

Variation in Provider Payment by Public and Private Payers

**California Assembly Select Committee on Health
Care Delivery Systems and Universal Coverage**

January 17, 2017

Erin Trish, PhD

Associate Director of Health Policy

Schaeffer Center for Health Policy and Economics

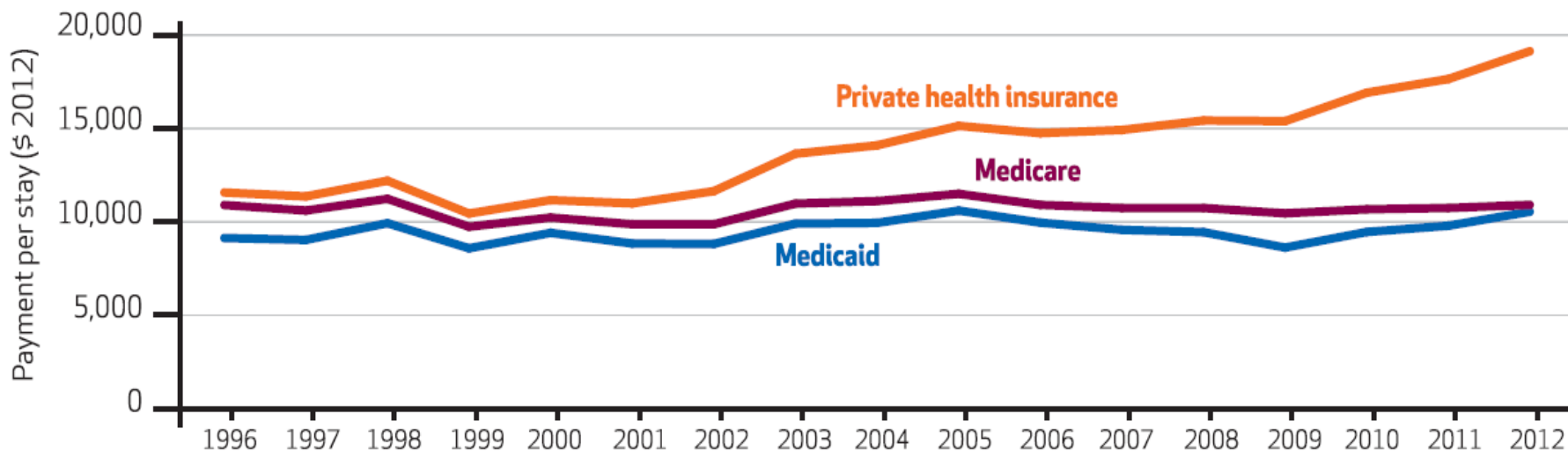
University of Southern California

How Provider Payment Rates are Determined

- **Medicare:** Federal government sets rates
- **Commercial:** Payers and providers negotiate rates and network inclusion
- **Medi-Cal:** State government sets physician payment rates and negotiates payment rates with hospitals

