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**Hospitals increase prices for privately insured patients after Medicare payment cuts**

*Study evaluates impact of Affordable Care Act cost-containment on private coverage*

**WASHINGTON (Feb. 12, 2018)** — Non-profit hospitals reacted to reduced Medicare payments by negotiating 1.6 percent average higher payments from private insurers, according to a new paper published today by the National Bureau of Economic Research. The increased prices added an average of $86,500 per hospital for acute care claims for privately insured patients to offset reimbursement penalties averaging $153,000 per hospital that were triggered by the Affordable Care Act’s Hospital Readmission Reduction Program (HRRP) and the Hospital Value Based Payment Program (HVBP).

“This analysis shows very clear evidence on the effect of cost-shifting and demonstrates the unintended consequences of large cost-containment policies,” said Eric Barrette, PhD, Director of Research at the Health Care Cost Institute (HCCI). “At a high level, the perception of cost-shifting has existed for a long time, but the evidence of it actually happening has been mixed. The complexity of the hospital market, the difficulty of measuring private payments, and diversity in how hospitals respond to cuts in public payment make cost-shifting analyses of this size rare. Through availability of quality data from public and private sources, we’re able to determine the true impact of policy changes on health spending.”

The paper examined whether hospitals engaged in cost-shifting strategies as a response to changes in public payments. To do so, the researchers developed a sample of 1,644 community hospitals in urban areas, using data maintained by the HCCI on all claims made for acute care hospital admissions by three national commercial insurers. They also used information on HRRP and HVBP penalties/rewards and other cost information from the Centers for Medicare & Medicaid Services’ Healthcare Cost Report Information System. The private insurance payment data cover approximately 28 percent of individuals under age 65 with employer-sponsored health insurance. When merged with the other data sources, the analytic data constitute a balanced panel of 50 percent of all inpatient payments to hospitals in the United States between 2010 and 2015.

“Cost-containment strategies have far-reaching effects that impact the entire health system,” said Michael Darden, PhD, Associate Professor of Health Policy and Management at the Milken Institute School of Public Health at George Washington University. “While these consequences cannot always be known or avoided, it is impractical to assume that there would not be some effort to recoup this lost revenue.”

The researchers note that cost-shifting as a result of public payment reductions was largest among hospitals with larger shares of private insurance patients.

“ We find no evidence that hospitals change their services or treatment patterns following a decrease in public payments, which supports the idea that increases in payments from private insurers stem from an underlying increase in the actual prices of services,” said Ian McCarthy, PhD, Assistant Professor of Economics at Emory University.

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**About the Health Care Cost Institute**  
The Health Care Cost Institute was launched in 2011 to promote independent, nonpartisan research and analysis on the causes of the rise in U.S. health spending. HCCI holds one of the largest databases for the commercially insured population, and in 2014 became the first national Qualified Entity (QE) entitled to hold Medicare data. For more information, visit [healthcostinstitute.org](http://www.healthcostinstitute.org/) or follow us on Twitter [@healthcostinst](https://twitter.com/healthcostinst).