As Hospital Prices Soar, a Stitch Tops $500

SAN FRANCISCO — With blood oozing from deep lacerations, the two patients arrived at California Pacific Medical Center’s tidy emergency room. Deepika Singh, 26, had gashed her knee at a backyard barbecue. Orla Roche, a rambunctious toddler on vacation with her family, had tumbled from a couch, splitting open her forehead on a table.

On a quiet Saturday in May, nurses in blue scrubs quickly ushered the two patients into treatment rooms. The wounds were cleaned, numbed and mended in under an
hour. “It was great — they had good DVDs, the staff couldn’t have been nicer,” said Emer Duffy, Orla’s mother.

Then the bills arrived.
Ms. Singh’s three stitches cost $2,229.11.
Orla’s forehead was sealed with a dab of skin glue for $1,696.
“When I first saw the charge, I said, ‘What could possibly have cost that much?’” recalled Ms. Singh. “They billed for everything, every pill.”

In a medical system notorious for opaque finances and inflated bills, nothing is more convoluted than hospital pricing, economists say. Hospital charges represent about a third of the $2.7 trillion annual United States health care bill, the biggest single segment, according to government statistics, and are the largest driver of medical inflation, a new study in The Journal of the American Medical Association found.

A day spent as an inpatient at an American hospital costs on average more than $4,000, five times the charge in many other developed countries, according to the International Federation of Health Plans, a global network of health insurance industries. The most expensive hospitals charge more than $12,500 a day. And at many of them, including California Pacific Medical Center, emergency rooms are profit centers. That is why one of the simplest and oldest medical procedures — closing a wound with a needle and thread — typically leads to bills of at least $1,500 and often much more.

At Lenox Hill Hospital in New York City, Daniel Diaz, 29, a public relations executive, was billed $3,355.96 for five stitches on his finger after cutting himself while peeling an avocado. At a hospital in Jacksonville, Fla., Arch Roberts Jr., 56, a former government employee, was charged more than $2,000 for three stitches after being bitten by a dog. At Mercy Hospital in Port Huron, Mich., Chelsea Manning, 22, a student, received bills for close to $3,000 for six stitches after she tripped running up
a path. Insurers and patients negotiated lower prices, but those charges were a starting point.

The main reason for high hospital costs in the United States, economists say, is fiscal, not medical: Hospitals are the most powerful players in a health care system that has little or no price regulation in the private market.

Rising costs of drugs, medical equipment and other services, and fees from layers of middlemen, play a significant role in escalating hospital bills, of course. But just as important is that mergers and consolidation have resulted in a couple of hospital chains — like Partners in Boston, or Banner in Phoenix — dominating many parts of the country, allowing them to command high prices from insurers and employers.

Sutter Health, California Pacific Medical Center’s parent company, operates more than two dozen community hospitals in Northern California, almost all in middle-class or high-income neighborhoods. Its clout has helped California Pacific Medical Center, the state’s largest private nonprofit hospital, also earn the highest net income in California. Prices for many of the procedures at the San Francisco hospital are among the top 20 percent in the country, according to a New York Times analysis of
data released by the federal government.

“Sutter is a leader — a pioneer — in figuring out how to amass market power to raise prices and decrease competition,” said Glenn Melnick, a professor of health economics at the University of Southern California. “How do hospitals set prices? They set prices to maximize revenue, and they raise prices as much as they can — all the research supports that.”

In other countries, the price of a day in the hospital often includes many basic services. Not here. The “chargemaster,” the price list created by each hospital, typically has more than ten thousand entries, and almost nothing — even an aspirin, a bag of IV fluid, or a visit from a physical therapist to help a patient get out of bed — is free. Those lists are usually secret, but California requires them to be filed with health regulators and disclosed.

