

Uncovering Hospital Charges

Hospitals are reporting their rates for various procedures in an effort to satisfy those who want more transparency in health care costs.



BY RICHARD CAUCHI AND
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Few consumers would buy a car, enroll in college or hire a remodeling contractor without doing some cost-comparison shopping. But when it comes to hospital procedures, prices largely have remained a mystery. Facilities each set their own charges and may negotiate with insurance plans and large employers for discounted rates, but they generally don't advertise prices.

With health care costs continuing to rise, however, finding ways to save is on the minds of not only individual consumers, but all payers of health care, including employers and governments. One way may be through greater price transparency of hospital procedures, which allows consumers to make smarter, cost-conscious decisions about their health care.

In May, the Centers for Medicare & Medicaid Services released prices charged for 130 of the most commonly performed medical procedures (from visits to a health clinic to open heart surgery) at more than 3,000 hospitals—in all, more than

170,000 different billed charges. The data included both the list prices (as initially charged to private health insurance companies and the uninsured) and the discounted rate (paid by the federal government for Medicare patients).

The data revealed that hospital prices can vary dramatically, even within the same community. For example, in New York City, one hospital's average charge for a complicated case of asthma and bronchitis was \$34,310, with an average total payment of \$8,597. At another New York City hospital, the average charge

The Average Cost to Medicare for a Joint Replacement

	Hospital Charges	Actual Payment
Maryland	\$21,230	\$20,048
Delaware	\$32,629	\$14,765
Hawaii	\$39,463	\$18,512
Georgia	\$46,856	\$13,303
Pennsylvania	\$51,014	\$13,679
South Carolina	\$57,557	\$13,651
Arkansas	\$63,290	\$21,160
New Jersey	\$66,639	\$15,059
Nevada	\$71,782	\$13,621
California	\$88,238	\$17,187

Note: This includes all joints other than hips.

Source: Centers for Medicare & Medicaid Services, May 8, 2013

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was only \$12,391, with an average total payment of \$6,692.

In Birmingham, Ala., the differences were even more dramatic. For that same complicated case of asthma and bronchitis, one hospital charged an average of \$21,128 while another charged \$8,932. The average total paid for Medicare-covered treatments in these Birmingham hospitals was \$7,112 and \$4,801, respectively.

The full report, by the Centers for Medicare & Medicaid Services, also found significant variations from state to state. The average cost of a joint replacement, the most common treatment for Medicare patients, ranged from \$21,230 in Maryland to \$88,238 in California.

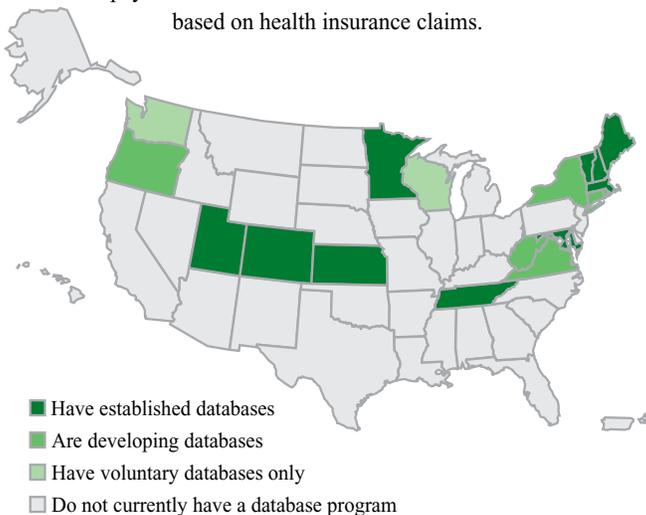
American Hospital Association CEO Rich Umbdenstock believes that the health care financing and delivery systems need significant adjustments, including changes to the hospital “charging” system. But he does not believe hospitals are solely to blame for the significant variations in cost. “Variation in charges is a byproduct of the marketplace, so all parties must be involved in a solution, including the government,” he says. The association and its members, he says “stand ready to work with policymakers on innovative ways to build on efforts already occurring at the state level, and share information that helps consumers make better choices about their health care.”

State Databases, Websites and More

The government’s release of the hospital charges nationwide made headlines, yet state lawmakers have been working for years to improve the disclosure process of various health care costs. Currently, 34 states require hospitals to report certain

Database Development

At least 15 states have established or are developing “all-payer claims” databases of various health care costs based on health insurance claims.



Source: *The All-Payer Claims Databases Council, Aug. 1, 2013*

Why Are Maryland’s Prices So Low?

Maryland established an all-payer hospital rate setting program in 1971 that still operates today. The program’s goals, which continue today, are:

- ◆ To constrain hospital costs.
- ◆ To provide financial stability for hospitals.
- ◆ To offer efficient and effective care.
- ◆ To finance the growing amount of uncompensated care hospitals face.

Rates are set for each diagnosis—for example, all hospital care for a pancreas transplant—as opposed to each separate service provided, such as sutures, an ultrasound, anesthesia, etc. This is to encourage hospitals to focus on controlling the overall cost of each episode of care rather than the myriad services required for one procedure.

Maryland required a waiver from federal health officials, as would any state seeking to use this approach today. When the system began, Maryland’s adjusted costs for hospital admissions were about 26 percent higher than the national average. The state’s hospitals between 1977 and 2009, however, had the lowest cumulative increase per admission of any state in the nation. For fiscal year 2009, the average cost per admission at Maryland hospitals increased 2 percent compared with a 4.5 percent increase for the rest of the nation.

charges and reimbursement rates, and lawmakers in more than 30 states have introduced legislation to increase the availability of rates charged at hospitals.

Since 2000, 10 states have established statewide databases of statistical information from health insurance claims, with Maryland, Massachusetts, New Hampshire and Utah leading the way.

“Utah’s new cost and quality comparison tools for public employees compare insurer contracted charges, not just the non-discounted billed charges,” says Utah Representative James Dunnigan (R). “This provides both consumers and providers the tools to change how they select and provide care.”

“New Hampshire’s online health care pricing resource was created for the benefit of consumers and employers,” says House Speaker Terie Norelli (D). “We continue to recognize the reality that we will not be able to stunt the escalating cost of health care until the public has a full understanding of the cost of the care they receive and is able to see how costs vary from one provider to another. The New Hampshire House is continuing to work on this issue in order to add greater depth and understanding for consumers.”

Detailed price disclosure can be a dramatic and informative tool, but it alone cannot ensure lower costs or improve efficiency. When a patient is rushed into urgent care, the last thing on his mind is to shop for the best price or value. Initiatives and pilot programs are under way to test other payment reform approaches such as bundled payments, tiered payments, and accountable care organizations.

All participants in the health system stand to benefit from innovations that improve health and save costs, including the commercial sector, the about-to-launch health marketplaces or exchanges, as well as Medicaid and state employee organizations.



Representative
James
Dunnigan (R)
Utah



House Speaker
Terie Norelli (D)
New Hampshire

SL ONLINE

For more information on state databases, go to www.ncsl.org/magazine.