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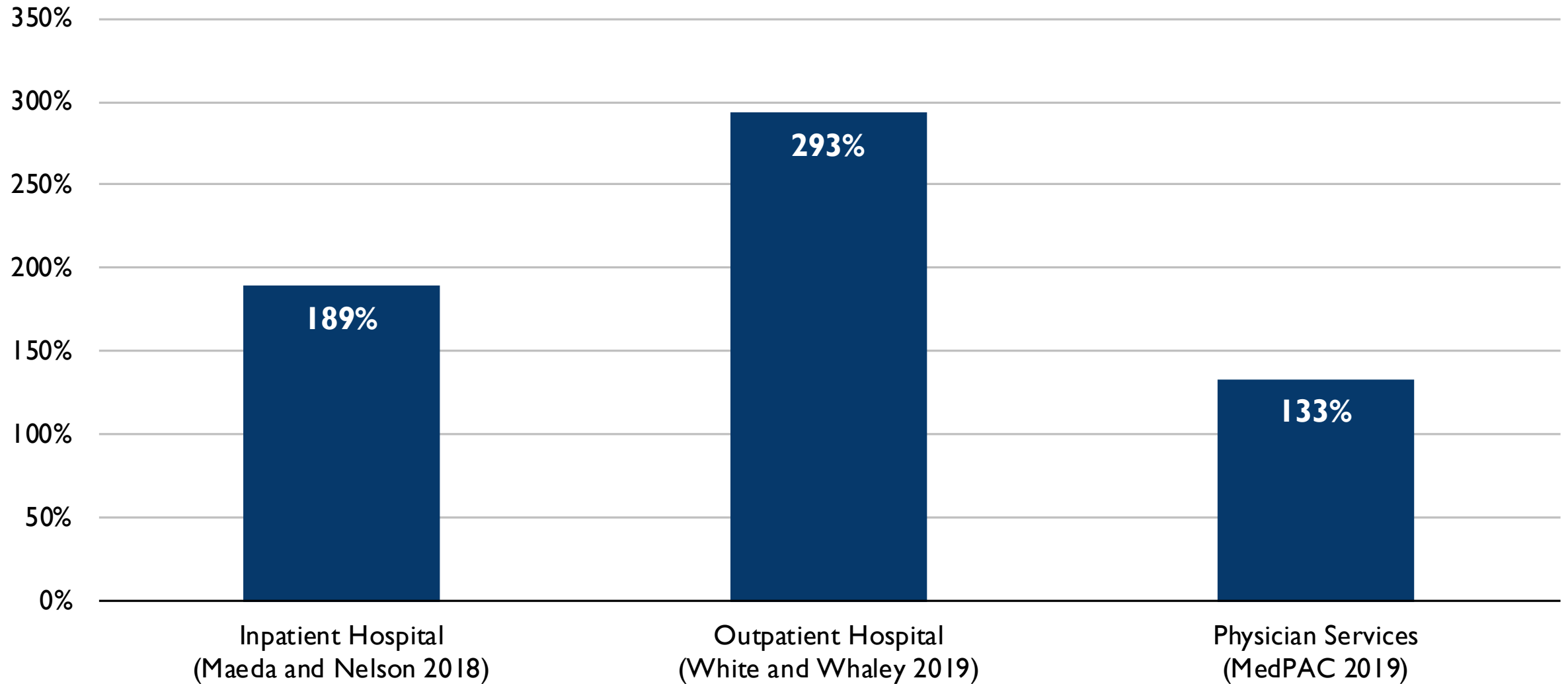
Cost-Shifting: Fact or Fiction?

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Average Contracted Payment Rates as a Percentage of Medicare Rates for Major Service Categories

350%

300%

250%

200%

150%

100%

50%

0%

189%

293%

133%

Inpatient Hospital
(Maeda and Nelson 2018)

Outpatient Hospital
(White and Whaley 2019)

Physician Services
(MedPAC 2019)

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What is Cost-Shifting?

Hospital cost-shifting: Charging private payers more <u>in response to</u> low public payer payments.

What is Cost-Shifting?

Hospital cost-shifting: Charging private payers more <u>in response to</u> low public payer payments.

