

GAO Highlights

Highlights of [GAO-15-214](#), a report to the Ranking Member, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Research shows that spending on health care varies by geographic area and that higher spending in an area is not always associated with better quality of care. While a substantial body of research exists on geographic variation in spending in Medicare, less research has been done on variation in private sector health care spending, although this spending accounts for about a third of overall health care spending. As U.S. health expenditures continue to rise, policymakers and others have expressed interest in better understanding spending variation and how health care systems can operate efficiently—that is, providing equivalent or higher quality care while maintaining or lowering current spending levels.

GAO was asked to examine geographic variation in private sector health care spending. GAO examined (1) how spending per episode of care for certain high-cost procedures varies across geographic areas for private payers, and (2) how the mix of service types, and the volume, intensity, and price of services contribute to variation in episode spending across geographic areas for private payers. Using a large private sector claims database for 2009 and 2010, GAO examined spending by MSA for episodes of care for three commonly performed inpatient procedures and examined spending by hospital inpatient, hospital outpatient, postdischarge, professional, and ancillary service categories. For inpatient and professional services, GAO examined the volume, intensity, and price of services. GAO's findings may not be generalizable to all private insurers due to data limitations.

View [GAO-15-214](#). For more information, contact James Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.

December 2014

PRIVATE HEALTH INSURANCE

Geographic Variation in Spending for Certain High-Cost Procedures Driven by Inpatient Prices

What GAO Found

Spending for an episode of care in the private sector varied across metropolitan statistical areas (MSA) for coronary stent placement, laparoscopic appendectomy, and total hip replacement, even after GAO adjusted for geographic differences in the cost of doing business and differences in enrollee demographics and health status. MSAs in the highest-spending quintile had average adjusted episode spending that was 74 to 94 percent higher than MSAs in the lowest-spending quintile, depending on the procedure. MSAs with higher spending on one procedure generally had higher spending on the other two procedures. High- or low-spending MSAs were not concentrated in particular regions of the nation.

The price of the initial hospital inpatient admission accounted for 91 percent or more of the difference in episode spending between MSAs in the lowest- and highest-spending quintiles. The price of the initial admission was the largest contributor to the difference for two reasons. First, it represented the largest percentage of adjusted episode spending. For example, for total hip replacement, the average price of the initial admission was \$17,134, representing 76 percent of the \$22,463 in total episode spending for MSAs in the lowest-spending quintile and \$30,332, representing 82 percent of the \$36,969 in total episode spending for MSAs in the highest-spending quintile. Second, the price of the initial admission varied considerably across MSAs. For MSAs in the highest-spending quintile, the average price of the initial admission for total hip replacement was 77 percent higher than for MSAs in the lowest-spending quintile. Professional services—office visits and other services provided by a physician or other health professional—were the second largest contributor to geographic differences in episode spending, but accounted for 7 percent or less of the difference in episode spending between MSAs in the lowest- and highest-spending quintiles. (See table.) MSAs in the highest-spending quintile had higher average prices and intensity (a measure of the resources needed to provide a service) but fewer services (volume) than MSAs in the lowest-spending quintile for all three procedures.

Contributions of Each Service Category to Differences in Average Episode Spending between MSAs in Lowest- and Highest-Spending Quintiles

Service category	Coronary stent placement	Laparoscopic appendectomy	Total hip replacement
Hospital inpatient—Price of initial admission	92%	96%	91%
Hospital inpatient—Readmissions	1%	0%	0%
Hospital outpatient	1%	1%	1%
Postdischarge	0%	0%	0%
Professional	5%	3%	7%
Ancillary and unclassified	1%	0%	1%
Total	100%	100%	100%

Source: GAO analysis of 2009 and 2010 claims data from Truven Health Analytics. | [GAO-15-214](#)

The Department of Health and Human Services provided technical comments on a draft of this report, which were incorporated as appropriate.