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**Inflated Prices**

California Pacific Medical Center has very high price markups for routine supplies:

<table>
<thead>
<tr>
<th>Item</th>
<th>Market Price</th>
<th>Hospital Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tylenol with codeine pill</td>
<td>$0.50</td>
<td>$36.78</td>
</tr>
<tr>
<td>IV fluid bag</td>
<td>Under $1</td>
<td>$137</td>
</tr>
<tr>
<td>Neck brace</td>
<td>$19.99</td>
<td>$154</td>
</tr>
<tr>
<td>Echocardiogram</td>
<td>$358</td>
<td>$1,791</td>
</tr>
<tr>
<td>Knee arthroscopy</td>
<td>$2,037</td>
<td>$14,110</td>
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California Pacific Medical Center’s 400-page chargemaster for this year contains some eye-popping figures: from $32,901 for an X-ray study of the heart’s arteries to $25,646.88 for gall bladder removal (doctor’s fees not included) to $5,510 for a simple vaginal delivery (not including $731 for each hour of labor, or $137 for each bag of IV fluid). Even basic supplies or services carry huge markups: $20 for a
codeine pill (50 cents at Rite-Aid or Walgreens), $543 for a breast-pump kit ($25 online), $4,495 for a CT scan of the abdomen (about $400 at an outpatient facility nearby). Plenty of other hospitals set similar prices.

Dr. Warren Browner, the chief executive officer of California Pacific Medical Center, said that there were good reasons that hospitals charged what they did: They must have highly trained professionals available 24 hours a day, seven days a week. They must constantly upgrade to the latest equipment and building standards to meet patients’ expectations and state mandates. They charge paying or well-insured patients more to compensate for others they treat at a loss.

“Hospital care is extremely expensive to produce and to have available for everyone in the community,” he said, noting that hospitals needed to have a neurosurgeon on call in case a patient turned up with a blood clot on the brain. “We take every penny of the revenue we earn and use it to build new and better facilities for everyone in the city.”

Some health economists say that even though most hospitals are nonprofit, they nonetheless are often flush with revenue and guilty of unnecessary spending.

“Hospitals are self-fueling, ever-expanding machines,” said James Robinson, an economist and professor of health policy at the University of California, Berkeley. “There is an infinite amount of stuff to buy — amenities, machines, new wings, higher salaries, more nurses.”

“But,” he asked, “to deliver good health care, what do you need?”

**Few Constraints**

There is little science to how hospitals determine the prices they print on hospital bills.
“Chargemaster prices are basically arbitrary, not connected to underlying costs or market prices,” said Professor Melnick, the economist. Hospitals “can set them at any level they want. There are no market constraints.”

Prices for any item or service are set by each hospital and move up and down yearly, and show extraordinary variability, health economists say. The codeine that costs $20 and the bag of IV fluid that costs $137 at California Pacific are charged at $1 and $16 at the University of California San Francisco Medical Center, across town. But U.C.S.F. Medical Center charges $1,600 for an amniocentesis, which costs $687 at California Pacific.

After each hospital stay or visit, computer programs and human coders and billers use the chargemaster price list to translate the services rendered into a price. Sutter employs more than 1,300 people at a special center in Roseville, Calif., to perform this and other administrative tasks for its hospitals. Emergency room visits typically include separate charges for doctor’s services and for supplies, as well as a “facility fee” — the charge for walking in the door.
Orla Roche’s bill, for example, included $529 for “supplies and devices,” though her mother is perplexed about what those are: Orla left the emergency room with gauze wrapped round her head (under $1 at Internet supply stores), festooned with a pink cartoon sticker. According to the chargemaster price list for California Pacific, a vial of skin glue is billed at $181, a tube of antibiotic cream at $125.84 and a vial of local anesthetic at $79.73. These items can be purchased for $15.99, $36.99 and $5 on the Internet, though hospitals — which buy wholesale and in bulk — pay far less.