Private Insurers Reimburse Hospitals About 75% More than Medicare & Medicaid

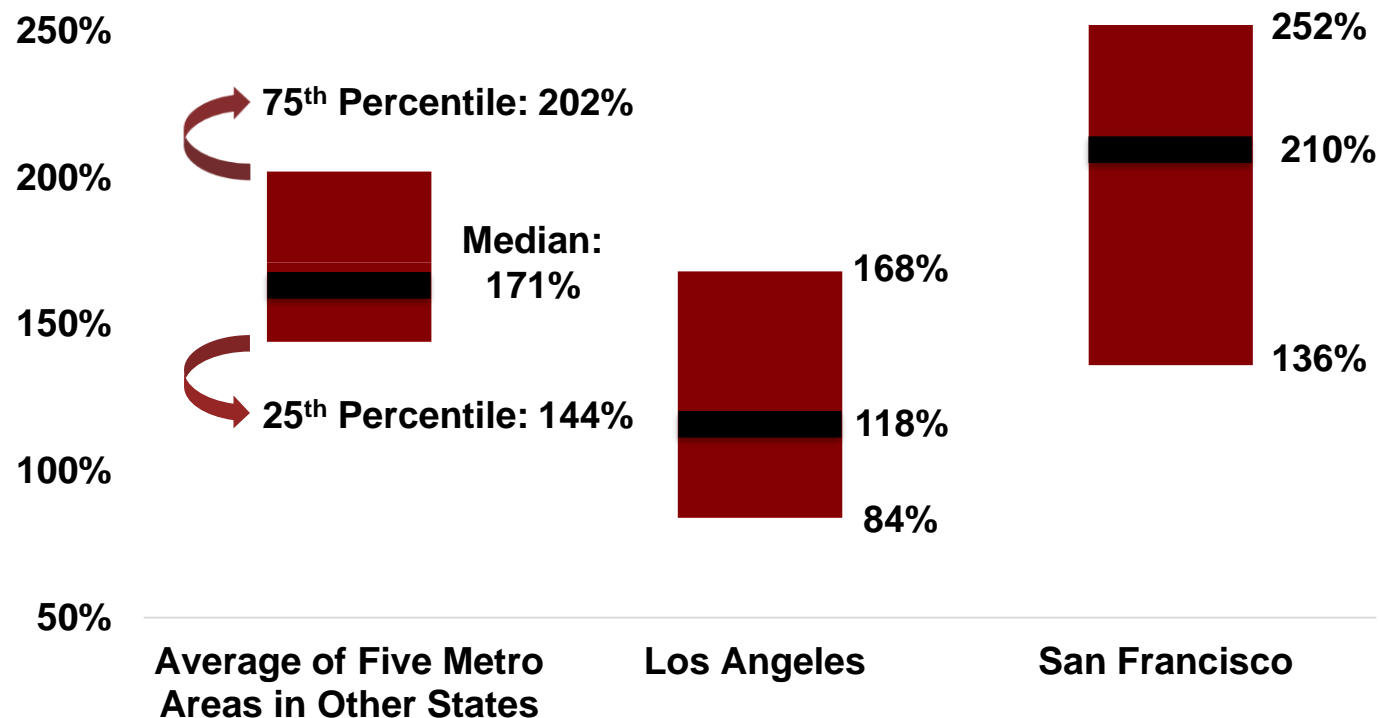
US Average Standardized Payment Rates per Inpatient Hospital Stay, 1996-2012



Source: Selden et al 2015. **Notes:** Adjusted average standardized payment rates per inpatient hospital stay based on 1996-2012 MEPS data.

Commercial Payments to Hospitals Vary Both Within and Across Markets

Commercial Inpatient Hospital Payment Rates as a Percent of Medicare



Source: Ginsburg 2010. **Notes:** Rates based on hospital payment rate data provided by four large national insurers: Aetna, Anthem Blue Cross Blue Shied, CIGNA, and UnitedHealth Group. The five other metropolitan areas are: Cleveland, OH, Indianapolis, IN, Miami-South Florida, FL, Milwaukee, WI, and 4 Richmond, VA (average not weighted).

Are Medicare Hospital Payments Sufficient?

- In 2015, the US average hospital margin on Medicare patients was **-7.1%**
- But, some hospitals have positive Medicare margins

	Overall Medicare Profit Margin (2007)		
	< -10%	10% to 0%	> 0%
Number of Hospitals	1,138	789	964
Average Medicare Margin	-20%	-5%	8%
Standardized Relative Cost per Medicare Discharge	112%	99%	89%
Average All-Payer Margin	5%	4%	3%

