

Geography Makes a Difference in the Cost of Health Care



A new report from the Network for Regional Healthcare Improvement (NRHI) shows once again that geography makes a difference in how much commercial insurance plans pay for health care. The report, [Healthcare Affordability: Untangling Cost Drivers](#), follows up on NRHI's previous groundbreaking work on health care costs.

A number of factors can explain why costs may vary within and among states, including the health of the population, service utilization (how often people visit health care providers or fill prescriptions) and the price of those services. The Total Cost of Care project, funded by the Robert Wood Johnson Foundation and led by NRHI, is the first to measure those factors in a standardized way across multiple states. HealthInsight participates in the project.

NRHI's latest benchmark study compared private payers' 2015 risk-adjusted spending in five states: Colorado, Maryland, Minnesota, Oregon and Utah. Results showed that the cost of care for comparable populations ranges from 17 percent above average in Colorado to 16 percent below average in Maryland.

Bringing the higher-than-average-cost states down to the average of the participating states could save more than \$1 billion for investment in other sectors of the economy – including infrastructure, education and public health programs, which are known to improve health in the long term.

"With one of every six dollars in the American economy going to health care, it's imperative that we determine what is driving health care costs," said Elizabeth Mitchell, president and CEO of NRHI. "With reliable and actionable information on cost drivers, we can enable health care stakeholders to make the changes needed to bring down the cost of care."

Key takeaways

- 1. Pricing structures and care delivery patterns vary across states, and those differences drive differences in cost.**
 - *The care patients receive is influenced by local norms in standard of care (e.g., rates of certain surgeries and imaging services), market structure (ambulatory surgery center vs. hospital outpatient, freestanding emergency department vs. urgent care) and other factors.*
- 2. Each state's numbers tell a story, giving stakeholders a framework to consider the roles of policies, demographics and market factors in driving health care costs.**
 - *What works for one state or region may not be right for another. The NRHI report helps local and national stakeholders think about what questions to ask next.*
- 3. Results showed variability in every category of care except pharmacy pricing, which is largely a result of the influence of a few large pharmacy benefit managers and of pharmaceutical manufacturers' national pricing policies.**
 - *Price variation plays a role in cost variation, but differences in how many services are used and how efficiently those services are delivered matter too.*

State-specific results



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With one of the nation's highest birth rates per capita, Utah uses inpatient (hospital) services more than the comparison states. The good news is that Utah's hospital prices are relatively low compared to other states, including Maryland, where all-payer hospital rates are regulated. Utah's total cost of care includes higher outpatient resource use (13 percent above average) and slightly higher outpatient prices (4 percent above average), resulting in a total cost that is 4 percent below average. Further analysis may reveal opportunities for outpatient health care savings.

"Understanding the drivers of costs of health care is critical for transforming our delivery system and bending the cost curve," said Juliana Preston, HealthInsight Utah executive director. "HealthInsight is committed to the total cost of care initiative and will use this information in our community to accelerate value conversations and improvements."

Many regional health improvement collaboratives (RHICs) are guiding local efforts to remove waste from the health care system. NRHI has collaborated with its member RHICs on the Total Cost of Care initiative since November 2013. The report just released follows up on the 2014 benchmark study in which Oregon and Utah also took part.

The next round of regional cost comparisons is scheduled for release in late 2018. With three years of data, trends will begin to emerge to support existing hypotheses and/or challenge long-held assumptions.

HealthInsight Nevada and HealthInsight New Mexico recently received funding to join this project and will soon begin measuring and reporting on the total cost of care along with the other HealthInsight states.

