

Lowering Hospital Prices to the National Average Price Could Save the Health Care System \$225B

High and varied health care prices — more so than health care utilization — are the main driver of health care spending in the United States.^{1,2,3} Prices for a common set of hospital inpatient services vary significantly for privately insured individuals, leading to unnecessary costs that grow over time as hospital prices increase rapidly. **Reducing the prices of inpatient services at high-price hospitals, after adjusting for geographic differences, to the national average price would save the health system \$18 billion in 2021 and \$225 billion over ten years.⁴**

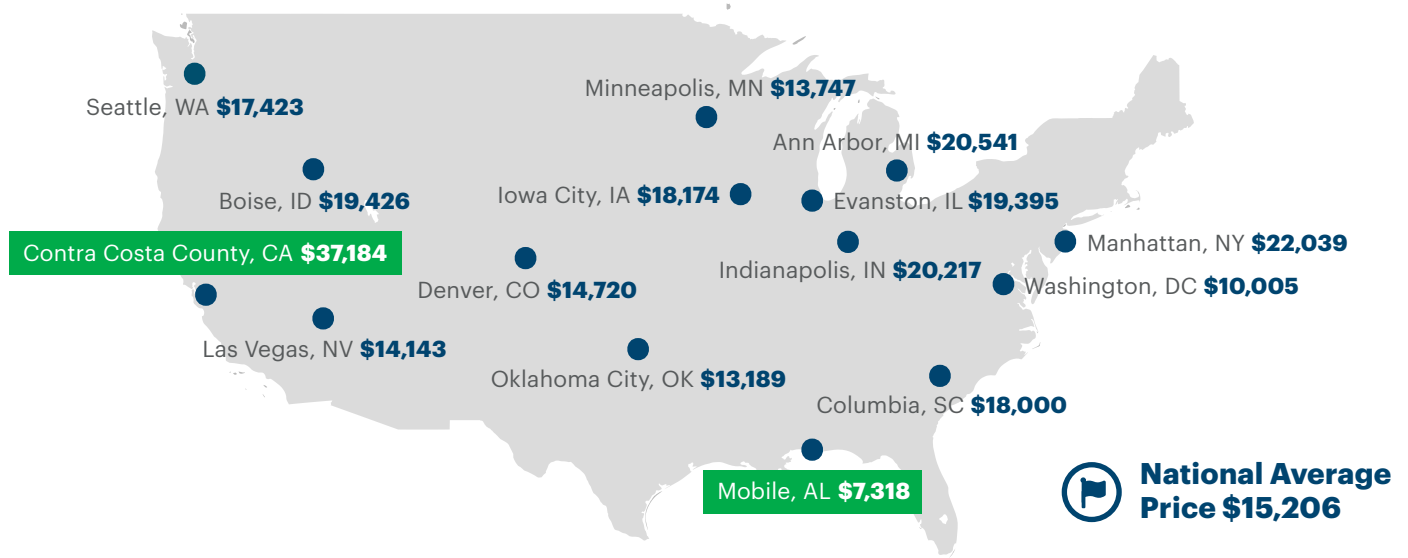
Hospital Prices

This brief establishes an average price for a common set of 125 inpatient services^a at the national, market,^b and hospital^c levels to estimate the unnecessary health care costs resulting from the wide variation in hospital prices. The price is calculated, for each year, based on the average price per admission for each of the 125 inpatient services at each hospital, market, and nationally; hospital prices are further adjusted to mirror the national service mix for these inpatient services. In 2017, the national average price for the 125 common inpatient services was \$15,206.

Price Variation Across and Within Markets

Prices vary *across markets* from \$7,318 in Mobile, AL to \$37,184 in Contra Costa County, CA (52% below to 145% above the national average).