The bill also included $1,167 for the facility fee, which was classified at Level 3 — the middle of the scale, though Orla’s treatment was one of the most simple emergency room interventions. At Lenox Hill in New York, Daniel Diaz’s unusually detailed bill for his stitches included $1,828 for emergency room services, $628 for repairing the wound, $571.83 for “application of a finger splint,” $97.10 for a tetanus shot, and $311 for someone to give the injection. At Sparrow Hospital in Lansing, Mich., 2-year-old Ben Bellar’s bill for six stitches, more than $2,000, included $145.20 for “pharmacy” — a spoonful of ibuprofen and local anesthetic, his mother said.

Economists note that hospitals can bill for emergency room care with relative impunity, since injured patients generally rush to the nearest treatment facility. But worried about high prices, even the sick sometimes shop around. When Jamie Burke, 33, a graduate student in North Carolina, came to after she was knocked out during a soccer game in April, she started searching on her smartphone for an in-network hospital as a friend drove.

“It was crazy,” she said, “but luckily I wasn’t unconscious, so I could figure it out.”

She is glad she did: Though the hospital billed $5,039, her insurer’s in-network contracted rate was about $2,700. With copays and coinsurance, she owed $600 for the visit.

The uninsured are particularly vulnerable to high prices since they have no one to argue on their behalf. When Arch Roberts Jr. got his bill of more than $2,000 for stitches, he explained that he was uninsured and his business had failed during the housing crisis, so he could not afford the fee. The hospital offered him a “charity care discount” — a price that was still out of range. “I don’t have $800 to pay them any
more than I have $2,000” for three stitches, he said, noting that the hospital has been “relentless” in its collection efforts.

Paths to Profit

Once perennial money pits, emergency rooms have become big moneymakers for most hospitals in the last decade, experts say, as they raised their fees and “managed” their patient mix. California Pacific Medical Center has nearly doubled its emergency room fees since 2005, its chargemaster price lists show.

California Pacific’s emergency room is not a trauma center; poor or uninsured trauma patients who require lengthy inpatient stays can strain a hospital budget. And insurers allow emergency rooms to bill more than urgent-care centers for simple procedures like stitches or X-raying a sprained ankle, making such procedures profitable. Indeed, the financial prospects are so appealing that doctors’ groups in Texas are opening free-standing “emergency rooms” that are not connected to hospitals.

“Hospitals see where they’re making money and try to do more of that,” said Dr. David Gifford, a former health commissioner of Rhode Island, who has studied how labs price their tests. He said that laboratory tests and X-rays are priced high and are profitable, though there is no difference in quality from national commercial labs that charge far less. A blood count and blood electrolyte test — ordered every day for most inpatients and often in the emergency room — are priced at $259.06 and $293.25 on California Pacific Medical Center’s chargemaster price list. Insurers often pay outside labs less than $10 for the services.

And, like any business, many hospitals try to do fewer services that are not well paid. In 2012, over loud patient protests, California Pacific Medical Center outsourced its kidney dialysis unit to DaVita Health Care Partners, a commercial company, citing decreasing reimbursement. More than five years ago, after Sutter acquired St. Luke’s, a decrepit hospital in a poor neighborhood, it tried to shut the facility and convert it to an outpatient clinic, which often generate scans and other expensive tests. (The
City of San Francisco rejected the plan.) It did close the hospital’s acute psychiatric unit, a division that almost always loses money.

“You need a Ph.D. in health economics” to understand medical pricing, said Dr. Browner, who has acknowledged that California Pacific’s chargemaster prices might appear high. But he added, “We have to recoup what it costs to keep open, what it costs to take care of the un- and underinsured and to rebuild.”

He said that MediCal, California’s Medicaid program, pays California Pacific Medical Center only 10 to 20 percent of its actual costs for care. Medicare pays about 70 percent, he said, generally with a predetermined flat fee for each admission based on the patient’s diagnosis. In contrast, many private insurers still pay separately for services rendered, based on discounts from the chargemaster prices.

