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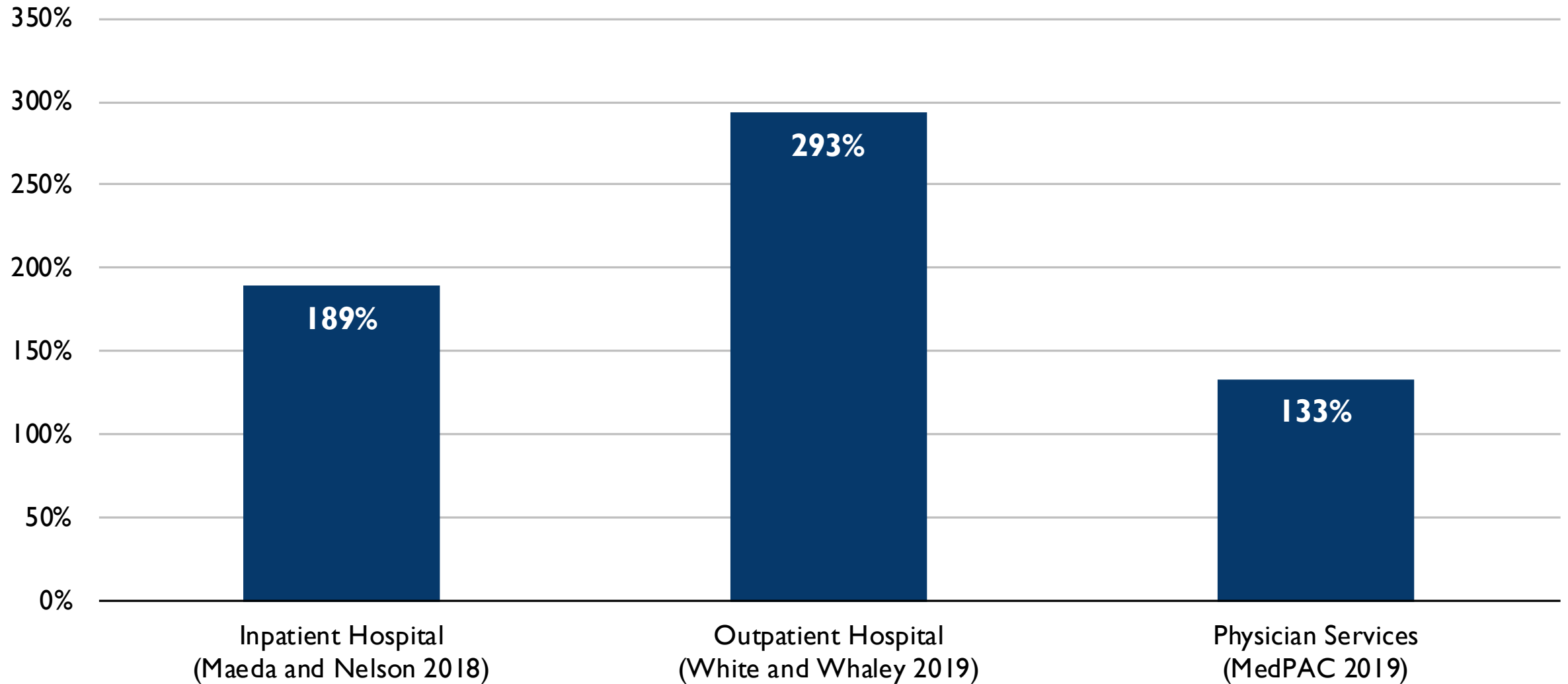
Cost-Shifting: Fact or Fiction?

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Average Contracted Payment Rates as a Percentage of Medicare Rates for Major Service Categories

Bar chart showing average contracted payment rates as a percentage of Medicare rates:
- Inpatient Hospital (Maeda and Nelson 2018): 189%
- Outpatient Hospital (White and Whaley 2019): 293%
- Physician Services (MedPAC 2019): 133%

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What is Cost-Shifting?

Hospital cost-shifting: Charging private payers more <u>in response to</u> low public payer payments.

What is Cost-Shifting?

Hospital cost-shifting: Charging private payers more <u>in response to</u> low public payer payments.