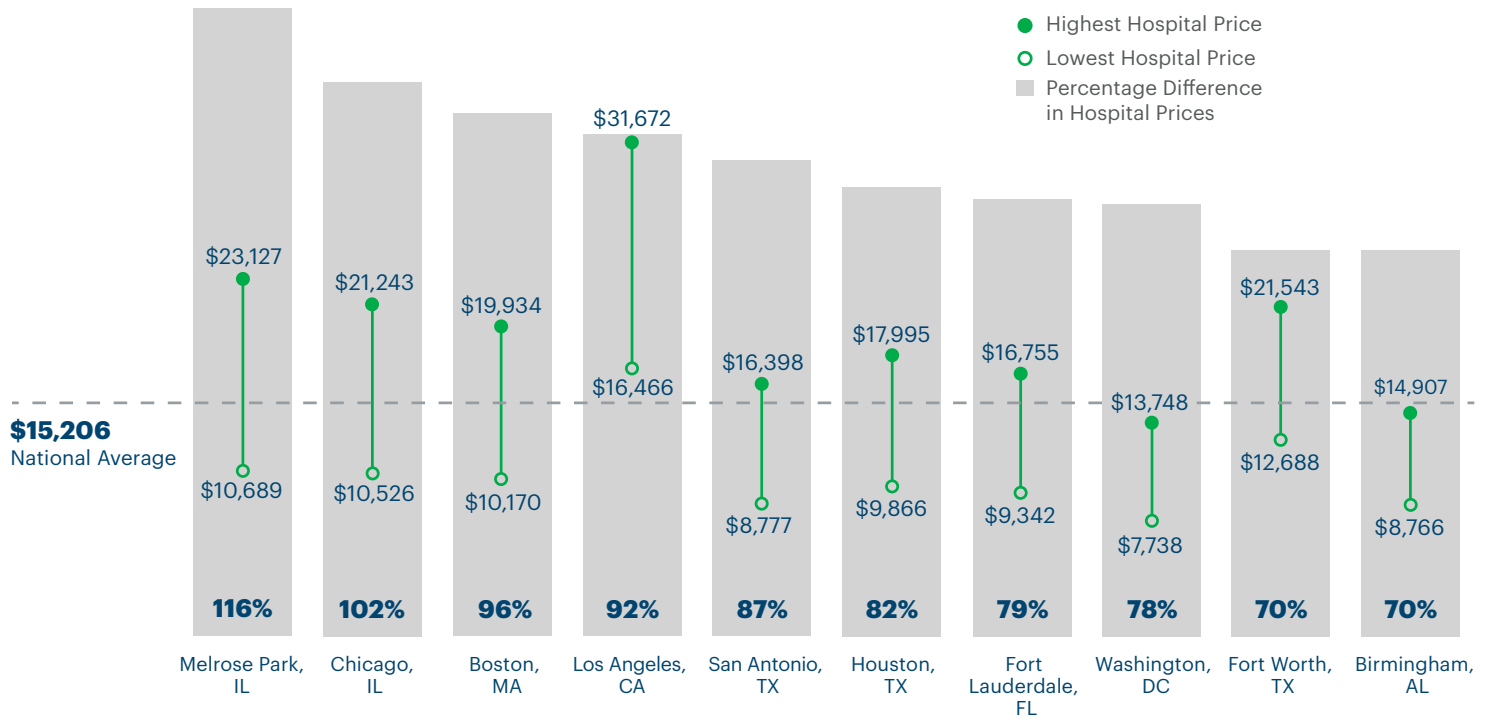
National Variation in Hospital Prices^d



- a The average price is based on the top 125 DRGs that comprised 82% of inpatient admissions and accounted for 65% of spend among UnitedHealthcare's members with employer coverage in 2017. The average price for the top 125 DRGs is computed for only those hospitals, individually or as part of a health system, if either the hospital or the acquiring health system had admissions for at least 90 out of the 125 DRGs for any year between 2013 and 2017. The price at each hospital included in the analyses is weighted based on the hospital's market share to establish a market level price.
- b Hospital referral regions (HRRs) are referred to as 'markets' in the brief; 155 of 305 HRRs had at least one hospital with admissions for at least 90 out of the 125 DRGs and were included in the analyses.
- c 294 unique hospital systems were included in the analyses, many of which operate in more than one HRR; in total, 433 hospitals across 155 HRRs were included in the analyses.
- d Data in this chart is unadjusted for geographic differences.

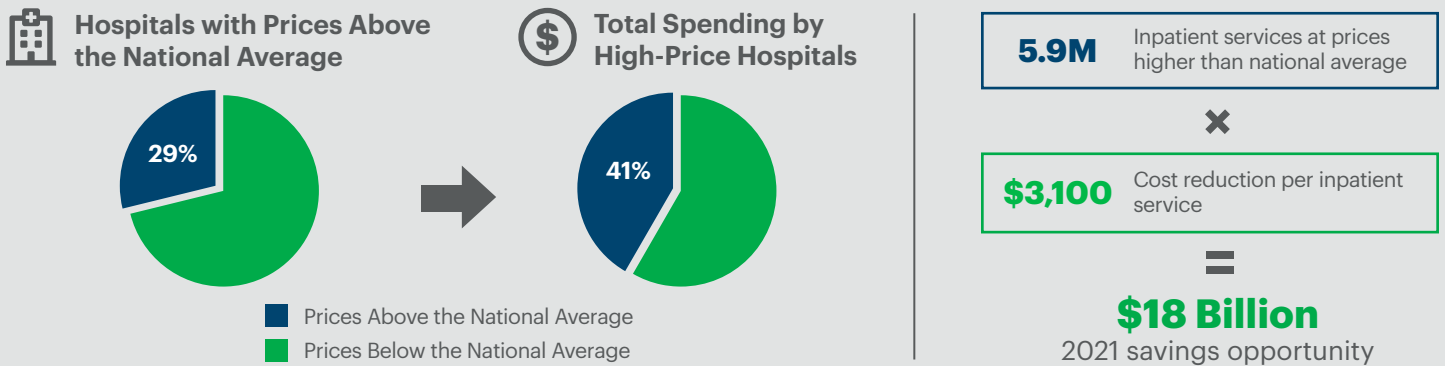
The difference between the highest-price and lowest-price hospital *within a single market* was as high as 116% (Melrose Park, IL).

