

How Does Big Med Drive Rising Healthcare Costs and What to Do About It

Distinguished Public Lecture Series
Fralin Biomedical Research Institute at VTC
Roanoke, Virginia

February 20, 2024

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Baylor
College of
Medicine

Outline

- The rise of big med
- Consumer demand in healthcare
- Price Transparency

Why is U.S. Healthcare So Expensive?

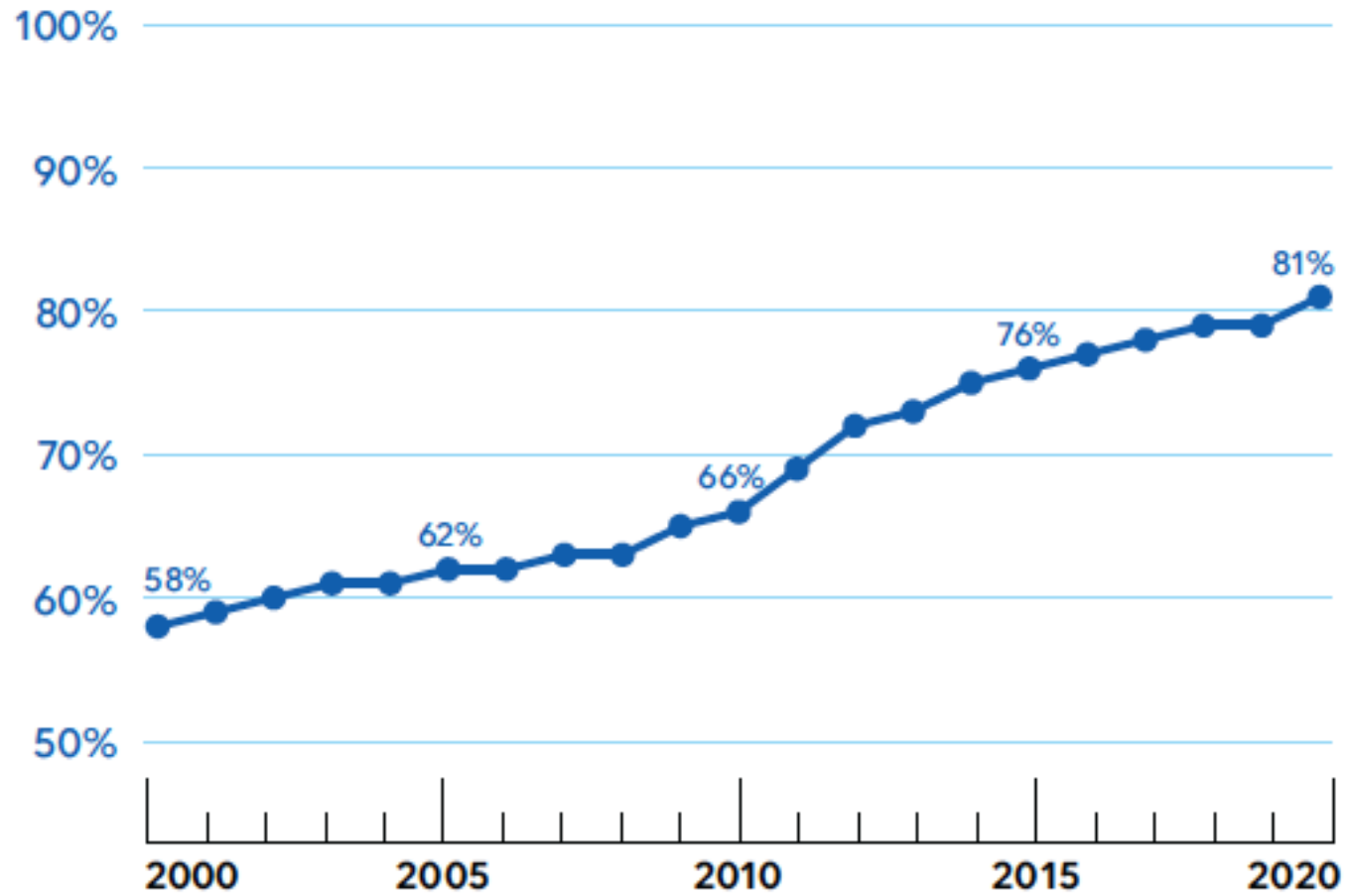
- 1) Overly generous insurance coverage leads many patients to have inelastic demand at the point of care.
- 2) Fee-for-service reimbursement rewards providers for higher quantity, but not better quality.
- 3) Providers are consolidating into mega-healthcare systems, raising their bargaining power vs. insurers.

Why is U.S. Healthcare So Expensive?

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- 3) **Providers are consolidating into mega-healthcare systems, raising their bargaining power vs. insurers.**

Figure 1

Percent of U.S. Hospital Bed Capacity that Is Part of Systems, 2000-2020

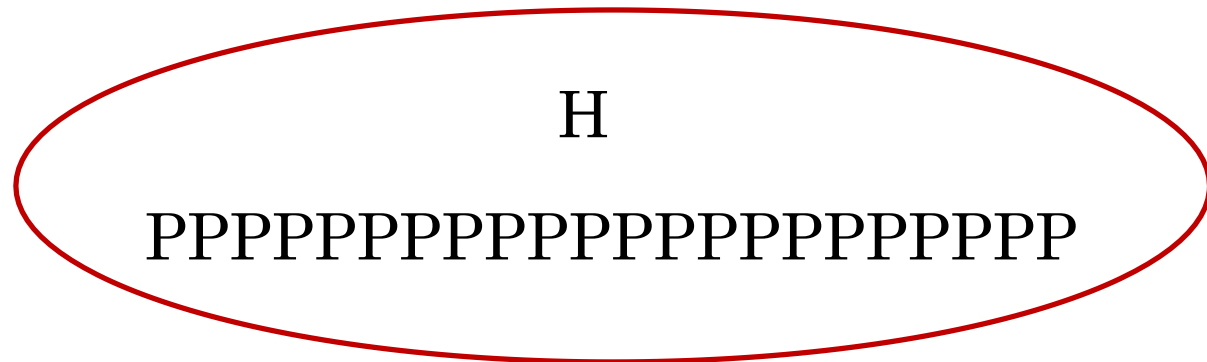
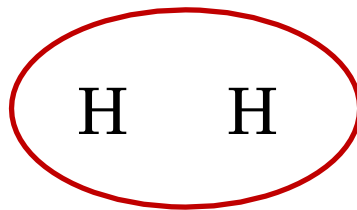


Source: AHA survey data computed by Elevance.

Merger Definitions

- **Horizontal:** combinations in the same product and geographic market and part of the value chain
- **Vertical:** combinations up or down the value chain

Hospital acquisition of physicians has vertical and horizontal components



Motives for Horizontal Integration

Example: shift from solo to group physician practice

- Reducing cost/improving quality
 - Economies of scale in production (clinic space, EHRs)
 - Economies of scale in purchasing
- Raising price
 - Product variety or improvements facilitated by scale can enable higher prices (value-creating)
 - Swallowing the competition can strengthen bargaining power (value-transferring)

Motives for Vertical Integration

Example: Healthcare systems & insurers buying physician practices

- The obvious: product improvements and cost reductions from aligned incentives, improved communication; prevent leakage of proprietary info
- The less-obvious: Hospitals could add facility fees to physician services.
- Limit physician referrals to in-network providers.

Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers, 2023



1. Since 2021, Prime's Blue Cross and Blue Shield plans have had the option to use Express Scripts or AllianceRx Walgreens Pharmacy for mail/specialty pharmacy services. IN Dec. 2021, Walgreens purchased Prime Therapeutics' 45% ownership interest, so this business had no PBM ownership as of 2022. Effective June 2022, the company was rebranded as AllianceRx Walgreens Pharmacy.

2. Centene has announced that it would outsource its PBM operations to Express Scripts in 2024. In 2023, Centene rebranded its pharmacy benefit subsidiary as Centene Pharmacy Services.

