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Revealing the Truth about Healthcare Price Transparency

For years, price transparency has been touted as a vital component of a high functioning healthcare system—and with good reason. Price transparency is instrumental to keeping consumers safe by allowing them to judge affordability and plan for the expense of needed healthcare services. It also enables state policymakers to address unwarranted price variation and, in some cases, can incentivize high cost providers to lower their prices to align more closely with industry rates.

Despite its merits, price transparency is also inappropriately credited for its ability to make markets more efficient. Most notably, transparency tools have generally not been successful when it comes to incentivizing consumers to compare services and shop for the best price.

SUMMARY

Price transparency is vital to a high functioning healthcare system in many respects. It keeps consumers safe by allowing them to judge affordability and plan for future healthcare expenses, enables state policymakers to address unwarranted price variation and can incentivize high cost providers to lower their prices. Despite its merits, studies show that price transparency does not make markets more efficient by incentivizing consumers to shop for the best price. This brief discusses the opportunities and limitations of price transparency and explores its uses by different stakeholder groups.

Increasing the effectiveness of price transparency will require a nuanced understanding of its strengths and limitations with respect to each audience using the information: patients, policymakers, regulators and providers. This brief discusses the opportunities and limitations of price transparency and explores its uses by stakeholder group.

Myth: Price Transparency Drives Smarter Spending by Consumers

A common motif is that making healthcare prices more transparent for consumers will drive value in the marketplace by increasing competition. The argument goes: price transparency will allow consumers to identify providers offering services for the best price, driving business to those that offer the greatest value and incentivizing others to fall in line. Variations on this theme combine price transparency with quality data so consumers can find the best value and/or combine transparency with cost sharing to increase consumers' "skin in the game" in order to incentivize shopping by patients.

The hope is that widespread use of this strategy will reduce price variation and decrease healthcare spending. However, there are five reasons to be skeptical of these claims:

- ***There is limited evidence that making prices more transparent for consumers will drive healthcare value.*** Retrospective studies find minimal evidence that price transparency alone improves value by incentivizing consumers to shop for the best price.^{1,2} Although experience in other markets suggests that price transparency can drive down prices, the healthcare market has unique characteristics that prevent it from working in the same way. These include variations in quality that make it difficult for consumers to make

What is a “Price” in Healthcare?

In the United States, the “price” of healthcare services can be referred to a number of ways:

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purchasing decisions based on price alone; intermediate agents (physicians) who drive treatment decisions coupled with an information imbalance between physicians and their patients; and third-party payment through insurance that distances consumers from the cost of their care.³

- **Consumers don’t view healthcare as a commodity.** Many consumers do not view doctors, hospitals and treatments as commodities and, as such, may not believe that price is the most important factor in making healthcare decisions. Rather, consumers believe decisions should be based on health needs and what their providers recommend.⁴ Other reasons that consumers discount price from their healthcare decisions include a preference for the perceived “best care,” regardless of expense; inexperience or discomfort with making trade-offs between health and money; and a lack of interest in or familiarity with costs borne by insurers and society as a whole.⁵
- **The majority of healthcare services are not “shoppable.”** Estimates suggest that only 33-43 percent of our current national healthcare spending is shoppable, meaning that the situation is non-urgent and consumers have a choice of providers and/or treatments.⁶ Only with these conditions can consumers make use of price and quality information.
- **Patients pay directly for only a small portion of total spending on shoppable services.** If we look at care that is both shoppable and paid out-of-pocket, consumers direct just 7 percent of our national healthcare

spending.^{7,8} Hence, the portion of the total healthcare spend that consumers might conceivably steer is quite small. Additionally, combining price transparency with cost-sharing to increase consumers’ “skin in the game” is not a realistic option, as an increasing number lack sufficient resources to cover the out-of-pocket costs associated with their health plan.⁹

- **Consumers are ill-equipped to recognize services as being of high or low value.** The Institute of Medicine estimates that more than half of the treatments delivered today lack clear evidence of effectiveness.¹⁰ Inadequate information to guide purchasing decisions makes it impossible for consumers to distinguish between high-value services they should use and low-value services they should avoid. Instead, many defer to the expertise of their providers, who may or may not make treatment recommendations with costs to the system in mind.

