

Policy Memo- Price Transparency in health care industry

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Executive Summary

A lack of price transparency is responsible for stalling competition among health care providers and increasing health care costs. Proponents of greater price transparency believe that it will decrease health care costs by leading consumers to make cost-conscious decisions and by promoting provider competition. On the other hand, some argue that price transparency can rather results in adverse consequences. Therefore, a price transparency policy must not only empower consumers and reduce the health care costs but also minimize the potential negative effects.

Background

Price of health care service is rarely transparent. Patients do not know the costs of medical care until they receive it, and they do not know how much others pay for the same procedure. Also, patients are not provided with individual elements of an episode of care, and they are hidden from the true costs which are largely paid by insurance plans.¹ The dramatic price variation in medical procedures demonstrates that there is a lack of price transparency; for instance, price of a colonoscopy, which is a fairly standardized procedure, ranges from \$350 to \$5,805.² Hip replacement service costs anywhere from \$2,300 to \$7,300.³

The problem of price transparency has its cause in the nature of the health care market. The price of medical care is not settled by the function of supply and demand but by the agreements behind the curtains among providers including hospitals, medical product manufacturers, and insurance companies.⁴ The secret pricing prevents access to complete price information and hinders fair competitions among providers. A lack of competition, in return, incentivizes providers not to reveal the true price to consumers.⁵ Health care experts also suggest that because patients are hidden from true costs, they are more likely to over-consume medical care, contributing to the growing health care spending.

Although there is discrepancy in the estimates, contribution of the secret pricing to health care costs is worth of close examination. The annual waste in health care spending due to the lack of price transparency is considered to be \$36 billion.⁶ The Institute of Medicine reports

¹ Hostetter, M. & Klein, S. (April/May 2012). Health Care Price Transparency: Can It Promote High-Value Care? *Quality Matters*. <<http://www.commonwealthfund.org/Newsletters/Quality-Matters/2012/April-May/In-Focus.aspx>>
^{2,4,5,6} Berger, M. (March 2013). Healthcare Price Transparency: A State and Federal Approach. *Costs of Care*. <<http://www.costsofcare.org/wp-content/uploads/2013/03/Berger-Price-Transparency-White-Paper.pdf>>
³ Lerner, J. C., Fox, D. M., Nelson, T., & Reiss, J. B. (2008). The Consequence of Secret Prices: The Politics of Physician Preference Items. *Health Affairs* 27, no. 6: 1560-1565.
< <http://content.healthaffairs.org/content/27/6/1560.abstract>>

even more concerning number that the excessive price variation and a lack of competition cost \$105 billion annually.⁷ As containing the health care spending has become the priority on the national agenda, improving price transparency has received recent attention as a promising strategy. Advocates of price transparency claim that it not only empowers patients to make cost-conscious decisions but also reduces price of health care services by promoting provider competition.⁸

Many states have made efforts to improve price transparency. For example, California mandates hospitals to publish “their list of prices for every product and procedure” on a state-run website, and Massachusetts requires health plans to submit “provider-specific estimated costs for procedures and admission”.⁹ The momentum for greater price transparency also exists in the federal government. Although both the Transparency in All Health Care Pricing Act of 2010 and the Health Care Price Transparency Promotion Act of 2012 failed to be enacted, the Health Care Price Transparency Promotion Act of 2013, which mandates hospitals to provide the estimates of out-of-pocket costs for health services, has been referred to the Subcommittee on Health.¹⁰ Also, requiring hospitals to provide charge information, the Affordable Care Act supports price transparency and attempts to increase consumer involvement in making cost-conscious decisions.¹¹ Current price reporting policies, however, lack consistency as they publish price information on various charges and different health care services.

Given the recent government support for greater price transparency, it is predicted that more price transparency policies will be implemented across health care industry affecting consumers, pharmaceuticals, biotechnology companies, insurance plans, and hospitals. Some of the policy recommendations include removing contract restrictions on sharing price information, developing a standardized format for price reporting, and promoting high deductible insurance plans. Consequently, the Federal Trade Committee (FTC) will perform an important role in ensuring whether those policies indeed provide consumers with ample price information and facilitate fair competition in health care industry without damaging the quality of medical services.