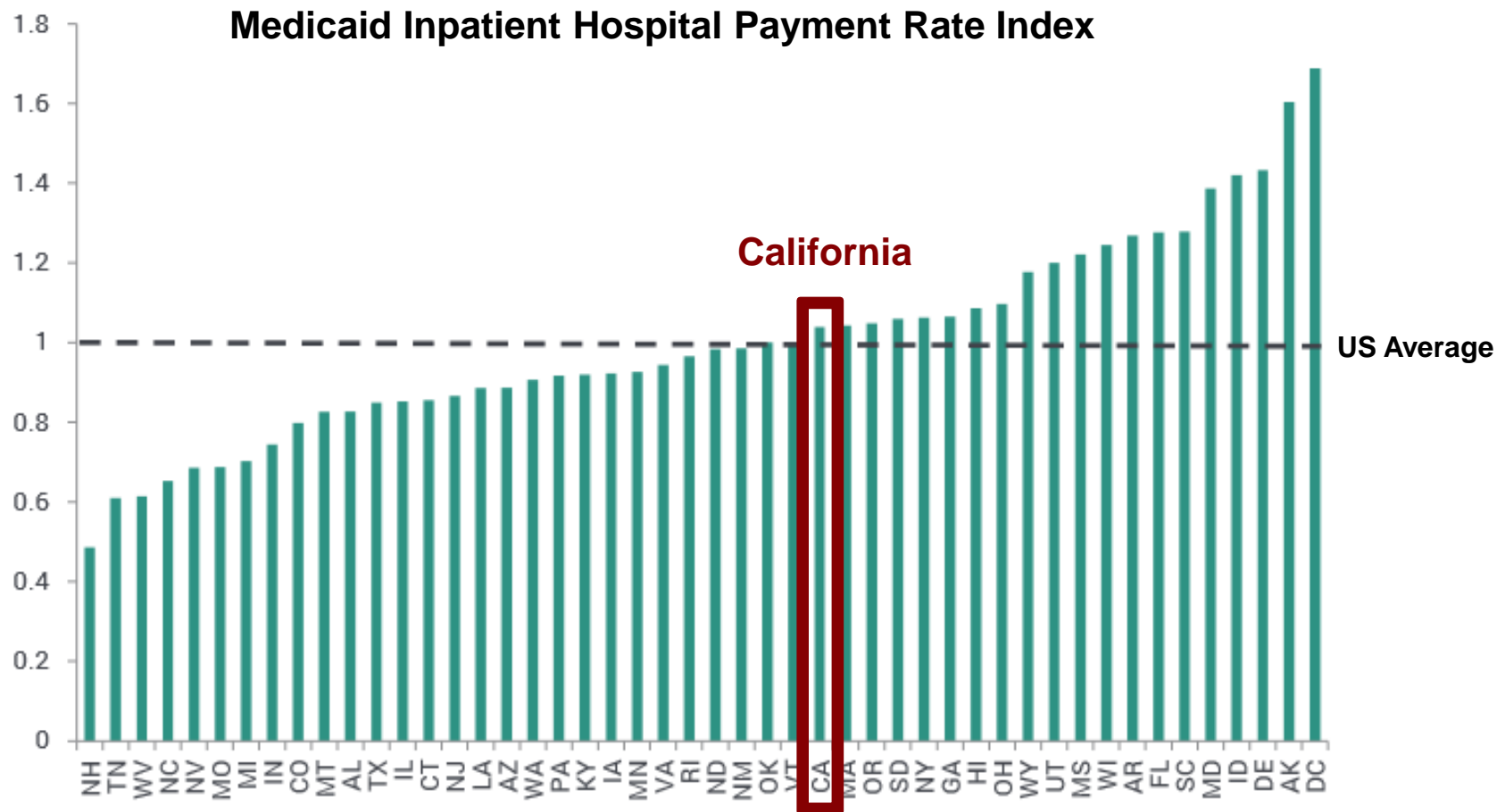
Sources: MedPAC 2017 and Stensland et al. 2010. **Notes:** Based on MedPAC and authors' analysis of CMS hospital cost reports data. Medicare margins are calculated as Medicare payments minus Medicare-allowable costs, divided by Medicare payments. 2015 US overall average margin excludes critical access hospitals and Maryland hospitals. Standardized relative cost per Medicare discharge is the median standardized cost per discharge for the group divided by the national median standardized cost. Standardized costs are adjusted for case-mix, wage index, outliers, transfer cases, interest expense, and the effect of teaching and low-income Medicare patients on costs per discharge. In the table, Medicare margins and costs are based on 2007 data. All-payer margins are calculated as total revenue from all 5 sources (including Medicare) minus total expenses, divided by total revenue, based 2004-2006 data.

The Basis for Hospital Payment Also Varies Across Payers

- **Medicare:** Diagnosis Related Groups (DRGs)
- **Commercial:** Varies, but per diem payments common in California
 - Los Angeles: **84%** per diem
 - San Francisco: **77%** per diem
 - Average of 5 Metro Areas in Other States: **33%** per diem
- **Medi-Cal:** Switched from per diem to DRG-based payments in 2013

Source: Ginsburg 2010. **Notes:** Payment methods based on hospital payment data provided by four large national insurers: Aetna, Anthem Blue Cross Blue Shield, CIGNA, and UnitedHealth Group. The five other metropolitan areas are: Cleveland, OH, Indianapolis, IN, Miami-South Florida, FL, Milwaukee, WI, and Richmond, VA (average not weighted).

