

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

Methodology

UnitedHealthcare hospital inpatient claims were analyzed for individuals, ages 0 – 64, with employer coverage from 2013 through 2017; individuals did not have to be continuously enrolled for their claims to be included in the analyses. The top 125 Diagnostic Related Groups (DRGs) represent the most common inpatient services, based on the highest prevalence of admissions across hospitals in 2017 (and each of the 5 years of claims analyzed), and are the basis for the average price, developed for each year (2013 – 2017). The prices listed under “Price Variation Across and Within Markets” section of the report are not adjusted for any geographic difference. The savings estimate adjusts hospital prices using the Center for Medicare and Medicaid Services’ 2017 Hospital Wage Index to identify hospitals with prices above the national average price. The average difference in price between high-price hospitals and the national average price as well as the percentage of inpatient spending at high-price hospitals was calculated and applied to projections of annual spending on hospital inpatient services in the U.S. commercial insurance market to estimate potential system-wide savings opportunity. Similarly, for price comparisons across cohorts of hospitals (for example, those with significant market share) and markets (for example, concentrated markets), geographically-adjusted prices were computed and used for the analyses. Further, to ensure an apples-to-apples price growth comparison, the 2017 service mix of DRGs was used to adjust the price index for the preceding years.

Citations

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- ² David Newman, Stephen T. Parente, Eric Barrette, and Kevin Kennedy, “Prices for Common Medical Services Vary Substantially Among the Commercially Insured,” *Health Affairs*, May 2016, 35(5): 923-927.
www.healthaffairs.org/doi/10.1377/hlthaff.2015.1379
- ³ Zack Cooper, Stuart Craig, Martin Gaynor, and John Van Reenen, “The Price Ain’t Right? Hospital Prices and Health Spending on the Privately Insured,” December 2015.
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- ⁴ Centers for Medicare & Medicaid Services, “NHE Fact Sheet.”
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