<u>BUT</u>

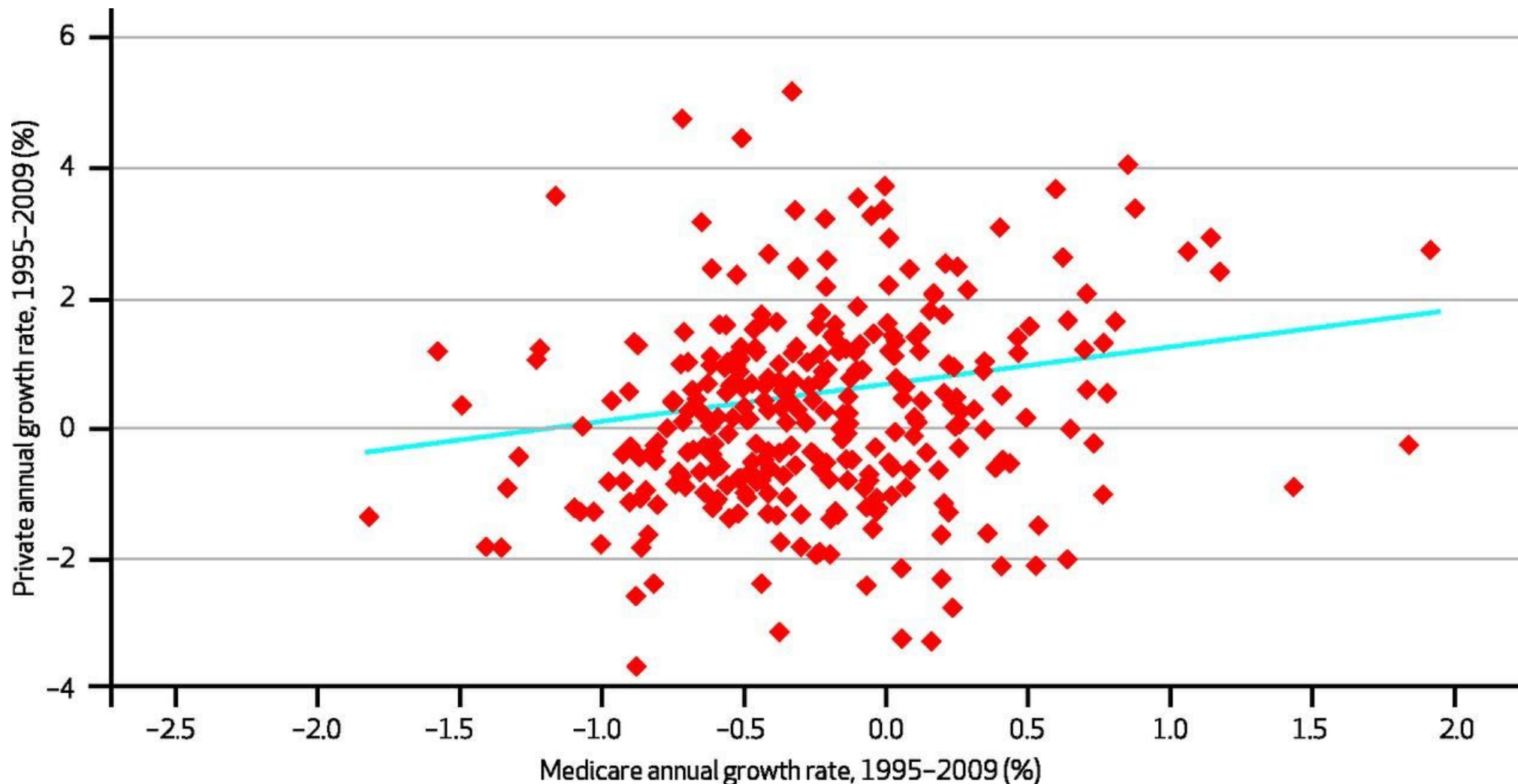If hospitals could raise prices on private payers above current levels, why aren't they already doing this?

