



*Advising the Congress on Medicare issues*

# International comparison of rates paid to hospitals

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# International comparisons in the literature

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- U.S. spends over 17% of GDP on healthcare, 50% more than the next highest country
- U.S. spends more on hospitals and nursing homes
  - 6.4% of GDP (OECD 2009 data)
  - 4.8% in comparable countries
- Due to higher rates, not higher volume
  - Fewer admissions per capita in U.S.
  - Shorter length of stay in U.S.

# The questions for today

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- How do rates paid by Medicare compare to international rates?
- How do hospital costs compare?
  - To what extent do higher input prices drive costs to be higher in the U.S. ?
  - To what extent do greater quantities of inputs (e.g., labor, supplies) drive higher costs in the U.S.?

# How much higher are U.S. rates?

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- Medicare rates are roughly 50% higher than OECD rates for an inpatient stay (hospital and physician combined)
- Costs of a hospital stay are also close to 50% higher in the U.S.
- Commercial rates are often over 100% higher than in comparable countries, but vary widely from hospital to hospital

Data are preliminary and subject to change

# Why are costs roughly 50% higher?

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- Most input prices are roughly 50% higher in the U.S.
  - Medicare pays physician roughly 50% more than physician labor costs in comparable countries (OECD/Urban Institute data)
  - Nurses make about 50% more in the U.S. (OECD data)
  - The literature suggests that drugs and devices also cost about 50% more
- Some other smaller categories of cost are not more expensive (e.g., utilities)

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# International rate differences after adjusting rates for input prices

<b>Hip replacement rate</b>	<b>International range*</b>	<b>Medicare Average</b>	<b>Commercial insurer 25<sup>th</sup> to 75<sup>th</sup> percentile</b>
Rate including physician fees	\$9,000 to \$12,000	\$17,000	\$25,000 to \$88,000
Rate as a share of the average person's wage	20 to 26%	31%	46% to 161%
Rate as a share of the average RN wage (a proxy for input prices)	20 to 26%	24%	36% to 126%

Note: \* Range is for the 2<sup>nd</sup> and 5<sup>th</sup> highest rates out of six countries: Australia, France, Netherlands, New Zealand, Switzerland, and the United Kingdom. Rates include the amount paid for physician fees.

Source: CMS data on average Medicare hospital payments for joint replacement and data on physician payments. Data on rates in other countries are from the International Federation of Health Plans. All rates are adjusted for purchasing power parity using data from the Organization for Economic Cooperation and Development (OECD). Wage data is from the OECD.

# Why are input prices higher?

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- Individuals with higher education tend to make relatively higher salaries in the U.S., but the wage premium is even higher for health care workers
- Financial pressure on hospitals can affect wages of employees
  - Insurers have less leverage over hospitals in the U.S.
  - Higher hospital revenues can lead to higher wages in the U.S.
- Drug and device prices are higher in the U.S.

# If we wanted to restrain input prices, does Medicare have the tools?

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- Medicare program can control Medicare rates. Lower Medicare updates may slightly reduce input price growth.
  - The gap between Medicare hospital rates and private insurer hospital rates will grow
  - If private insurers do not restrained the rates they pay hospitals, it may be difficult to constrain Medicare rates in the long run
- Medicare has not traditionally directly influenced drug or device input prices



# Administrative costs also higher in the U.S.

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- Costs of administrative and billing labor
  - 10% of hospital costs in the U.S.
  - 5 to 6% in Germany and France
- Hospital CEO salaries have received significant attention in the press and literature
- The key driver is the greater administrative complexity of U.S. system that results in a large number of administrative support employees

Data are preliminary and subject to change

# Reducing administrative costs

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- Align public and private billing systems
- Simplify quality reporting, move to fewer measures that emphasize outcomes
- Site neutral payments: Removes incentives to move lower priced services to hospitals where overhead is higher
- Improve the Recovery Audit Contractor (RAC) auditing and appeals process

# Summary

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- Medicare rates are roughly 50% above international rates
  - The difference is similar to the difference in costs
  - The difference in costs can largely be explained by input prices
- U.S. commercial rates are 100% higher and cannot be explained by input prices
- The Medicare program has limited tools to lower input prices
- Reducing administrative costs is more feasible, but has a smaller effect on overall costs

# Discussion

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- What can the Medicare program do to reduce administrative costs?
- How should Medicare set rates in an environment with high and increasing commercial rates?