

Referenced Based Pricing

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Background

Rising health care costs continue to be a significant concern for many people. As various cost-reduction strategies have been explored to address this concern, one approach in particular is gaining traction: using Medicare payments as a reference to negotiate commercial health insurance rates. The Center for Improving Value in Health Care (CIVHC) analyzed commercial health insurance payments to hospitals and ambulatory surgical centers (ASCs) in Colorado, comparing them to Medicare payments to identify trends and geographic variations.

Research Objective

This analysis assesses the relationship between commercial health insurance payments and Medicare payments for inpatient (IP) and outpatient (OP) services at Colorado facilities.

By comparing payments as a percentage of Medicare rates, this project:

- Reveals payment variations across facilities, regions, and over time
- Identifies opportunities to reduce costs
- Enhances insights into healthcare affordability trends
- Highlights ways to advance healthcare equity

Study Design

This analysis was based on health insurance payment data from the Colorado All Payer Claims Database (CO APCD), spanning the years 2019 to 2023. Using Milliman’s Medicare Repricer software, which utilizes various Medicare fee schedules, payments made by commercial insurers were compared to what Medicare would pay for similar services. The resulting “percent of Medicare” was calculated for each facility’s inpatient and outpatient services.

This project measures the following facility types:

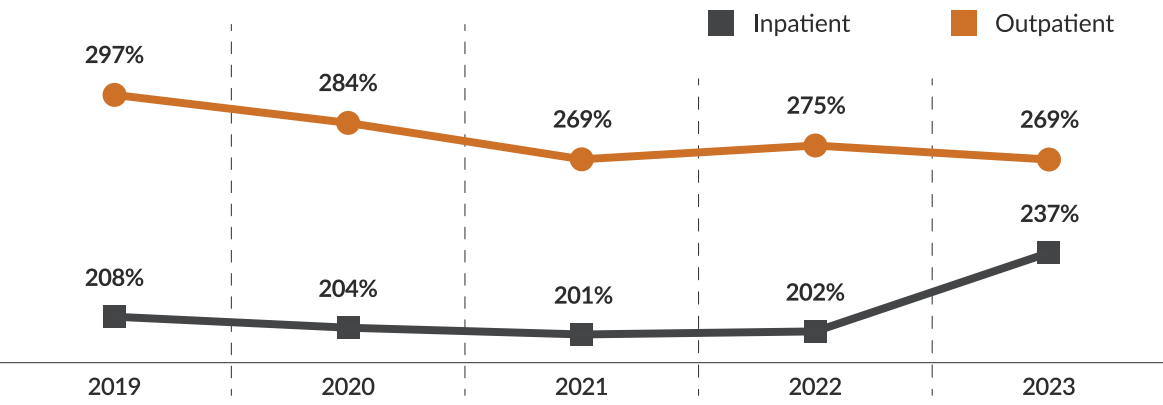
- General Acute Care Hospitals identified by taxonomy code. Outlying outpatient clinics are attributed to hospitals based on organization name and location.
- Critical Access Hospitals as defined by the Colorado Hospital Association.
- Ambulatory Surgical Centers identified by taxonomy code.

