**To: Federal Trade Commission**

**From: Frank Chen, Columbia University MPH Student**

**Re: Price Transparency in Healthcare Competition**

**Date: April 25, 2014**

***Disclaimer: "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."***

**Reference #:** P131207

**Executive summary:**

Consistently rising healthcare costs plague the U.S healthcare system today, as shrouded market competition exacerbates the true cost of health services for consumers. Pricing turmoil between providers, purchasers, and payers visibly demonstrate that existing consumer tools have not staunched costs in the medical device and diagnostics industries. The focus is now shifted upon provider relationships with the purchaser and the payer, rather than the previously narrowed focus on the consumer. Transparency efforts towards disclosing the true cost of diagnostics, abolishing hidden action, and avoiding the re-bundling of services have the potential to mend broken provider communication. Ultimately, new forms of price transparency should aim to increase competition and decrease cost, all the while maintaining quality.

**Background:**

Despite valiant efforts in outcomes research and cost-effectiveness studies, healthcare spending per capita in the United States is twice that of similarly developed countries. These stark differences in the cost of healthcare cannot be explained away by an increase in healthcare use. The concept of price transparency is a constantly evolving tool within the healthcare system between purchasers, providers, and payers that supposedly helps to staunch growing healthcare costs.[4] Because hidden prices and asymmetric information about the varying costs of healthcare can simultaneously affect these groups, price transparency, whether through technological platforms or as an act of removing risk, can allow natural market forces to normalize prices.

Price transparency is defined as an estimate of a consumer's complete healthcare cost for a particular service or set of services. Without price transparency in the currently fragmented private health insurance sector, purchasers do not have an accurate reference point for high-cost healthcare; providers can vary wildly (by factors of ten) in the cost of common services such as colonoscopies and arthroscopies.[1] The current structure of the payment system utilizes the private health insurance sector as the pricing reference point. Not only does this set abnormally high prices as the standard, it allows providers to shift the burden from public to private payers, and from large insurers to small insurers. Additional administrative costs can therefore contribute to the high price of care; provider market power can further exacerbate unnecessary pricing negotiations. This results in competition between providers, creating inter and intra pricing discrepancies, exposing purchasers to inaccurate quality and cost proxies that lead them to exhibit morally hazardous behavior. On the other end of the spectrum, payers do not wish to reveal the true prices of their health plans due to the lack of standard reporting, changing benefit structures, and legal implications. This is contrary to what is outlined in Section One of the Sherman Act, which prohibits provider and payer parties from signing contracts that constitute unreasonable restraints of trade. Under Section One, the most favored nation (MFN) clause guarantees payers the providers' best rates, albeit, these prices are subject to liability issues, as certain price ceilings can prevent market competition. Nevertheless, price transparency increases competition by consolidating price discrepancies.[7]

Even in instances where price transparency is adequately implemented, unintended consequences arise.[3] Providers respond to transparency initiatives that lead to decreased price variation amongst providers, but the overall price for medical services still increases. Purchaser response to lower-priced providers can adversely affect the market as the notion of quality care is inexorably linked to the magnitude of price.[2] Thus, variation and magnitude of a price must be regulated between providers, purchasers, and payers through accurate reporting of standardized pricing references.

Similar efforts in price transparency in the 1980's rail shipping industry and Canadian food prices revealed that a consistent supply of information can stabilize costs. A study conducted by the United States Government Accountability Office identified that price transparency in California requires providers to disclose cost estimates for common outpatient procedures. Established "comparison sites" now allow patients to view median prices, but the information is limited. Still, the Congressional Research Service found that early California price transparency initiatives did not lead to changes in consumer behavior or pricing.[1] An erroneous assumption of higher cost equating to higher quality of care emphasizes the potential need to disassociate these irrelevant proxies, and implement transparency beyond the consumer level.

Without price transparency, there is the potential for high healthcare elasticity, where large changes in price result in large changes in healthcare demand. Price transparency on the provider end aims to consolidate provider prices.[11] When applied to the implant device industry, price transparency decreases the price variation of implant devices between providers, but increases the overall cost of care.[8] Market consistency, however, is preserved. The lack of proper price transparency leaves purchasers in the dark about alternative pricing levels of similar purchasers and can unnecessarily subject them to eventual regressive costs.[9] This increases confusion, as prices should not be personalized, but rather, should remain equitable for the general population. Price transparency, in this context, would do little to control prices; the lack of purchaser bargaining power enables vulnerability. The cycle completes its loop with payers, who, without price transparency, do not wish to disclose the true cost of medical care, further insulating the purchaser from the true price of healthcare.