3. In 2021, Centene sold a majority stake in its U.S. Medical Management to a group of private equity firms.

4. Since 2020, Prime has sourced formulary rebates via Ascent Health Services. In 2021, Humana began sourcing formulary rebates via Ascent Health Services for its commercial plans.

5. Previously known as Evernorth Care Group and Cigna Medical Group.

6. In 2021, Cigna's Evernorth business acquired MDLive.

7. In 2022, Cigna invested \$2.7 billion for an estimated 14% ownership stake in VillageMD. Walgreens owns a majority of VillageMD.

8. In September 2022, CVS Health announced its acquisition of Signify Health. In February 2023, CVS announced its acquisition of Oak Street Health. Both transactions closed in 2023.

9. Previously known as IngenioRx.

10. In 2021, Partners in Primary Care and Family Physicians Group businesses were rebranded as Centerwell Senior Primary Care.

11. In 2022, Kindred at Home was rebranded as CenterWell Home Health. In 2022, Humana announced an agreement to divest its majority interest in Kindred at Home's Hospice and Personal Care Divisions to Clayton, Dubilier & Rice. Humana also announced plans to close a majority of its SeniorBridge home care locations.

Source: [The 2023 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers](#), Exhibit 234. Companies are listed alphabetically by corporate name.

So what? Bigger could be better

- Little evidence this is true for horizontal combinations
 - For 366 hospital mergers between 2007 & 2011, prices ↑ 6% if hospitals w/in 5m. (Cooper et.al. QJE 2019)
 - For 558 mergers b/w 2009 & 2016, prices ↑ 5%.
 - Mergers identified by FTC for further review had 8% price ↑
(Brand et. al. JLE 2023)
 - Insurance mergers lead to higher premiums even though providers may be paid less (Dafny, et.al. AER 2012; Trish & Herring JHE 2014)

So what? Bigger could be better, *continued*

- Discouraging evidence for non-horizontal integration
 - Independent hospitals acquired by systems OUTSIDE their market raise prices 14-18% (Lewis and Pflum RAND 2014)
 - Hospitals gaining a system member in the same state (but not same geo market) raise prices 7-9% (Dafny et. al. RAND 2019)
 - VI of PCPs w/ large health systems had 23% more specialist visits and 6% more spending per year (Sinaiko et. al. JAMA HF 2023)
 - Patients in PPOs owned by hospitals vs. physicians have 5.8% higher annual spending (Ho et. al. JGIM 2019)

**COVID-19, Market Consolidation, And
Price Growth** 8/3/2020



**COVID-19 a Catalyst for Healthcare
Merger and Acquisition Activity**
1/13/21

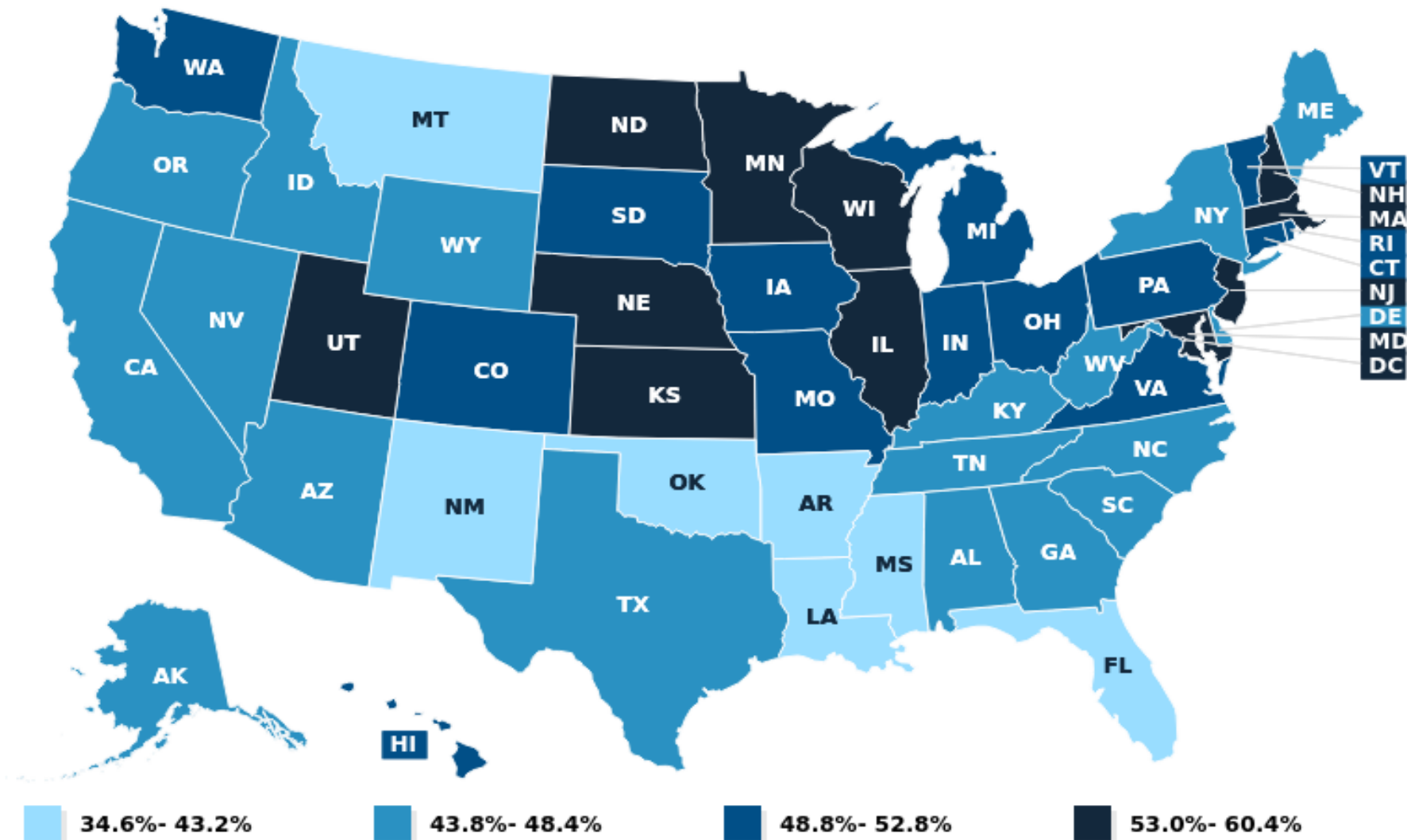
**The Pandemic Will Fuel Consolidation
in U.S. Health Care**
3/9/21

