

Executive Summary

Healthcare costs in America are unsustainable and growing. Current policies to regulate prices are failing. This report utilized peer reviewed journal articles to determine if price transparency is a viable option for containing costs. Price transparency can work in healthcare if it is effectively implemented and potential negative consequences are controlled.

Background

The United States spends more money on healthcare than any other country. Spiro, Lee and Emanuel (2012) mentioned that America's healthcare spending problem is due to utilization and costs. As of 2011, the United States spent \$8,000 per person per year on healthcare, two and a half times as much as the average for other high-income countries. The authors noted that this sum was almost one-fifth of the American economy. At this rate costs are increasing faster than wages in America (Action Brief). One of the reasons that prices are steadily increasing is that providers charge different prices to different payers (Austin & Gravelle, 2008; Hostetter & Klein, 2012; Sinaiko & Rosenthal, 2011). Hostetter and Klein (2012) acknowledged that providers charge different prices even for common procedures. A similar issue is that the wide variation in prices is on top of an already high average price (Sinaiko & Rosenthal, 2011). The fast growing healthcare bill is reflective of the United States' attitude toward business. The country excels at innovation but grapples with price control (Robinson, 2008). America is trying to combat high healthcare costs but the current policies are unable to produce marked changes.

Both private and public healthcare payers are looking for ways to cut spending (Hostetter & Klein, 2012). Insurers are encouraging their customers to research the cost and quality of providers and procedures in order to make informed decisions concerning their healthcare consumption. Likewise, cost sharing has led to less healthcare utilization (Action Brief,

Ginsburg, 2007; Hostetter and Klein, 2012). Hostetter and Klein (2012) observed that patients will choose cheaper alternatives if they pay a larger share. Payers turned to cost sharing in order to lower their burden, while also forcing consumers to acquire as much information on price and quality as possible. Ginsburg (2007) conveyed that making healthcare decisions based on price had been taboo but is now becoming a standard practice to save money. A barrier to this process is that doctors are often ambivalent to a treatment's cost (Austin & Gravelle, 2008; Robinson, 2008). Austin and Gravelle (2008) also described physicians ordering procedural choices without input from the patient. It is a difficult situation because patients are not informed of their options nor are they knowledgeable about their conditions. Likewise, physicians will make decisions about devices without any knowledge or concern of price (Austin & Gravelle, 2008). Information asymmetry is a persistent issue.

A major problem in healthcare is the lack of price, and quality, transparency (Austin & Gravelle, 2008; Robinson, 2008; AB). Hostetter and Klein (2012) observed that consumers make the mistake of using price as a proxy for quality. There is no evidence that higher prices lead to better quality. Patients grapple with this struggle because they lack information concerning hospitals and physicians' quality of care (Austin & Gravelle, 2008). Robinson (2008) suggested that allowing all payers to see the price before the bill will help the decision-making process. This would also relieve another burden which is the secrecy practiced by providers and companies (Kyle & Ridley, 2007; Pauly & Burns, 2008). Pauly and Burns (2008) explained how device manufacturers are using secretive language in their contract to block price transparency, whereas Kyle and Ridley (2007) discussed that hospitals are notorious for not disclosing prices. These issues lead to higher healthcare bills. Current attempts to ease healthcare's financial burden fail because the insured subsidize the uninsured and consumers are

not able to compare quality. Nevertheless, it is important to remember that healthcare is a heterogeneous product with prices varying by patient, location and quality (Austin & Gravelle, 2008). It is complicated with varying outcomes for similar procedures, but it is not an excuse for the varying and increasing prices.

Evidence

Evidence for this report was gathered by searching on Google Scholar for articles concerning the United States' increasing healthcare bill and the potential impact of price transparency. Most of the articles cited in this paper are from peer-reviewed journals. Many of the articles' content was concerning healthcare in the United States and the information asymmetry many patients and payers face. Other articles investigated the success and failures of already existing price transparency practices.

Problem

The United States needs to slow the growth of healthcare spending. Spiro, Lee, and Emanuel (2012) compared America's healthcare spending to that of like nations. The United States spends roughly \$3,000 more per person per year on healthcare than the next closest nation. Similarly, America's prices are, on average, 60% higher than the average cost for the same procedure in other nations. Healthcare's growing cost is unsustainable. Part of the increase in cost is related to the consolidation of healthcare providers (Action Brief). Without price transparency there is already a lack of competition amongst providers, however the lack of competition becomes heightened when hospitals or other providers merge. Other issues concerning cost arise due to hidden costs (Pauly & Burns, 2008; Sinaiko & Rosenthal, 2011). Pauly and Burns (2008) explained that healthcare buyers, whether it is a patient buying from a hospital or a hospital buying a device, lack comparative data on pricing. Device companies are

secretive in what they charge different providers and even attempt hospitals from exchanging pricing data. Similarly, patients are largely ignorant of different treatment costs (Sinaiko & Rosenthal, 2011). Even when payers do have some information they fail to properly use it. In the current system consumers view higher cost as higher quality even though evidence does not support this (Hostetter & Klein, 2012). Consumers need more information on quality and price to limit these mistakes.

