THE HEALTH COST LANDSCAPE:

DIFFERENT COSTS, DIFFERENT DRIVERS ACROSS U.S. MARKETS

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Background

Per-person health care spending among people with employer-sponsored insurance (ESI) in 2022 was $6,711 on average. Across the US, however, per-person spending can be significantly higher or lower than the national average, which can lead to vastly different experiences with the health care system. The Health Cost Landscape is an interactive tool created by the Health Care Cost Institute that provides data on health care spending, including the use, price, and mix of services for 269 individual metro areas across 45 states. This brief highlights key findings from the Health Cost Landscape's analysis of local areas across the country.

Among the metro areas studied, health spending ranged from 70% above the national average in Charleston, WV, to 41% below the national average in Bakersfield, CA. Per-person health care spending among people with ESI was highest in Charleston, WV, Anchorage, AK, Janesville, WI, New York, NY, and Huntington, WV. In contrast, Bakersfield, CA, Tucson, AZ, San Bernardino, CA, Fayetteville, AR, and Flagstaff, AZ had the lowest spending. The Health Cost Landscape provides details about the dynamics of health care spending in each of these areas, including the combination of prices, use, and mix of health care services that contribute to the health care spending residents experience.

Although the primary drivers of health spending were not the same across metro areas, the Health Cost Landscape reveals patterns that can inform efforts to make health care more affordable.

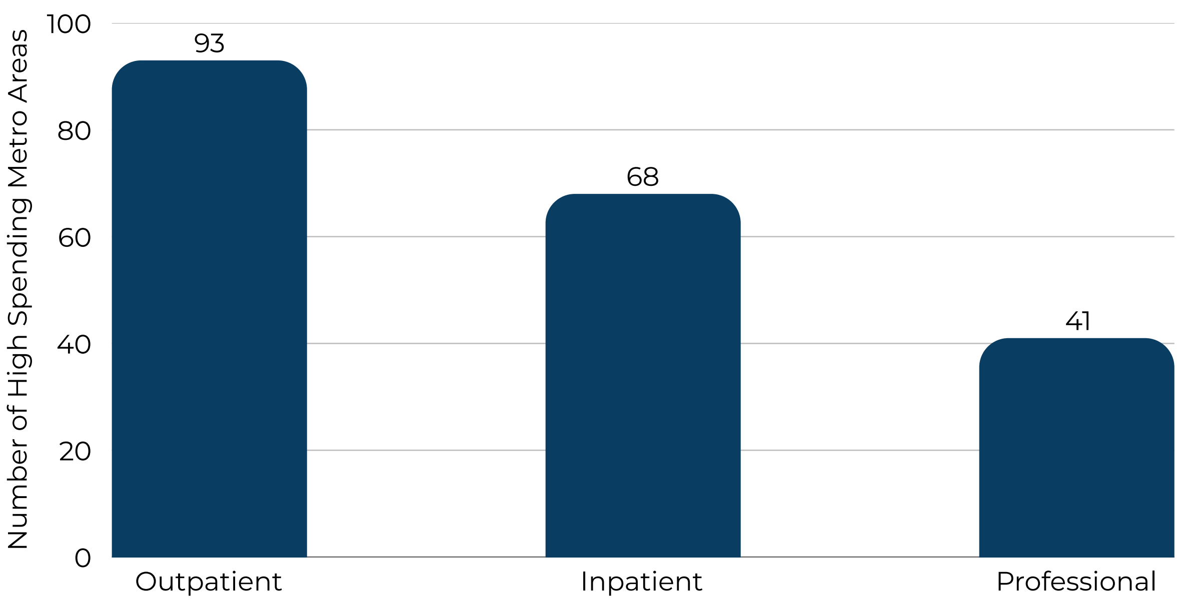
Prices account for most health spending variation.

Health care spending reflects a combination of the price of services, the number of services used, and the types of services used (also called 'service mix'). Of these three factors, prices account for most of the variation in health care spending, while the use of services and service mix drive variation to a lesser extent. High spending metro areas more often had higher prices than use or service mix.

High outpatient hospital spending is the strongest predictor of high overall health care spending.

