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Hospital Cost Shifting Adds to Auto Injury Claim Costs

MALVERN, Pa.— According to a new study from the Insurance Research Council, low reimbursements from public health insurance programs, such as Medicare and Medicaid, have prompted hospitals to shift costs to automobile insurance companies—raising auto injury claim costs and forcing auto insurers to more closely scrutinize and negotiate hospital bills prior to payment.

The IRC estimates that for Bodily Injury (BI) liability claims in 38 tort and add-on states, cost shifting in 2007 resulted in \$1.2 billion in excess hospital charges. The full impact of hospital cost shifting, including that occurring in other insurance coverages and in other states, is likely much greater. "The conventional wisdom is that hospitals aggressively seek to shift costs from public insurance programs to private payers such as auto insurance companies," said Elizabeth Sprinkel, Senior Vice President of the IRC. "With this study, we now have information on the magnitude of cost shifting and a better understanding of the need for supportive state laws and effective tools that will enable auto insurers to pay hospitals appropriately and help control auto injury claim costs," said Sprinkel.

Hospital cost shifting to auto injury claims illustrates the complex relationship between property-casualty insurance and the broader healthcare and insurance system. "Healthcare legislation enacted by Congress last month underscores the complexity of this relationship," said Sprinkel. "It will take months, if not years, to understand the full impact of the reforms on hospital cost shifting and the auto insurance system," said Sprinkel.

To explore the relationship between key health system features and auto injury hospital costs, IRC developed a statistical model of average hospital charges for auto injury claims in different states. Key predictors of average hospital charges confirmed by the model are the percentage of a state's population without health insurance coverage and the percentage of the population covered by Medicaid. To estimate excess hospital charges due to hospital cost shifting, IRC compared average hospital charges for BI liability claims in Maryland with average charges in 38 other tort and add-on states. In the 1970s, Maryland received a waiver from the federal government allowing it to regulate hospital reimbursement rates for all purchasers of hospital services. As a result, virtually all hospital cost shifting in the state was eliminated. Maryland's unique approach to hospital reimbursement, while unlikely to be replicated in other states, provides an opportunity to examine costs in an environment with minimal cost shifting. In all

instances, IRC found that average hospital charges for auto injury claims in Maryland were substantially lower than hospital charges in most other states. IRC also found that the costs of expensive diagnostic procedures performed in Maryland hospitals were much lower than in other states but were more similar to costs in other states when the procedures were performed outside a hospital.

The IRC study, *Hospital Cost Shifting and Auto Injury Insurance Claims*, is based on data from more than 42,000 auto injury claims closed with payment under the five principal private passenger coverages. Twenty-two insurers, representing 58 percent of the private passenger auto insurance market in the United States in 2006, participated in the study. The IRC closed claim study collected detailed data on injury, medical treatment, claimed losses and total payments, claim handling techniques, and attorney involvement.

For more detailed information on the study's methodology and findings, contact David Corum by phone at (484) 831-9046, or by e-mail at irc@cpcuiia.org. Or visit IRC's Web site at www.ircweb.org. Copies of the study are available at \$125, for an electronic version, or \$140 each, for a printed copy.

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