Medi-Cal Hospital Payment Rates are Similar to the National Medicaid Average



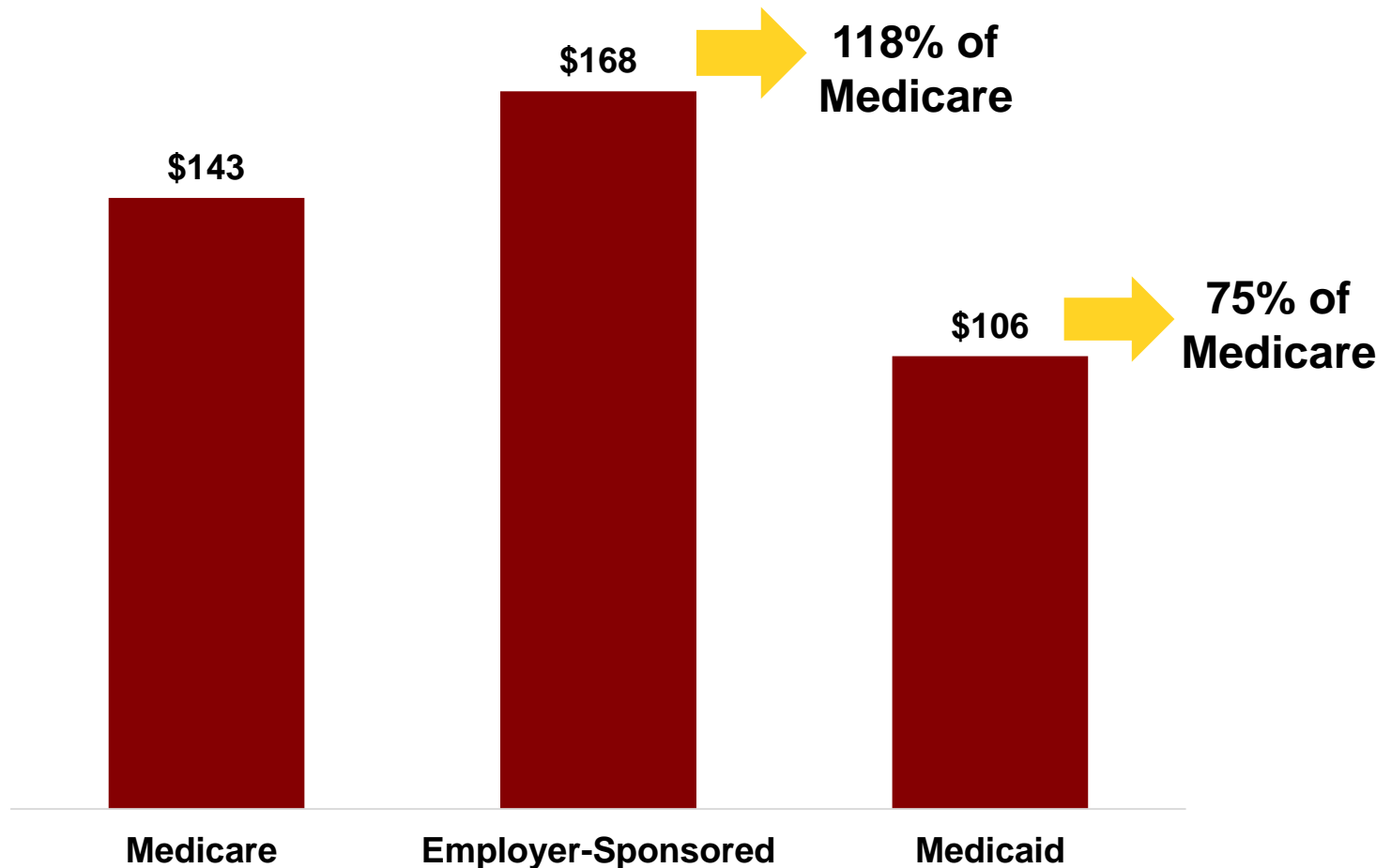
Source: MACPAC 2017. Notes: Rates based on Medicaid fee-for-service payment rates from MACPAC and Urban Institute analysis of 2010 Medicaid Analytic Extract (MAX) data.