**Harvard
Business
Review**

**REVCYCLE
INTELLIGENCE**
xtelligent HEALTHCARE MEDIA

Employer Sponsored Insurance Prevalence, 2023

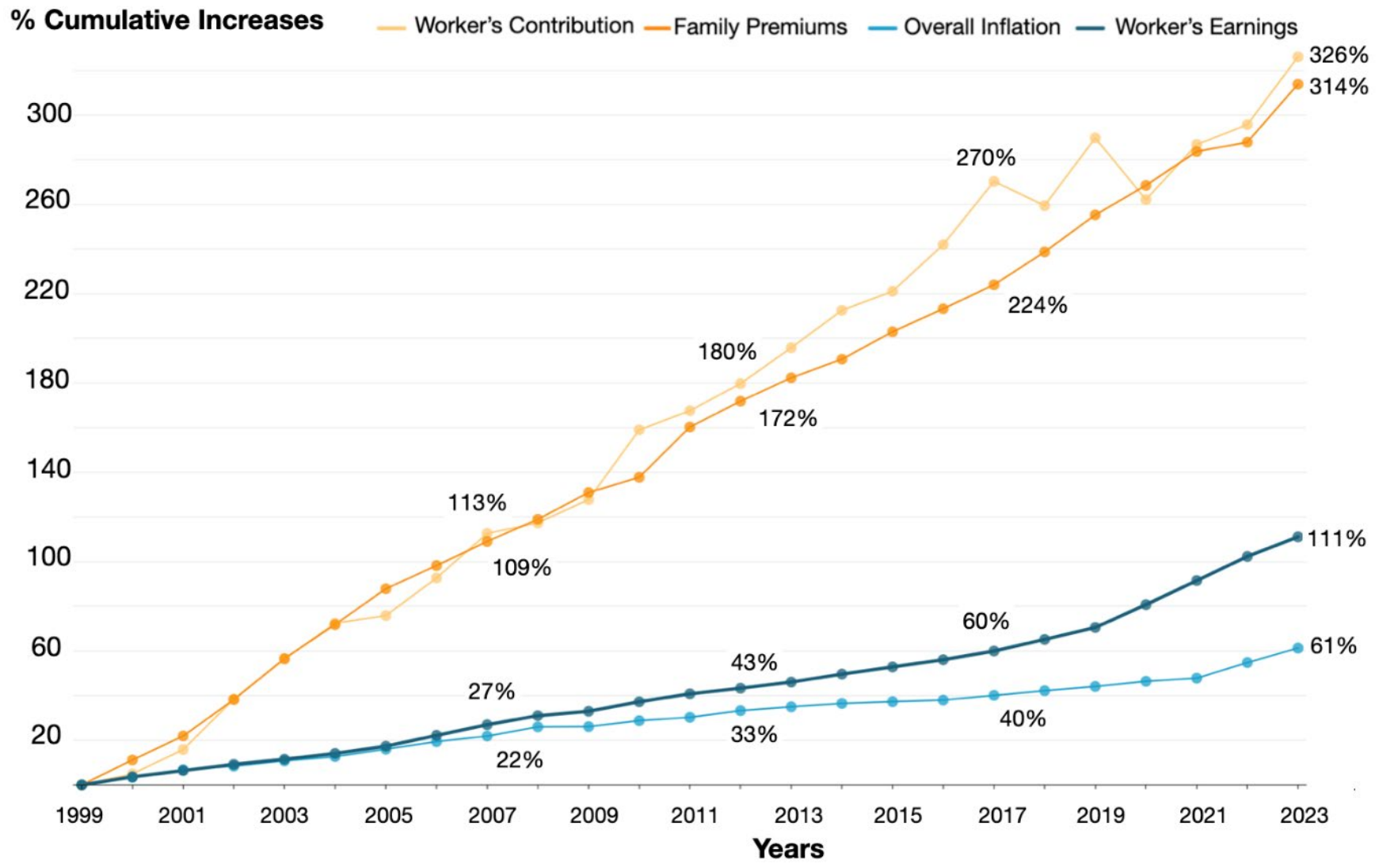
Health Insurance Coverage of the Total Population: Employer, 2023



Source: Kaiser Family Foundation, State Health Facts.

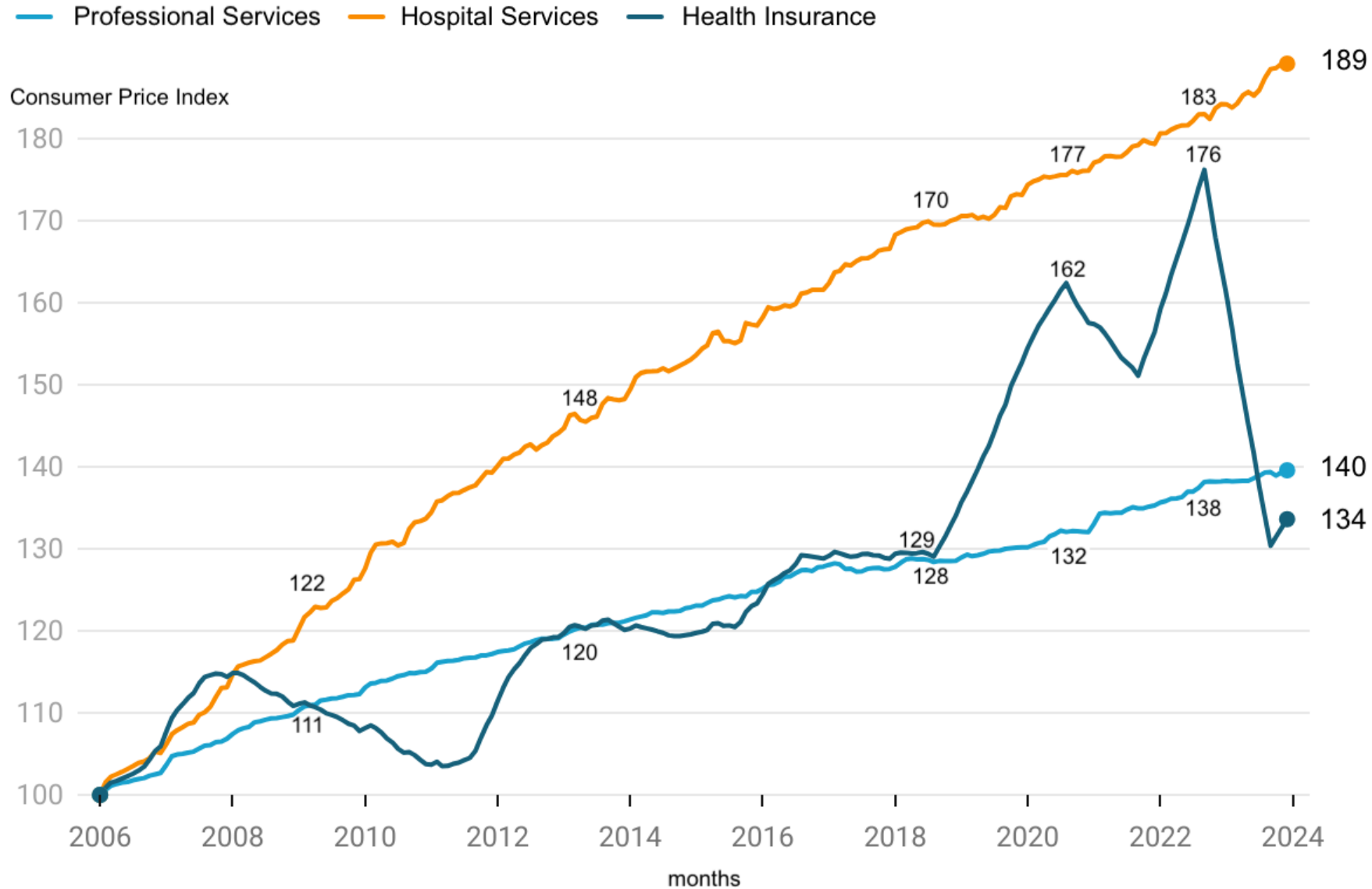
SOURCE: KFF's State Health Facts.

Cumulative Increases (%) in Workers' Contribution, Family Premiums, Overall Inflation and Workers' Earnings, 1999-2023



Source: Figure 1, Kanimian S, Ho V. "Why does the cost of employer-sponsored coverage keep rising?" Health Affairs Scholar, 2024, 2 (6). June 4, 2024. <https://academic.oup.com/healthaffairsscholar/article/2/6/qxae078/7687295?searchresult=1>