Dr. Browner also pointed to what health care executives call the “Saudi sheikh problem” at some hospitals.

“You don’t really want to change your charges if you have a Saudi sheikh come in with a suitcase full of cash who’s going to pay full charges,” he said.

But how much actual charity care does a hospital like California Pacific Medical Center perform? And are insurers and patients paying hospitals for better quality? Or also for amenities like valet parking, useless medical gadgetry and inflated salaries?

Though hospitals’ nonprofit status allows them to reap tens or hundreds of millions of dollars in tax benefits, California Pacific Medical Center’s main campuses spent 1.27 percent of their more than $1.1 billion in net patient revenues in 2011 on free care for indigent or uninsured patients, lower than the state average of 2.07 percent, according to statistics compiled by the San Francisco Department of Public Health. The far smaller St. Luke’s branch spent 5.32 percent that year.
Sutter, based in Sacramento, employs 28 officials who make more than $1 million a year, and four of them are among the top-paid hospital executives in the state. Sutter’s chief executive officer makes more than $5 million. In 2011, Dr. Browner, 62, a distinguished physician who spent much of his career in academics, made more than $1.2 million, according to tax documents.

California Pacific, Sutter’s main campus, is in upscale Pacific Heights. It has just broken ground on a $2.7 billion renovation, which includes a new flagship hospital. Though the project was initiated to meet new state earthquake standards, the facility is designed as a sleek glass and marble structure with all private rooms, underground parking and roof gardens with flowers and bees “to enhance the quality of the healing environment,” according to California Pacific Medical Center’s website. Its Facebook page has called it “the coolest hospital in San Francisco, possibly the country and even the world.”

Consumers may appreciate — or demand — features that contribute to bigger hospital bills. But studies have found no correlation between prices and patient outcomes. A California state rating of hospital services by the California Health Care Foundation gave California Pacific Medical Center average scores in most categories, though its surgical-care measures were rated “superior.”

Its crosstown neighbor, University of California San Francisco, a nationally ranked academic institution, charges far less per day than California Pacific, when the greater severity of illnesses of its patients is factored in, Professor Melnick said. In fact, a recent study in the publication Annals of Surgery, a monthly review of surgical
science, found that hospitals with the highest complication rates tended to have higher prices.

From such variations, economists conclude that “costs” are highly discretionary, noting that hospitals in other developed countries often provide high-quality care, with better outcomes in comparatively no-frills environments. Said Dr. Robinson, the Berkeley health economist: “If you pay hospitals more, they spend it. If you pay them less, they adjust. The only way to pay less for health care — is to pay less for health care.”

Hospital officials like to say that their list prices do not reflect what most patients actually pay, because private and government insurers negotiate discounts. Simone Singh, a professor of health management and policy at the University of Michigan, estimated that insurers generally paid 40 to 50 percent of charges. But with powerful chains like Sutter, prices are high and the discounts often are not so generous. Patients are left paying more.

A Price ‘Sequoia’

For her three stitches at California Pacific Medical Center, Deepika Singh ended up paying $768.56 — a lot of money for a 26-year-old retail supply chain manager — of the $1,813 rate her insurer negotiated for the approximately $2,200 bill. Ms. Duffy owed $1,366 after her insurer’s discount on 2-year-old Orla’s $1,700 bill, since the family had not met its annual deductible. “How much is that per minute?” she asked.

Across California, Sutter hospitals have proved expert at the business of medicine. “Our members are very exercised about Sutter — it has increased prices
disproportionately,” said David Lansky, chief executive officer of the Pacific Business Group on Health, which represents 60 of California’s biggest private employers in its health care negotiations. “Sutter has been successful at leveraging their huge size in dictating not just price but contract terms.”

Its major competitor is Kaiser, a health maintenance organization that runs a closed network of hospitals and doctors. California Pacific Medical Center delivers more than half the babies in San Francisco and is the city’s largest employer after Wells Fargo. Sutter contracts also include “gag clauses” that prevent employers from knowing what rates have been negotiated by their insurers on their behalf, Mr. Lansky said.

