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Executive Summary:

The issue of price transparency in the current health care economy has spurred numerous debates on the inefficiencies, inequalities, and increasing costs that result from a system in which consumers lack the means to make informed health care decisions. Greater transparency in the health care market can encourage competition among providers to provide services at the lowest possible rates, which decreases the costs consumers are faced with to more reasonable amounts based on the quality of care they receive (The Commonwealth Fund, 2012). Price transparency gives consumers the power to shop around for the most affordable option, resulting in a health care market that is similar to other sectors of the economy. After the assessment of three potential policy options, it is possible to conclude that mandating the disclosure of pricing information for specific treatments would be most effective way to alleviate many of the inefficiencies that exist in a non-transparent system.

Background:

The United States health care market is characterized by a wide variation in medical prices at the individual, regional, and state levels (Sinaiko & Rosenthal, 2011). Data revealing that the cost of spinal MRIs at Massachusetts’s hospitals between 2006 and 2007 ranged from \$450 to \$1,675, and that there was a \$300 difference between nonhospital- and hospital-based knee surgeries in New Hampshire in 2008, are examples of these trends (Sinaiko & Rosenthal, 2011). Without price transparency in the health care market, a factor that exists in all other economic sectors, inefficiencies develop, and consumers are unaware of which services will provide them with the most effective and affordable care (Sinaiko & Rosenthal, 2011). This phenomenon is perpetuating the significantly rising levels of health care spending in our present economy.

There are many efforts currently being conducted to improve factors associated with price transparency in the health care market. Transparency tools such as cost calculators are offered by several larger health plans, but differences in the functionality and design of their products prevents consumers from comparing prices across settings (Catalyst for Payment Reform, 2012). Even tools accessible through third party vendors are too specific in the scope of information they provide, although competition and innovation are still enhanced from their existence (CPR, 2012). Unfortunately, difficulties in retrieving real-time data and barriers to obtaining various claims data from multiple sources create limitations in the tools provided by these vendors (CPR, 2012).

There are 34 states that require the reporting of medical charges or reimbursement rates in hospital settings, and 30 states are currently pursuing legislation that will help improve price transparency (CPR, 2012). However, the structures of these transparency laws are widely varied, and many do not force providers to disclose information about the prices of specific treatments (CPR, 2012). Also, “all-payer claims databases” have been

created in several states to collect data on all health insurance claims; these databases provide information to key stakeholders about state-based efforts to contain costs and improve the quality of health care in certain regions (CPR, 2012). Expanding on these systems and prohibiting gag clauses will further improve the transparency of information for consumers and competing providers.

Consumers can make more appropriate decisions about where to seek the most affordable care when information about the price of services is available to them (TCF, 2012). This creates an opportunity to reduce overall medical service costs by encouraging competition among suppliers (TCF, 2012). When consumers are not actively searching for more cost-effective alternatives, providers are not incentivized to offer services at reduced rates, resulting in the high health care prices we see today relative to what is available in other countries (TCF, 2012). In order to increase competition among health care providers, efforts to improve price transparency are essential.

Evidence:

In order to evaluate which price transparency policy options would be most effective for the purpose of this analysis, an Internet search on previous policy briefs, legislation, and data about variations in medical costs was conducted in order to consolidate the most feasible options into one memo. Also, literary searches on PubMed and Google Scholar about price transparency in the health care system proved to be valuable resources and provided information about why price transparency is necessary to reduce medical costs.

Problem:

There is a lack of price transparency for medical services in the health care system, causing consumers to unknowingly purchase high-priced care when less expensive alternatives may be available (TCF, 2012). Since individuals seeking health care are unable to compare the prices of services without the availability of this information, providers are not incentivized to reduce their prices, and rates either remain stagnant or continue to increase (TCF, 2012). Providing consumers with the resources needed to make affordable and efficient decisions creates a system in which competition is encouraged among providers to either reduce their rates or lose their customers.

Price transparency in the health care system is necessary and important because the United States spends exponentially more on health care than any other country, and these trends are continuously increasing (CPR, 2012). Health care costs have been rising at twice the rate of the Consumer Price Index for more than a decade, outpacing wage growth in our society by 29% (CPR, 2012). Price transparency helps health care purchasers contain costs; allows consumers the opportunity to make informed decisions as they assume greater financial responsibility over their health care needs; and reduces the significant variations in prices throughout the system (CPR, 2012).

Price transparency is needed to effectively implement cost containment strategies such as reference and value pricing, which improve both the quality and affordability of physician services (CPR, 2012). Studies have also shown significant discrepancies in pricing between various providers, with some physicians setting prices ten times higher for

services such as colonoscopies and arthroscopies than their competitors in the same area (CPR, 2012). Without transparency, consumers are unaware of significant price disparities, resulting in an inefficient use of financial resources. Between 2010 and 2011, private spending increased by 4.6 percent due to higher prices, not increased utilization or intensity (CPR, 2012). Making financial information about health care services easily accessible and transparent can decrease the inefficiencies that are caused by asymmetrical information and a lack of price regulation for health care in our country.

