

Why is Health Care Spending on the Privately Insured in Grand Junction, Colorado So High? Prices, Competition, and Health Care Spending

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Grand Junction, Colorado is located 247 miles southwest of Denver. With an economy fueled by tourism, the city is home to about 150,000 residents. The city also has hugely high health care spending for the privately insured. While the Grand Junction hospital referral region has one of the lowest levels of spending per Medicare beneficiary, its spending per beneficiary on the privately insured ranks in the highest quintile of the nation. This paper explores why Grand Junction and cities and regions like it have such high hospital spending for the privately insured. In particular, we focus on analyzing the role that providers' prices play in driving health spending and seek to analyze the factors that impact providers' price levels.

This paper analyzes the variation in health care spending of Americans covered by employer-sponsored insurance using a new, unique national dataset from the Health Care Cost Institute that is composed of all insurance claims paid by Aetna, UnitedHealth, and Humana from 2007 through 2011. Crucially, this data includes the prices that these insurers negotiated for care with all providers. In what follows, we document the contribution prices make to the spending variation of the privately insured and assess the extent to which negotiated provider prices vary within and across markets. Finally, we identify the key factors that are driving the observed variation in prices.

Ultimately, we reach four conclusions in our work. First, we find very low correlation between spending per beneficiary on Medicare and spending per beneficiary on our sample of privately insured individuals with ESI. Indeed, for 2011, overall spending per beneficiary for Medicare and the privately insured is correlated by 14.5% and inpatient spending is correlated by 26.7%.

Second, we find that while variation in the quantity of care provided across regions explains the vast majority of variation in spending for Medicare beneficiaries, variations in the price of services and the volume of care provided explain the variation in spending in the privately insured. That is, unlike in Medicare, price plays a central role in driving variation in inpatient spending on the privately insured across the US.

Third, we find that hospital prices vary substantially within and across markets in the US. Indeed, we find that the prices for routine services vary by a factor of four within hospital referral regions and by more than a factor of ten across the US. This variation in private prices is far in excess of the variation in Medicare reimbursements, which varies by a factor of roughly four across the US.

Fourth, we find that provider market power is highly associated with higher hospital prices. Indeed, a shift from the lowest quartile of market concentration to the highest quartile of concentration raises inpatient hospital prices by 18%. Likewise, we find that hospital prices are correlated with observed quality, that high technology hospitals have high prices, and that hospitals ranked highly by the US News and World Report also charge high prices.