Cost-shifting theory is only possible if hospitals aren't profit-maximizing today.
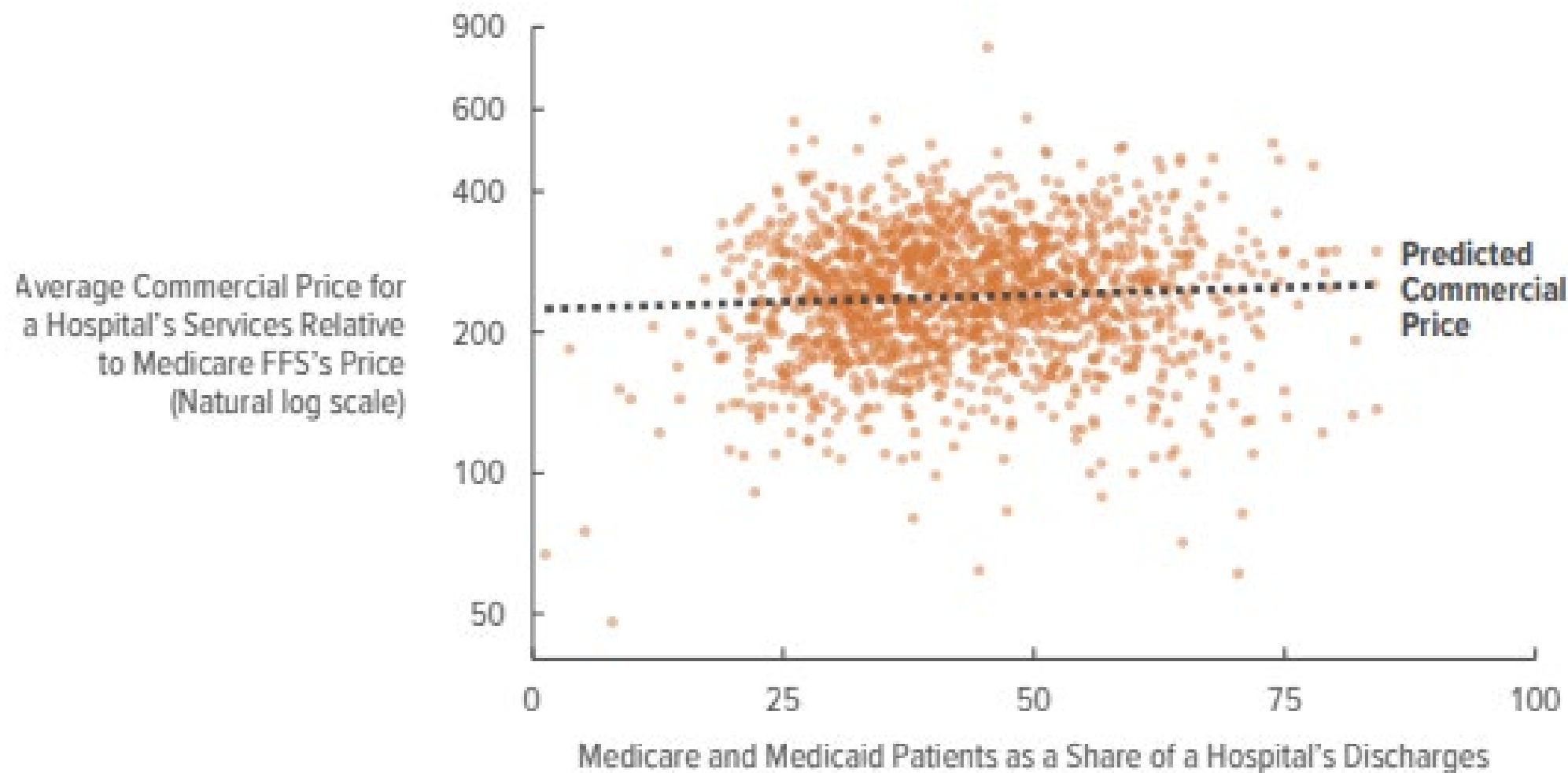
Empirical Literature on Cost-Shifting