Summary: Hospitals

- **Private insurers tend to pay more than Medicare and Medicaid, but there is variation across hospitals and markets**
- **Unlike Medicare and Medicaid, per diem rates are common among California commercial payers**
- **Moving toward a uniform payment rate would create winners and losers, but rates would need to cover costs**

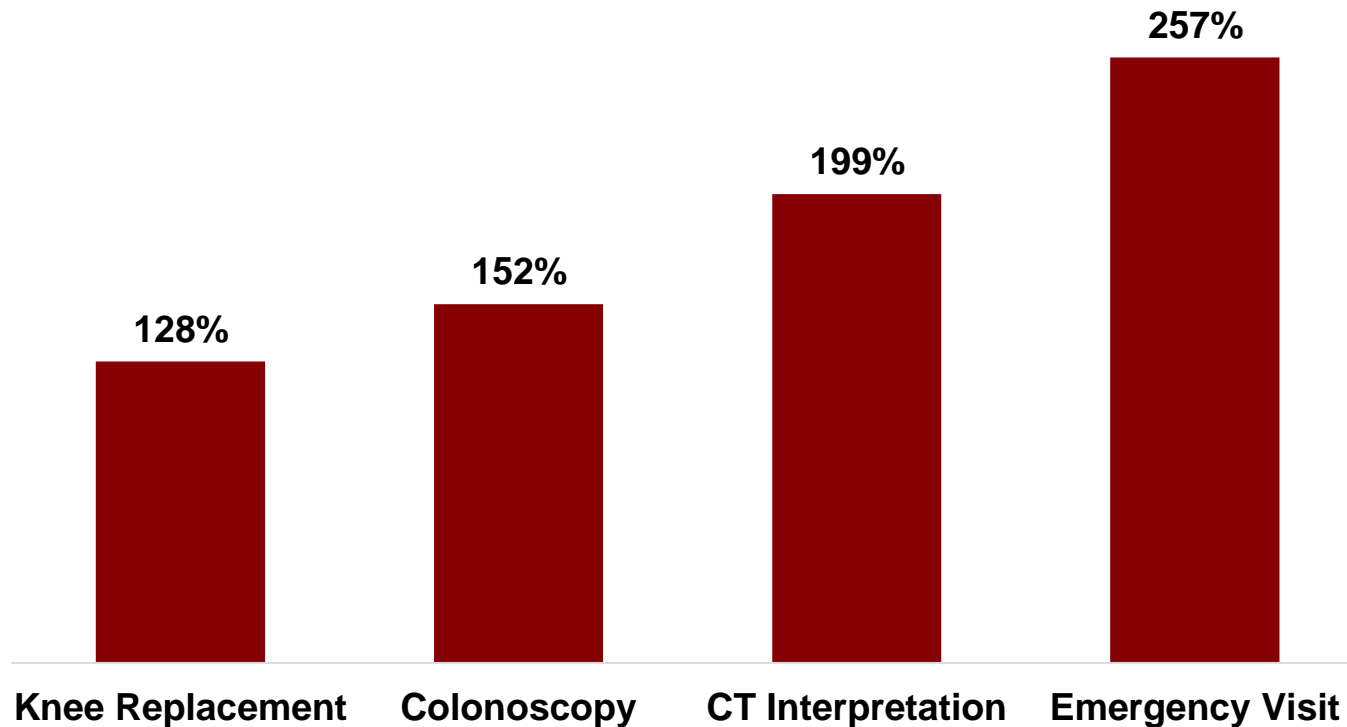
Private Insurers Pay Physicians Higher Rates than Medicare