<u>BUT</u>

If hospitals could raise prices on private payers above current levels, why aren't they already doing this?
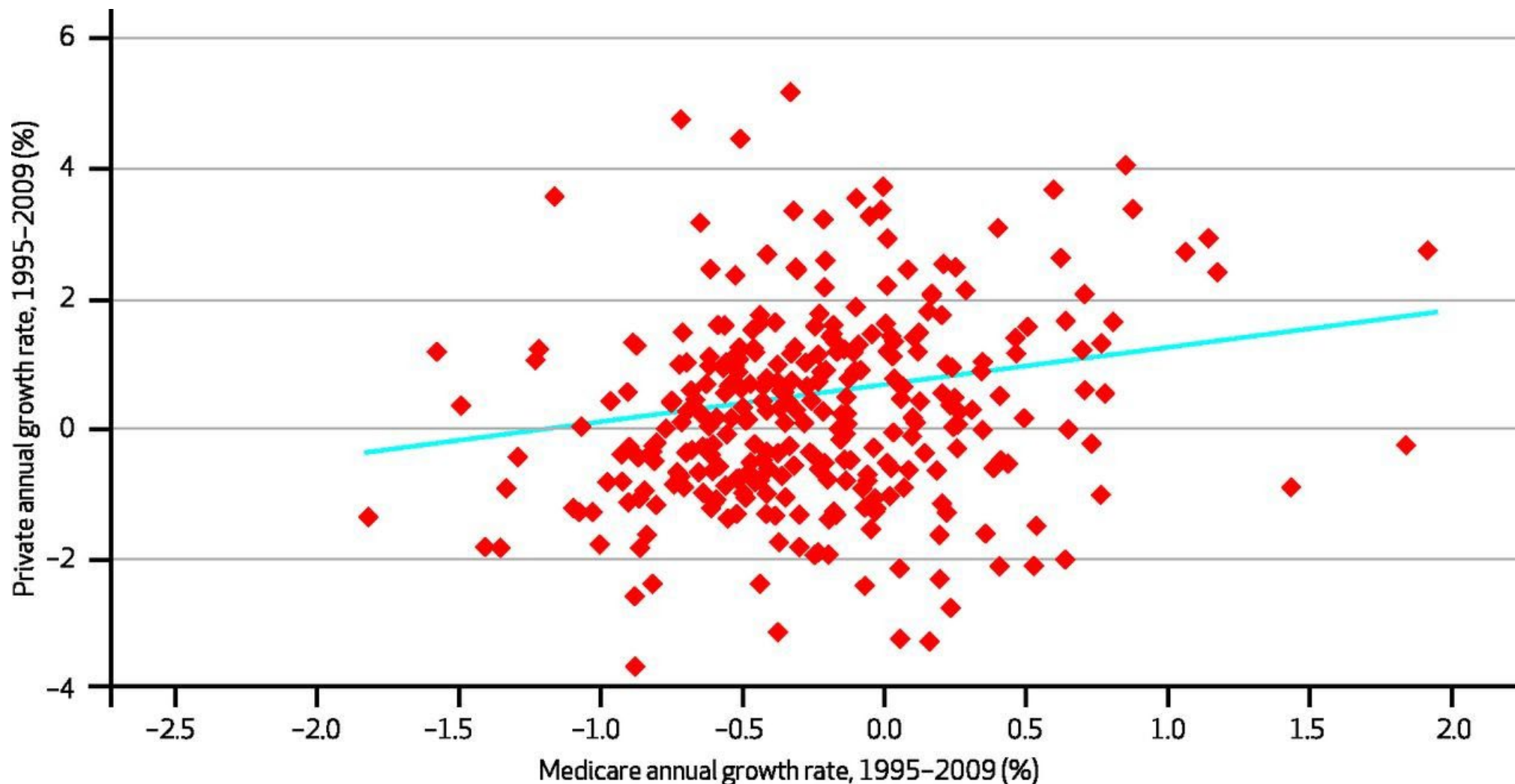
Cost-shifting theory is only possible if hospitals aren't profit-maximizing today.

