

*Presentation to the
New Mexico
Legislative Health
and Human Services
Committee
November 21st, 2024*

1. Hospital Costs in the U.S.
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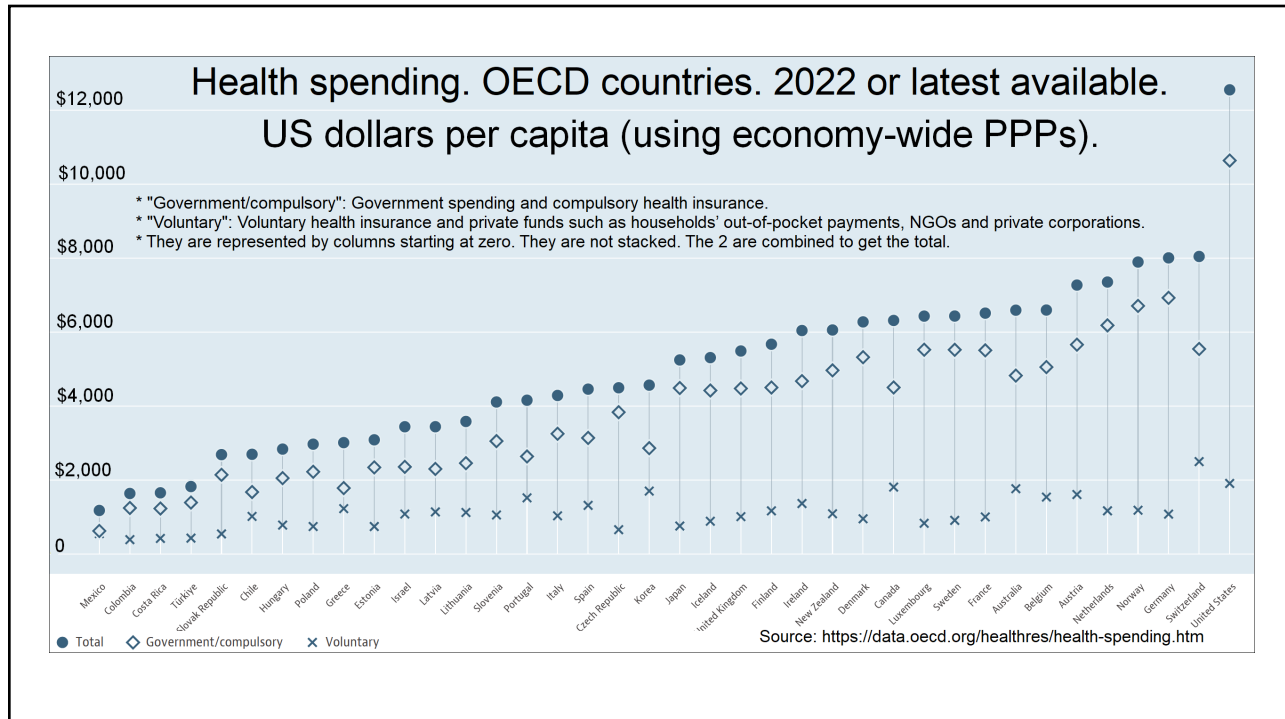
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Part 1: Hospital
Costs in the US
(Michael Gusmano)



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OF HEALTH

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Hospital expenditure in the U.S. (over \$1.3 trillion in 2021) is higher than in other countries.

- Prices in the U.S. are uncoordinated and determined by thousands of public and private payers
- Price growth is unrelated to changes in providing services and not associated with higher quality. For example, prices paid vary even within hospitals, or between two hospitals located in the same zip code.
- Prices have been increasing:
 - the average price to see a doctor in an emergency room visit was \$1,055 in 2019 and this was up 57% compared to 2012
 - so-called “facility fees” are increasing: between 2004 and 2021, “facility fees grew at a rate (531%) that was 4 times the rate of growth in professional fees (132%)” (Kaiser Family Foundation).

