Kentuckiana Health Collaborative

Building a Bridge to Better Health, Better Care and Better Value

Unbridled Costs: The Economic Toll of High Hospital Prices in Kentucky

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Kentucky employers, workers, and families face rising healthcare costs that undermine wages and employer competitiveness. Annual premiums for employer-sponsored health insurance now exceed an astonishing $20,000 per family in Kentucky — a figure that only continues to rise.

While there are many reasons for high and rising health premiums and out-of-pocket costs for families, this policy brief explores how hospital prices are driving higher costs and describes the quantifiable impact to Kentucky employers and families. The brief concludes by offering policy reforms to help slow the trend of these rising costs.

As always, KHC believes multiple sectors can accomplish more together than alone as we work collaboratively to transform and optimize healthcare for all Kentuckians.

Market Consolidation and Anticompetitive Contracting Lead to Ballooning Hospital Prices

The evidence indicates that hospital prices are the leading driver of rising healthcare costs for employers and employees in Kentucky.[1] One reason is market consolidation.[2] Over the last 20 years, there have been more than 1,600 hospital-involved mergers nationwide.[3] This often results in hospitals purchasing provider groups and vertically integrating the healthcare systems.[4]

Consequently, patients may have fewer provider choices and may be directed to costlier sites of care. Employers are left with fewer options to create comprehensive and affordable healthcare networks for their employees. In geographic areas where a handful of large hospital systems control most of the inpatient and specialty care sites, employers have effectively no choice but to accept high and rising prices for care. This has a direct impact on Kentucky families.

Prices paid at Kentucky facilities range from a ↓low of 107% of what Medicare would have paid to a high of 354%[1]↑

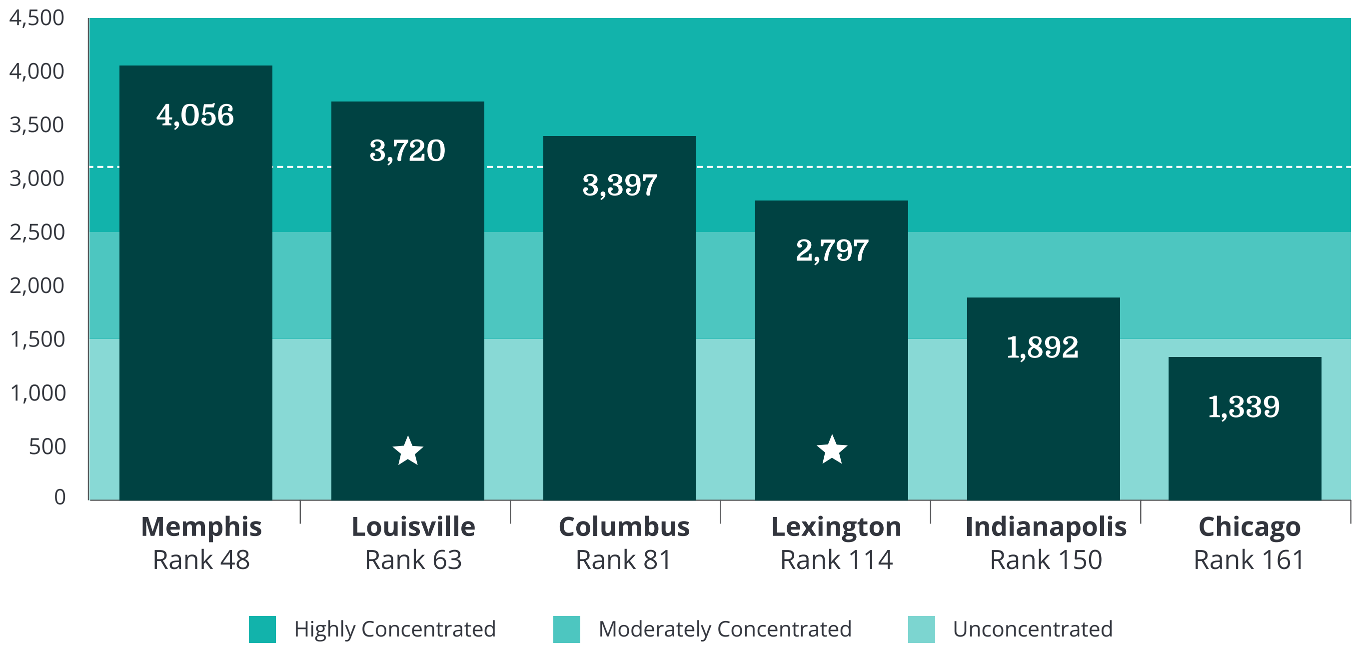
A Close Look at Hospital Consolidation: Horizontal consolidation typically occurs when two companies merge that provide a similar set of goods and services. Vertical consolidation refers to mergers of companies that produce up or downstream services within a production process.

