The Hidden Driver of Healthcare Costs

CareLuminate Case Study: Reducing Healthcare Costs and Improving Care Quality Part 1

Employers know that their healthcare costs are rising far faster than inflation—2024 healthcare increases are expected to be 8.5%, or twice as high as last year. The race is on for employers to explore healthcare options delivering the best care at the lowest cost.

The traditional model of paying for healthcare and not having insights or confidence in the outcomes of that investment until 12-48 months later is over. Emerging leaders in this value-driven market are embracing new models of looking at healthcare quality that are timelier and tied directly to the actual costs.

When employers pull back the actual costs being paid by their insurance company or TPA for care, they find themselves on an empowered path to make data-driven, informed choices.

Hospital Cost Variability: A Hidden Driver of High Healthcare Costs

Engaged employers who try to understand their costs through their payers are often held back from true transparency BY their payers. But every year, insurance companies compare what they were paid in premiums to what they paid in healthcare costs. This difference, called the Medical Loss Ratio (MLR), is a key metric for determining rate increases for the following year. If your company racks up high costs this year, the bill is likely coming due next year. Every year, employers wait expectantly for premium costs as they prepare for open enrollment.

To their credit, some employers have made a few key efforts to reduce healthcare costs in recent years. Three common approaches include: (1) Wellness plans aimed at improving overall employee health, (2) Utilization management in helping employees spend less by not going to the hospital emergency department, but instead going to an instant care and (3) Preventive care, helping employees focus on preventative costs through engaging a primary care physician. These efforts may have shown returns, but is there an even easier option to save money that does not require employees to change who they are?

According to AHIP (America's Health Insurance Plans), 42.2% of every healthcare dollar is spent on hospital care—the single largest expense by recipient. Until recently, visibility into these costs was nearly impossible, but the passage of the Transparency in Coverage Rule has required, as of July 1, 2022, that all insurance companies post the prices they pay to hospitals for different charges.

These differences in costs highlight dramatic differences in costs to insurance companies, and ultimately to employers, for the same services. A recent Rand study found that costs paid to hospitals vary widely, and that there is little correlation between cost and quality (https://www.rand.org/pubs/research_reports/RR3033.html).

For investors, the lack of correlation between cost and quality is an opportunity, inviting investors to buy the best-value solutions at a low price.

Example: Kansas City United Healthcare Choice Plus Plan

To highlight this opportunity, we selected a single healthcare plan from the US—the Kansas City United Healthcare Choice Plus Plan.
Exploring the cost files that United Healthcare posts on their website, we see that differences in the most common DRG billing code prices charged by hospitals are dramatic. If we use 'North Kansas City Hospital' as the comparison point for all other hospitals, we see that most hospitals in the region charge 45-95% more than North Kansas City Hospital

	Cost Difference to Lowest Cost Hospital (NKCH)
North Kansas City Hospital	100%
Olathe Medical Center	116%
Overland Park Medical Center	147%
HCA Belton Regional	151%
HCA Centerpoint	151%
University of Kansas Medical Center	160%
Saint Luke's Hospitals	193%

It could be assumed that these price differences originate from quality differences, but this is not what the data tells us. If we look at two common quality indicators, the CMS Stars hospital rating and the HCAHPS Patient Recommendation Rate, North Kansas City Hospital is actually an above-average quality hospital with the second highest quality rating and the third highest patient recommendation rate. Conversely, the HCA hospitals in our plan appear to be lower quality but have above-average costs.

	Cost Difference to Lowest Cost Hospital (NKCH)	Hospital Quality Star Rating	Percent of Patients Saying They Would Definitely Recommend the Hospital
North Kansas City Hospital	100%	4	76%
Olathe Medical Center	116%	3	70%
Overland Park Medical Center	147%	4	66%
HCA Belton Regional	151%	2	59%
HCA Centerpoint	151%	2	58%
University of Kansas Medical Center	160%	5	81%
Saint Luke's Hospitals	193%	5	83%

While the costs mapped in this analysis are up to date, we should note that hospital quality measurements lag significantly. Quality Star ratings are based on data 1-4 years old, while patient recommendation rates lag by about a year.

CareLuminate Can Help Explore Your Costs

CareLuminate can make mapping your network costs simple, and is low cost for any employer. This important mapping helps your business see the possible level of waste, and conversely opportunity.

While mapping costs helps identify the problem, the solution requires employees to avoid certain high-cost, low-quality hospitals. While this employee change is much simpler than hoping employees walk 15,000 steps a day, it is unlikely to happen after a single email. See PART 2 of this study to understand how CareLuminate reimagines the way employers and their employees look at hospital quality to reduce high cost variability.