Principle Findings

Statewide Trends by Year and Service Type

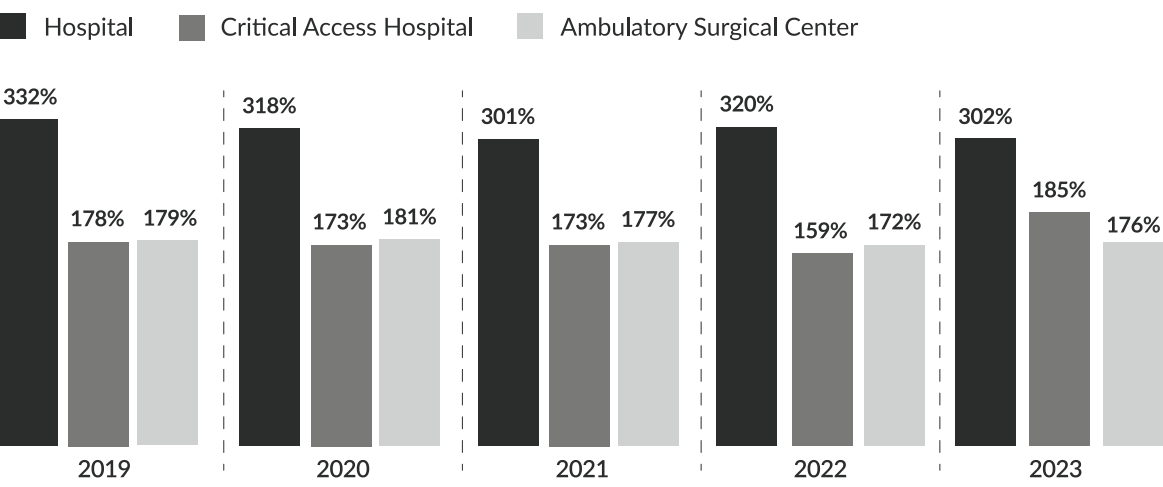
Statewide Percent of Medicare

Inpatient payments held near 200% of Medicare through 2022, rising to 237% in 2023; outpatient payments fell from 300% to 270%.



Outpatient Claims by Facility Type

Percent of Medicare by Facility Type | Outpatient Claims

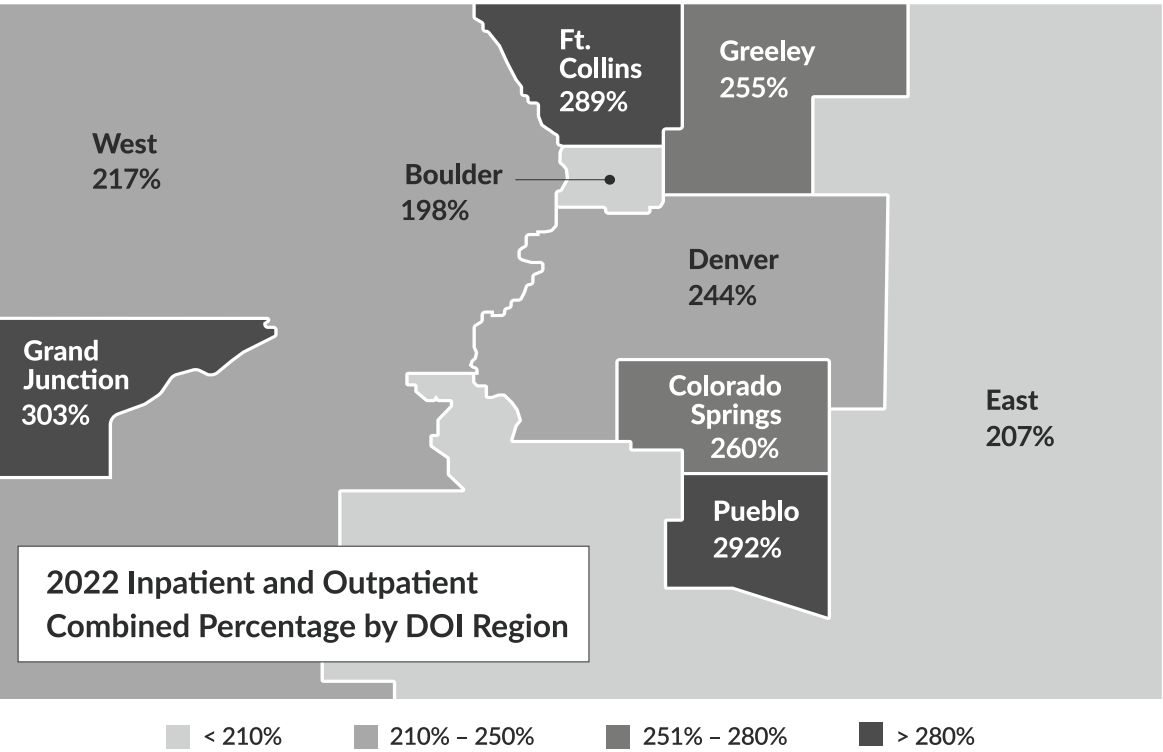


Non-Critical Access Hospitals

- Receive the highest percent of Medicare reimbursement across all years
- Routinely exceed 300% of Medicare rates