The Health Cost Landscape also examines spending by broad service categories – inpatient hospital, outpatient hospital, and professional services – for each metro area. Of the service categories, high overall health spending is more closely related to high outpatient hospital spending than the other categories. **Figure 1** shows the number of metro areas with high overall spending that have high spending in each service category. Of the 102 metro areas with overall spending above the national average, 93 have above average outpatient spending, 68 have above average inpatient spending, and 41 have above average professional spending.

Figure 1. **Metro Areas with Above Averge Spending by Service Category, 2022**

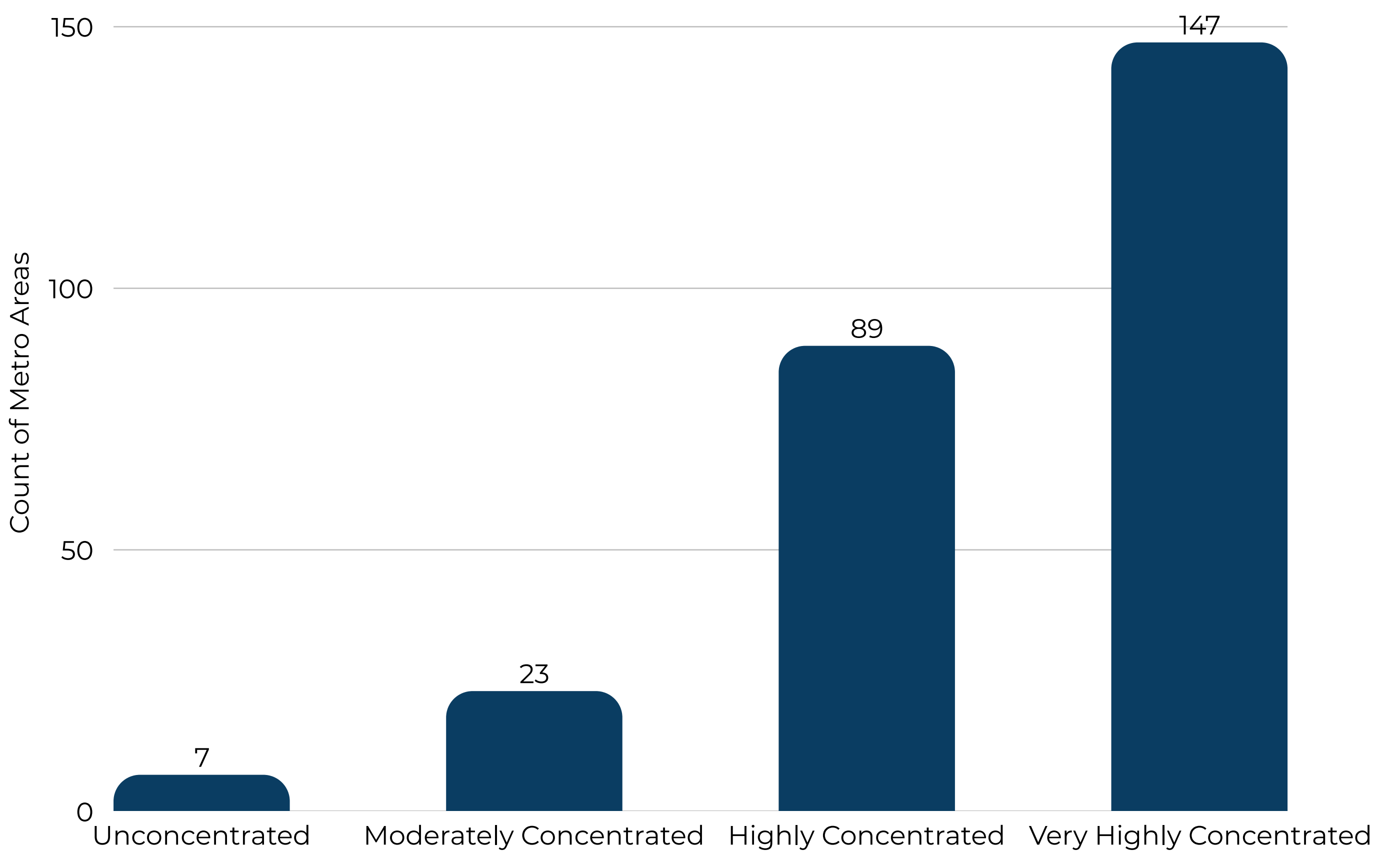


Hospital markets are not competitive.

