

## HOSPITAL PRICES

# SAMPLE PURCHASER Savings Opportunity Report

This report is intended to show employers and unions the potential health plan savings opportunities they can achieve through lowering hospital prices. Your detailed savings can be found at the end of this report, following the background and contextual information that will help you interpret your results.

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### Potential savings for SAMPLE PURCHASER

Annual potential savings if your group paid the same hospital prices as Medicare:

**\$ 2,899,830**

Annual potential savings if your group paid at the hospital Commercial Breakeven Level:

**\$ 2,542,317**



## BACKGROUND

# The Challenge of Rising Healthcare Costs

High and rising healthcare costs are a major challenge for the United States, including the 50% of Americans who receive health insurance through their employer or union.

Increasing healthcare costs make it harder for employers, unions, and individuals to afford sufficient health insurance coverage. Insufficient health insurance coverage can disincentivize the use of appropriate medical care and exacerbate poorer health outcomes.

Aside from wages, health benefits are the single largest benefit cost for employers and the most rapidly increasing—far outpacing wage growth:



The average annual premium for single coverage has risen 58% from 2010 to 2022 (averaging about 5% increases per year), from \$5,049 in 2010 to \$8,435 in 2022. By comparison, workers' earnings only rose about 36% during this time.<sup>1</sup>



Family coverage premiums rose more than 63% during this period, from \$13,770 to \$22,463.<sup>2</sup>

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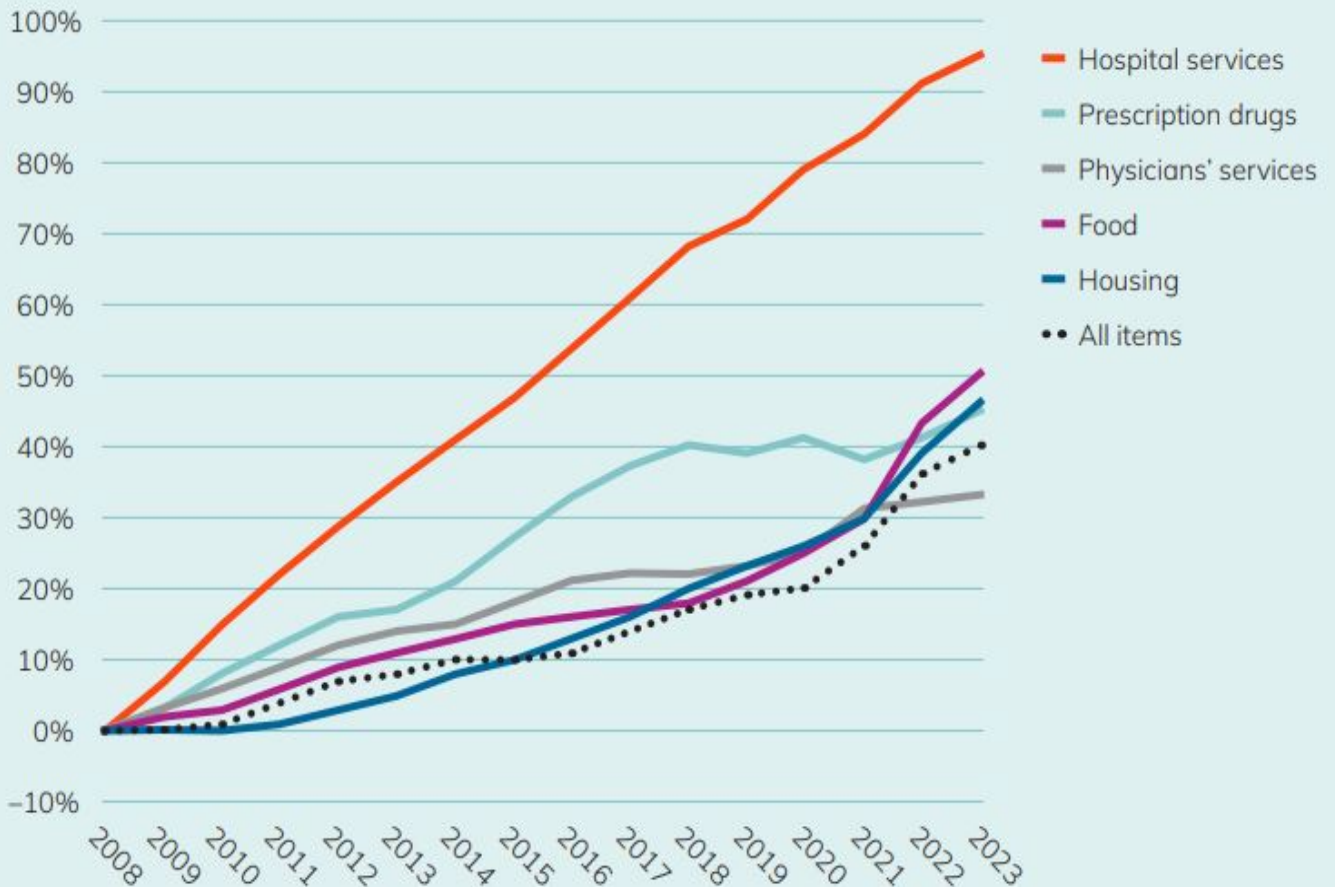
## Hospital prices are driving healthcare costs