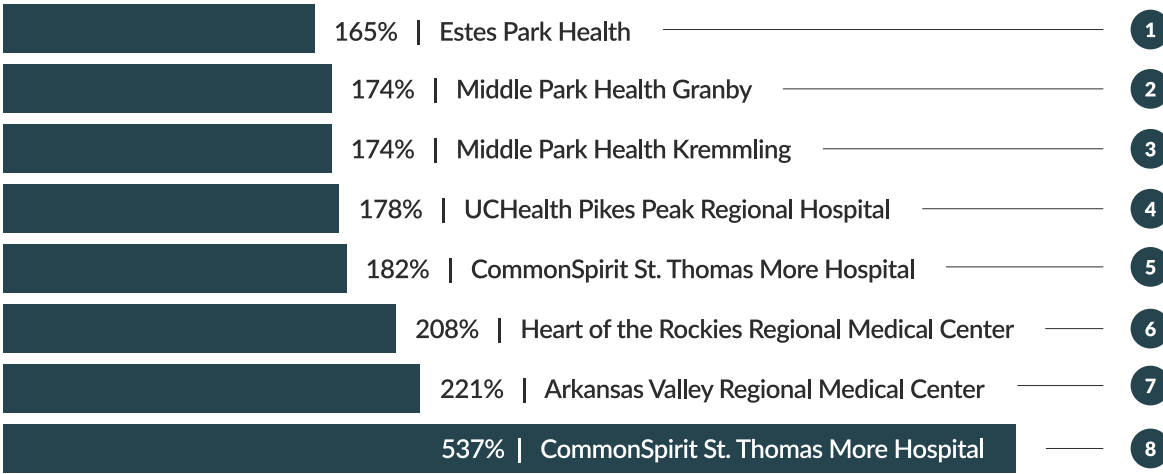
Critical Access Hospitals (CAHs)

- Have a much lower reimbursement rate
- Consistently below 200% of Medicare rates each year

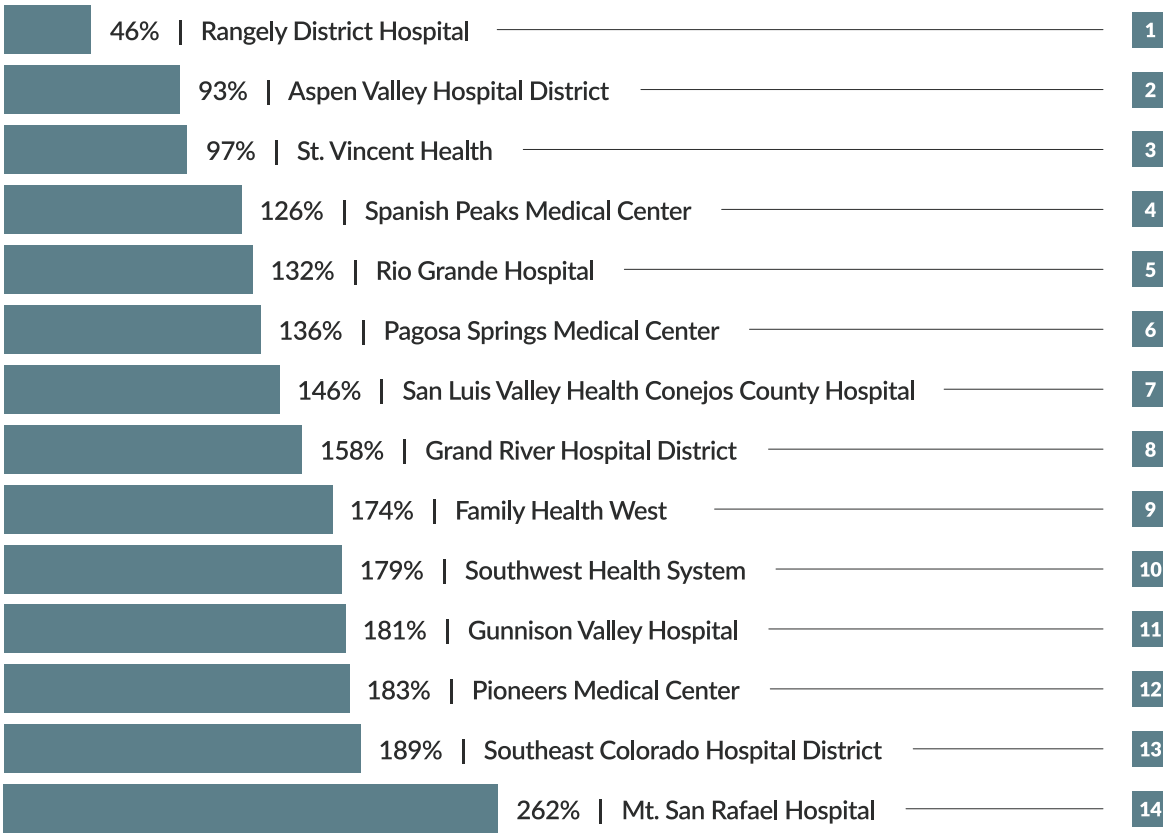


Percentage of Medicare for Inpatient and Outpatient Claims at Critical Access Hospitals in Colorado