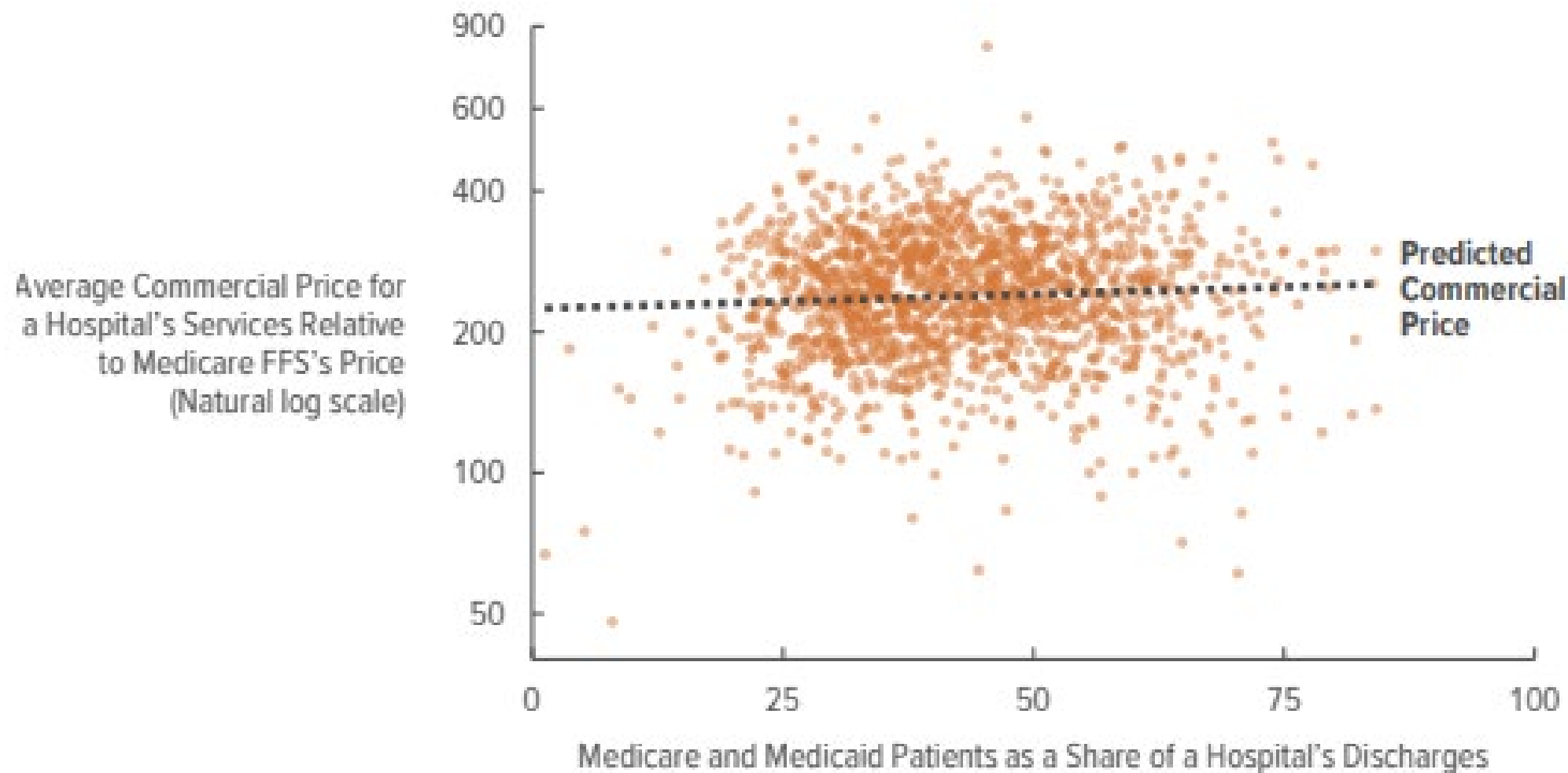# Empirical Literature on Cost-Shifting

Empirical literature **finds no evidence** of hospital cost-shifting

- White (2013): 10% reduction in Medicare rates ➔ **reduction** in private insurer prices of 3 to 8%.