Top 10 Markets with Greatest Price Variation Across Hospitals, 2017^d



Lowering Hospital Prices to the National Average Price Could Save the Health Care System \$225 Billion

Nearly one-third of hospitals have prices higher^e than the national average. These high-price hospitals account for more than 40% of inpatient spending. Lowering hospital prices to the national average price would save the health system \$18 billion in 2021 and \$225 billion from 2021 to 2030.



^d Data in this chart is unadjusted for geographic differences.

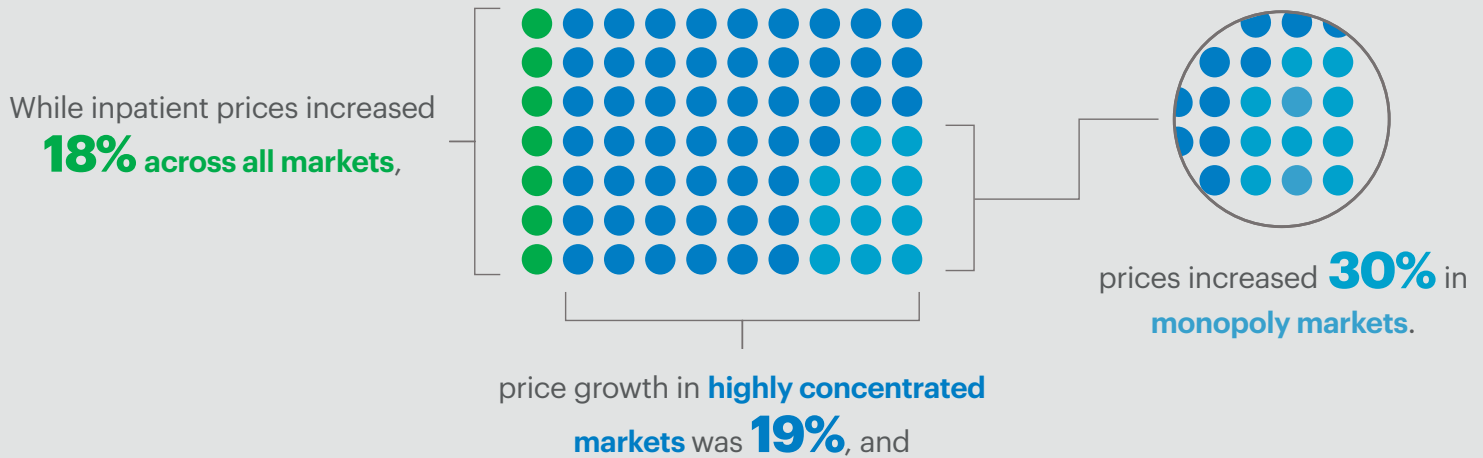
^e All price comparisons throughout the remainder of this brief are based on prices that have been adjusted, using the CMS 2017 Hospital Wage Index, to account for geographic variation in wages and other input costs.

Concentrated Markets Have Higher Prices and Price Growth

Across markets: Highly concentrated markets^f have higher prices than less concentrated markets. In 2017:

- More than 90% of markets were highly concentrated and had prices 6% higher than less concentrated markets
- Monopoly markets^g are the most concentrated and had prices 10% higher than less concentrated markets

Price Growth Across Markets, 2013-2017



Market Share-Dominant Hospitals Have Higher Prices

Within markets: Hospitals with greater market share have more negotiating leverage and command higher prices. In 2017:

- At hospitals with significant market share,^h prices were 12% higher than those with lower market share.
- While Academic Medical Centers (AMCs) had average prices 5.7% higher than non-AMCs, in markets with more than 1 AMC, the AMC with greatest market share typically had higher prices than an AMC with lower market share.
- Ownership by, or affiliation with, larger, multi-market health systems adds to the price advantage of hospitals with significant market share. Both regionalⁱ and national hospital systems with significant market share, had prices 16% and 12% higher, respectively than comparable hospital systems with lower market share. Notably, from 2013-2017, regional health systems gained the most market share through acquisition of smaller hospital systems.

^f According to the Department of Justice and the Federal Trade Commission, markets with an Herfindahl-Hirschman Index (HHI) in excess of 2500 are called highly concentrated markets. In those markets, a few hospitals control most of the market share. To assess the impact of market concentration and hospitals' market power on price, these analyses are restricted to the top 70 markets, which account for 85% of the admissions and 85% of the spending across all 155 markets analyzed.

^g Monopoly markets have only 1 hospital with admissions for at least 90 out of the 125 DRGs.

^h Hospitals with more than 25% market share, based on inpatient spending, are referred to as having 'significant' market share and those with less than 25% market share are referred to as having 'lower' market share.

ⁱ Regional hospital systems span 3-19 HRRs and national hospital systems span 20 or more HRRs.

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