Hospital concentration measures how competitive a hospital market is. Higher concentration means less competition. There is considerable evidence that prices for health care services are higher in areas where hospital markets are less competitive. The hospital concentration index reported in the Health Cost Landscape uses the standard measure for market concentration, the Herfindahl-Hirschman Index (HHI) based on data from the American Hospital Association Annual Survey.

Of the metro areas studied, 236 (88%) have highly or very highly concentrated hospital markets, while only about 3% have unconcentrated markets. The unconcentrated markets are all larger cities, including New York City, Los Angeles, Chicago, Riverside (CA), Philadelphia, Miami, and Washington, D.C.

Figure 2: Count of Metro Areas by HHI Category, 2022



Metro areas across the U.S. have unique health care spending experiences.

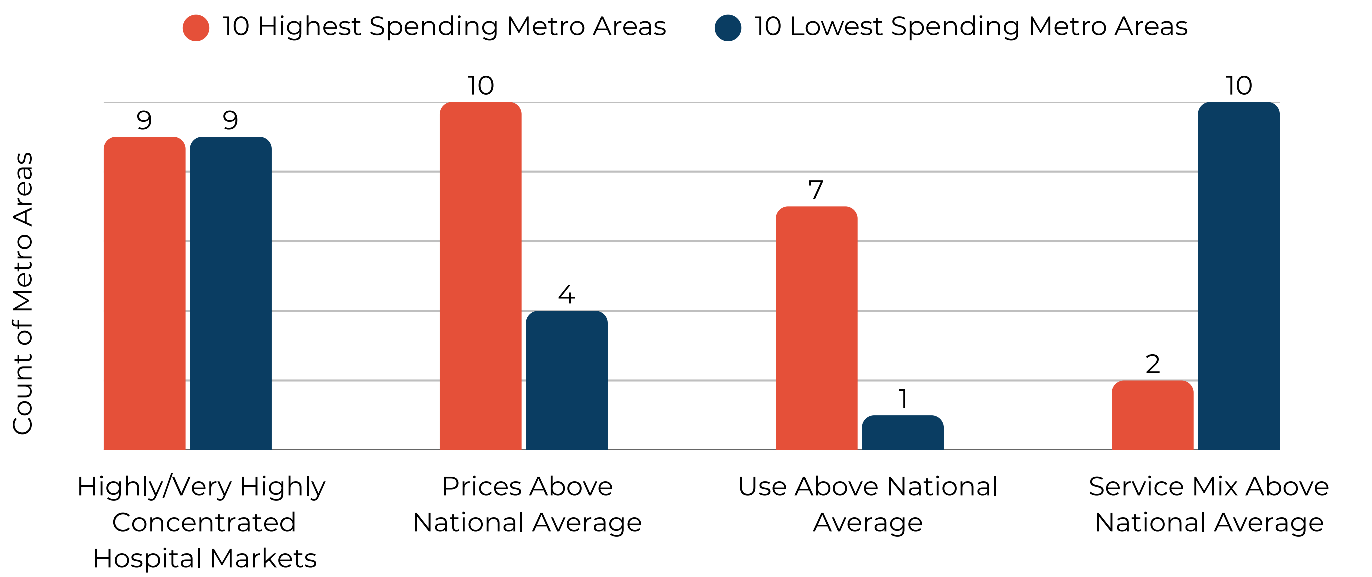
While the trends described above illustrate dynamics across the country, each metro area has a unique combination of prices, use, mix and hospital concentration that influences health care spending. A comparison of the 10 areas with the highest spending relative to the national average and the 10 areas with the lowest spending relative to the national average demonstrates this diversity.

Figure 3: 10 Highest and Lowest Spending Metro Areas, 2022

Among the top spending metro areas, all have prices that are above the national average. Nine of the ten also have highly or very highly concentrated hospital markets. Use and service mix are more variable among these metro areas. Seven of the ten have higher use of services than the national average, while three have lower use of services than the national average. Half of the metro areas have a service mix that is higher than the national average, while four have a service mix below the national average, and one has a service mix that is exactly average.

