The Hidden Tax In American Healthcare – How Employers Subsidize Public Payers

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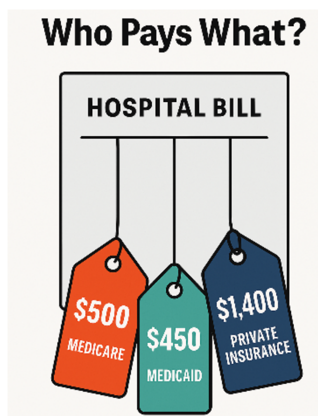
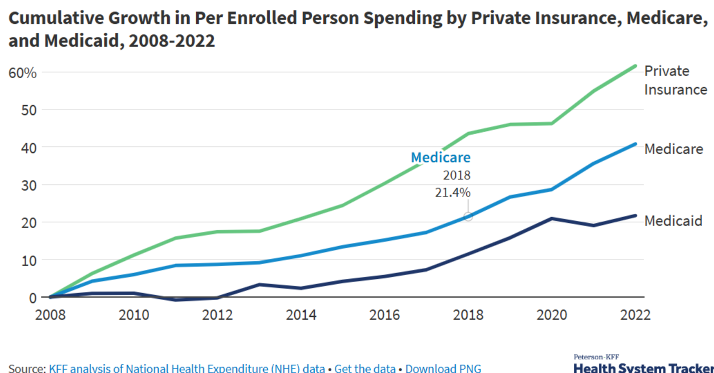


Hospitals across the U.S. have always deemed the higher prices charged to private insurance as a "necessary" cross-subsidy for Medicare and Medicaid payment shortfalls. In this article, we discuss how this payment gap evolved over time alongside changes in the delivery system and payer mix.

Across many markets, private insurers routinely pay well above Medicare/Medicaid prices for similar hospital services, often close to ~140% to 300% of Medicare.[1] The higher prices charged to patients on private insurance in often passed on to the employers particularly when the employers choose to self-insure.[2] The prices are generally negotiated behind closed doors between hospitals and insurance companies and employers are often purchasing health insurance blindfolded.



As health system consolidation and vertical integration has increased over the last decade, negotiated commercial rates have risen more rapidly relative to Medicare and

Medicaid benchmarks in many markets. While price transparency rules and value-based initiatives have expanded in the recent years, the data now available show that private purchasers, especially self-insured employees, often pay well above Medicaid/Medicare prices for similar services. These variations are unrelated to quality or cost of care.

To provide an example of what more aligned incentives can look like, we discuss the Maryland all-payer model/ global budget model. By setting consistent rates across all payers and incentivizing hospitals to work towards population-based revenue target, Maryland reduced avoidable utilization, regulated price inflation, and enabled investments in care-coordination.[3,4] The model isn't ready for national adoption due to varying regional needs, political will, and the technical capacity needed to successfully implement such a program. It also requires the federal government to pay more for Medicare services or at least cover the full costs. The government Medicare budget has gotten accustomed being subsidized by private insurance. But it shows that coherent guidelines can make hospital prices predictable and healthcare affordable for employers at the same time.

The bottom line is pragmatic. Better information, transparent and pro-competitive pricing can help narrow unwanted price gaps without compromising access. Policymakers can curb anti-competitive pricing and, in concentrated markets, pilot all-payer or global budgets with clear quality and access guidelines. Healthcare cost growth cannot be controlled by extortion; but requires structured rules that make competition real and value based. The article offers evidence-based roadmap options for employers, health insurance plans, and states to consider where they are most likely to improve value and reduce the significant private versus public payer price distortion currently stressing the economy.

References:

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5. The image used in this article was generated with the aid of AI image generators.