Evidence

A comprehensive literature search was done by using Google Scholar and Pubmed databases with the key word “price transparency”.

Problem

Despite of the recent push for greater price transparency, its opponents emphasize that it can rather result in negative consequences. Firstly, they argue that under certain conditions price

⁷ PBGH Policy Brief. (August 2013). Price Transparency. < <http://www.rwjf.org/en/research-publications/find-rwjf-research/2013/08/pbgh-policy-brief--price-transparency.html>>

⁸ Berger, M. (March 2013). Healthcare Price Transparency: A State and Federal Approach. *Costs of Care*. <<http://www.costsofcare.org/wp-content/uploads/2013/03/Berger-Price-Transparency-White-Paper.pdf>>

^{9, 11} Berger, M. (March 2013). Healthcare Price Transparency: A State and Federal Approach. *Costs of Care*. <<http://www.costsofcare.org/wp-content/uploads/2013/03/Berger-Price-Transparency-White-Paper.pdf>>

¹⁰ Hostetter, M. & Klein, S. (April/May 2012). Health Care Price Transparency: Can It Promote High-Value Care? *Quality Matters*. <<http://www.commonwealthfund.org/Newsletters/Quality-Matters/2012/April-May/In-Focus.aspx>>

transparency will adversely affect patients by raising price of medical care. When there are not many competitors in the market, collusions are more likely to be formed and allow medical providers to increase and maintain higher prices.¹² In small states with only few hospitals, this can be a serious issue. For instance, researchers have found that New Hampshire's initiatives to publish costs of 30 common medical services did not reduce health care costs mainly because of a weak provider competition.¹³ Other studies also showed that greater price transparency failed to yield a significant decrease in health care costs. It is important, however, to be mindful that the inconsistency in price data was largely accountable for the unsatisfying results. Moreover, whether consumers will effectively utilize available price information is questionable given the popular assumption that higher price is correlated with higher quality of service. Therefore, policymakers should implement price transparency policies that are politically and technically feasible and that can also overcome the drawbacks questioned by the opponents.

Policy Options:

1. **Ban contract restrictions on price data sharing:** Many times, providers cannot disclose reimbursement rate and price of medical device due to contract restrictions on sharing price information.¹⁴ Similarly, self-funded purchasers cannot submit their claim information into price database because of the contract obligations with health plans.¹⁵ Such legal impediments hinder provider competitions because they make hiding true price easier for the providers. Therefore, the federal government must remove the contract barriers and prohibit any restrictions on sharing price information. Nonetheless, strong opposition from health plans, medical device producers, and pharmaceutical companies must be resolved to effectively implement this policy option.
2. **Develop a standardized price reporting system for hospitals and mandate all states to create database:** Due to discrepancy in current price reporting policies, it is difficult to effectively measure the true impacts of price transparency on a large scale.¹⁶ If all hospitals follow a standardized format and report prices on the same set of medical services, it would greatly organize the reporting system. The federal government should decide what types of prices and medical services should be reported while state governments collect the reports from hospitals and publish the information on their own database websites. Selecting medical services that need to be reported, convincing

¹² Kyle, M. K. & Ridley, D. B. (2007). Would Greater Transparency And Uniformity Of Health Care Prices Benefit Poor Patients? *Health Affairs* 26, no. 5: 1384-1391. <<http://content.healthaffairs.org/content/26/5/1384.abstract>>

¹³ Tu, H. T. & Lauer, J. R. (November 2009). Impact of Health Care Price Transparency: On Price Variation: The New Hampshire Experience. *Health System Change*. Issue Brief NO. 128. <<http://www.hschange.com/CONTENT/1095/>>

¹⁴ Lerner, J. C., Fox, D. M., Nelson, T., & Reiss, J. B. (2008). The Consequence of Secret Prices: The Politics of Physician Preference Items. *Health Affairs* 27, no. 6: 1560-1565. <<http://content.healthaffairs.org/content/27/6/1560.abstract>>

