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NEW ANALYSIS OF CALIFORNIA HOSPITALS SHOWS PRIVATE INSURERS PAY MORE THAN DOUBLE WHAT MEDICARE DOES FOR SIMILAR SERVICES

SAN DIEGO – May 20, 2019 – A new analysis of financial data from general acute care hospitals in California reveals that private insurers paid on average 209 percent more than what Medicare paid for similar services in 2015 and 2016. Funded by the nonprofit, nonpartisan West Health Policy Center, the California findings reinforce the results of a recent RAND Corporation study that showed private health plans across 25 other states paid hospitals more than double, on average, than Medicare.

“It is time for greater transparency in pricing and hospital costs. Data like these provide leverage for employers to negotiate better terms for employees and families buckling under skyrocketing costs,” said Timothy A. Lash, president of the West Health Policy Center. “Industry groups such as the American Hospital Association choose to defend the status quo and hospitals’ inflated prices by aggressively highlighting potential limitations in threatening studies. However, the West Health and RAND studies clearly demonstrate that hospitals continue to price-gouge self-insured employer plans.”

U.S. employers will spend more than $800 billion in 2019 on health coverage for employees—an amount that will exceed $2 trillion by 2040, according to a West Health analysis of National Health Expenditure Accounts illustrated on healthcostcrisis.org.

Using financial data hospitals submitted to the California Office of Statewide Health Planning and Development, researchers compared what private insurers and Medicare paid for hospital services. The ratio of private insurance to Medicare payments is substantially higher than the 209 percent average at some hospitals. For example, at

Stanford University Hospital, the ratio is 276 percent, and at Sharp Memorial Hospital in San Diego, it is 271 percent.

Co-authors of the report, Richard Kronick, professor of Family Medicine and Public Health at the University of California, San Diego, and health economist Sarah Hoda Neyaz, wrote that the significant difference in payment rates in the report may be due in part to consolidation in the hospital industry and the pressure private insurers face from employers and employees to offer broad networks. These factors can result in hospitals being able to extract higher payments from private insurers. Alternatively, the authors acknowledge another perspective that higher rates of private payments could be needed to offset payment shortfalls from Medicare and Medi-Cal, California's Medicaid program.

Regardless of the reasons, these data should be helpful in assessing the likely effects of hospital rate-setting or single-payer proposals that may impact hospital payments in California, said the authors, adding the data could also provide useful information to the public and others interested in understanding hospital pricing in the state.

About West Health
Solely funded by philanthropists Gary and Mary West, West Health is a family of nonprofit and nonpartisan organizations including the Gary and Mary West Foundation and Gary and Mary West Health Institute in San Diego, and the Gary and Mary West Health Policy Center in Washington, D.C. West Health is dedicated to lowering healthcare costs to enable seniors to successfully age in place with access to high-quality, affordable health and support services that preserve and protect their dignity, quality of life and independence. Learn more at westhealth.org and follow @westhealth.