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The Healthcare Affordability Agenda
Part 1: The Path to Regulating Hospital Prices



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Rising private-sector healthcare costs have led to declining quality of coverage, restricted job growth, and lower wages.

Hospital costs are largest single driver of healthcare cost growth—they have received little attention in Albany.

Only robust regulation of hospital prices can guarantee solvency for safety-net hospitals and restrain healthcare cost growth.

Key findings

The Crisis of Rising Healthcare Costs in New York	In 2020, New York's healthcare spending per capita exceeded $14,000, the third highest in the nation and nearly 40 percent above the national average. the average individual deductible in New York has nearly doubled since 2010, rising from $891 to $1,859
Hospitals as the Primary Cost Driver	Hospital costs represent the largest single share of healthcare spending in New York and increased by 55 percent between 2010 and 2019.
Market Failure and Consolidation	Hospitals often function as natural local monopolies, and decades of consolidation have allowed large megasystems to extract high prices during secretive negotiations with insurers.
Healthcare as a public good	Many falsely believe that hospitals charge private payers more to make up for low Medicaid rates. However, data show that safety-net hospitals with high Medicaid populations charge private insurers less because they lack the market leverage to demand higher rates.

Tools at New York's disposal include price caps, comprehensive price regulation, and global hospital budgeting. New York successfully regulated hospital prices in 1977–96, during which time it had the fourth-lowest hospital growth in the US.

Global budgeting is the best long-term strategy, as it incentivizes providers to focus on prevention and population health.

Introduction

While New York policymakers have made "affordability" a key focus of debate in the past two years, one major sector has largely escaped their attention: Private-sector healthcare costs. The cost of employer-sponsored health insurance has grown dramatically in recent years; today, an employer-sponsored family plan costs over $27,000. Rising costs have led to declining quality of coverage, as employers have sought to offer skimpier benefits with higher deductibles to save money. Rising costs restrict job growth, squeeze wages, and force unionized workers to make tough choices between wages and benefits at the bargaining table. Yet these issues have received little notice in Albany.

To the limited extent that New York has sought to address rising healthcare costs, we have generally attempted to address the symptoms of cost growth rather than its underlying causes. For example, lawmakers have recently enacted legislation requiring insurance companies to cover insulin and asthma medication. Such legislation is desirable and welcome, but it merely redistributes costs, ensuring that they are collectively shared rather than borne disproportionately by the ill. Efforts to reduce these costs by restraining healthcare spending growth have been far more limited.

Restraining healthcare spending growth requires understanding what drives it. In this report, we will show that the largest single driver of healthcare costs is hospital costs: Hospital spending represents the largest single area of overall healthcare spending, and hospital cost growth has outpaced growth in other areas of spending as well as the overall economy for decades.

Why are hospital costs growing so quickly? We will argue that the root of the problem is our privatized and dysfunctional hospital financing system. This system rests on secretive negotiations between private insurance companies and large, corporatized health systems in oligopolistic markets; the result of these negotiations is a wildly irrational pricing system where the price for any given procedure can vary wildly from one payer or provider to another, and where prices on average paid by private payers are triple those paid by Medicare for the same services.

This irrational system generates paradoxical effects: Large hospital chains with privately insured patient populations and the market power to raise prices see windfall gains, while safety-net hospitals that rely on public payers and have little leverage in price negotiations are frequently underfunded. The result is a segregated, unequal healthcare system—and rapidly rising costs for private payers.

What can policymakers do to address this problem? One avenue for reform is to attempt to make private price-setting work better, through increased transparency and pro-competitive antitrust policy. Such reforms are desirable, but we will argue that their impact is likely to be limited. The market for hospital care is already highly concentrated, and transparency can do little to address market failures in this context.

Instead, we argue that more comprehensive reform is required: New York should take steps to regulate hospital prices, treating healthcare as a public utility rather than a market commodity. Only through robust regulation can the state simultaneously ensure solvency for safety-net hospitals and restrain spiraling healthcare cost growth. We know that healthcare price regulation can be effective: It is ubiquitous among developed-nation healthcare systems outside the US, including those with multi-payer systems similar to our own, and it has worked well in Maryland for decades.

Hospital price regulation can take many forms. The state could cap hospital prices to address the worst excesses of the existing system, it could set prices directly, or it could regulate overall hospital budgets through a "global budget" model to stabilize overall healthcare spending, as Maryland does. In the final chapter of this report, we review those options and recommend global hospital budgeting as the best long-term strategy.

No policy alternative will be straightforward or politically easy. Addressing hospital cost growth requires confronting entrenched special interests and developing deeper state capacity to oversee and regulate the healthcare system. Still, the effort is urgently necessary. New York's existing system, where workers and employers face steadily increasing costs even as communities all over the state worry about hospital closures, is neither just nor sustainable. A better, fairer system for funding hospital care is critically needed.