¹⁵ Catalyst for Payment Reform. (November 2012). Price Transparency: An Essential Blocks for a High-Value, Health Care System. <http://www.catalyzepaymentreform.org/images/documents/CPR_Action_Brief_Price_Transparency.pdf>

¹⁶ Berger, M. (March 2013). Healthcare Price Transparency: A State and Federal Approach. *Costs of Care*. <<http://www.costsofcare.org/wp-content/uploads/2013/03/Berger-Price-Transparency-White-Paper.pdf>>

hospitals to follow the new format, and managing state-run databases will require great efforts and financial investments.

- 3. Promote insurance designs that will lead consumers to utilize price information:** Unawareness of how much insurance pays for medical services can lead consumers to over-use medical care. Also, it is uncertain whether consumers will effectively utilize the price information. High deductible plans resolve those issues and stimulate price transparency by exposing consumers to true costs of medical services.¹⁷ Since consumers are elastic to price, high deductible plans incentivize them to look for more cost-effective medical care. Indeed, increasingly more employer-provided insurances are switching to high deductible plans.¹⁸ Nevertheless, for any medical procedure that exceeds the deductible amount, consumers lose the incentive to shop for the best price. More importantly, high deductible plans put more burden of payment on consumers.

Recommendation

Given the suspicion over the effectiveness of price transparency, one must first verify that it actually reduces health care costs before endorsing price transparency policies. Yet, current price reporting policies publish inconsistent and incomparable price information that prohibits comprehensive evaluation on the benefits of price transparency. The second policy option will resolve this problem by requiring all hospitals to report prices on the same set of health care services and by creating state-run repositories for price information.

The federal government will decide which health care services should be reported and develop a standardized format for price reporting. For example, the new system will include provider-specific prices of 30 common procedures as well as procedures that treat non-life threatening conditions such as lumbar disc surgery.¹⁹ Prices of medical devices that are known to have great price variation should also be reported.²⁰ Along with the price information, the new system will collect provider-specific quality information so that consumers may observe that higher price is not always equal to higher quality of care.²¹ Hospitals will submit their price reports to the state governments who then will organize and disclose the information to the public.

Currently, there are only handful of states including, California, Maryland, and Utah that have state repositories for price information.²² By mandating all states to collect and publish prices on the same set of medical services, the new policy will produce sufficient amount of

^{17, 18} Tu, H. T. & Lauer, J. R. (November 2009). Impact of Health Care Price Transparency: On Price Variation: The New Hampshire Experience. *Health System Change*. Issue Brief NO. 128. <<http://www.hschange.com/CONTENT/1095/>>

¹⁹ Sinaiko, A. & Rosenthal, M. B. (March 2011). Increased Price Transparency in Health Care—Challenges and Potential Effects. *NEJM*, 364(10): 891- 894. <<http://www.nejm.org/doi/full/10.1056/NEJMp1100041>>

²⁰ Lerner, J. C., Fox, D. M., Nelson, T., & Reiss, J. B. (2008). The Consequence of Secret Prices: The Politics of Physician Preference Items. *Health Affairs* 27, no. 6: 1560-1565.

²¹ Hostetter, M. & Klein, S. (April/May 2012). Health Care Price Transparency: Can It Promote High-Value Care? *Quality Matters*. <<http://www.commonwealthfund.org/Newsletters/Quality-Matters/2012/April-May/In-Focus.aspx>>

²² Catalyst for Payment Reform. (November 2012). Price Transparency: An Essential Blocks for a High-Value, Health Care System. <http://www.catalyzepaymentreform.org/images/documents/CPR_Action_Brief_Price_Transparency.pdf>

price information that will greatly empower consumers. Also, because the new policy will be implemented nationwide, it is unlikely that hospitals will form collusions and raise prices. While the new policy will entail a lot of resources, it will help saving money in a long run as it allows one to investigate the efficacy of price transparency. Strong time commitment and political will must be present to pursue this policy recommendation.