

Hospital Charges and Reimbursement for Medicines:

Analysis of Cost-to- Charge Ratios

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Background

This report is an update to a previous report examining hospital markups for separately paid drugs. Our prior analysis¹ examined hospital charges and reimbursement for 20 drugs and found that hospitals marked up charges for those drugs, on average, 487 percent of their acquisition cost. We also found that hospitals receive 252 percent of estimated hospital acquisition cost from commercial payers. Hospital reimbursement data was obtained from the Magellan Rx Management Medical Pharmacy Trend Report™: 2016 Seventh Edition (the Magellan report)² and charges were calculated from Medicare claims data. For more information, please refer to our prior analysis.

Hospitals are generally not paid 100% of billed charges; however, hospital outpatient departments are routinely reimbursed as a percent of billed charges by commercial payers. In the hospital outpatient setting, payers surveyed for the Magellan report indicate that 54% of covered lives had their services reimbursed under a percent of charges model. More than half of payers surveyed (51%) for the 2018 EMD Serono Specialty Digest indicate that percent of billed charges remains the most common reimbursement mechanism in the hospital outpatient setting for single source, brand specialty medicines.³ There is also evidence of correlation between increased hospital charges and increased reimbursed amounts to hospitals by private payers.^{4,5} High hospital charges can also be passed along directly to uninsured patients and other groups who have not negotiated rates with the hospital, leading to financial hardship for patients and increased premiums for automotive and workers' compensation insurance.⁶

To explore the generalizability of our study of 20 medicines, we conducted an additional analysis of hospital cost report data to study the average markup across all hospital administered drugs.

¹ Hospital Charges and Reimbursement for Drugs: Analysis of Markups Relative to Acquisition Cost, The Moran Company, October 2017. Available at http://www.themorancompany.com/wp-content/uploads/2017/10/Hospital-Charges-Report-2017_FINAL.pdf (Accessed June 28, 2018).

² The Magellan Rx Management Medical Pharmacy Trend Report™: 2016 Seventh Edition includes both (1) a 2016 survey of U.S. health plans representing more than 109 million medical pharmacy lives and (2) analyses of 2015 commercial and Medicare Advantage medical paid claims data. The Magellan Rx Management Medical Pharmacy Trend Report™: 2016 Seventh Edition. Available at: <https://www1.magellanrx.com/magellan-rx/publications/medical-pharmacy-trend-report.aspx> (Accessed June 28, 2018).

³ Managed Care Strategies for Specialty Pharmaceuticals, The EMD Serono Specialty Digest 14th Edition. Available at: <https://www.specialtydigestemdserono.com> (Accessed June 28, 2018).

⁴ Ibid

⁵ Batty M, Ippolito B. Mystery Of The Chargemaster: Examining The Role Of Hospital List Prices In What Patients Actually Pay. Health Affairs. 2017 Apr 1;36(4):689-96.

⁶ Bai G, Anderson GF. US Hospitals Are Still Using Chargemaster Markups To Maximize Revenues. Health Affairs. 2016 Sep 1;35(9):1658-64.

Results

We found that, on average, hospitals charge 479% of their cost for drugs nationwide.⁷ This matches closely with the findings from our prior analysis. Most hospitals (83%) charge patients and insurers more than double their acquisition cost for medicine, marking-up the medicines 200% or more. The majority of hospitals (53%) markup medicines between 200-400%, on average.