Key Audiences for Price Transparency

While the impact of consumer-facing price transparency on markets is limited, other audiences—like policymakers, regulators and providers—are well positioned to achieve savings from a more transparent healthcare “pricing landscape.”

Policymakers and regulators: All available evidence suggests that unwarranted healthcare price variation cannot be fixed by market forces and, instead, requires policymaker attention.¹¹ Yet, treating prices as “trade secrets” leaves government officials in the dark when it comes to understanding high healthcare prices and unwarranted variation in their states. In New Hampshire, price transparency through the adoption of an all-payer claims database and NHHealthCost provided irrefutable evidence of wide provider price variation, prompting policymakers to launch an investigation to determine the key drivers of the state’s healthcare spending.¹² Increased transparency has also inspired policy actions in Massachusetts, such as the establishment of the Special Commission on Provider Price Variation to “consider the extent of price variation in Massachusetts and nationally” and “explore the reasons for and steps to address price variation.”¹³

In the regulatory space, price transparency can strengthen rate review by allowing insurance regulators to assess whether contracts have been vigorously negotiated to provide the best deal for enrollees. Pricing data can also help state agencies benchmark their Medicaid provider rates and bolsters the negotiating power of “active purchaser” health insurance marketplaces.¹⁴

Providers: From ordering diagnostic tests, recommending treatments and making referrals to advising on Medicare physician payments, providers *direct most of our nation’s healthcare spending*.¹⁵ This makes them an important target for price transparency efforts that aim to control high spending, particularly with regards to unwarranted provider price variation.

One way to incentivize change is for payers to publicly compare providers who are pricing outliers to their peers. “Peer comparisons” are commonly employed to reign in unnecessary utilization, but there is some evidence to suggest that they can motivate high-cost providers to lower their prices, as well.¹⁶ For example, until 2010, payments to New Hampshire’s most expensive hospital exceeded those of its competitors by nearly 50 percent. Historically, the hospital had been insulated from pressure to reduce its prices due to its prestigious reputation and wealthy patient population. However, the introduction of price comparisons increased public scrutiny over high-price providers, decreasing the hospital’s bargaining power against the state’s largest insurer. The insurer made an example of the pricing outlier, garnering public support and, eventually, securing lower negotiated rates. Market observers testified that shedding light on high-price providers shifted the balance of power towards the state’s insurers and narrowed price variation over time.¹⁷

A second approach to reducing variation is by establishing pricing guardrails through reference pricing or a similar technique.¹⁸ In 2011, the California Public Employees’ Retirement System (CalPERS) implemented reference pricing for knee and hip replacement surgery after observing a five-fold variation in prices for the two procedures, with no measurable difference in outcomes across California hospitals. CalPERS set a reference price of \$30,000 for each procedure, representing the maximum amount that it would contribute towards a patient’s cost

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of care. Patients who chose to receive the procedures at hospitals charging higher than the reference price were required to pay the difference, in addition to the standard cost sharing amount.

Researchers found that CalPERS saved an estimated \$5.5 million in 2011 and 2012 from the joint replacement surgery program—approximately \$7,000 per patient. The bulk of the savings (more than 85 percent) resulted from facilities lowering their prices to meet the reference price, rather than from consumers “voting with their feet.”¹⁹ Similarly, a University of Chicago study found that state price transparency websites were associated with an average 7.3 percent (or \$3,130) decrease in the prices charged for a hip replacement, primarily due to the highest priced providers lowering their prices.²⁰

It is important to note that, in theory, price transparency placed in front of providers could cause low-price providers to raise prices to meet the market rate. Although this phenomenon has not been widely observed, it is a possibility that must be monitored.²¹

Additionally, several researchers have pointed out that the strength of a provider’s response to pricing transparency will depend on how competitive the local market is.²² In markets with few competitors, providers will have little incentive to compete based on price. Unfortunately, the vast majority of hospital markets are considered highly concentrated.²³

Rethinking the Goal of Price Transparency for Consumers

Consumer-facing price transparency may not hold down prices or drive hospitals and doctors to provide better value, but it still has an important role to play—keeping consumers safe in the market.