Several large hospital systems in Kentucky are both vertically integrated (owning outpatient primary and specialty care practices, outpatient surgical centers, and inpatient hospitals) and horizontally consolidated — controlling a large portion of inpatient beds — in many geographic areas.

With three large hospital systems in the Louisville area effectively controlling all of the acute care inpatient beds in the metropolitan area, the city is well above the national average for market concentration. Like most other metro areas, Louisville's inpatient hospital market has become increasingly concentrated over the past decade.[5]

Louisville is hardly unique — massive market consolidation over the last thirty years has led to over 90% of the metropolitan United States with highly concentrated hospital markets. Further, 65% of those areas have highly concentrated specialist physician markets, 39% have highly concentrated primary care markets, and 57% have highly concentrated insurer markets.[6]

HHI Index



---- Median HHI (3,140) of the 186 metro areas

The Herfindahl–Hirschman Index (HHI), is a metric of market consolidation, and is used as a tool by the Department of Justice (DOJ) and Federal Trade Commission to determine whether markets are competitive. According to the DOJ: "The HHI is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers... The agencies generally consider markets in which the HHI is between 1,500 and 2,500 points to be moderately concentrated and consider markets in which the HHI is in excess of 2,500 points to be highly concentrated."[7]

Impact of Consolidation on Prices

Researchers have found that in nearly every case, market consolidation leads to higher prices for employers, purchasers, and patients. **Nationwide, hospital mergers increase the average hospital price by 6-18%.**[8]

By reducing competition, consolidated hospital systems increase leverage in contract negotiations with self-insured employers. In many cases, consolidated hospital systems use market dominance to engage in anti-competitive contracting practices.[9]

Employers are generally left with two strategies to control cost increases during the contracting process with hospitals and health systems:

1. Exclude high cost and low-quality providers from networks; and/or
2. Give consumers financial incentives (such as tiered cost sharing) to encourage them to utilize lower cost or higher quality providers within the network.

In many cases, dominant health systems have sought to stop employers from engaging in those practices through anti-competitive contracts.[10]

Employer Cost Containment Tools

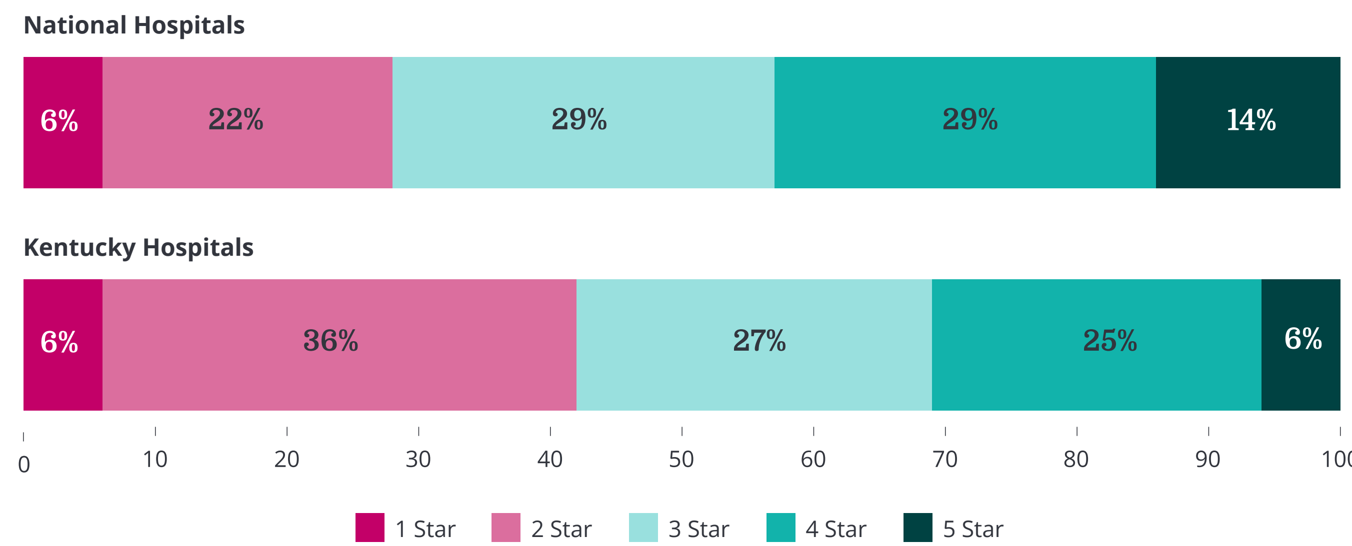
Excluding High Cost and Low-Quality Providers