Among the ten lowest spending metro areas, prices are more variable. Six of the ten have prices that were below the national average, while four have prices above the national average. Use and service mix are less variable, compared to the top spending metro areas. Nine of the ten have a lower use of services than the national average, and nine of the ten have a higher service mix than the national average.

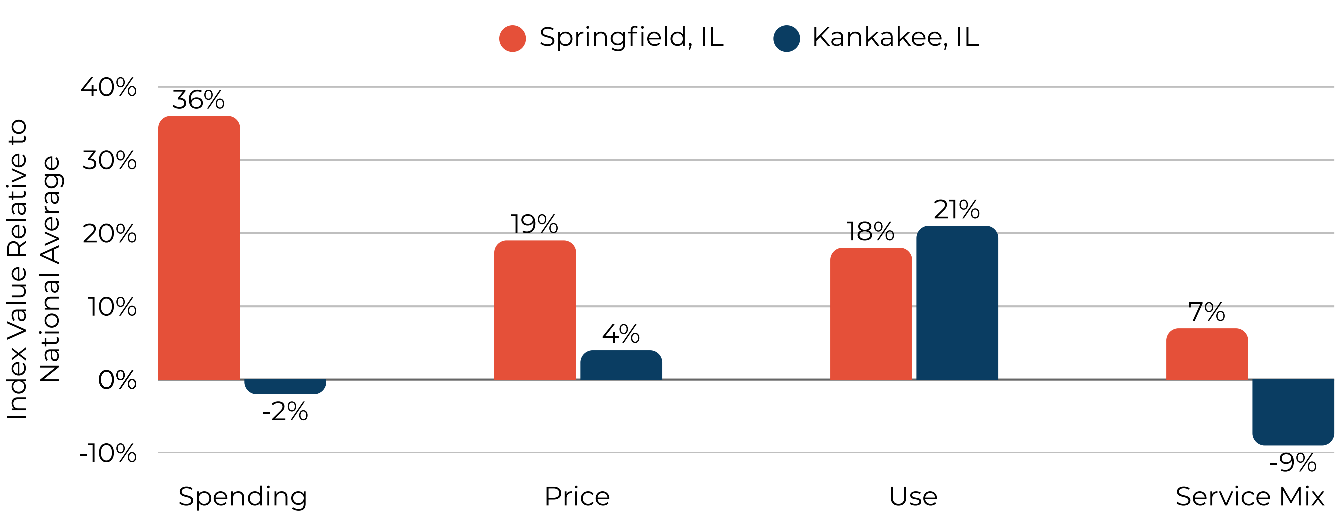
Figure 4: Hospital Concentration, Price, Use, and Service Mix Among the Highest and Lowest Spending Metro Areas, 2022



Within the same state, metro areas can have vastly different health cost landscapes.

Even within a single state, metro areas can have drastically different experiences of health care spending. For example, Springfield, IL, has the 6th highest spending among the metro areas studied: 36% above the national average. About 80 miles away, Kankakee, IL, ranks 116th highest in spending, which is 2% below the national average. **Figure 5** shows the spending, price, use and service mix index values of both metro areas side-by-side. Springfield has higher prices (19% above average) than Kankakee (4% above average), and a higher service mix (7% above average) than Kankakee (9% below average), while the two metro areas have similar levels of service use.

Figure 5: Spending, Price, Use, and Service Mix in Springfield, IL vs. Kankakee, IL, 2022



The detailed service category price indices in **Figure 6** show that the differences in overall spending, price, use and service mix are driven by a variety of factors. Springfield has higher spending across all service categories, with the biggest difference in inpatient spending (64 percentage points), followed by professional spending (31 percentage points) and outpatient spending (30 percentage points). The individual components of spending also vary within each service category. The largest difference within the inpatient service category is the service mix (20 percentage points), while the largest difference within the outpatient service category is price (33 percentage points), and the largest difference within the professional service category is tied between price (3 percentage points) and use (3 percentage points). Note that while Springfield, IL, has higher spending overall and across service categories, the underlying factors of price, use and service mix are not always higher for Springfield than Kankakee. For example, Kankakee has higher overall use of services than Springfield, with particularly higher use of outpatient services.

