Contact: Mike Cummings 203-432-9548 or michael.cummings@yale.edu

For Immediate Release:

Hospital prices show 'mind-boggling' variation across U.S. driving up health care costs

New Haven, Conn. — The prices hospitals negotiate with health insurance companies vary enormously within and across geographic regions in the United States, according to a new study coauthored by Zack Cooper (Yale), Stuart Craig (University of Pennsylvania), Martin Gaynor (Carnegie Mellon), and John Van Reenen (London School of Economics).

For example, in 2011, the study shows that hospital prices for lower-limb MRIs are 12 times higher in the most expensive region of the US (Bronx, New York) than in the cheapest region (Baltimore, Maryland) and can vary by up to a factor of 9 within the same city (i.e. Miami, Florida). The study also finds that the level of hospital prices within regions is the primary driver of variation in health care spending for the privately insured. Moreover, the research reveals that hospitals in monopoly markets have prices that are 15% higher than those in markets with four or more providers, even after controlling for differences in cost and clinical quality.

The study provides the most comprehensive and detailed analysis of private health care spending in the United States and examines the real prices hospitals negotiate with private insurers for medical services. It analyzes newly released data on spending and utilization for nearly 30% of all individuals in the country with employer-sponsored coverage, encompassing 92 billion health insurance claims from 88 million people covered by three of the nation's largest insurance companies: Aetna, Humana, and UnitedHealth.

"Virtually everything we know about health spending and most of the basis for federal health policy comes from the analysis of Medicare data," says Zack Cooper, assistant professor of health policy and economics at Yale University, one of the study's authors. "The rub is that Medicare only covers 16 percent of the population. The majority of individuals — 60% of the U.S. population — receive health care coverage from private insurers. This new dataset really allows us to understand what influences health spending for the majority of Americans. This information is critical to creating better public policy."

The study finds that total health care spending on the privately insured varies tremendously across the country. Total spending was three times greater in the most expensive health market than in the cheapest. Crucially, say the researchers, spending patterns for the privately insured do not look like those for Medicare: There is an extremely low correlation (14%) between spending on Medicare beneficiaries and spending on the privately insured. For example, in 2011 Grand Junction, Colorado, had the third-lowest Medicare spending per beneficiary among the nation's 306 hospital markets, but the ninth *highest* inpatient prices and the 43rd highest spending per privately insured beneficiary.

"Many of the regions cited by policy-makers as models for the nation, like Grand Junction, Colorado, Rochester, Minnesota, and La Crosse, Wisconsin have extremely high spending for the privately insured," says Cooper. "Simply put, we cannot use these areas to shape federal policy."

While there are many factors that influence hospitals' prices, the study shows that hospitals that face fewer competitors have substantially higher prices.

"These price differences between hospitals can be thousands of dollars, says Martin Gaynor, the E.J. Barone Professor of Economics and Health Policy at Carnegie Mellon University, one of the study's authors. "For example, the price of an average inpatient stay where there's a monopoly hospital is almost $1,900 higher than where there are four or more competitors. We know that these higher prices end up getting translated into higher premiums that employers pass on to workers. There have been over 1,200 mergers in the hospital industry since 1994, and 457 since 2010. Our work shows that the consequences of this wave of mergers can be dire for consumers. There's a real need for continued vigorous antitrust enforcement and other policy options to encourage competition and combat market power."

Health care is among the largest sectors of the U.S. economy and accounted for more than 17 percent of gross domestic product (GDP) in 2014. About 60 percent of the U.S. population has private health insurance, which pays for over a third of health care spending annually.

"The fact that prices are so high and can vary so much for hospital treatments of the same costs and quality is simply mind-boggling to foreign observers of the U.S. health care system," says John Van Reenen, professor of economics and director of the Centre for Economic Performance at the London School of Economics, one of the study's authors. "This is surely one of the reasons why U.S. healthcare absorbs a bigger share of GDP than every other large advanced country."

The study, "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured," was also coauthored by Stuart Craig of the University of Pennsylvania. The full paper, an executive summary, and slides of the analysis are available at: www.healthcarepricingproject.org. On that webpage, the team posted the price variation for 118 hospital referral regions in the US.

The data was provided by the Health Care Cost Institute.

###