Hospital prices are the biggest factor driving growth in healthcare costs and rising health insurance premiums. In the last 15 years, hospital prices rose 100% compared to 50% for prescription drugs and 30% for physician services (see CPI inflation figure below).<sup>3</sup>

Further, spending on hospital services accounts for an average 44% of total healthcare spending for the privately insured nationwide.<sup>4</sup> Prices for hospital services in the commercial insurance market vary widely, and higher prices are often driven by hospital market power rather than increasing utilization or better quality.<sup>5</sup>

### Consumer price index (CPI) inflation since 2008

Total CPI inflation



## HOW TO READ THIS REPORT

# Example: Savings Opportunities for M&C Widget Company (Company A)



Assume that Company A is an employer in New York that spends \$1 billion on health benefits each year.

The sample table on page 5 illustrates potential savings opportunities through lowering hospital prices for “Company A.” If Company A’s healthcare spending patterns match the state average in New York, they would spend about \$390 million on hospital care and pay 246% of what Medicare pays for the same services. Medicare is used as a more objective pricing benchmark because its rates adjust for cost of living, patient severity, geography, and uncompensated care costs, among other factors. Medicare prices are generally considered to cover costs that a reasonably efficient hospital would incur in furnishing high-quality care.<sup>6</sup>

Company A can use this report to see the potential savings levels that are achievable with even small decreases in hospital prices.

For example, if Company A wanted to lower its total healthcare spend by 5% to achieve annual savings of \$50 million (highlighted in the table on page 5), it could do so by negotiating lower prices with its hospitals to 214% of Medicare, on average. This would mean reducing what Company A pays to hospitals by 12.8%. The amount is still more than two times what a hospital receives from Medicare for the same services and more than covers the 16% underpayment from Medicare and 12% underpayment for Medicaid cited by the American Hospital Association.<sup>7</sup>

There are many reasons why a purchaser may want to pay more than Medicare, but less than the current status quo, to ensure that hospitals receive reimbursement rates that will adequately cover their expenses.<sup>8</sup>



## Are Medicare prices reasonable?

Medicare sets its prices so that a reasonably efficient hospital will cover its costs. However, hospitals may not operate as efficiently as Medicare would expect. The body that sets those prices (Medicare Payment Advisory Commission) projects that hospitals’ Medicare margin in 2022 will fall short by 10% prior to allocation of COVID relief funds. The American Hospital Association estimates that Medicare underpays by 16% and Medicaid by 12%.

The hospital Commercial Breakeven Level calculation that this tool utilizes includes the additional money needed to cover these shortfalls and the cost of uncompensated care. For more information on the Commercial Breakeven, see the National Academy of State Health Policy resources here: [nashp.org/commercial-breakeven](https://nashp.org/commercial-breakeven).