Offering Tiered Cost Sharing

Prices are Not Correlated with Quality

While all Kentucky families and employers face high hospital prices, the quality of care they receive can vary widely. National research finds that negotiated hospital prices are entirely uncorrelated to measures of healthcare quality and outcomes.[11] In CMS' 2022 Hospital Quality Measures, more than forty percent of Kentucky hospitals had one- or two-star ratings, compared to less than thirty percent of hospitals across the United States. Just six percent of Kentucky hospitals qualified for the highest five-star quality ratings, compared to fourteen percent of hospitals around the country.[12]

CMS Hospital Star Ratings — 2022



Federal and state policymakers continue to focus extensively on addressing high drug prices, yet the role of hospitals and health systems remains largely ignored.

Hospitals' Role in Increasing Drug Costs

Hospitals tend to purchase much of their goods, including hospital-administered drugs, through large Group Purchasing Organizations (GPOs), which in turn use the combined market power of their clients to negotiate discounts with drug manufacturers. Together, the three largest hospital GPOs purchase most of the hospital goods sold in the United States.[13] Despite receiving drugs at a deep discount, on average, hospitals mark up their drugs for commercially insured individuals as much as 500 percent.[14] As is the case for other services offered by hospitals, there is significant variation in the price markups between hospitals and among specific drugs. A 2022 study published in the Journal of the American Medical Association, found that median hospital price markups among 25 commonly used cancer therapies ranged from 120 percent to an astounding 630 percent.[15]

A Close Look at 340B: The 340B drug pricing program allows certain participating hospitals and health centers to acquire outpatient drugs at a discount that is often between 25% and 50% but in some cases can bring the price of a drug down to one penny. These prices are typically much lower than GPO-negotiated prices.[16,17] These hospitals are then reimbursed at a much higher rate, with hospitals pocketing the difference. While the program is designed to support safety-net institutions, there is no requirement that 340B savings are passed along to patients or reinvested in care for low-income or vulnerable patients.

Data suggests that 340B status does not increase community benefit spending by hospitals.[18] The three largest hospital systems in the Louisville metropolitan area participate in 340B and 73 of the 94 acute care hospitals in Kentucky qualify for the program.[19] 340B also fuels vertical consolidation, which has not been shown to expand inpatient care to low-income patients or lead to investment in safety-net hospitals.[20] Instead, the discounts from the 340B program are often used to acquire physician practices.[21]

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The Toll of High Healthcare Costs on Kentucky Families

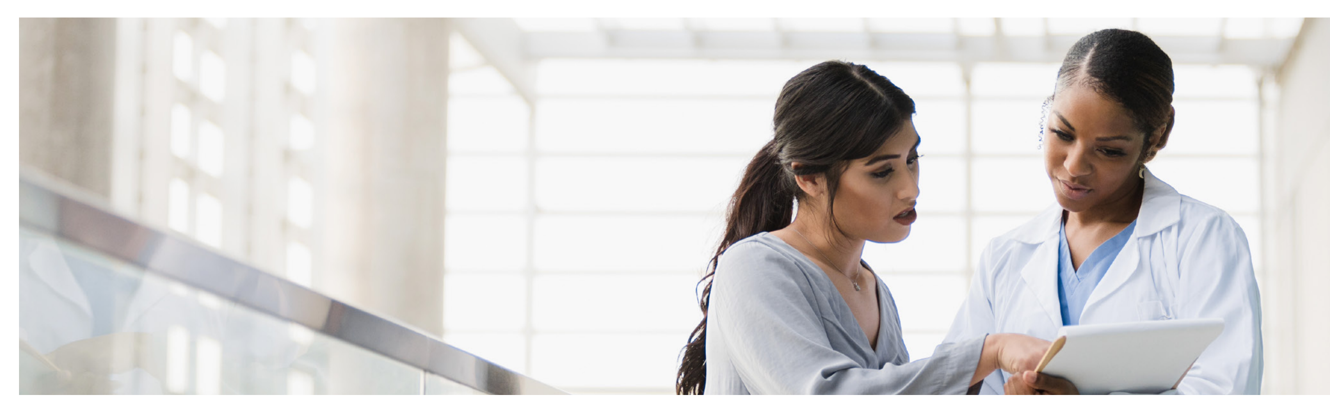
Unaffordable Costs and Reduced Wages

Healthcare premiums for the average Kentucky family with employer-sponsored insurance are roughly $20,000 per year. On average, annually, workers pay more than $5,000 in premiums while employers pay the remaining balance.

