Peterson-Milbank
Program for Sustainable
Health Care Costs

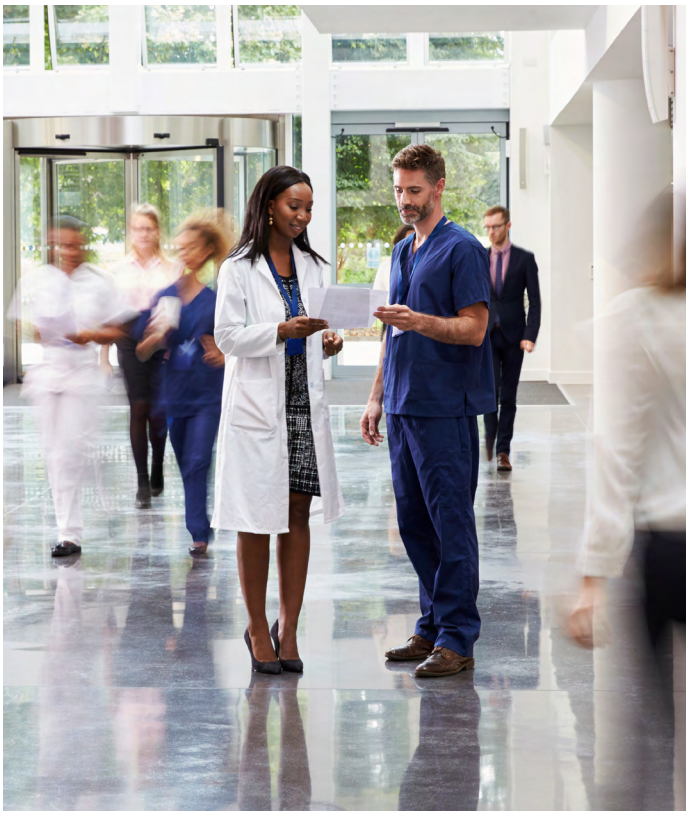
Guide to Hospital Price Growth Targets

Overview of Hospital Price Growth Targets

What Is a Hospital Price Growth Target?

A hospital price growth target establishes a value which annual commercial hospital price growth should not exceed; states then measure and report on actual hospital price growth compared to the target. Unlike a statewide cost growth target, state hospital price growth targets can hold hospitals accountable for prices, which account for most spending growth.

This document describes the **hospital-specific market basket methodology**, which states can use to calculate hospital performance against the hospital price growth target. The Peterson-Milbank Program for Sustainable Health Care Costs funded the development of code that can be used to perform this analysis using state all-payer claims data. The document also includes key **design and implementation considerations** for states pursuing a hospital price growth target.



Market Basket Overview

Purpose

The purpose of this methodology is to enable the examination of commercial market price growth for hospital services at an individual hospital between any two consecutive years, holding utilization fixed, to isolate changes in unit payment.

Details

- **Market Basket:** A longitudinal market basket price index provides a method to compare changes in an organization's prices across many different services over time.
- **Unit of Analysis:** The unit of analysis for inpatient services is an inpatient hospital stay; the unit of analysis for outpatient services is a service claim line.
- **Key Metric:** The payment index represents spending for 1,000 members at the most recent year's price and utilization rates.
- **Included Services:** Services included in the market basket must be included in both measurement years. States should choose a minimum utilization threshold for both measurement years. In selecting a minimum utilization threshold, states should consider their ability to capture a wide array of services and high proportion of spending, as well as whether the state would like to limit inclusion of less frequently delivered services. ***Note:*** *As written, the market basket code uses a default minimum utilization threshold of 2 for inpatient services and 5 for outpatient services. States that choose different threshold values will need to adjust these values.*
- **Data Source:** State All-Payer Claims Database or another state commercial claims database.

Methodology:

1. For each hospital, service code (i.e., DRG and CPT), and year, calculate commercial payment per unit (PPU) by dividing total spending by total utilization.
   a. *Use allowed amounts.*
   b. *Limit included codes to those that meet a minimum utilization threshold in both measured years, e.g., at least two paid claims for each DRG per year (see Detail, Included Services, above).*
2. Multiply PPU by utilization per member in the most recent year times 1,000.
3. Sum values across all codes in separate inpatient and outpatient market baskets.
4. For each market basket, divide the market basket total for the most recent year by the market basket total for the first year and subtract 1 to determine the year-over-year hospital price increases for inpatient services and separately for outpatient services.

Code that can be used to perform this analysis using state all-payer claims data is available to states on the Peterson-Milbank website within the Communications Toolkit for Program Participants.

Design Considerations

States should tailor the design and implementation of a hospital price growth target according to their unique landscapes and contexts.

Hospital Exemption from or Variation of the Target:

States may consider exempting some hospitals or varying the hospital price growth target based on hospital characteristics (e.g., specialty hospitals, critical access hospitals or other hospitals based on Medicare designation; financially challenged hospitals; public hospitals; or hospitals with low commercial prices relative to Mediare)

Considerations: To determine the best approach, states should weigh the benefits of broad scope and methodological simplicity against targeting hospitals with high prices and/or price growth. A caution to note is that any exemptions or variations in the benchmark could empower hospitals to argue for further exemptions/varied price growth targets.

Payer Exemption from or Variation of the Target – Self-Funded Plans:

States should consider whether to exempt or vary the hospital price growth target for self-funded plans.

Considerations: Again, states should weigh the benefits of broad scope and methodological simplicity against excluding self-funded plans due to limitations of data or state regulatory authority. States should also determine the desired level of impact of the hospital price growth target: excluding self-funded plans would exclude a large proportion of the commercial market.

Alignment with Existing Cost Growth Target Programs:

States with a cost growth target must consider how to set the hospital price growth target value in relation to the cost growth target value.

Considerations: Consider setting the hospital price growth target lower than the cost growth target value; if the hospital price growth target and cost growth target values are the same, there will not be any allowance for utilization growth and hospitals may meet the price growth target even while the state exceeds the cost growth target.

Inpatient and Outpatient Targets:

States should determine whether to evaluate target performance separately for inpatient and outpatient services.

Considerations: A combined target would afford hospitals more flexibility in terms of how they meet the hospital price growth target. If states choose a combined target, they will need to calculate a weighted average of the inpatient and outpatient market basket trends using allowed claims as weights.

Implementation Considerations

Stakeholder Engagement:

States pursuing a hospital price growth target might consider including the following groups in their stakeholder engagement: executive branch leaders, legislative leaders, partner agencies, likely opposition (including hospitals), and likely supporters (including insurers, employer and union purchasers, consumers, and consumer advocates).

Governance:

States could either incorporate the hospital price growth target governance into cost growth target governance or build a new governance body. This will depend on state capacity and resources.

Data Collection and Analysis:

States should consider whether internal agency staff have the capacity to perform the above analysis of hospital performance against the hospital price growth target, or whether contractor support may be necessary to support data collection and analysis.

Public Reporting and Messaging:

States can choose to publicly report hospital performance against the hospital price growth target at the same time as cost growth target performance or afterwards. Reporting at the same time would provide greater context for cost growth target performance. Reporting hospital price growth target performance after cost growth target performance would enable states to separately spotlight hospitals as a driver of health care spending.