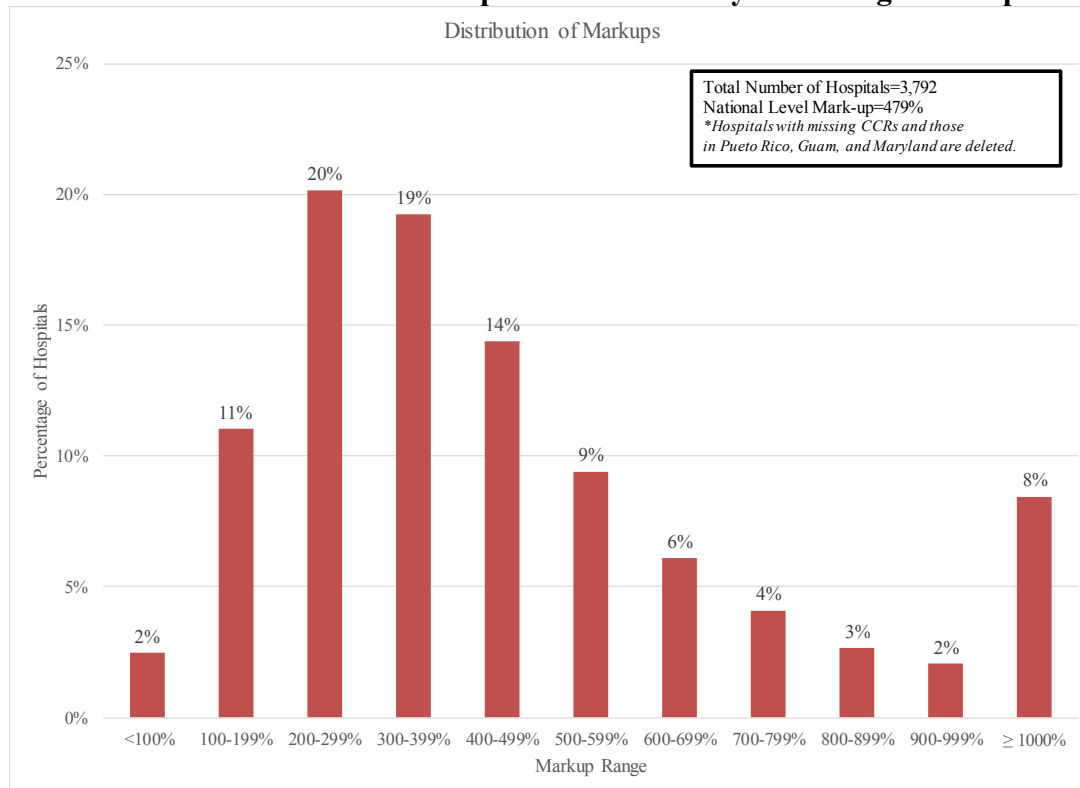
A small share of hospitals - one in six (17%) - charge seven times the price of the medicine. On a medicine with an ASP of \$150, a 700% mark-up would result in a charge of \$1050. One out of every twelve hospitals (8%) has average charge markups greater than 1000% - meaning they are charging at least 10 times their acquisition cost for medicines, on average. These data are presented in Chart one and Table one.

Methodology

All Medicare-certified institutional providers submit an annual cost report containing provider information such as facility characteristics, utilization data, cost and charges by cost center (in total and for Medicare), Medicare settlement data, and financial statement data. The Centers for Medicare & Medicaid Services (CMS) maintains the cost report data in the Healthcare Provider Cost Reporting Information System (HCRIS).⁸ We used the 2016 cost reports from the HCRIS in this analysis. Hospitals with a full year of cost report data in 49 states and D.C. were included. Hospitals in Maryland were excluded since they are paid under a waiver program that is atypical from other payment systems. Hospitals with missing cost or charge information and those with cost-to-charge ratios (CCRs) greater than 10 were excluded from the analysis. We obtained the charge data from line 73 in column 8 of Worksheet C part 1 of Form CMS-2552-10 and the cost data from line 73 in column 5 of the same worksheet. CCR was calculated by dividing the cost by the charges. Markup was calculated using the formula: $1/CCR$.

⁷ Calculated as Total Charge (\$302,522,487,725) ÷ Total Cost (\$63,123,639,055). Corresponding Cost-to-Charge Ratio (CCR) = 0.2087

⁸ Cost Reports. The Centers for Medicare & Medicaid Services. Available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Downloadable-Public-Use-Files/Cost-Reports/>. (Accessed June 28, 2018)

Chart One: Distribution of Markups for Medicines by Percentage of Hospitals**Table One: Distribution of Hospital Markups and Cost-to-Charge Ratios for Medicines**

Markup Range	CCR Range	Number of Hospitals	Percent of Hospitals
Markup <100%	CCR ≥1.00	94	2%
100% ≤ Markup < 200%	0.50 ≤ CCR < 1.00	418	11%
200% ≤ Markup < 300%	0.33 ≤ CCR < 0.50	764	20%
300% ≤ Markup < 400%	0.25 ≤ CCR < 0.33	729	19%
400% ≤ Markup < 500%	0.20 ≤ CCR < 0.25	545	14%
500% ≤ Markup < 600%	0.17 ≤ CCR < 0.20	357	9%
600% ≤ Markup < 700%	0.14 ≤ CCR < 0.17	231	6%
700% ≤ Markup < 800%	0.13 ≤ CCR < 0.14	155	4%
800% ≤ Markup < 900%	0.11 ≤ CCR < 0.13	101	3%
900% ≤ Markup < 1000%	0.10 ≤ CCR < 0.11	78	2%
Markup ≥ 1000%	CCR < 0.10	320	8%