Together, the total employee and employer premium payments represent nearly 40% of median household income in Kentucky.[22]

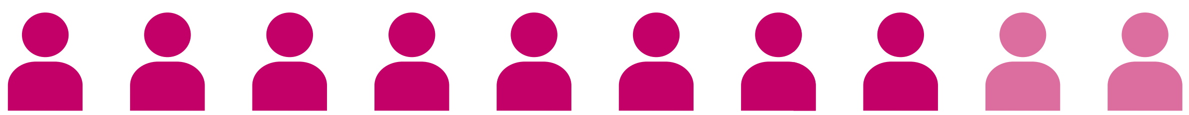
When employers are forced to spend more money on healthcare premiums, they are less able to increase employee wages. The extent of “wage crowding” is a source of continued academic debate. A recent study by the Economic Policy Institute finds that rising healthcare costs have reduced wages for American workers by roughly $2.15 per hour on average.[23] The impact of this ‘crowd out’ disproportionately impacts moderate-to-lower-income workers, who experience a more than 10 percent reduction in hourly wages due to increases in healthcare costs.

For a family with two income-earners, the total cost of reduced wages due to healthcare is nearly $10,000 per year in lost income — roughly 20 percent of the total median household income in Kentucky ($55,450) in 2021.



Families in Financial Distress

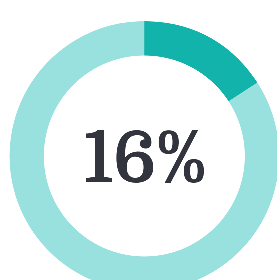
Given the high cost of care for working families, it is not surprising that working Kentucky families are feeling the impact. According to a 2020 report by the Altarum Healthcare Value Hub, more than half of Kentuckians (58%) report having experienced healthcare affordability burdens in the past year.[24] These burdens include people who report choosing to remain uninsured due to high premiums, people who report delaying or forgoing healthcare due to cost, and people who report struggling to pay medical bills or taking on medical debt.



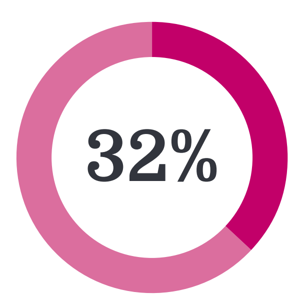
Over three-quarters (77%) of Kentuckians say they are worried about affording healthcare in the future.

Medical Debt and Bankruptcy

Unfortunately, for thousands of Kentucky families, the crushing cost of healthcare can lead to medical debt and bankruptcy. According to the Urban Institute, nearly one-in-five Kentucky residents (17 percent) have medical debt in collections.[25] This is higher than the national average (roughly 13 percent).[26] The impact is particularly prevalent in communities of color and low-income counties.



of people in predominately white areas have medical debt collections



of people in communities of color[27] have medical debt collections

Of the 16 counties with the highest levels of medical debt (all of which have more than one quarter of residents with medical debt in collections), 13 are located in rural counties in Appalachia.

The Path Forward — Opportunities for Employers and Policymakers

Ultimately, it is the responsibility of employers and purchasers — indeed, their fiduciary duty under the Employee Retirement Income Security Act (ERISA) — to ensure they are paying fair and reasonable prices for healthcare on behalf of employees and their families. Balancing access to high quality care with the legal imperative to ensure fair pricing can be an incredibly difficult task in a healthcare system where prices and quality are obscured, markets are consolidated, and anti-competitive practices are commonplace.

Federal, state, and local policymakers have a responsibility to ensure employers and purchasers have the information and leverage they need to negotiate for fair prices. Policy solutions to enable fair pricing range from ensuring the free flow of critical information on prices and quality to direct intervention to limit high prices where markets may have failed.

A Close Look at the Sage Transparency Tool: The Employers Forum of Indiana has developed the Sage Transparency tool, which incorporates hospital price, quality, and cost information from the RAND Hospital Price Transparency Study, the National Academy for State Health Policy Hospital Cost Tool, Turquoise Health, and other sources. Employers can use this free tool to access information that will allow them to better compare prices and understand the forces shaping their market. The website also provides resources on benefit design, network strategies, and provider contracting strategies.[28]

> “At GE Appliances, we always look for a better way. As we have sought to offer value-based care to our employees with the goal of offering the optimal quality of care and health outcomes while reducing costs, hospital price transparency has been an important tool. Using this information, we are equipped to help our employees and dependents see reduced out-of-pocket costs and improved health outcomes by ensuring they are referred to the best and most cost-effective providers for their needs.
>
> **Derek Mydlarz, MD, MPH**
> Global Executive Director, Health Benefits and Services
> GE Appliances, a Haier company

Potential options for policymakers to consider:

Ensure Transparency

First, employers must have the tools they need to identify fair and reasonable prices for healthcare. Over the past several years, federal and state policy makers have made important steps to ensure much better transparency for healthcare prices.

