



Highlights of [GAO-05-856](#), a report to the Honorable Paul Ryan, House of Representatives

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Competition and Other Factors Linked to Wide Variation in Health Care Prices

Why GAO Did This Study

Congress is concerned about the health care spending burden facing the Federal Employees Health Benefits Program (FEHBP), the largest private health insurance program in the country. Health care spending per person varies geographically, and the underlying causes for the spending variation have not been fully explored. Understanding market forces and other factors that may influence health care spending may contribute to efforts to moderate health care spending.

Health care spending varies across the country due to differences in its components, the utilization and price of health care services. A wide body of research describes extensive geographic variation in utilization. However, less is known about private sector geographic variation in prices.

This report examined prices and spending in FEHBP Preferred Provider Organizations (PPOs) to determine (1) the extent to which hospital and physician prices varied geographically, (2) which factors were associated with geographic variation in hospital and physician prices, and (3) the extent to which hospital and physician price variation contributed to geographic variation in spending.

We analyzed claims data from several large national PPOs participating in FEHBP. We used 2001 data, the most current data available at the time of the study.

www.gao.gov/cgi-bin/getrpt?GAO-05-856.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald, (202) 512-7101 or steinwalda@gao.gov.

What GAO Found

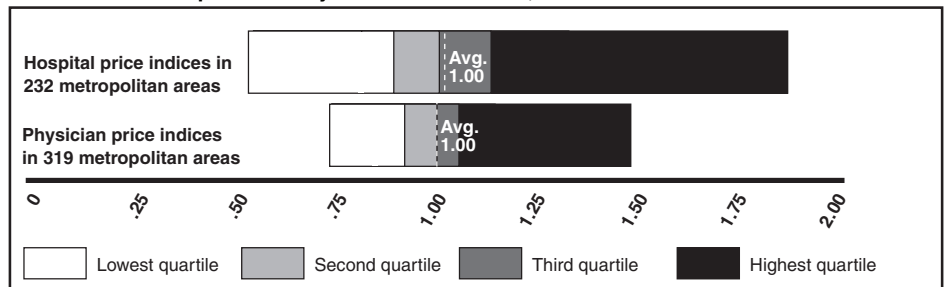
FEHBP PPOs paid substantially different prices for hospital inpatient and physician services across metropolitan areas in the United States. Hospital prices varied by 259 percent and physician prices varied by about 100 percent across metropolitan areas. While there were some areas with very high or low prices, most had prices that were closer to the average.

The variation in prices appeared to be affected by market characteristics. Metropolitan areas with the least competition, areas with a higher percentage of hospital beds in the two largest hospitals or hospital networks, had hospital prices that were 18 percent higher and physician prices that were 11 percent higher than areas with the most competition. The percent of primary care physicians' reimbursement that was paid on a capitation basis in health maintenance organizations (HMO), a proxy for HMO price bargaining leverage, was also associated with geographic variation in prices. Metropolitan areas with the least HMO capitation tended to have hospital and physician prices that were about 10 percent higher than areas with the most HMO capitation. When GAO controlled for other factors that might be associated with geographic variation in prices, more hospital competition and HMO capitation were still associated with lower prices, but the effect was reduced. GAO did not find any evidence that price variation was due to cost shifting, where providers raise private sector prices to compensate for lower prices from other payers.

Total health care spending per enrollee varied by over 100 percent across metropolitan areas. For hospital and physician services, price contributed to about one-third and utilization to about two-thirds of the variation in spending between metropolitan areas in the highest and lowest spending quartiles. Higher physician prices were also associated with lower physician utilization, but higher prices were still typical in higher spending areas.

The Office of Personnel Management provided comments on a draft of this report and agreed with our findings.

Distribution of Hospital and Physician Price Indices, 2001



Source: GAO analysis of FEHBP data.

Note: GAO converted prices to an index by dividing the average price in a metropolitan area by the average price in all study metropolitan areas.