**Evidence:**

Corresponding evidence was obtained from The Commonwealth Fund, the Government Accountability Office, and the Congressional Research Service. Additional sources of information were obtained from PubMed, Google Scholar, and journals from the American Medical Association, the New England Journal of Medicine, and Health Affairs. Additional economic analyses and costs data on implant devices as well as diagnostic service utilization were obtained by the Catalyst for Payment Reform.

**Problem:**

Price transparency across providers, payers, and purchasers contribute to the confusion, turmoil, and increasing costs of the healthcare system in the United States. Despite efforts and previous legislation to increase price transparency on the consumer side through technology applications, provider miscommunication persists. These disruptions decrease the anti-fragility of market competition, muddle standard reporting of hospital costs, and promote information asymmetry across the actors of the healthcare system.

From the Federal Trade Commission's perspective, healthy market competition is key for natural market regulation of health costs. The intersection of competition, costs, and quality in the United States healthcare system has not been properly balanced. This mishap originates from the erroneous assumption that quality and cost are inexorably linked, creating a difficult price negotiation platform and perverse incentives for overuse and abuse of substandard care. This issue causes further reverberations in the payer realm, providing incentives to bundle services together to offset the true cost of care. This defines a dire need for price transparency initiatives between the provider-purchaser and the provider-payer that enables straightforward competition and consistently high standards of care.

**Options:**

1. Implementation of a mandatory transparency tool from providers catered to purchasers.

A transparency tool aimed at displaying present-adjusted costs data gathered from previous API databases can provide a degree of price transparency between providers and purchasers. The Catalyst for Payment Reform dictates that such a tool requires integration onto a web platform and will provide adequate technical support. The tool must integrate adequate scope and user-friendly measurements of utility, providing an experience compliant with consistently updated feedback. Purchasers would be required to anonymously and confidentially submit their own claims data to a meta-database.[12]

2. Require mandatory sign offs of updated cost information for commonly utilized diagnostic services.

By providing providers with symmetric information on the true cost of diagnostics, the number of inappropriately assigned diagnostic tests would be realized. Point-of-service information on costs as well as the transparency of the explicit cost of a diagnostic test informs providers to the true cost of diagnostic services, leading to a natural regulation of costly, unnecessary services provided in a health plan. Combined with effectiveness studies, physicians are subsequently armed with complete information so they can provide informed choices to their patients, maximizing the incremental cost effectiveness of medical decisions. From these cost-effective decisions, overall costs will go down, and patients receive proper information dissemination.[10]

3. Dictate a health plan standard through administrative or legislative adherence to a monetary conversion rate.

Health plans under such standards are required to submit cost, quality, and use comparison data in order to obtain certification. Use of public sector costs as a base for a monetary conversion factor would standardize the costs reporting database, where certified health plans and their corresponding information are available to purchasers and providers.[13] The key purpose is to dismantle geographic association and confer quality and cost as independent healthcare markers.

**Recommendation:**

Require mandatory sign offs of updated cost information for commonly utilized diagnostic services.

Third-party applications and transparency tools have already been implemented for purchasers of common healthcare services, the focus should now be shifted upon shoring up provider relationships with both the purchaser and the payer. Augmenting provider awareness of true diagnostic and medical service costs removes the incentive to provide unnecessary care. Targeting physicians and hospital staff upstream of the price-reporting process through binding contracts has the potential to shore up gaps in provider-purchaser and provider-payer communication.[6]

Validation of the most commonly used diagnostics, their quality, and cost, would ultimately decrease the misuse of less cost-effective procedures. This would decrease unnecessary consumption of healthcare, which would not only decrease overall price, but promote an agreed upon price range between providers. The quality of care is therefore, much easier to normalize, as perverse monetary incentives have been removed.[11]

Necessary price transparency at point-of-service care acts like a commitment contract, actualizing the risk and upfront costs of certain diagnostic services, which would serve to remind healthcare professionals of the true cost of care. This would improve not only the purchaser and provider relationship, but would ultimately simplify the provider-payer relationship, as price variation would normalize the volume of utilized services. Price transparency at point-of-service care within the hospital and private clinics transcend both the public and private sectors; geographic variation of quality and cost would therefore not be tethered to a monetary standard. Healthy competition can subsequently spring from a strong foundation of accurate price reporting, beginning with hospital contracts.

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