Consumer Price Index: Medical Care, by Component 2006-2023

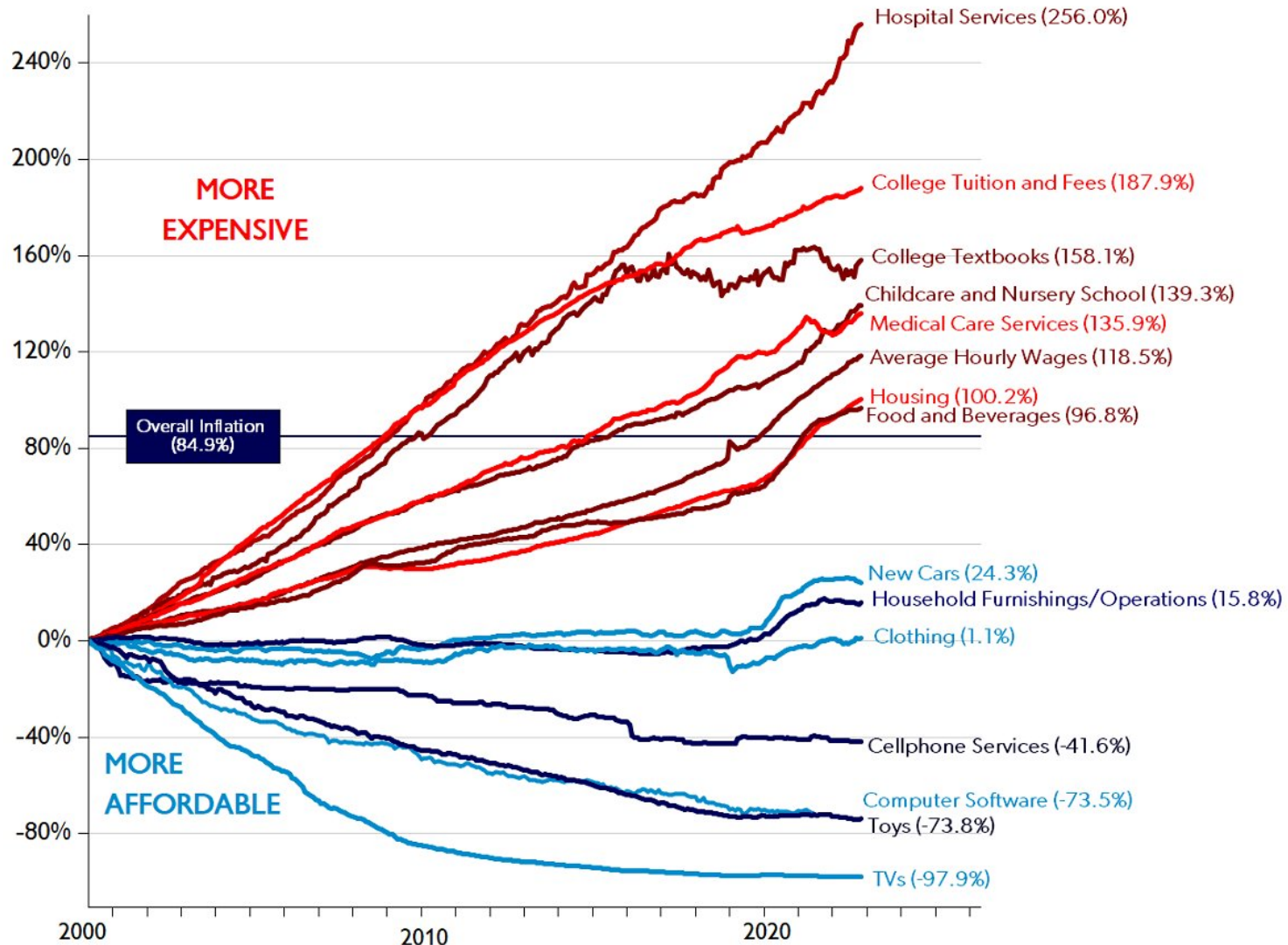


Source: Figure 2, Kanimian S, Ho V. "Why does the cost of employer-sponsored coverage keep rising?" Health Affairs Scholar, 2024, 2 (6). June 4, 2024. <https://academic.oup.com/healthaffairsscholar/article/2/6/qxae078/7687295?searchresult=1>



Price Changes: January 2000 to June 2024

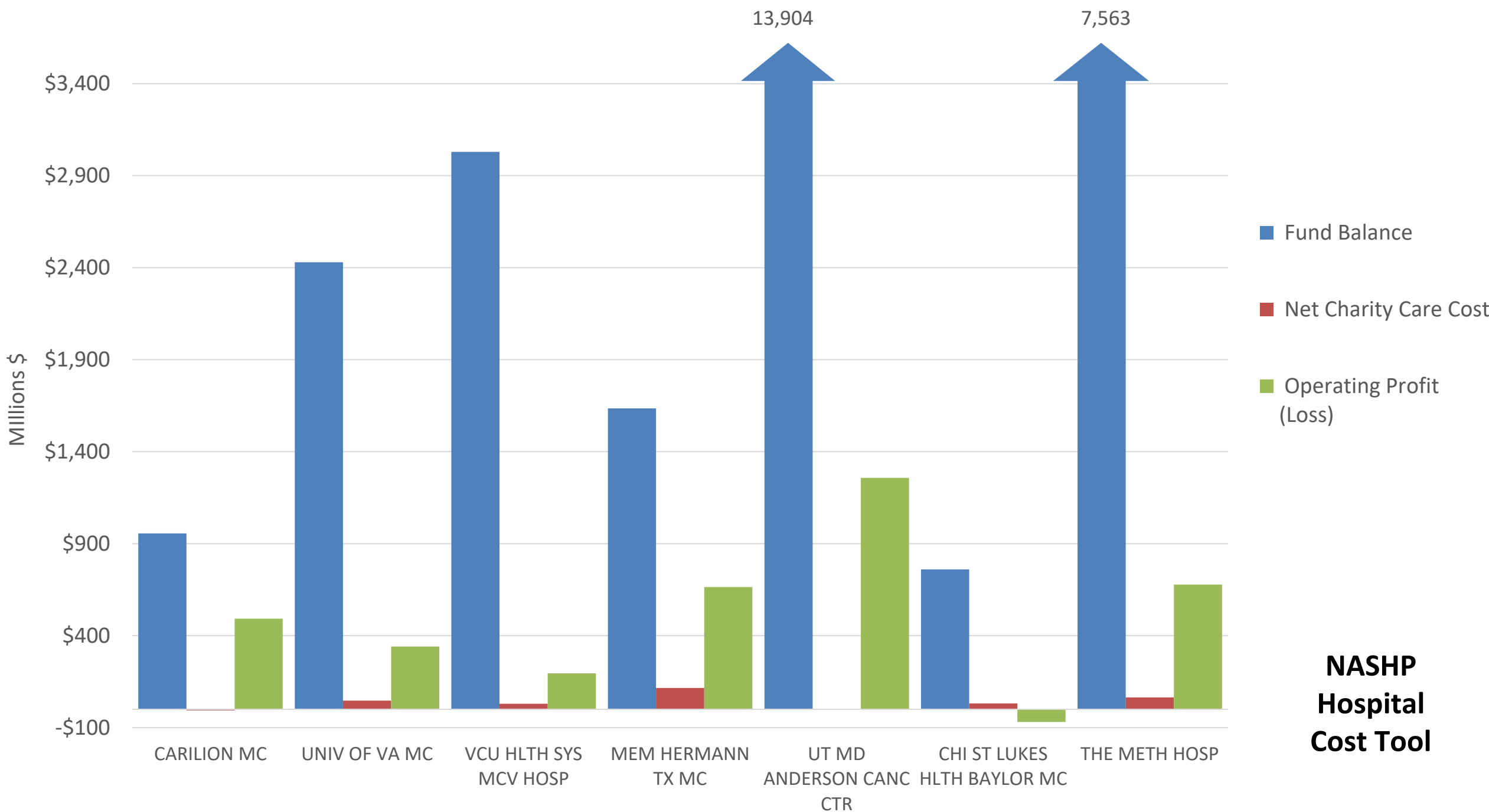
Selected US Consumer Goods and Services, Wages



Source: Bureau of Labor Statistics

Mark J. Perry

Mark Perry's Chart of the Century.



