California Hospital Association

RAND Price Study Draws Misleading, Inaccurate Conclusions

In May 2022, the RAND Corporation released the latest iteration of its hospital price variation study. The study finds significant variation between commercial and Medicare payments to hospitals but fails to fully explain what causes this variation. Based on this incomplete finding, the study makes recommendations that could harm patients and communities.

Concerns with this study include:

- **Analyzing an Insufficient Sample:** The study includes just 2.0%[1] of all California inpatient claims, does not include capitated claims[2], and **overstates the variance between Medicare and commercial payments by almost 40%** compared to California Department of Health Care Access and Information.
- **Using an Inappropriate Comparator:** RAND compares Medicare to commercial payments despite the fact that the Medicare Payment Advisory Commission acknowledges Medicare payments do not cover the cost of providing hospital care. Even if Medicare were an appropriate comparison, annual payment updates are reduced by Congress so **the variance between commercial and Medicare payments naturally grows over time**.
- **Assuming All Variation Is Unwarranted:** Researchers should expect variation in the cost of delivering services across the wide range of U.S. hospitals — from rural critical access hospitals to large academic medical centers.

Inaccurate conclusions include:

- **Cost Shifting Doesn't Exist:** Medicare, Medi-Cal, and other governmental payers are a growing segment of hospital patients. In California, Medi-Cal patient days increased by almost 20% from 2012 to 2020 while all other patient days decreased by approximately 13%. Given that governmental payments do not cover the cost of providing care, hospitals must make up the losses from caring for vulnerable populations through commercial payments. Access to care for all would be jeopardized if there was not a mechanism to make up the shortfall.
- **Interfering with the Patient-Physician Relationship Will Not Affect Quality:** RAND suggests employers reduce health care costs by shifting care from hospital outpatient departments to ambulatory surgery centers. Patients should receive care in the most appropriate setting and patient-specific clinical risk factors may necessitate hospital care. Care settings should be determined by patients, in consultation with health care providers. Administrative barriers that prevent people from receiving care in the most appropriate setting will negatively affect health outcomes.
- **Consolidation Is a Primary Driver of Cost Variation:** The study implies consolidation is one of the primary drivers of cost variation. However, in the statistical model, only 7% of the variation in hospital prices is explained by differences in market share. That means 93% of the variance is explained by something else not discussed in the report. Further, the analysis finds that a 10% increase in hospital market share is associated with a 0.5% increase in a hospital's price relative to

Medicare. This implies that if a hospital with a 50% market share increased it to 100%, price variation relative to Medicare would only increase by 2.5%.