

## Featured Finding

# Research Reveals Big Price Differences Across Minnesota Hospitals

### The Question:

How much do prices vary for common hospital procedures across Minnesota, between hospitals, and within the same hospital?

Hospital care accounts for more than 30 percent of total health care spending. Prices of hospital procedures are challenging for health care purchasers and patients to identify or understand. Data on price distributions and variability can help employers work with insurers and providers to secure pricing that is consistent with local averages.

The Minnesota Department of Health collaborated with Minnesota employers to design a series of brief reports on hospital prices in Minnesota.

Chris Frenier, M.S., Stefan Gildemeister, M.A., and Pamela Mink, Ph.D., M.P.H. examined variation in the commercial case prices for four common, clinically uncomplicated inpatient procedures. They used claims data from the Minnesota All Payer Claims Database to calculate the total price, including facility and professional fees, of 2,719 hospitalizations during 2014 and 2015. Prices reflect allowed amounts – the actual payments made by patients and insurers to health care providers. The report provides information to employers and purchasers about the degree of price variation across and within Minnesota hospitals.

### The Implications:

Price variation exposes patients to risk of burdensome cost sharing, makes budgeting more difficult, and can put upward pressure on health care spending.

Knowing which high volume hospitalizations have pricing irregularities is a first step to taking action. Minnesotans (consumers, employees, patients) stand to benefit if purchasers can better negotiate with providers and reduce unwarranted price variation.

Understanding the reason behind price variation is an important health policy question. While some price variation is caused by differences in hospital cost or service intensity, a large body of research suggests that hospitals in uncompetitive markets are able to set higher prices for services.

This work revealed substantial variation in prices within the same hospital, possibly due to differences in negotiated prices across health plans. Patient and admission characteristics, health insurance plan, and length of stay only explain about 64 percent of within hospital price variation. Better understanding the sources of price variation is an important next step for health services researchers.

### Learn More

To learn more about price variation and other health policy topics in Minnesota, please visit the Minnesota All Payer Claims Database [publications webpage](#). There, you will find links to [this report](#), our [first report](#) on a different set of four hospital procedures, a supplemental [FAQ](#), and [information for employers](#). You can also find research from the [Health Economics Program](#) on other health policy topics in Minnesota.

### Key Findings

- There was significant price variation for each procedure examined in this study across Minnesota, between hospitals, and within hospitals.
- A patient undergoing one of the four hospital procedures may pay two to almost seven times as much as another patient receiving the same procedure at the same hospital. This can translate to a price difference of about \$7,000 to nearly \$70,000.
- A substantial amount of the statewide variation in prices – about 36 percent – was related to differences within individual hospitals and was not explained by factors such as severity of illness, length of stay, patients' age, and certain health benefit characteristics.
- Better understanding the sources of price variation is an important next step for health services researchers.