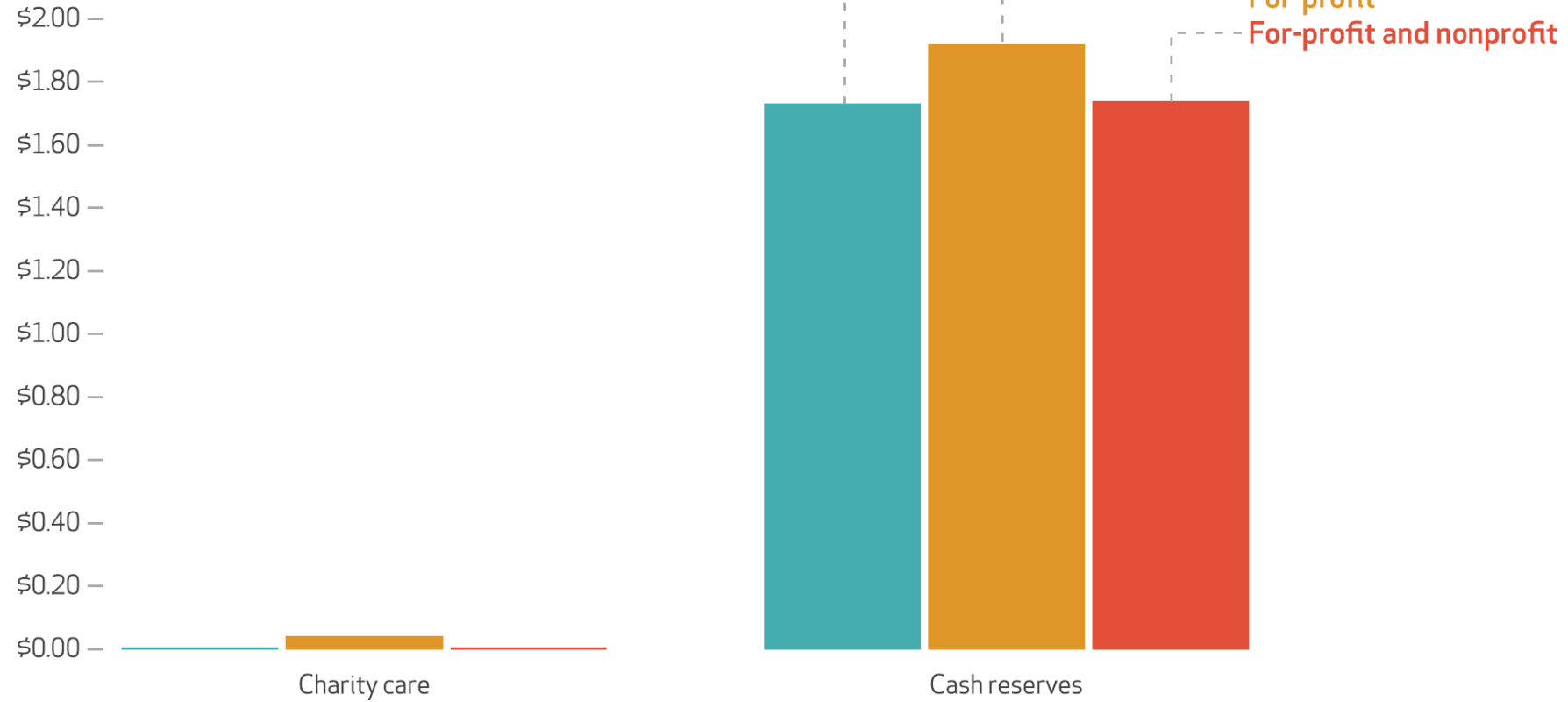
**NASHP
Hospital
Cost Tool**

	Fund Balance	Net Charity Care Cost	Operating Profit (Loss)
CARILION MC	\$ 955,476,690	\$ (6,120,248)	\$ 492,308,158
UNIV OF VA MC	\$ 2,429,006,587	\$ 47,089,821	\$ 340,757,208
VCU HLTH SYS MCV HOSP	\$ 3,028,836,708	\$ 30,038,057	\$ 195,400,564
MEM HERMANN TX MC	\$ 1,634,990,111	\$ 115,581,867	\$ 664,290,382
UT MD ANDERSON CANC CTR	\$ 13,903,940,052	.	\$ 1,257,502,704
CHI ST LUKES HLTH BAYLOR MC	\$ 759,963,374	\$ 31,708,800	\$ (68,891,325)

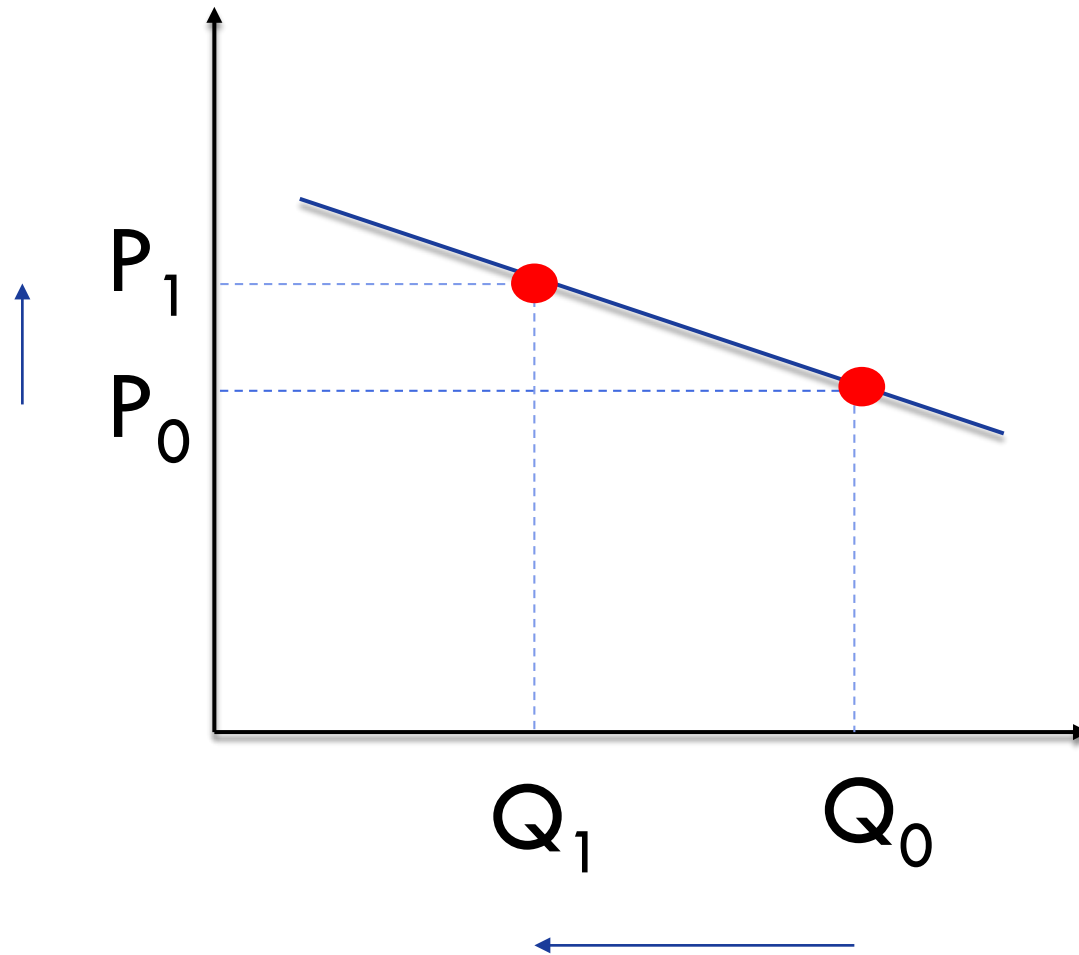
EXHIBIT 1

Adjusted estimates of the association between a one-dollar increase in profit and changes in charity care and cash reserves in US nonprofit and for-profit hospitals from 2012 to 2019

Estimate of association
with \$1 increase in profit



Standard Demand Curve



Insurance Alters the Demand Curve



Employers pay an insurance company to negotiate prices with healthcare providers.

Administrative Services Only (ASO) contract.



Insurance companies can use volume of business from multiple employers to negotiate lower prices for a network of providers.