US Average Payment for a Primary Care Checkup



Specialists Command Higher Mark-Ups over Medicare Rates from Private Insurers

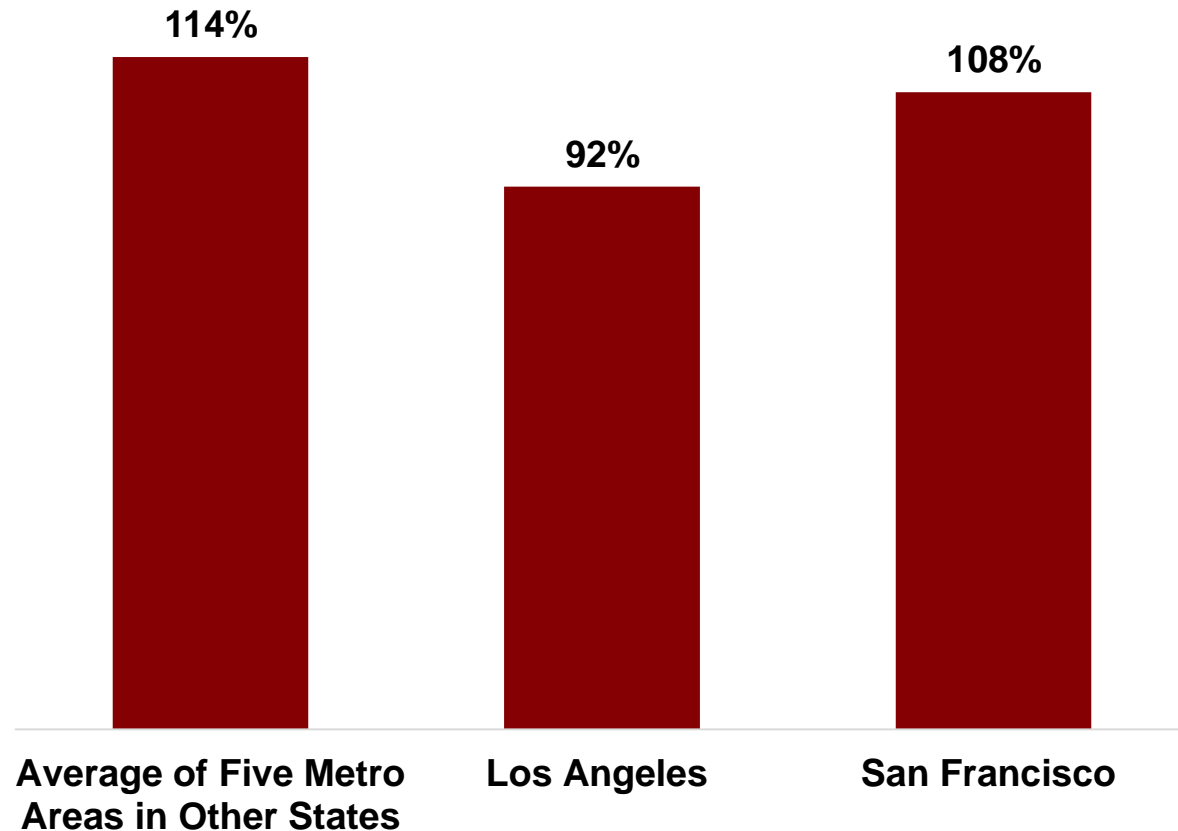
Physician Payment Rates as a Percent of Medicare



Source: Trish et al 2017. **Notes:** Payment rates based on claims data from a large national insurer from 2007-2012. Rates reflect physician fees only for the following sites of care: knee replacement (inpatient), colonoscopy (outpatient), CT interpretation (inpatient), emergency visit (emergency department).