Policy Option 1: -- Mandate the Disclosure of Pricing Information for Specific Treatments:

In most sectors of the economy, the price of goods is available to consumers, allowing them to make informed purchasing decisions based on weighing the affordability and quality of the product (TCF, 2012). Consequently, suppliers are encouraged to reduce costs in order to remain competitive with other sellers in their economic market. This type of pricing transparency is currently not available in the health care system, leaving consumers uninformed about whether they are receiving quality care at an affordable price relative to other hospitals and providers (TCF, 2012). Mandating the disclosure of medical service costs and pricing information would allow consumers to shop around and make cost-conscious decisions based on their individual needs (Sinaiko & Rosenthal, 2011). In order to remain competitive, high-priced suppliers will be forced to lower their costs after patients begin to select less expensive treatments and providers, resulting in a narrower range and lower level of medical service prices (Sinaiko & Rosenthal, 2011).

A federal mandate on implementing this policy is necessary because it can only be successful if all hospitals and physicians disclose information about the prices of specific treatments they provide. The amount of asymmetrical information between providers, patients, and other providers needs to be nearly eliminated in order for transparency to be effective and inefficiencies reduced (PBGH, 2013). It is essential for a policy enactment of this magnitude to have involvement from organizations with relevant goals and strong influences. The primary missions of the Federal Trade Commission are to protect consumers and competition in various economic sectors (Federal Trade Commission, 2014). Without price transparency, the asymmetrical information in the health care market is deceiving consumers about what the most affordable service options are, and there is no incentive to motivate competition among providers to offer the lowest possible prices (PBGH, 2013). Therefore, this policy option is one that the FTC could not only get behind and support, but should, in order to encourage government legislators to enact a bill requiring the disclosure of medical service prices.

Policy Option 2: -- Provision of Financial Incentives:

Subsidies are commonly used in economic markets to encourage suppliers to provide services that benefit both people and the environment. In health care, grants or other financial incentives could be offered by the Centers for Medicare and Medicare Services (CMS) to states that actively seek ways to improve the transparency of their health care systems (Pacific Business Group on Health, 2013). Prohibiting gag clauses and other anti-competitive practices, or setting up structures similar to “all-payer claims databases,”

are ways in which state goals can align with those of the federal government and commit to providing consumers with appropriate information about services and pricing (PBGH, 2013). Cost measures that reveal the performance rates of physicians could also be used to provide incentives to the most high-performing providers, resulting in a motivation to offer more efficient and effective services (PBGH, 2013).

This policy option requires involvement by Congress to grant CMS with the authority to provide states and physicians with financial incentives (PBGH, 2013). The structure of this system needs to be clearly determined prior to its enactment in order to maintain equity and affordability, and financial incentives will also encourage competition among providers to offer more high-quality care at reduced rates.

Policy Option 3: -- Allow Employers Access to Claims Data

A majority of the people who receive services in the United States health care system are insured through their employers. Although self-funded employers assume that they own the claims data for their employees, many health plans block their access to this information (PBGH, 2013). This is an inefficient system created by provider gag clauses and the proprietary interests of health plans, which both need to be invalidated in order to allow employers and their employees access to individual claims data (PBGH, 2013). The invalidation of these barriers needs to begin at the federal level by executing government pressure to sanction the availability of claims data under the Employee Retirement Income Security Act (PBGH, 2013). Since gag clauses prevent the expansion of competition and result in a discrepancy between provider and consumer information, the FTC would be incentivized to look into this current system and encourage legislation be passed that would eliminate its negative effects.

Recommendation:

To reduce the inefficiencies caused by a lack of transparency in health care pricing, I recommend policy option one and encourage legislators to mandate the disclosure of specific treatment pricing information at the federal level. If implemented correctly, this policy will reduce medical care prices due to more informed consumers with access to affordable and efficient services, resulting in the expansion of competition in this market.

When there are market failures that leave consumers without the information necessary to make smart, individual health care decisions, it is essential for the government to intervene and set mandates that encourage policies such as increased price transparency (PBGH, 2013). Innovation and improvement in this market are best motivated through the use of competition based on prices, experience level, and health outcomes, and a price disclosure mandate will make this information available to consumers (PBGH, 2013).

The next step in implementing this policy would be for the FTC to investigate which state legislations have the most effective and transparent systems, and combine these laws to create a federal policy that streamlines the national system. Congress will then be contacted to draw up the necessary bill proposals based on FTC encouragement and advocacy. There is too much variation between state health care systems, which prevents consumers from making cost-effective decisions through the comparison of provider rates

(CPR, 2012). This is why a federal mandate is essential in order to streamline transparency in our complicated health system.

Work Cited

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