Insurance Alters the Demand Curve

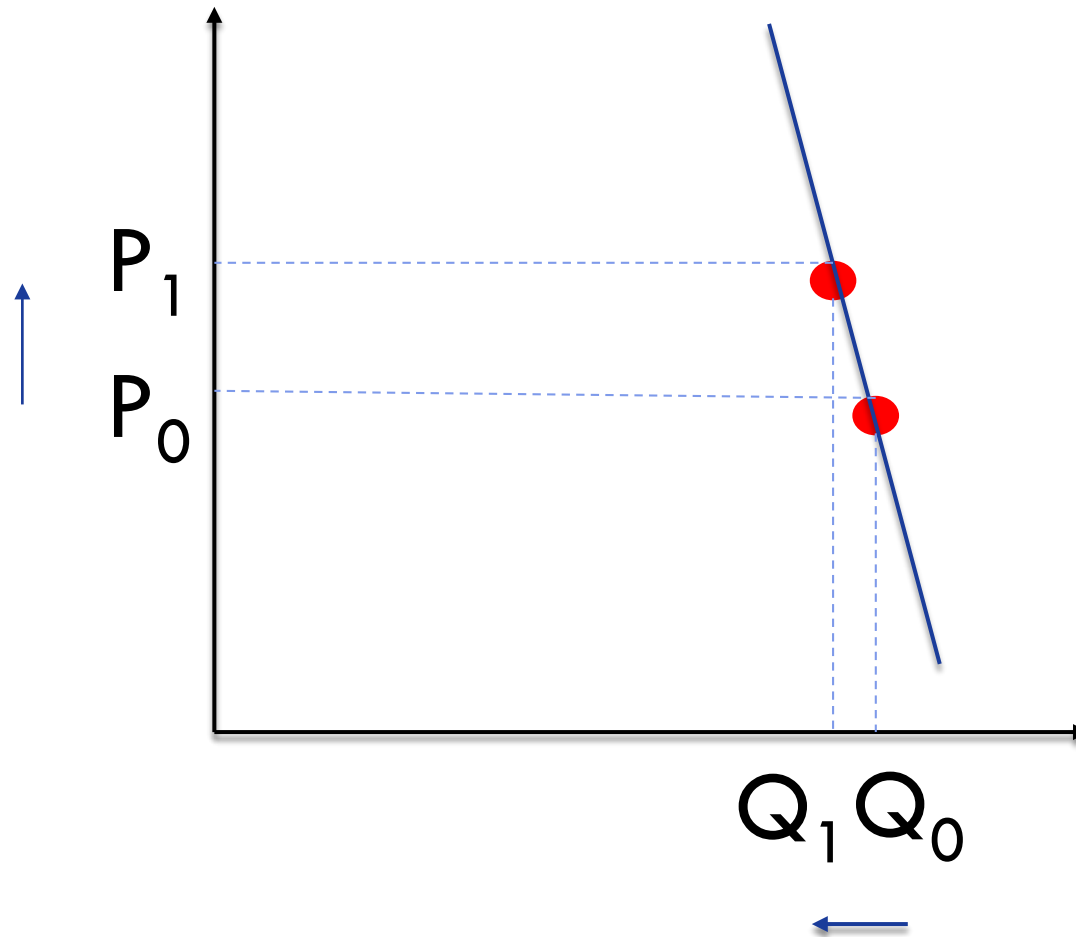
Employers are in a
“war for talent.”

- Firms are worried they will lose workers, so they offer generous benefits.

Insurers will threaten
to remove a hospital
from their network if
prices are too high.

- But if the employer disagrees, the insurer will give in.

Demand Curve with Generous Insurance



Insurance Alters the Demand Curve

Hospitals can raise their prices and expect little decline in demand.

- Higher prices generate even more profits.

Because employers self-insure, higher hospital spending translates into higher insurance premiums the following year.



Hospital Price Transparency

Empowering patients with the necessary information to make informed health care decisions.

Key Provisions





Most institutions in the United States that are licensed as hospitals or otherwise approved as meeting applicable licensing requirements must post their standard charges prominently on a publicly available website.

For additional details on the definition of hospital refer to [45 CFR §180.20](#) and on the federally owned or operated hospitals already deemed to be in compliance refer to [45 CFR §180.30](#).

Standard charges must be posted 2 ways:

Machine readable file of:
gross charges, discounted
cash prices, payer-specific
negotiated charges, and
de-identified minimum
and maximum negotiated
charges.

Consumer-friendly
Display of Shoppable
Services

Display of at least 300
“shoppable services”



Plans and Issuers

Empowering consumers with the necessary information to make informed health care decisions.

Key Provisions



Transparency in Coverage (TiC) Requirements

- Machine-readable files
 - In-network rates
 - Out-of-network allowed amounts & billed charges
- Internet-based price comparison tool for 500 items and services
- 2024: price comparison tool for all items and services

Show Health Professionals menu

#1 HOSPITAL IN TEXAS FOR PATIENT CARE & SAFETY*

U.S. News & World Report has named Houston Methodist Hospital the Best Hospital in Texas* for 12 years in a row and recognized us on the Honor Roll seven times.

*Two-way tie

Learn More





Machine Readable Files

To download a Houston Methodist machine-readable pricing file, please click on the name of the applicable hospital below. All machine-readable pricing files are updated annually.

[74110155_the-methodist-hospital_standardcharges.json](#)

[741287015_houston-methodist-baytown-hospital_standardcharges.json](#)

[464389870_houston-methodist-clear-lake-hospital_standardcharges.json](#)

[760545192_houston-methodist-the-woodlands-hospital_standardcharges.json](#)

[760545192_methodist-sugar-land-hospital_standardcharges.json](#)

[760545192_methodist-west-houston-hospital_standardcharges.json](#)

[760545192_methodist-willowbrook-hospital_standardcharges.json](#)

[452118_Houston Methodist Continuing Care Hospital_Standard Charges.json](#)


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			Blue Cross Blue Shield							
1			MH Blue Cross Essentials	St Luke's BCBSTX Premier	MH Blue Cross Premier	St Luke's BCBSTX PPO TRAD	MH Blue Cross PPO/CHOICE/OT H	Methodist BCBS	St Luke's United HMO	M Unit Navig
2	Code	Description								
5	7	LUNG TRANSPLANT	352,631.81	141,181.00	352,631.81	171,079.00	352,631.81	506,207.00	155,361.83	169,
6	652	KIDNEY TRANSPLANT	119,124.71	76,166.00	119,124.71	92,643.00	119,124.71	162,835.00	42,710.64	46,
7	219	CARDIAC VALVE AND OTHER MAJOR CARDIOTHORACIC PROCEDURES WITHO		74,173.13		88,026.38		159,921.00	108,123.61	
8	473	CERVICAL SPINAL FUSION WITHOUT CC/MCC	33,595.52	22,343.10	34,582.64	26,516.10	39,523.02	66,147.00	34,097.10	37,
9	274	PERCUTANEOUS AND OTHER INTRACARDIAC PROCEDURES WITHOUT MCC	37.78	26,991.90	37.78	32,033.16	37.78	80,103.00	44,099.92	
10	273	PERCUTANEOUS AND OTHER INTRACARDIAC PROCEDURES WITH MCC		34,896.23		41,413.77		82,942.00	51,506.74	
11	460	SPINAL FUSION EXCEPT CERVICAL WITHOUT MCC	57,162.93	39,145.28	58,842.53	46,456.41	67,248.60	132,093.00	52,788.63	57,
12	286	CIRCULATORY DISORDERS EXCEPT ACUTE MYOCARDIAL INFARCTION, WITH C		21,724.95		25,782.50		34,082.00	29,719.86	
13	247	PERCUTANEOUS CARDIOVASCULAR PROCEDURES WITH DRUG-ELUTING STE	29,407.58	20,627.10	30,271.66	24,479.61	34,596.18	40,352.00	26,687.61	28,
14	215	OTHER HEART ASSIST SYSTEM IMPLANT	182,441.40	71,441.00	187,802.02	86,569.00	214,630.88	603,877.00	149,772.49	154,
15	467	REVISION OF H OR KNEE REPLACEMENT WITH CC		33,908.55		40,241.62		96,191.00	48,003.33	
16	220	CARDIAC VALVE AND OTHER MAJOR CARDIOTHORACIC PROCEDURES WITHO		50,117.92		59,478.41		100,545.00	72,482.86	
17	700	OTHER KIDNEY AND URINARY TRACT DIAGNOSES WITHOUT CC/MCC	56.94	7,570.88	56.94	8,984.88	56.94	11,465.00	9,997.45	
18	870	SEPTICEMIA OR SEVERE SEPSIS WITH MECHANICAL VENTILATION >96 HOURS	89,128.86	59,373.60	91,747.70	70,462.76	104,854.52	358,427.00	86,240.09	94,
19	236	CORONARY BYPASS WITHOUT CARDIAC CATHETERIZATION WITHOUT MCC	55,588.56	37,867.05	57,221.90	44,939.45	65,396.45	62,816.00	54,776.58	60,
20	235	CORONARY BYPASS WITHOUT CARDIAC CATHETERIZATION WITH MCC		56,341.35		66,864.18		114,880.00	80,943.37	
21	454	COMBINED ANTERIOR/POSTERIOR SPINAL FUSION WITH CC		63,343.80		75,174.47		168,496.00	81,854.80	
22	872	SEPTICEMIA OR SEVERE SEPSIS WITHOUT MECHANICAL VENTILATION >96 HO	14,906.96	10,282.35	15,344.96	12,202.78	17,537.10	15,725.00	13,712.94	15,
23	177	RESPIRATORY INFECTIONS AND INFLAMMATIONS WITH MCC		18,044.33		21,414.45		28,405.00	24,769.46	

