Cost-Shifting: Fact or Fiction?

Loren Adler
Associate Director
USC-Brookings Schaeffer Initiative for Health Policy

December 1, 2022
Average Contracted Payment Rates as a Percentage of Medicare Rates for Major Service Categories

- **Inpatient Hospital**
  - (Maeda and Nelson 2018)
  - 189%

- **Outpatient Hospital**
  - (White and Whaley 2019)
  - 293%

- **Physician Services**
  - (MedPAC 2019)
  - 133%
What is Cost-Shifting?

**Hospital cost-shifting**: Charging private payers more *in response to* low public payer payments.
Hospital cost-shifting: Charging private payers more in response to low public payer payments.

BUT
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 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
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 (?)