Price transparency was implemented in other industries with varying degrees of success. Hostetter and Klein (2012) identified that at times price transparency will have unintended negative consequences that worsen the problem. Companies and providers may see price transparency as an attack and use other methods to maintain revenue. In these cases sellers will keep prices at the highest price to increase their profits (Kyle & Ridley, 2007). The biggest issue with this practice is that it marginalizes individuals who are unable to afford the current price, let alone an increase. These instances describe difficulties that current price transparency efforts faced. Conversely, price transparency is a useful tool for hospitals in controlling device prices (Tu & Lauer, 2009). Price transparency also worked in the technology and finance industries (Austin & Gravelle, 2008; Hahn, Klovers & Singer, 2008). The rationale for expecting price transparency to be successful is that healthcare costs have such great variation (Sinaiko & Rosenthal, 2011; Spiro, Lee & Emanuel, 2012). Going forward if there is greater price transparency it is likely that prices will become more uniform.

Policy Options

1. Antitrust litigation undertaken by the Attorney General followed by using the outcome of the litigation to enact legislation or regulation (Muir, Alessi & King, 2013).

2. Through a government agency, potentially the State Department of Insurance or the Federal Insurance Office in the Department of the Treasury, divide the country into smaller independent healthcare regions and mandate price transparency throughout the regions (Muir, Alessi & King, 2013). These larger regions could then be broken into smaller districts or as the agency sees fit. The agency could use existing data from the Dartmouth Healthcare Atlas or create their own regions.
3. Allow ongoing practices to continue.

The criteria for selecting an option relates to feasibility, equity and planning for potential negative consequences. The strongest argument against implementing price transparency in healthcare is that it will exacerbate existing issues and not curb spending. If price transparency is implemented, measures will be needed to ensure that all possible negative outcomes are addressed. Correspondingly, the selected option needs to focus on improving healthcare's equity. Scholars recommend price transparency for this reason (Austin & Gravelle, 2008; Ginsburg, 2007; Spiro, Lee & Emanuel, 2012). Lastly, and obviously, it is important to ensure the selected option is feasible. Any chosen legislation or regulation needs to be able to work in the marketplace. These tenets are important to remember when deciding which policy option to implement.

Recommendation

The best option for price transparency in the United States healthcare system is option two, breaking the country or states into regions and mandating price transparency (Muir, Alessi & King, 2013). If the State Department of Insurance, the Federal Insurance Office, or another agency implements this transparency it will eliminate the location argument as a mechanism for healthcare cost variation. Austin and Gravelle (2008) explained that costs often vary due to

location and demand. This regulation would still allow for prices to be different based on area but would ensure that variation in price would not differ in the same location. This option would also allow insurers and providers to agree upon specific prices before disclosing them (Muir, Alessi & King, 2013). Following disclosure, consumers would be able to find a treatment's price. Price ignorance contributes to increased spending. Muir, Alessi and King (2013) continued discussing the recommendation by clarifying that the wording in the regulation should not allow providers to leverage the market for an excessive price. Kyle and Ridley (2007) acknowledged that provider collusion is a potential negative consequence of price transparency. Breaking up states and the country into specific regions will allow providers in markets with high demand to maintain high prices while enhancing competition that healthcare often (Austin & Gravelle, 2008; Spiro, Lee & Emanuel, 2012;). Muir, Alessi and King (2013) recommended enforcing this practice through sanctions. This option is the most efficient and feasible.

The other two options, maintaining the status quo and litigation followed by regulation or legislation would not yield the highest potential results. Maintaining the status quo will allow healthcare spending to continue growing at an unsustainable rate (Spiro, Lee & Emanuel, 2012). It is no longer feasible for America to spend 60% more on treatments than peer nations. Currently, prices vary among providers and payers leading to higher total expenditures (Hostetter & Klein, 2012). Kyle and Ridley (2007) also recognized that in America, consumers do not know the treatment's price, nor do they care to find out. This proposed action would make it easier for consumers to figure out what they are spending compared to others for the same treatment.

Attorney General led litigation against different parties would also not produce optimal results (Muir, Alessi & King, 2013). Potential pitfalls of pursuing litigation are due to the

uncertainty behind filing a lawsuit, if it even gets to that point. It is possible that the Attorney General is uninterested in price transparency. Nevertheless if litigation is pursued it will be expensive in terms of money, manpower and time. Muir, Alessi & King (2013) also speculated that this method might miss the policy window due to the length of litigation before even reaching the regulation or legislation stage. Therefore, option two is more likely to produce results, making it the best of the three options.

Going forward, focus needs to be on creating a more competitive and viable healthcare system. Austin and Gravelle (2008) explained that price transparency allows consumers to know more about quality and price, which often leads to prices falling, quality improving, or both. Price transparency will also limit the variation in pricing and thus lower spending (Sinaiko & Rosenthal, 2011; Spiro, Lee & Emanuel, 2012). If it is implemented faithfully, price transparency lowers costs in a particular market (Austin & Gravelle, 2008; Ginsburg, 2007; Hahn, Klovers & Singer, 2008). Finally, these measures will lead to curbing healthcare spending, which Spiro, Lee and Emanuel (2012), amongst others, explained is desperately needed. Price transparency can be an asset in cutting healthcare costs, but it must be implemented in a feasible and effective manner.

***I am a student at Columbia University. However, this comment to the Federal Trade Commission reflects my own personal opinions. This is not representative of the views of Columbia University or the Trustees of Columbia University.*

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