- White and Wu (2013): Medicare price cuts associated with larger revenue declines than direct Medicare price effect, consistent with price spillovers.
  — Non-profits respond by reducing operating expenses
  — For-profits saw reduced profits

Annual Payment Rate Growth Rates Per Discharge for Medicare and Private Insurers, Adjusted for Input Costs, 1995-2009
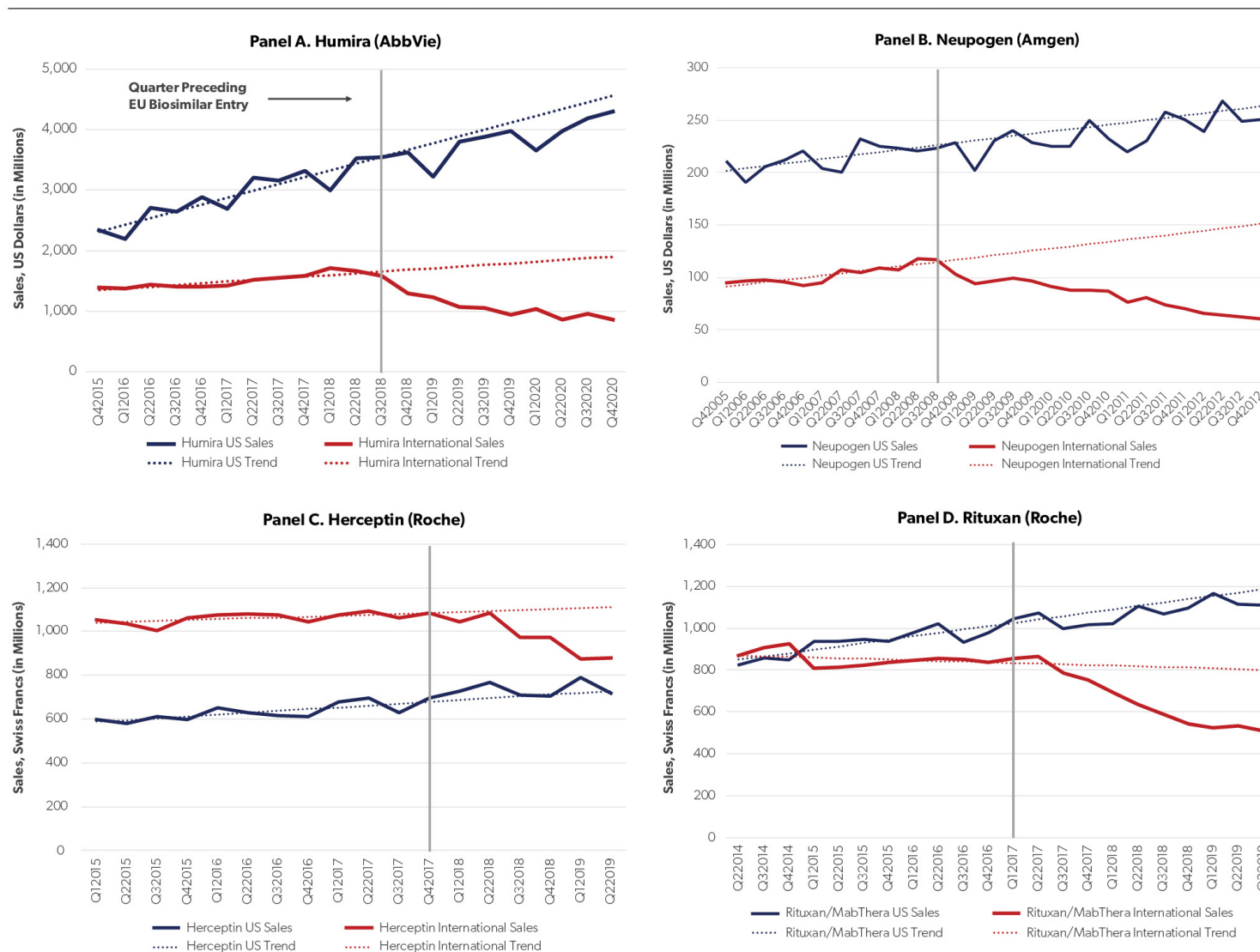

Source: White (2013, Health Affairs)

Relationship Between a Hospital's Share of Medicare and Medicaid Patients and Commercial Insurers' Average Price, 2016-18

Source: CBO (2022)

Net Sales of Selected Biologic Drugs Surrounding Biosimilar Entry in EU

Panel A. Humira (AbbVie)

Panel B. Neupogen (Amgen)

Panel C. Herceptin (Roche)

Panel D. Rituxan (Roche)

Why are Prices High in Private Insurance?

- Limited competition

- High consumer value on choice of provider

- Public policies that limit insurer leverage

- Greater public sympathy for providers than insurers (?)