



Highlights of [GAO-06-281T](#), a testimony before the Subcommittee on Health, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Differences in utilization of health care services across the country have been well documented, but less has been reported on geographic variation in price. As health care spending is the product of utilization and price, information on health care prices and factors contributing to price differences provides an additional perspective on drivers of health care spending. In an August 2005 report, GAO examined claims data on enrollees of preferred provider organizations (PPO) participating in the Federal Employees Health Benefits Program (FEHBP) and found substantial price variation across metropolitan areas, after adjusting prices to account for area differences in the cost of providing services and in the types of services provided.

This statement is based on GAO's August 2005 report entitled *Federal Employees Health Benefits Program: Competition and Other Factors Linked to Wide Variation in Health Care Prices* ([GAO-05-856](#)). It focuses on (1) factors that underlie area differences in price and (2) the contribution of price to geographic differences in spending on health care.

www.gao.gov/cgi-bin/getrpt?GAO-06-281T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101 or steinwalda@gao.gov.

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Differences in Health Care Prices Across Metropolitan Areas Linked to Competition and Other Factors

What GAO Found

GAO found that market characteristics were closely associated with price differences across metropolitan areas for the FEHBP PPOs we reviewed. Areas with the least competitive markets—that is, areas with a higher percentage of hospital beds concentrated in the two largest hospitals or hospital networks—had prices of hospital stays and physician services that were higher than areas with the most competitive markets. The percentage of primary care physicians' reimbursement that was paid on a capitation basis in health maintenance organizations (HMO)—a proxy for a payer's power to bargain with providers on price—was also associated with geographic price variation. We found that in areas where either market share was concentrated among few providers or HMO bargaining power was weak (as measured by lower levels of HMO capitation), hospital and physician prices paid by the PPOs in our study were higher than average. When we controlled for other factors that might be associated with geographic price variation, hospital competition and payer bargaining power remained associated with lower prices, but the effect was reduced, and much variation remained unexplained.

Price contributed to geographic differences in spending per enrollee, but less than utilization. For both hospital and physician services, price contributed to about one-third and utilization to about two-thirds of the variation in spending between metropolitan areas in the highest and lowest spending quartiles. Price was positively associated with spending, as was utilization, for both hospital and physician services. Therefore, areas with either high prices or high utilization tended to also have high spending. In the case of physician services, price and utilization were modestly but negatively associated, such that areas with high physician prices tended to have somewhat lower utilization of physician services and areas with low physician prices tended to have somewhat higher utilization of physician services.