disparities:**

These price levels are the allowed amounts across all data providers. With more than a half-dozen major health plans in the state, the allowed amounts vary based on the contracted health plan.

Another key area to explore further would be disparities in hospital price levels by service lines within these broad areas such as professional, facility outpatient and facility in-patient to get an even more accurate and detailed look into cost drivers in hospitals and differences in pricing levels.

### **Fair price equation:**

To have a correct idea of whether the hospital price levels are appropriate, further study needs to be done to determine what is a fair price. This requires accurate net hospital revenues minus validated operating expenses that then factor in other operating revenue to better calculate a facility break-even cost. There needs to be an evaluation of variations in operating expenses by peer facility and within the same system, and an assessment of the payer mix impact of reimbursement, especially in rural settings. As it relates to children's hospitals, given the small number in each state, a national analysis would offer broader insight.

Those who purchase care should pay for the actual cost to deliver a high-quality service plus a reasonable margin for profit. Hospitals should be paid a fair price to deliver that service. We expect this work may allow us to better articulate both the complexities and solutions to create a fair and sustainable health system.

## References

\* Hospital referral regions (**HRR**) represent regional health care markets for tertiary medical care. HRR were defined by assigning HSA to the region where the greatest proportion of major cardiovascular procedures and neurosurgeries were performed.

\*\* Hospital service areas (**HSA**) are collections of ZIP codes whose residents receive most of their institutional care from the hospitals in that area. The HSA were defined by assigning ZIP codes to the hospital area where the greatest proportion of their Medicare residents were hospitalized.

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**Learn more about the Alliance at:** [www.wahealthalliance.org](http://www.wahealthalliance.org).