But Commercial Physician Payment Rates are Lower than Average in California

Standard Physician Payment Rates as a Percent of Medicare



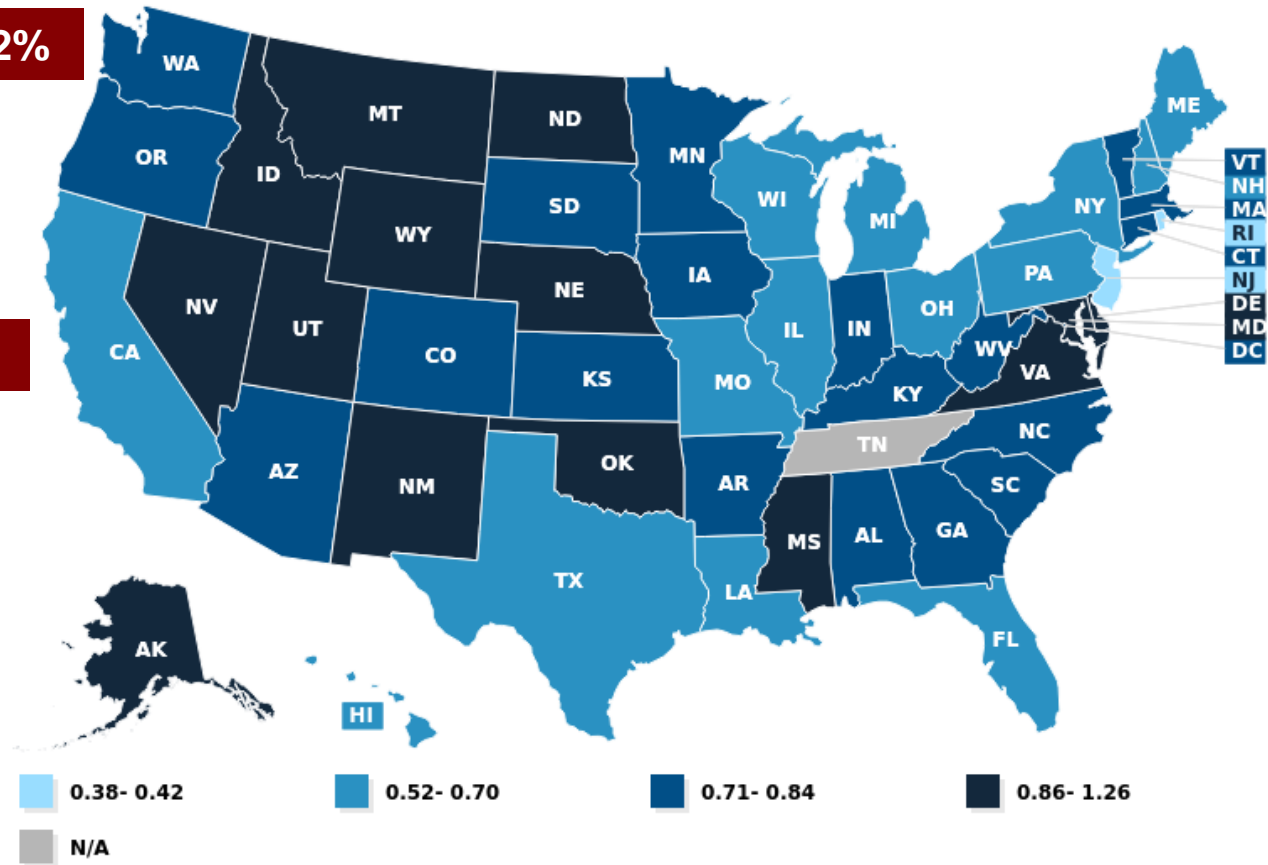
Source: Ginsburg 2010. **Notes:** Rates based on physician standard payment rate data provided by four large national insurers: Aetna, Anthem Blue Cross Blue Shied, CIGNA, and UnitedHealth Group. The five other metropolitan areas are: Cleveland, OH, Indianapolis, IN, Miami-South Florida, FL, Milwaukee, WI,¹¹ and Richmond, VA (average not weighted).