Chuck Idelson, a spokesman for the Institute for Health and Socio-Economic Policy, the research arm of the California Nurses Association, said Sutter prices were 40 to 70 percent above its rivals’ for similar services. When Sutter bought Summit Hospital in Oakland in 1999, rates there went up 29 percent to 72 percent, researchers found. Because of pricing issues, proposed insurance plans under the Affordable Care Act did not initially include Sutter hospitals.

Same Injury, Different Cost

The cost of treating a cut finger in an emergency room can vary dramatically. Hospital costs, rather than doctor costs, drive the price. Prices are $566 in New England, but are $1,043 in Indiana and $1,377 in Texas.
Terry Miller, 62, a businessman in the Bay Area, got a bill for $117,000 for a two-night stay at California Pacific Medical Center to place a stent to open one of his heart’s clogged arteries — a charge that did not include fees for the cardiologist and radiologist. According to the Medicare database, California Pacific Medical Center charged $43,679 for hospitalization to treat a simple pneumonia and $96,642 to treat a stroke; the Medicare payments for those illnesses were $8,046 and $9,583.
The high prices have had a ripple effect across Northern California, allowing smaller hospitals to charge more as well. “Sutter is the tallest Sequoia and everyone goes up just underneath them a bit,” said Professor Melnick. He noted that hospital prices in California had more than doubled in the past decade, after adjustment for inflation.

And payouts in the Pacific region for simple emergency room treatments — stitches, a sprained ankle and an upper respiratory infection — were by far the highest in the country, about 50 percent higher than in the Northeast, according to an analysis performed for The Times, by the health care consulting firm Truven Health Analytics.

The Merger Factor

In theory, health care consolidation can lead to economies of scale, but not if it produces complex supersize systems. Excess administrative costs accounted for about $190 billion of the $2.5 trillion medical bill of the United States in 2009, the Institute of Medicine estimated this year — money that could be used for other purposes.
“There is a big flurry of consolidation and the effects depend on what the objective of the health care system is,” said Orry Jacobs of the health care consulting firm BDC Advisors. “If the intent is to improve care and bend cost curves, then networks can do so. If the objective is to corner the market and demand higher rates, then that will happen.” Indeed, research shows that today’s hospital mergers tend to drive up prices.

And employers have limited ability to fight back. Sutter operates the only hospital in some California cities. And employers have limited ability to fight back. Sutter operates the only hospital in some California cities. Because of pricing issues, fewer health plans offered by the University of California, Berkeley, will include Sutter hospitals in 2014 compared to this year.

As is often the case in American medicine, patients will decide if they are willing to pay the high price of care. Back home in New York City, Orla Duffy’s head wound has healed nicely without further treatment. Deepika Singh had her stitches taken out at an urgent care clinic, costing $25 with her copay, during a business trip to Washington.

Daniel Diaz, who had been treated at Lenox Hill, Mr. Roberts and Amy Bernstein had no choice but to visit an emergency room this year for stitches. But they all refused to see a doctor for the follow-up.

“The amount was outrageous for the time it took to put them in,” said Ms. Bernstein, 54, a real estate lawyer from Long Island, who cut herself cleaning knives while fixing a kitchen damaged by Hurricane Sandy. “I was so disgusted, I took them out myself.”

Jo Craven McGinty contributed reporting from New York.

This article has been revised to reflect the following correction:

**Correction: December 18, 2013**

An article on Dec. 3 about the high cost of hospital care in California omitted one
hospital owned by Sutter Health that is accessible through the health plans offered to employees of the University of California, Berkeley, and referred imprecisely to the accessibility of another. Alta-Bates Summit Medical Center is indeed included in some of these plans’ networks, but California Pacific Medical Center is only available to patients in a few plans with high coinsurance payments.

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