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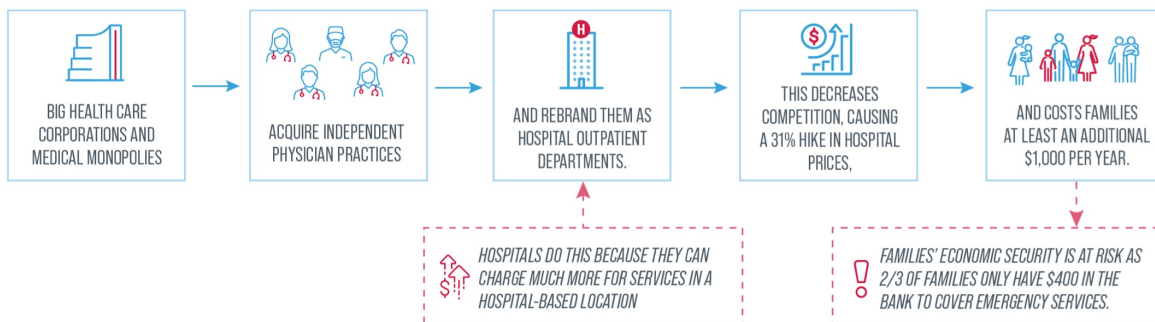
Hospital Consolidation and Vertical Integration Increases Health Care Prices

- Market power based on a lack of competition in a geographic area drives up prices in health care.
- Merged hospital systems gain negotiating power with insurers, so they can charge higher rates for services.
 - *A single large health system merger that is stopped can “prevent billions of dollars in increases in health spending” (Cooper et al 2019).*
- Vertical integration is reinforced by “site-of-care” payment differentials
 - *Medicare reimburses \$917 on average for procedures in hospital outpatient departments, but only \$413 for those in physician offices.*

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How vertical integration exploits payment differences to maximize revenue

Source: [Families USA](#)



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Part 2: Simplification



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61 percent of US health care expenditure is spent on hospital and outpatient care. Around 8 percent of US health care expenditure is spent on administration

Healthcare spending per capita, by spending category, 2021

■ Inpatient & outpatient care
 ■ Long-term care
 ■ Preventive care
 ■ Prescription drugs and medical goods
 ■ Administration
 ■ Other

United States (Total: \$12,197 per capita)

\$7,500	\$924	\$589	\$1,635	\$925	\$625
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Comparable Country Average (Total: \$6,514 per capita)

\$2,969	\$1,301	\$944	\$630
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Note: Comparable countries include Austria, Belgium, Canada, France, Germany, the Netherlands, Sweden, Switzerland, and the United Kingdom. Australia and Japan are excluded due to lack of 2021 data.

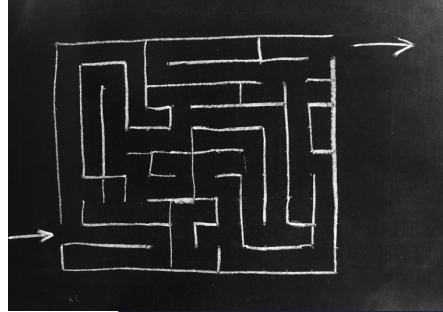
Source: KFF analysis of OECD Health Statistics

Peterson-KFF
Health System Tracker

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Cost Driver 1: Complexity makes health care a “Game of Codes”

- Health care complexity encourages strategic gaming and exploitation of site of service, health status, or service provided.
- Everyone from patients to insurers is incentivized to play “the game of codes” to obtain maximum payment amounts.



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Cost Driver 2: Inefficiencies, Wastage, and Burnout

- In 2022 health care professionals across New Mexico we met with told us about the significant challenges providers experienced in dealing with administrative burdens ranging from certification to getting paid.
- Though simplification is urgently needed in US healthcare, the evidence base for the policy solutions are not well-defined.
- Developing standardized systems and reducing administrative burden is important for reduction of costs in New Mexico –and to prevent health care professional burnout.



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Steps towards Simplification

1. Map administrative burdens in New Mexico

- Develop an evidence base around challenges and solutions:
- Hospitals and health professionals
- Payers
- Patients

2. Develop Options

- Explore standardization of outpatient fees in hospitals “same service same price” within global payments and reduce gaming
- Improve system efficiency to free up resources and reduce professional burnout

3. Create a Roadmap for New Mexico

- Work with policymakers and develop policy proposals to address needs of:
- Hospitals and health professionals
- Payers
- Patients