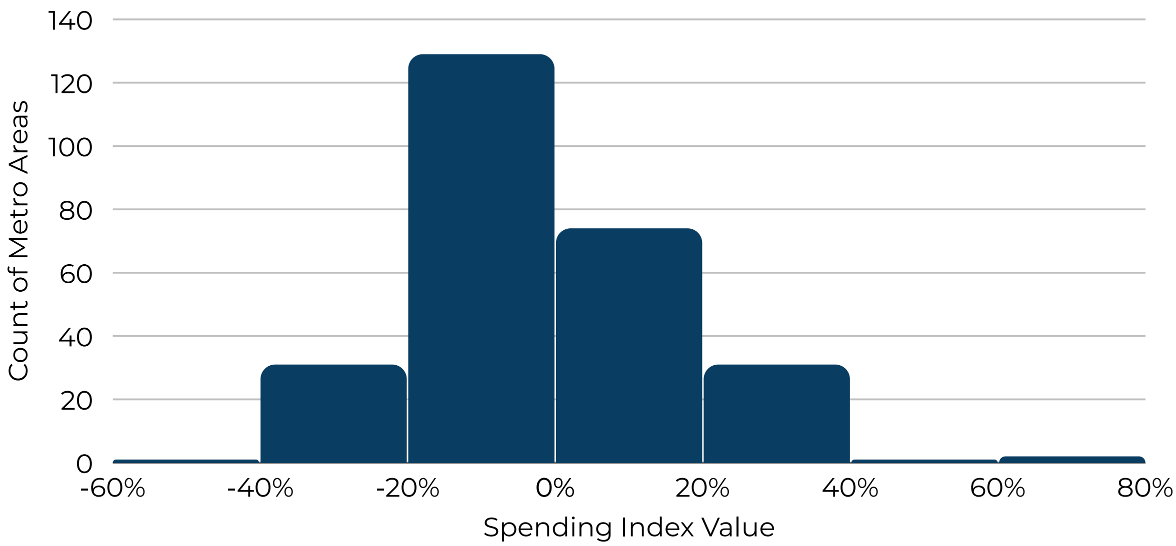
Figure 6: Spending, Price, Use, and Service Mix Indices by Service Category in Springfield, IL vs. Kankakee, IL 2022

Index Measures	Springfield, IL	Kankakee, IL
Overall		
Spending	36%	-2%
Price	19%	4%
Use	18%	21%
Service Mix	-7%	-9%
Inpatient		
Spending	27%	-37%
Price	-2%	-15%
Use	27%	13%
Service Mix	4%	-16%
Outpatient		
Spending	61%	31%
Price	38%	5%
Use	39%	55%
Service Mix	-18%	-13%
Professional		
Spending	22%	-9%
Price	15%	12%
Use	-4%	-1%
Service Mix	-3%	-3%

Explore local areas with the Health Cost Landscape.

The power of the Health Cost Landscape tool is the ability to explore the details of health care spending in each of the metro areas. Overall, 108 metro areas of the 269 studied (approximately 40%) have spending that is above the national average, and 161 metro areas (approximately 60%) have spending that is lower (**Figure 7**).

Figure 7: Overall Spend Index Distribution, 2022



The Health Cost Landscape is a tool that can be used to understand the relative health care spending and drivers of spending in a local area. At a higher level, it can also help identify common patterns (or lack thereof) that exist across metro areas in the U.S. This report identifies four key findings:

- Prices account for most health spending variation.
- High hospital outpatient spending is the strongest predictor of overall health care spending.
- Hospital markets are not competitive.
- Metro areas across the U.S. have unique health care spending experiences.
- Within the same state, metro areas can have vastly different health cost landscapes.

These findings indicate that while metro areas across the county face common challenges, including high prices and a lack of hospital competition, individualized solutions may be required to address the root causes of these challenges.

Acknowledgement

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HEALTH CARE COST INSTITUTE

ABOUT HCCI

The Health Care Cost Institute is an independent, non-profit research institute. HCCI's mission is to get to the heart of the key issues impacting the U.S. health care system by using the best data to get the best answers. HCCI stands for truth and consensus around the most important trends in health care, particularly those economic issues that are critical to a sustainable, high- performing health system. Our values are simple: health care claims data should be accessible to all those who have important questions to ask of it. Health care information should be transparent and easy to understand. All stakeholders in the health care system can drive improvements in quality and value with robust analytics.

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