Connecticut Health Policy Project

Fact Check: Do lower Medicaid provider payment rates cause higher commercial payment rates?

There's a pervasive myth that because lower Medicaid provider payment rates force providers to charge private insurers more to cover costs, but there is no evidence of that. On a simple level it makes some sense, but the truth is that providers, like most businesses, charge what they can, regardless of what each payer is paying. Competition, or the lack of it, drives prices.

This myth rose again in deliberations of the Cost Cap project at the Office of Health Strategy (OHS). In the last meeting, it was noted that Medicaid per person average annual costs rose only 0.3% from 2013 to 2019 while commercial per person costs rose 3.9% from 2016 to 2018. (Unfortunately, the slides used in the June 4th meeting are still not online as of this posting.)

Multiple studies have looked at hospital charges and found no Medicaid cost shifting. Most have found that rates are determined by each hospital's market share. Hospitals that dominate their markets can charge more to all payers.

In fact, a 2013 study found that a 10% reduction in Medicare hospital rates led to a reduction in private pay rates of 3 to 8%. The authors predict that lower Medicare (and presumably Medicaid) rates help lower rates for private payers. Another study found that hospitals cut operating costs in response to Medicare rate cuts and that the lower Medicare price "spilled over" to drive lower commercial rates as well. Economists propose that hospitals facing reduced revenues from public programs will lower rates to attract more of the profitable commercial patients to improve the bottom line.

Demonstrating that lower Medicaid rates can help bring down commercial rates, a study that focused on a Medicaid expansion that moved people with disabilities from commercial to Medicaid coverage found that, for every one percent increase in Medicaid eligibility, commercial hospital rates went down by 1.2%.