

Researchers lack understanding of hospital pricing complexities

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Regarding “Lopsided urban hospital markets spark cost concerns” (ModernHealthcare.com, Sept. 17), once again the ivory tower researchers were profiling prices for only one-third of the hospital patients. I wish they would put down their clipboards and try running a health system and understand pricing from the system’s perspective instead of just trying to make headlines.

According to the CMS, the cost of running hospitals increases by 2.5% per year (i.e., the marketbasket.) Since 2014, the blended rate increase for health systems from all payers is about 1% per year: 31% of gross revenue from commercial payers averaging a 2.5% negotiated rate increase per year (if lucky.); 21% of gross revenue from Medicaid/selfpay that pays 65% of cost with no increase over the past five years; and 48% of gross revenue from Medicare that pays about 80% of cost averaging 1.5% increase per year.

And please stop with the “hospitals can break even on Medicare” nonsense. The CMS overestimates health system margins using data from hospitals’ Medicare cost reports, which exclude essential costs health systems incur, including the cost burden of physician employment (necessitated in part by the stingy 0%-1% annual increases in the Medicare physician fee schedule over the past decade).

As Steve Jobs once noted, people who make recommendations without the experience of actually working in that business are extremely limited because they never really get a full understanding of that business and its pricing complexities.

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