Negotiated Prices





An Early Comparison of Prices at 3 Major Texas Medical Center Hospitals

Table 1: Average Prices Negotiated by Insurers for Services where Prices were Reported by Each of 3 TMC Hospitals

Insurer	Number of Services	Average Negotiated Prices		
		St. Luke's	Memorial Hermann	Houston Methodist
BCBSTX	139	20,019.28	29,764.56	48,933.86
UnitedHealthcare	71	24,186.30	28,211.14	58,584.73

Source: V. Ho, G. Kneidel. Baker Institute Report, Oct. 10, 2022. "An Early Comparison of Prices at 3 Major Texas Medical Center Hospitals."

<https://www.bakerinstitute.org/research/early-comparison-prices-3-major-texas-medical-center-hospitals>



Hospital Price Files Finder

The federal hospital price transparency rule requires hospitals to publish their prices for all items and services online in a machine-readable standard charges file for all negotiated rates by payer and plan, including discounted cash prices.

PatientRightsAdvocate.org aggregated publicly available price transparency data from 6,000 U.S. hospitals to empower all Americans with actual, upfront hospital prices. We are working on behalf of patients, employers, unions, and workers in the fight for systemwide healthcare price transparency to reduce healthcare costs through a functional, competitive market.

Click [here](#) to watch a video on how to use the Hospital Price Files Finder.

Because of the scope and constantly changing nature of hospital prices, PRA makes no warranty, and expressly disclaims all warranties, as to the accuracy or completeness of the files and other information provided. Price and other information should always be verified directly with hospitals and service providers. All use of this site and database is governed by our [Terms of Service](#).

Select a State



File Home Insert Draw Page Layout Formulas Data Review View Automate Help Acrobat

Clipboard Font Alignment Number Styles Cells Editing Sensitivity Add-ins Analyze Data Share Upload Adobe Acrobat

A1 fx codetype

	A	B	C	D	E	I	J	K	L	M	N	O	P	Q	R	S
1	codetype	code	description	min	max	AETNA HMO/	AETNA MEDICARE	AETNA TI	BCBS	CIGNA HM	CIGNA LIF	COMMUNI	DEVOTED	HUMANA MO	OPTUM HE	OPTUM TX
2	APC	1503	New Technology - Level 3 (\$101 - \$20	149	437	366	152	237	437	350		236	160	149	349	
3	APC	1506	New Technology - Level 6 (\$401 - \$50	78	843	478	460	271	770	457	382	712	482	451	401	142
4	APC	1511	New Technology - Level 11 (\$901 - \$1	1130	9106	2215	1152		4877	5515		1785	1203	1130		
5	APC	1522	New Technology - Level 22 (\$2001-\$2	1214	45014	9009	2297		3768	9136	8347	3558	2410	2252	45014	3173
6	APC	1523	New Technology - Level 23 (\$2501-\$3	2047	9527	7162	2811		2047	7422		4355		2756	6624	2357
7	APC	1563	New Technology - Level 26 (\$4001-\$4	4218	29545	17128			17581	29545			4513	4218		
8	APC	5012	Clinic Visits and Related Services	50	727			179		727		188	212	81		582
9	APC	5021	Level 1 Type A ED Visits	51	1879	347	74		559	588	735	115	78	73		
10	APC	5022	Level 2 Type A ED Visits	51	2291	1384	136	1237	1000	818		210	142	133	2234	978
11	APC	5023	Level 3 Type A ED Visits	51	3966	3009	421	2832	1855	1541	3215	657	365	343	3483	1230
12	APC	5024	Level 4 Type A ED Visits	219	9468	4838	620	2401	3820	2790	5497	1048	706	594	9468	1903
13	APC	5025	Level 5 Type A ED Visits	405	41066	8158	1248	13368	7040	4269	12570	1775	1488	1036	12807	5374
14	APC	5041	Critical Care	938	28079	28079	1925		7040	6088			3359	2201		
15	APC	5051	Level 1 Skin Procedures	174	2073	2006	186		325	818	2073	284	192	180		183
16	APC	5052	Level 2 Skin Procedures	346	9817	5753	353	3281	594	3836		553	370	346	2770	1104
17	APC	5053	Level 3 Skin Procedures	541	4333	4197	541		924	4115		1036		710		
18	APC	5054	Level 4 Skin Procedures	1177	27400	4501	1751		3018	6081	27400	2870	1837	1736		
19	APC	5055	Level 5 Skin Procedures	3376	47769	12300	3376	14626	8336	8895		3748	4746	3597		
20	APC	5071	Level 1 Excision/ Biopsy/ Incision and	78	9039	7339	635	4648	78	9039	4296	983	670	622		1601
21	APC	5072	Level 2 Excision/ Biopsy/ Incision and	1408	23539	5307	1436	10434	2617	4966	15624	2253	1526	1426	14552	5225
22	APC	5073	Level 3 Excision/ Biopsy/ Incision and	2372	24897	7339	2419	14601	4313	15857	23201	3747	2571	2372	22114	8285
23	APC	5091	Level 1 Breast/Lymphatic Surgery and	3200	31434	9885	3223		6090	4584		5158	3381	3200		
24	APC	5092	Level 2 Breast/Lymphatic Surgery and	5538	16831	9591	5648		9741	7148		8749	5925	5538		
25	APC	5093	Level 3 Breast/Lymphatic Surgery and	8926	28084	17714	9161		28084	18820				8926		

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Ranking cost-sharing designs

