



FOR IMMEDIATE RELEASE
December 9, 2008

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Consumers and Employers Paying Almost \$90 Billion Due to Under-Payments to Hospitals and Physicians by Medicare and Medicaid

'Hidden tax' leads to higher premiums for families and employers

WASHINGTON, D.C. — Low Medicare and Medicaid reimbursements to hospitals and physicians lead to significantly higher health insurance costs for consumers and employers, according to a study released today by Milliman Inc. The report found that annual health care spending for an average family of four is \$1,788 higher than it would be if Medicare, Medicaid and private employers paid hospitals and physicians similar rates, with total provider reimbursement unchanged.

The continued underpayment of providers by public programs has devastating consequences for families and employers that are struggling to afford health care coverage. These underpayments create a payment gap to hospitals and physicians that privately insured employers and consumers must close through a “cost shift” or “hidden tax.”

The Milliman study measures the cost shift as the difference between actual payment rates and average payment rates for Medicare, Medicaid and private payers; total payment to hospitals and physicians is held constant. The study does not assess appropriate levels of payment, but rather the disparities among current payment rates.

The study found that cost shifting:

- Adds an estimated \$1,512, or 10.6 percent, to the average premium for a family of four
- Of this amount, employers pay approximately \$1,115 and the employee share is \$397
- Families pay an additional \$276 more in coinsurance and deductibles due to the cost-shift

“As businesses struggle to cut costs to match sagging revenues, employee health benefits are increasingly at risk,” said Rich Umbdenstock, president and CEO of the American

Hospital Association. “The faltering economy makes fair payment by Medicare and Medicaid more important than ever.”

In 2006, the hospital cost shift from Medicare was \$34.8 billion and \$16.2 billion for Medicaid. In 2007, the physician cost shift was \$14.1 billion for Medicare and \$23.7 billion for Medicaid. Taken together, the estimated annual cost shift is \$88.8 billion.

Overall, the cost shift represents 15 percent of the current amount spent by commercial payers on hospitals and physicians. Stated differently, if there were no cost shift, hospital and physician costs for privately insured patients would be 15 percent lower.

Health plans have taken many actions to keep coverage affordable, but are challenged by the growing cost of the subsidy that their customers provide to public programs. In 2006, Premera Blue Cross, which provides coverage for 1.7 million consumers in Washington, Alaska, Oregon and Arizona, commissioned a local cost-shift study, the first of its kind, to examine how deficient payments by Medicare and Medicaid are affecting employers and hospitals in their area. Their work laid the foundation for the national cost shift study which examines the additional cost burden passed on to all employers and consumers nationwide.

“This new study shows that cost-shifting is driving up the costs of health care for all consumers,” said Scott P. Serota, President and CEO of the Blue Cross and Blue Shield Association. “As our nation embarks on comprehensive healthcare reform—and we collectively strive to extend coverage to all, improve quality of care and keep healthcare affordable for future generations—cost-shifting is one of the areas where we should focus our attention.”

“This study quantifies the ‘hidden tax’ that cost-shifting imposes on families and employers across the nation,” said Karen Ignagni, President and CEO of America’s Health Insurance Plans. “As Congress and the new administration focus on health care reform, they should confront this issue.”

Also hospitals and physicians in some areas may not be able to offset low public payments with higher commercial payments creating additional financial pressures. In addition to this hidden tax, the privately insured also must bear the costs associated with bad debt and charity care provided to individuals without insurance, which is not separately quantified in this report.

“As we consider approaches to expand coverage nationally, we need to keep in mind the disparity among Medicare, Medicaid, and commercial provider payment rates, and the pressure that this disparity places on hospitals, physicians, and commercial payers,” said John Pickering, Principal and Consulting Actuary at Milliman, Inc., who co-authored the report with Will Fox, also a Principal and Consulting Actuary at Milliman, Inc.

Milliman is an independent consulting firm that was engaged by AHIP, AHA, BCBSA and Premera Blue Cross to develop a best estimate of the cost shift in the United States.

Hospital findings are based on analysis of the 2006 AHA Survey data. The survey includes data on the 4,927 short-term, community hospitals in the U.S. The data represent each hospital's fiscal year 2006 results. The physician findings are based on 2007 fee schedule levels for Medicare, Medicaid and commercial payers. For more information and the full report please go to <http://www.bcbs.com/news/bluetvradio/cost-shift-study-2008/>.

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*The **American Hospital Association (AHA)** is a not-for-profit association of health care provider organizations and individuals that are committed to health improvement in their communities. The AHA is the national advocate for its members, which include almost 5,000 hospitals, health care systems, networks, and other providers of care. Founded in 1898, the AHA provides education for health care leaders and is a source of information on health care issues and trends. For more information, visit the Web site at www.aha.org.*

***America's Health Insurance Plans (AHIP)** is the national association representing nearly 1,300 member companies providing health insurance coverage to more than 200 million Americans. AHIP provides a unified voice for the community of health insurance plans. A major policy goal for our members is to expand access to high quality, affordable coverage to all Americans. We have developed innovative proposed solutions to promote universal coverage, raise the bar on quality, and make health care services more affordable. For more information, visit the Web site at www.ahip.org.*

***The Blue Cross Blue Shield Association (BCBSA)** is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 102 million individuals – nearly one-in-three Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.*

***Premera Blue Cross'** mission is to provide peace of mind to our members about their healthcare coverage. We provide health care coverage and related services to more than 1.3 million people. Premera Blue Cross has operated in Washington since 1933, and Alaska since 1952. Premera Blue Cross is an independent licensee of the Blue Cross Blue Shield Association. Premera Blue Cross is a member of a family of companies based in Mountlake Terrace, Washington, that provide health, life, vision, dental, and long-term care insurance, and other related services.*

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