



FACT SHEET

Hospital Costs in California

INSURED CONSUMERS PAID \$18 BILLION FOR \$13 BILLION IN CARE

One-third of private payers' costs went to hospital profits and to subsidize a revenue gap

Summary: Costs for hospital care have increased at a rate faster than any other health care cost driver and continue to constitute the largest portion of the insurance premium price. In light of this, the Pacific Business Group on Health (PBGH) and the California Public Employee's Retirement System (CalPERS) commissioned a study, "[Cost Efficiency at Hospital Facilities in California: A Report Based on Publicly Available Data \(Oct. 2007\)](#)" to examine hospitals' operational costs and patient charges. Released January 14, 2008, the study confirms that hospital charges and costs vary widely among facilities treating similar patients and illnesses in similar locations.

"We see what appears to be hospitals charging whatever the market will bear."

Peter Lee, CEO
PBGH

The study used several measures of hospital cost-efficiency, including relative cost to private payers and the hospitals' operational costs. Significantly, the study confirms the extent to which private insurers are subsidizing shortfalls in government programs and disproportionately contributing to hospital profits.

Below are some of the report's key findings based on 2005 data:

PATIENT COST
<ul style="list-style-type: none"> ◆ On average, private payers paid 40 percent more than the hospitals' cost of delivering care. <ul style="list-style-type: none"> ➤ In 2005, private payers paid hospitals \$18 billion for services that cost hospitals \$13 billion to provide. ◆ Statewide, 55 hospitals have patient costs that exceed the state average by at least 10 percent, even though they are neither teaching hospitals nor serving a large number of uninsured patients. ◆ Even after adjusting for wage differences, patient costs in hospitals in the Sacramento region were nearly 30 percent higher than the statewide average.

COST OF HOSPITAL OPERATIONS
<ul style="list-style-type: none"> ◆ The wide range of pricing by hospitals cannot be linked to the cost of providing care, whether patients are insured or whether the hospital is a teaching hospital. ◆ Statewide, 31 hospitals have operational costs which exceed the statewide average by more than 10 percent and the variation cannot be explained solely by regional differences in cost of labor.

Hospital inpatient and outpatient care costs consume 40 percent of all health care premiums.

*"The Factors Fueling Rising Healthcare Costs 2006"
PriceWaterhouseCoopers*

Please contact Brianna Lierman Hintze at blhintze@calhealthplans.org or 916.552.2915 with any questions regarding this fact sheet