Hospital Price Transparency Rule: Beginning on Jan. 1, 2021, hospitals and health systems have been required to disclose negotiated prices on all items and services offered by the hospital on a payer-specific basis. While reporting has gradually improved, many hospital systems are still failing to provide fully transparent machine-readable files. In Kentucky, just 55 out of 126 total hospital facilities in the state have fully complete machine-readable files as of January 2023.[29]

Transparency in Coverage Rule: Beginning on July 1, 2022, health plans and health insurance issuers have been required to disclose a set of healthcare price information data, including in-network provider negotiated rates and historical out-of-network negotiated amounts. While these requirements are newer and more complex than those included in the Hospital Price Transparency Rule, it is vital that policymakers ensure full compliance with the rule as swiftly as possible.

All Payer Claims Databases: All Payer Claims Databases (APCDs) are an increasingly common tool to improve healthcare cost transparency. State APCDs aggregate data on prices and utilization of healthcare services paid for by private and public insurers — providing purchasers and other stakeholders the most robust picture of costs and utilization possible. The Consolidated Appropriations Act of 2020 established a grant program to help states establish their own APCDs. Today, roughly half the states in the country have existing or are launching APCDs, and we support legislation in the Kentucky legislature to establish an APCD. The legislation would mandate reporting for public purchasers and state-regulated group health plans, while allowing ERISA plans to submit data voluntarily.

Reduce Market Consolidation

While transparency is critical for employers seeking to negotiate fair prices, price transparency alone is insufficient to manage the impact of hospital consolidation. Policymakers should also consider policies to reduce market consolidation and offer employers the ability to negotiate fair contracts.

Banning Anti-Competitive Contracts: At both the state and federal levels, policymakers have considered opportunities to ban anti-competitive contracting provisions described above. The National Academy of State Health Policy (NASHP) has drafted model state legislation designed to ban anti-competitive contracting legislation. In several states, including California, Pennsylvania, and North Carolina, state Attorneys General have successfully sued to stop anti-competitive contracting practices by dominant health systems.[30] At the federal level, Sens. Mike Braun (R-IN) and Tammy Baldwin (D-WI) introduced anti-competitive contracting legislation in the last Congress.

Stronger Antitrust Enforcement: Even though nine-in-ten metropolitan areas in the United States already have highly consolidated hospital markets, the pace of vertical and horizontal consolidation has not abated, and some experts believe that the effects of COVID-19 on the health system will only increase the rate of mergers.[31] Policymakers must continue to vigorously enforce antitrust rules and ensure that further consolidation does not continue to increase already high prices.

The Source on Healthcare Price and Competition, a project of the University of California, San Francisco School of Law, provides a full compendium of state laws, regulations, and major litigation on issues related to healthcare prices and market consolidation.[32]

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Consider Further Intervention where Markets Fail

While enhanced transparency, stronger antitrust enforcement, and bans on anti-competitive practices may go a long way in reducing the pace of healthcare price increases, some experts argue that they will be ineffective at reversing the trend toward even higher prices. In some of the most heavily consolidated areas where there is no meaningful competition between healthcare providers, policymakers at the state level have begun to consider and implement further interventions to ensure reasonable prices in commercial markets.

State Price Commissions: Several states have implemented healthcare price commissions to oversee commercial prices for healthcare services. Hospitals represent 38% of total healthcare costs for the privately insured.[33] One example, the Massachusetts Health Policy Commission (HPC) looks at healthcare spending across the state.[34] When the HPC focused on hospital prices it was able to limit proposed price increases by its largest health system. The performance improvement plan required the hospital system to implement cost-saving reforms that were estimated to yield more than $120 million in annual savings.

Price Caps for Public Purchasers: Three states — Montana, Oregon, and North Carolina — have implemented laws that limit the prices health systems may charge state employee health benefit plans, pegging those prices to a percentage of Medicare.

Federal, state, and local policymakers have a vital role to play in ensuring high-quality healthcare coverage is affordable for Kentucky families and their employers.

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