**SAMPLE TABLE****Savings opportunities by lowering hospital prices for Company A**

Target level of savings on total healthcare spend	Percent savings on hospital spend	Hospital spend	Savings on hospital spend	Negotiate hospital prices at this percent of Medicare
Status Quo	-	\$390,000,000	-	246%
1%	2.6%	\$380,000,000	\$10,000,000	240%
3%	7.7%	\$360,000,000	\$30,000,000	227%
5%	12.8%	\$340,000,000	\$50,000,000	214%
10%	25.6%	\$290,000,000	\$100,000,000	183%
15%	38.5%	\$240,000,000	\$150,000,000	151%
20%	64.1%	\$190,000,000	\$200,000,000	120%

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# How to Lower Your Hospital Prices

As with any responsible business practice, the first step is data: knowing your total healthcare spending and prices at specific hospitals and comparing those prices to an objective benchmark like Medicare.<sup>9</sup>

If you are an employer or union who does not know the hospital prices you pay, or the percentage of Medicare prices you pay, you are not alone. Healthcare prices have been obscure, but this is changing.<sup>10</sup>

Employers and unions now have the right to know their prices and can use that information to help achieve greater cost savings. Employers and unions can use this information to establish a more rational bargaining relationship by asking hospitals to explain and to lower their prices. Organizations like the National Alliance of Healthcare Purchaser Coalitions have developed toolkits for how to use price transparency tools to achieve fairer prices.<sup>11</sup>

Employers and unions can also help support local, state, and federal policy efforts that increase market competition, lower hospital prices, and increase accountability for hospital market behavior.<sup>12</sup>



For additional information on policy and practical solutions for lowering hospital prices, see the publications and resources available at 32BJ Health Insights: [32bjhealthinsights.org](https://32bjhealthinsights.org)

**TABLE 1****Comparing your healthcare spending patterns with the state average**

	<b>State Commercial Insurance Market: New York</b>	<b>Employer Group: SAMPLE PURCHASER</b>
Total covered lives, 2020	11,896,000 <sup>a</sup>	2,000
Total healthcare spend, 2020	\$74,518,000,000 <sup>a</sup>	\$12,528,000
Hospital spend, 2020 (estimated)	\$29,062,020,000	\$4,886,015
Total healthcare spend per capita, 2020	\$6,264	\$6,264
Hospital spend per capita, 2020 (estimated)	\$2,443	\$2,443
Portion of total healthcare spend on hospital services, 2019	39% <sup>b</sup>	39%
Hospital prices relative to Medicare, 2018–2020	246% <sup>c</sup>	246%
Commercial breakeven, 2016–2020	118% <sup>d</sup>	-
Annual potential group savings on hospital services at Medicare Price Level	—	\$2,899,830
Annual potential group savings on hospital services at Commercial Breakeven Level	—	\$2,542,317

Note: Employer group values in orange indicate that a given metric is above the state average or median; group values in blue are below the state average or median. “Commercial” includes both self- and fully insured health plans.

- PHI Enrollment and Spending: Center for Medicare and Medicaid Services (CMS), State Health Expenditures (SHEA), Total Personal Health Care Expenditures by State of Residence, 2022, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsStateHealthAccountsResidence>
- Fraction of Total Personal Health Care Spending on Hospital Services: Appendix Table e9c in: Emily K. Johnson et al., “Varied Health Spending Growth Across US States was Associated with Incomes, Price Levels, and Medicaid Expansion, 2000–19,” Health Affairs, 41(8): 1088–1097, <https://doi.org/10.1377/hlthaff.2021.01834>
- Relative Prices Paid for Hospital Services (Inpatient and Outpatient) by Private Employer-Sponsored Health Plans: Christopher M. Whaley et al., Prices Paid to Hospitals by Private Plans: Findings from Round 4 of an Employer-Led Transparency Initiative, RAND Corporation, 2022, [https://www.rand.org/pubs/research\\_reports/RR1144-1.html](https://www.rand.org/pubs/research_reports/RR1144-1.html)
- Commercial Breakeven: National Academy of State Health Policy’s Hospital Cost Tool, <https://d3g6lgulzfs214.cloudfront.net/>

