



At What Rate Do Hospitals Cover Costs?

Hospital reimbursement rates can differ by type of payer like Medicare, Medicaid, or private insurance (employer-sponsored, individual coverage) or by product type, such as a Health Maintenance Organization (HMO), Preferred Provider Organization (PPO) or high performing, customized network that is designed to serve a unique market, like the small group market or the individual market. Public payers like Medicare and Medicaid commonly reimburse hospitals for their services at levels under the actual cost of hospital services, while private payers commonly reimburse at levels above service costs.

So then, what’s the level that a hospital needs to be reimbursed to cover its costs? The Department and its consultant’s analysis indicates that Colorado hospitals as a group run less efficiently and have average costs that are significantly higher than hospitals across the country. So while hospitals across the nation on average cover the cost of providing care to patients at 115 percent of their Medicare rate, in Colorado their costs are 143 percent of Medicare.

How did we establish how much hospitals need to be paid to cover their costs? We took the 2018 payment to cost ratio for Medicare payments from the Colorado Hospital Association’s DATABANK¹ which shows that Medicare pays 70 cents for every dollar of costs for Medicare patients. Then we solved for how much we would need to raise Medicare rates in order to ensure that hospitals were paid their costs for seeing patients.²

$$\frac{\text{Medicare Payments}}{\text{Hospital Costs}} = 0.70$$

$$\text{Hospital Costs} = \left(\frac{1}{0.70}\right)$$

$$\text{Hospital Costs} = 143\% \text{ of Medicare payments}$$

This is far above what the average hospital across the country needs to be reimbursed to cover their costs. Nationally, according to the American Hospital Association, the payment to cost ratio for Medicare is 87 cents on the dollar; therefore, hospitals cover costs at 115% of Medicare payments.³ The Department is collaborating with hospitals across the state to help improve their operations efficiency and to reduce their prices to the betterment of Colorado families, employers, Medicaid members and taxpayers.

Finding	Data Source
Colorado hospitals cover costs at 143% of Medicare.	CHA DATABANK Colorado hospitals submit annual data to the Colorado Hospital Association. The Colorado Hospital Association submits this data to the CHASE board, which oversees the hospital provider fee and releases an annual report .
Nationwide, hospitals cover their costs at 115% of Medicare.	American Hospital Association Trendwatch Chartbook 2018

¹ Information from the Colorado Hospital Association’s DATABANK database is aggregated at the state level. Therefore, the breakeven point for any given hospital could vary significantly from the state-wide amount. In addition, all DATABANK limitations listed in the [January 2020 Colorado Hospital Cost Shift Analysis Report](#) and the [January 2020 CHASE Annual Report](#) apply.

² <https://www.colorado.gov/pacific/sites/default/files/2020%20CHASE%20Annual%20Report.pdf>

³ <https://www.aha.org/system/files/2018-05/2018-chartbook-table-4-4.pdf>