Medi-Cal Physician Fees are Very Low

Medicaid to Medicare Fee Index: All Services, 2016

National Average: 72%

California: 52%



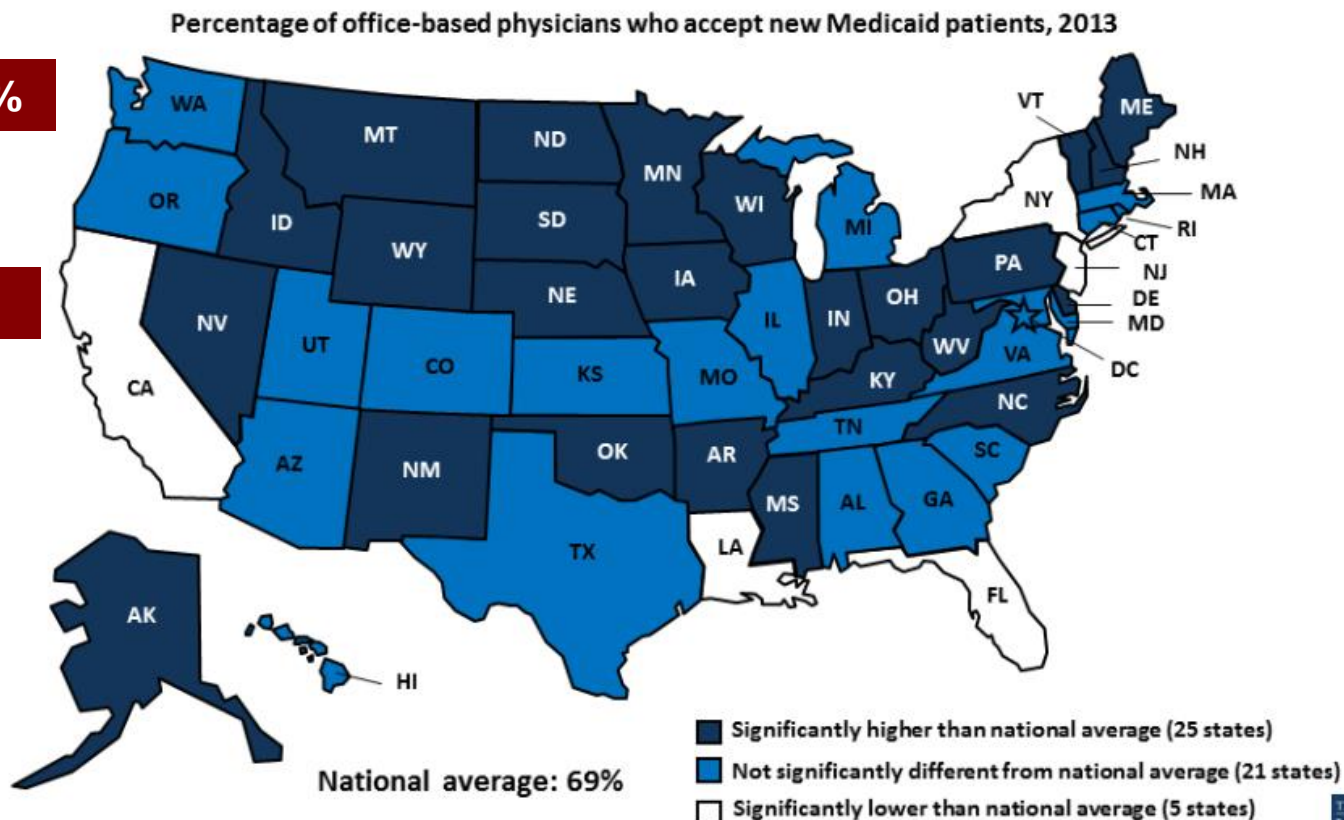
Source: Kaiser Family Foundation State Health Facts and Zuckerman et al. 2017. **Notes:** The Medicaid payment rate data are based on surveys sent by the Urban Institute to the forty-nine states and DC that have a fee-for-service component of their Medicaid programs and represent fee-for-service Medicaid payments only.

Nearly Half of California Physicians Would Not Accept A New Medi-Cal Patient

National Average: 69%

California: 54%

➤ In California, 77% of physicians would accept a new Medicare or privately-insured patient



CDC/NCHS, National Electronic Health Records Survey

Summary: Physicians

- **Commercial mark-ups over Medicare are modest for office visits but larger for specialists**
- **California's private insurers appear to be doing better than others at holding down physician reimbursement**
- **Medi-Cal physician fees are very low**

Takeaway Points on Provider Payment

- **Private insurers tend to pay providers more than Medicare and Medicaid**
- **The difference varies, with hospitals and specialists getting bigger mark-ups**
- **Medi-Cal physician fees are very low**
- **Providers often face many different fees and reimbursement arrangements across their patients**

Opportunities and Challenges in Moving Toward a More Uniform Payment System

- **Considerable change from the status quo**
 - Choosing the right payment levels would be difficult
- **Reimbursement varies considerably across payers and providers**
 - Uniformity would create winners and losers
 - An opportunity to address high commercial prices due to provider market power
- **Could simplify administrative costs and align provider incentives over full patient population**
 - But, could stifle innovation in provider contracting and “errors” would be very problematic

USC Schaeffer

Leonard D. Schaeffer Center
for Health Policy & Economics

Email: erin.trish@healthpolicy.usc.edu