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

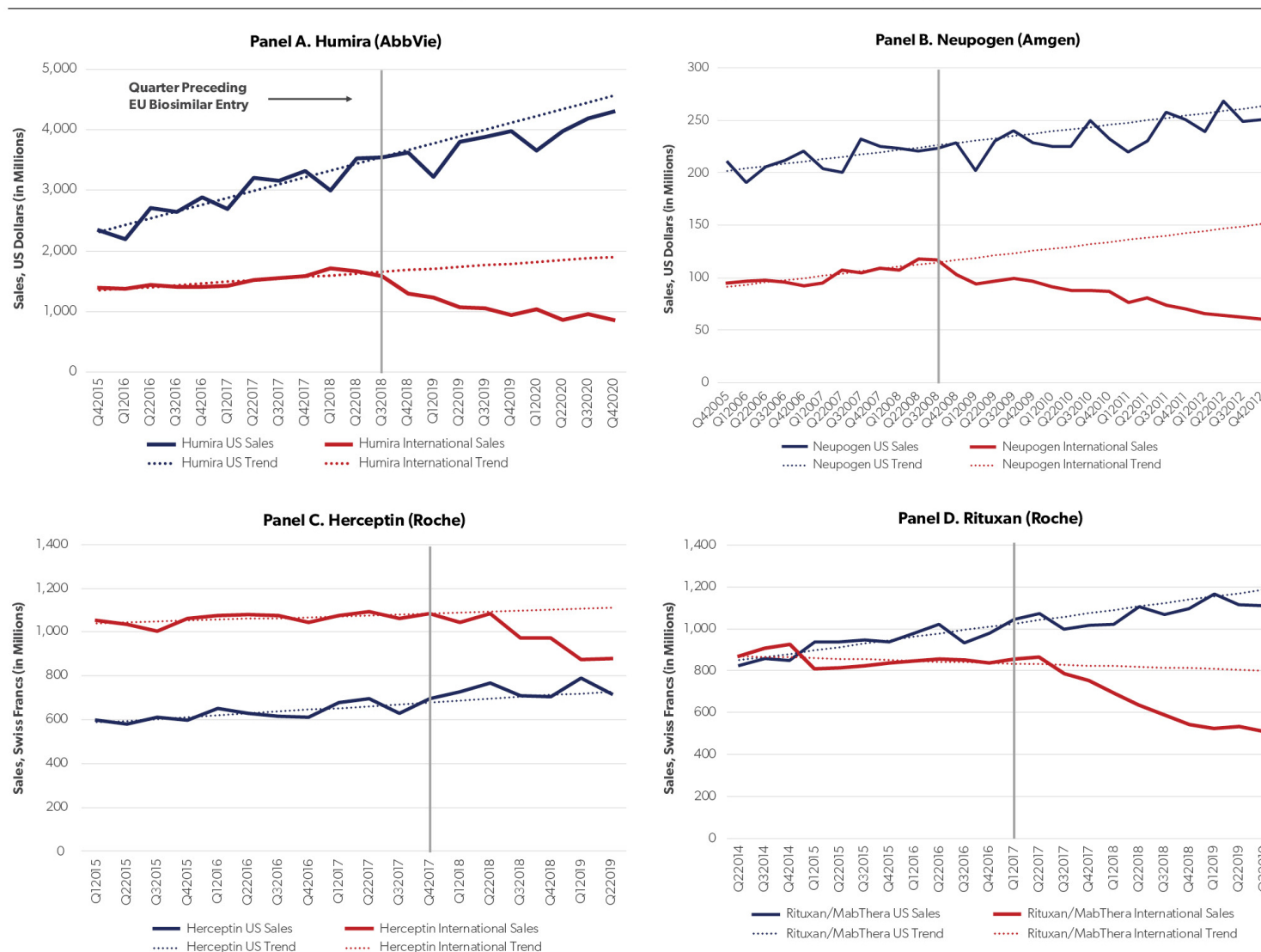# Annual Payment Rate Growth Rates Per Discharge for Medicare and Private Insurers, Adjusted for Input Costs, 1995-2009

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

Panel A. Humira (AbbVie)

Quarter Preceding EU Biosimilar Entry →

— Humira US Sales   — Humira International Sales
···· Humira US Trend   ···· Humira International Trend

Panel B. Neupogen (Amgen)

— Neupogen US Sales   — Neupogen International Sales
···· Neupogen US Trend   ···· Neupogen International Trend

Panel C. Herceptin (Roche)

— Herceptin US Sales   — Herceptin International Sales
···· Herceptin US Trend   ···· Herceptin International Trend

Panel D. Rituxan (Roche)

— Rituxan/MabThera US Sales   — Rituxan/MabThera International Sales
···· Rituxan/MabThera US Trend   ···· Rituxan/MabThera International Trend

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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 (?)