

Widening Payment Gap between Medicare and Commercial Insurance

On May 9, 2019, the nonprofit Research and Development (RAND) Corporation published a research report, which found that private insurance companies pay approximately four times more for hospital services than Medicare.¹

The report reviewed data from self-insured employers, state-based all-payor claims databases from Colorado and New Hampshire, and health plans during the period of 2015 to 2017.² In total, these sources included approximately 4 million beneficiaries and 1,598 Medicare-certified acute care hospitals across 25 states, representing \$13 billion in allowed amounts.³ RAND examined both the charges and the allowed amounts per service (including payments from the health plan and the patient), and compared those to the Medicare reimbursement rates for those same procedures and facilities.⁴

The purpose of the report's review was to “describe hospital price levels, variation, and trends.”⁵ The publication notes that “[t]his is the first broad-based study that reports prices paid by private health plans to hospitals [and hospital systems] identified by name...”⁶


Specifically, the report found that *relative prices* (i.e., “the ratio of the actual private allowed amount divided by the Medicare allowed amount for the same services provided by the same hospital”) increased from 236% of Medicare in 2015 to 241% of Medicare in 2017, with a wide distribution among states.⁷ The states with the largest increase in relative prices were Colorado, Montana, Wisconsin, Maine, Wyoming, and Indiana, with relative prices ranging from 250-300% of Medicare.⁸ Relative prices ranged even more broadly among health systems, from 150% of Medicare to over 400% of Medicare.⁹ In addition to the variation among states and systems, relative prices also varied between inpatient and outpatient services. Relative prices for outpatient services were 293% of Medicare, compared to 204% of Medicare for inpatient care.¹⁰

RAND also reviewed the relative prices for these hospitals and health systems in the context of quality. Comparing the hospital/system's relative price to its Hospital Compare rating (which is based on a five-star system), the report found that while higher-priced hospitals generally had higher quality rating than lower-priced hospitals, there were low-priced hospitals that were highly rated.¹¹ This finding indicates that providing high-quality services at a lower cost is possible, and this data transparency may allow employers to seek out those options.¹²

These findings are significant due to the large proportion of the U.S. population who receive insurance through their employer and the amount of total personal healthcare spending attributable to hospital services. As of 2017, 56% of the U.S. population had insurance coverage through their employer, and 17.2% were covered through Medicare.¹³ Further, in 2017, hospital care expenditures were 44% of total personal spending for privately-insured individuals, and 33% of total expenditures for Medicare beneficiaries.¹⁴ Any change to private insurance prices in the hospital sector would almost certainly have a significant effect on overall healthcare costs.

As the RAND report points out, the relatively high prices charged to private insurers by hospitals, and the wide variations in those charged prices, indicate that there is room for employer health plans to negotiate lower prices with these providers. With the increasing transparency of data such as that examined by RAND, health plans will likely have a better negotiating position, as these plans can move away from the hospitals and health systems that are found to be more expensive.¹⁵ However, as the RAND report notes, transparency alone will likely not serve as the panacea for this complex problem, and may require further regulatory intervention, such as limiting out-of-network hospital payments or providing a public option that pays via the Medicare fee schedule – an avenue that is likely to further intensify the rhetoric surrounding Medicare-For-All.¹⁶

- 1 "Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely" By Chapin White and Christopher Whaley, RAND Corporation, 2019, available at: https://www.rand.org/pubs/research_reports/RR3033.html (Accessed 6/18/19); "Many Hospitals Charge Double or Even Triple What Medicare Would Pay" By Reed Abelson, The New York Times, May 9, 2019, <https://www.nytimes.com/2019/05/09/health/hospitals-prices-medicare.html> (Accessed 6/18/19).
- 2 "Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely" By Chapin White and Christopher Whaley, RAND Corporation, 2019, available at: https://www.rand.org/pubs/research_reports/RR3033.html (Accessed 6/18/19), p. iii, vii.
- 3 *Ibid*, p. vii, 17.
- 4 *Ibid*, p. vii.
- 5 *Ibid*, p. iii, vii.
- 6 *Ibid*, p. vii.
- 7 *Ibid*, p. vii-viii.
- 8 *Ibid*, p. viii-ix.
- 9 *Ibid*, p. viii.
- 10 *Ibid*, p. viii-ix.
- 11 *Ibid*, p. 25.
- 12 *Ibid*, p. 25.
- 13 Note that the employer-sponsored insurance coverage includes both full insured employers and self-insured employers. "Health Insurance Coverage in the United States: 2017" By Edward R. Berchick, Emily Hood, and Jessica C. Barnett, Washington, DC: U.S. Department of Commerce, U.S. Census Bureau, P60-264, September 2018, <https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-264.pdf> (Accessed 6/18/19), p. 1.
- 14 White and Whaley, 2019, p. vii; "National Health Expenditures 2017 Highlights" Centers for Medicare & Medicaid Services, available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/highlights.pdf> (Accessed 6/18/19).
- 15 White and Whaley, 2019, p. ix.
- 16 *Ibid*, p. ix; Abelson, May 9, 2019.




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Todd A. Zigrang, MBA, MHA, CVA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[*The Adviser's Guide to Healthcare – 2nd Edition*](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).



John R. Chwarzinski, MSF, MAE, is Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**. Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in *Business Valuation Review* and *NACVA QuickRead*, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo. Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.



Jessica L. Bailey-Wheaton, Esq., is Vice President and General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the *Journal of Health Law & Policy*.



Daniel J. Chen, MSF, CVA, is a Senior Financial Analyst at **HEALTH CAPITAL CONSULTANTS (HCC)**, where he develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition, Mr. Chen prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services, and applies utilization demand and reimbursement trends to project professional medical revenue streams, as well as ancillary services and technical component (ASTC) revenue streams. Mr. Chen has a Master of Science in Finance from Washington University St. Louis.