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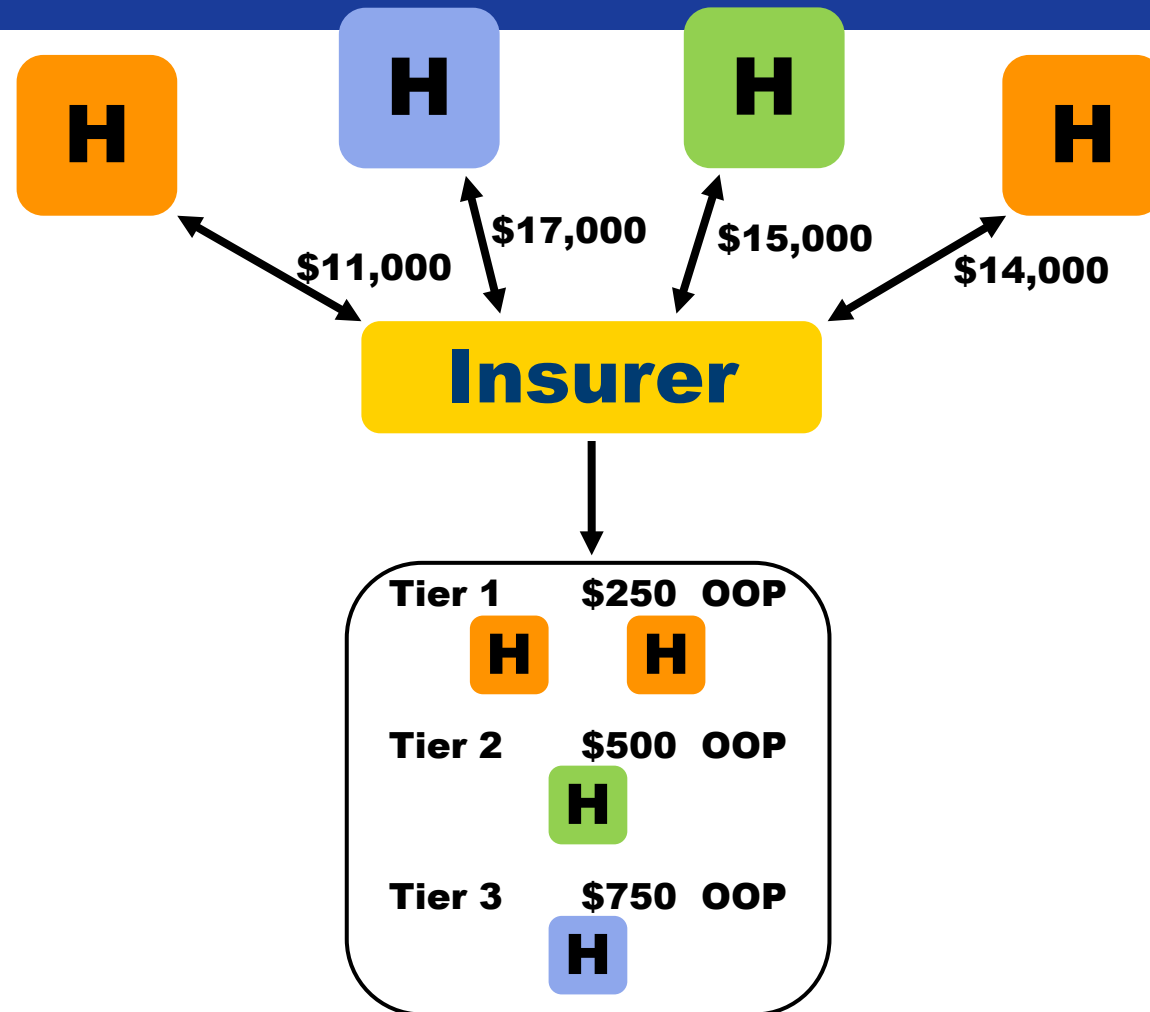
Best achievable designs

Reference pricing
Tiered networks with copays

Bad designs

High-deductible health plans
Coinsurance cost-sharing
Complex price transparency

What is a tiered network?



How patients choose in a tiered network

Participating hospitals and their tiers

Massachusetts

Hospital	Tier
Addison Gilbert Hospital	2
Anna Jaques Hospital	1
Athol Memorial Hospital	2
Baystate Franklin Medical Center	3
Baystate Mary Lane Hospital	2

■ Inpatient Hospital Care – Medical

Harvard Pilgrim Health Care tiers its hospitals based on quality and cost:

Tier 1: 100% after \$250 per admission

Tier 2: 100% after \$500 per admission

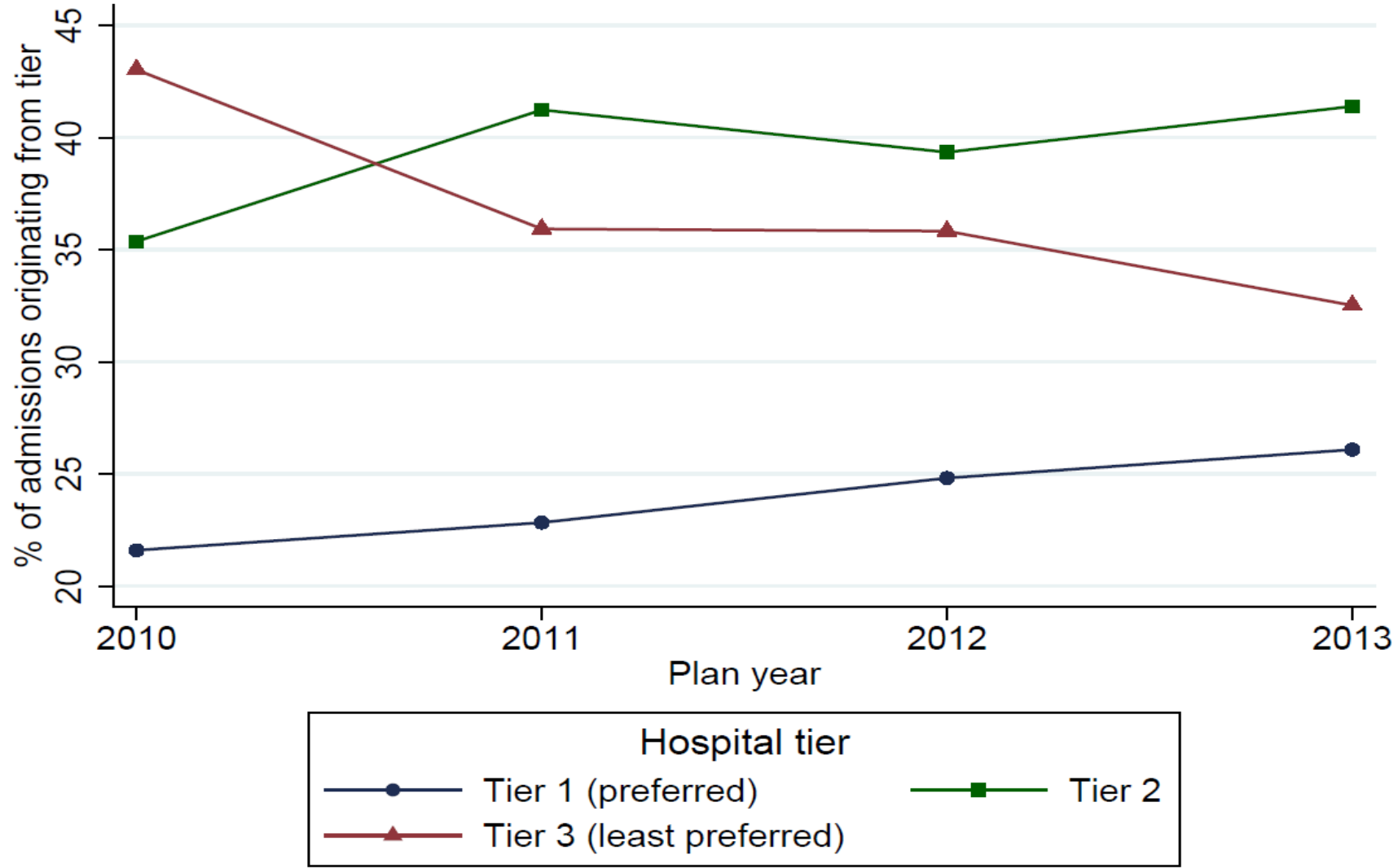
Tier 3: 100% after \$750 per admission

(Elena Prager, AEJ Applied Econ 2020)



What a tiered network does

40



After 3 yrs,
spending falls 8.4%
(\$1,500) If tier 3 is
\$1,500 copay,
spending falls
17.4% (\$3,700)

A health plan with clear pricing in advance.

Surest, a UnitedHealthcare company, is an ACA-compliant employer-sponsored health plan available to employers with 51+ employees — offered on a fully insured and self-funded basis.

See how

Contact us



Surest Enrollees Have 54% Lower Out-of-Pocket Costs and 11% Lower Total Medical Costs than Other Commercially Insured Individuals



Assigns copays according to quality and total medical cost. Lower copays are assigned to high-value providers that achieve better outcomes, deliver care more effectively, avoid complications, reduce unnecessary services, and charge reasonable prices for their services.

<https://www.unitedhealthgroup.com/content/dam/UHG/PDF/2023/2023-12-uhg-surest-medical-costs-brief.pdf>

Take a better healthcare ride.

Welcome to Coupe, the alternative health plan that saves you money without sacrificing top-quality healthcare.

No deductibles. No co-insurance. No complicated paperwork. No surprises.

We designed a new health plan that removes the complexities of healthcare and provides individuals and their families with a seamless,

Conclusions

- Provider consolidation is driving up healthcare prices.
- Rising hospital prices are the main reason premiums are rising.
- Hospital prices are becoming more transparent.
- The only way to force hospitals to stop raising prices is for employer sponsored plans to demonstrate they are price sensitive.