**TABLE 2****Your savings opportunities with lower hospital prices**

Target level of savings on total healthcare spend	Percent savings on hospital spend	Hospital spend	Savings on hospital spend	Negotiate hospital prices at this percent of Medicare
Status Quo	0.0%	\$4,886,015	\$0	246%
1%	2.6%	\$4,760,735	\$125,280	240%
3%	7.7%	\$4,510,175	\$375,840	227%
5%	12.8%	\$4,259,615	\$626,400	214%
10%	25.6%	\$3,633,215	\$1,252,800	183%
15%	38.5%	\$3,006,815	\$1,879,200	151%
20%	51.3%	\$2,380,415	\$2,505,600	120%
25%	64.1%	\$1,754,015	\$3,132,000	88%

If the negotiated hospital price is in orange, this indicates that the price is below the median commercial breakeven for the state.

See Table 1 (reference data) for sources of calculated input data.

Savings Model Assumptions:

- Employees and/or dependents receive healthcare in the state in which they reside; this may not hold where employees live close to a state border
- When user doesn't enter the amount spent on hospital services, employer group experience is similar to state average for hospital spending per capita, and the fraction of total healthcare spending on hospital services
- When user doesn't enter the average percentage of Medicare prices paid for hospital services, employer group experience is similar to state median for hospital prices relative to Medicare



## Endnotes

- 1 MedPAC, March 2022 Report to the Congress: Medicare Payment Policy: <https://www.medpac.gov/document/march-2022-report-to-the-congress-medicare-payment-policy/>
- 2 American Hospital Association, Fact Sheet: Underpayment by Medicare and Medicaid, February 2022: <https://www.aha.org/fact-sheets/2020-01-07-fact-sheet-underpayment-medicare-and-medicaid>
- 3 National Academy for State Health Policy, Understanding NASHP's Hospital Cost Tool: Commercial Breakeven, March 2022: <https://nashp.org/commercial-breakeven/>
- 4 For more information on how to get your hospital prices relative to Medicare, employers and unions may be able to participate in the RAND hospital transparency study: <https://www.rand.org/health-care/projects/price-transparency/hospital-pricing.html>
- 5 Meena Seshamani and Douglas Jacobs, Hospital Price Transparency: Progress and Commitment to Achieving its Potential, Health Affairs February 2023: <https://www.healthaffairs.org/content/forefront/hospital-price-transparency-progress-and-commitmentachieving-its-potential>
- 6 National Alliance, Beyond Transparency: Getting to Fair Price: <https://www.nationalalliancehealth.org/what-we-do/delivery-and-paymentreform/hospital-fair-price/#>
- 7 The Source on Healthcare Price and Competition: The Database of State Laws Impacting Healthcare Cost and Quality: <https://sourceonhealthcare.org/legislation/>
- 8 National Academy for State Health Policy, Understanding NASHP's Hospital Cost Tool: Commercial Breakeven, March 2022: <https://nashp.org/commercial-breakeven/>
- 9 For more information on how to get your hospital prices relative to Medicare, employers and unions may be able to participate in the RAND hospital transparency study: <https://www.rand.org/health-care/projects/price-transparency/hospital-pricing.html>
- 10 Meena Seshamani and Douglas Jacobs, Hospital Price Transparency: Progress and Commitment to Achieving its Potential, Health Affairs February 2023: <https://www.healthaffairs.org/content/forefront/hospital-price-transparencyprogress-and-commitment-achieving-its-potential>
- 11 National Alliance, Beyond Transparency: Getting to Fair Price: <https://www.nationalalliancehealth.org/what-we-do/delivery-and-payment-reform/hospital-fair-price/#>
- 12 The Source on Healthcare Price and Competition: The Database of State Laws Impacting Healthcare Cost and Quality: <https://sourceonhealthcare.org/legislation/>



### About the 32BJ Labor Industry Cooperation Trust Fund

The 32BJ Labor Industry Cooperation Trust Fund was created by the Service Employees International Union, Local 32BJ, and the Realty Advisory Board on Labor Relations, Inc., for the sole and exclusive purpose of containing healthcare costs, including healthcare pricing, for the benefit of 32BJ union members and employers in the New York City and surrounding areas.