Front Range / Central Mountain

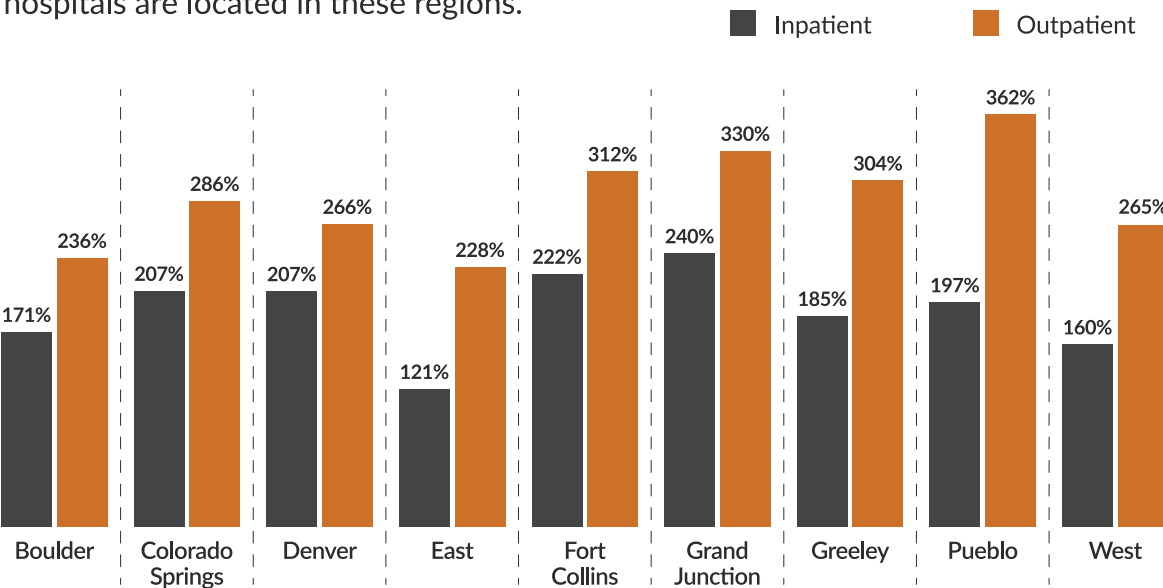


Western Slope + Southern Colorado

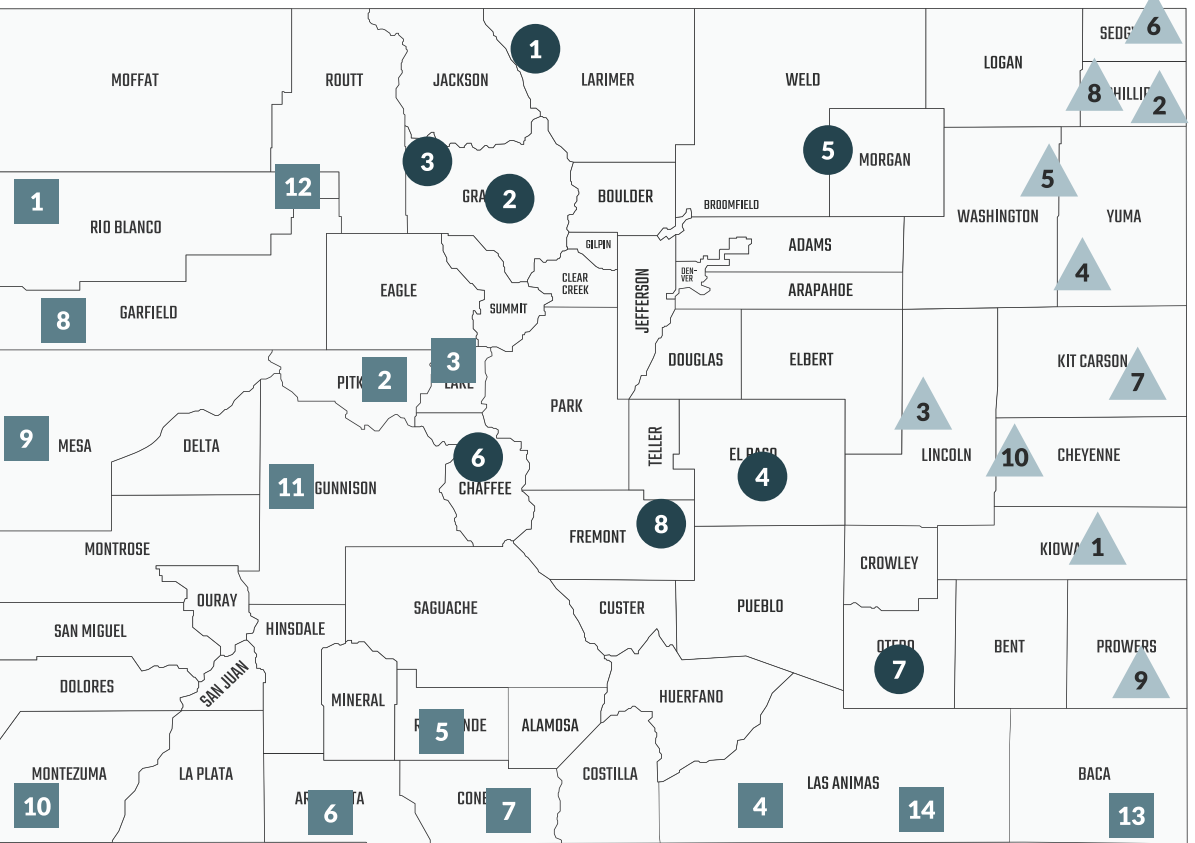
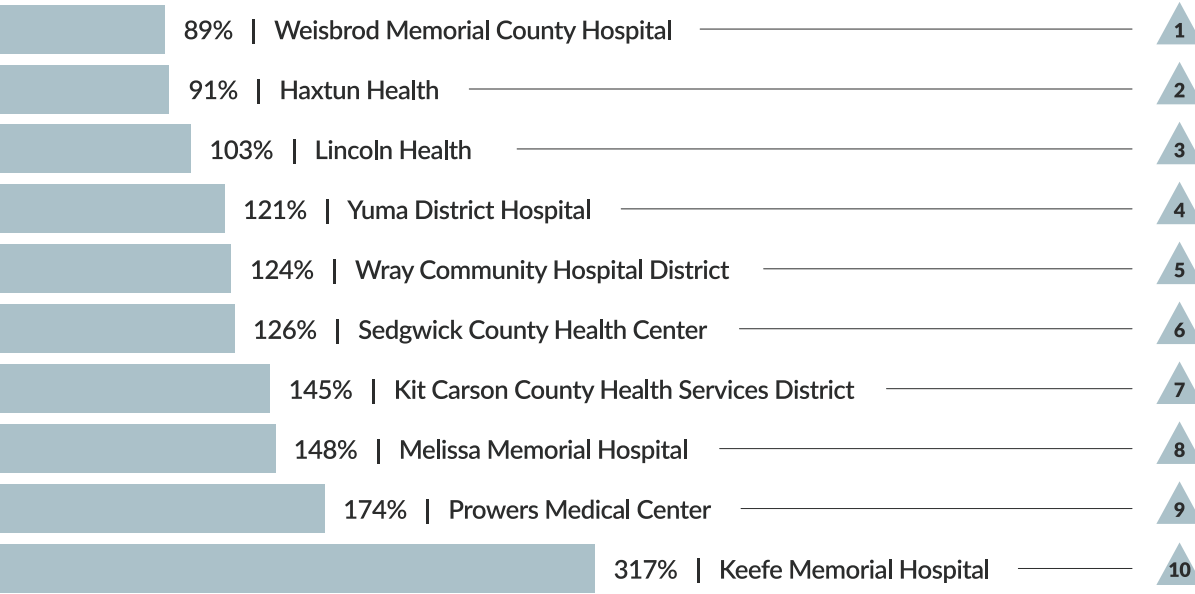


2022 Map and Chart by DOI Region

The rural areas of the state (DOI Regions East and West) have the lowest percent of Medicare reimbursement, especially for inpatient claims. The majority of critical access hospitals are located in these regions.



Eastern Plains



Conclusion

The trend toward lower commercial health insurance payments compared to Medicare rates in Colorado is promising, though significant variation exists at the individual facility and regional levels. While the majority of hospitals and ASCs have seen decreases in payments, opportunities remain for further reductions, especially at facilities with payments well above Medicare rates.

This analysis supports the use of Medicare reference-based pricing as an effective tool for reducing health care costs and highlights the need for continued efforts to make health care more affordable for Coloradans. By providing greater transparency into payment variations, this data can aid employers, state agencies, and purchasing alliances in negotiating rates to reduce premiums and overall health care spending.



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