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Many consumers have tried to determine the price of a service in advance to budget or decide if they can afford it.²⁴ While price transparency tools can help, evidence suggests that most consumers do not use these tools. For example, a study of New Hampshire’s price transparency website *NHHealthCost.org* reported modest use among consumers and concluded that the tool generally failed to fulfill the primary goal of directly encouraging consumer price shopping.²⁵ Additionally, the most health plans now provide pricing information to enrollees, but one study discovered that only 2 percent of enrollees view it.²⁶ A third study found that Aetna offers a price transparency tool to 94 percent of its commercial market enrollees, but only 3.5 percent use it.²⁷

Many secret shopper studies have found that going to directly to providers to learn the cost of a service isn’t much help. A 2012 study found that only 26 percent of internal medicine residents knew how to find the costs of tests and treatments.²⁸ Another study found that 17 of 120 hospitals could not provide *any* price estimate for an elective total hip arthroplasty in 2012. In 2016, 53 of the same 120 hospitals could not provide an estimate.²⁹

A few exceptions suggest that it should be possible to provide accurate pricing data. The Surgery Center of Oklahoma has gained considerable attention in recent years for its complete price transparency. The center’s easy to use website features an image of the human body, allowing users to select an area where a procedure is needed. A menu of service offerings subsequently appears, each with the exact price a patient would pay.³⁰ The prices reflect the center’s financing approach which is a cash-based, direct-pay system but their success illustrates it is possible to provide standard prices.

Low use of price transparency tools and difficulty getting prices directly from providers indicates that there is room for improvement when it comes to making

healthcare pricing information accessible to consumers. First, we must consider the type of information that we are making transparent. In the United States, the “price” of healthcare services can be referred to a number of ways:

- Billed charge (also known as Chargemaster data);
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When researchers, policymakers, payers and third-party pricing tool developers talk about price, they are frequently referring to the negotiated price, however there is debate over whether this information is valuable to consumers. The negotiated price does not necessarily reveal the patient’s required contribution, making it difficult for consumers plan ahead or determine if they can afford the care they need.

Helping consumers avoid undue financial harm will require data that is highly actionable and easy to use. One practical recommendation is to eliminate the requirement that consumers log in with a health plan member ID to access price information. Additionally, transparency tools should offer prices for bundles of services that patients might use during an episode of care, rather than expecting consumers to figure out all the services that make up a care episode like “hip replacement.” Furthermore, price estimates should include benchmarks to help patients determine whether a given negotiated price is “fair.” Medicare reimbursement rates are sometimes used as a benchmark, however consumer groups and healthcare providers are at odds over whether Medicare rates are too high, too low or appropriate.

Beyond healthcare prices, there are several other factors that consumers should consider when selecting a provider or treatment option. These factors include, but are not limited to, the quality of care (in terms of patient outcomes); the relative efficacy of treatment alternatives; and overall value (quality of care for a given price). Prices presented without these factors could lead consumers to make poor choices due to incomplete information. For example, some consumers might inaccurately assume

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that high cost care equals high quality care. Research suggests—at least in the laboratory setting—that the combination of price and quality transparency can help consumers choose healthcare options of better value.³¹

Conclusion

Price transparency is still in its infancy and, while it is unclear whether it will “bend the cost curve,” early assessments indicate that it is a promising strategy to achieving better healthcare value, depending on how it is applied. Evidence suggests that price transparency supports sound policy and regulatory decisions; levels the playing field in negotiations between providers, health insurance carriers and payers; and helps protect consumers from undue financial harm by allowing them to plan ahead for a healthcare expense. However, contrary to popular belief, the strategy will not drive smarter spending among consumers all by itself. The nature of healthcare means that consumers don’t want to shop merely based on price and the larger calculation—one that weighs prices and expected outcomes across providers and treatment options—is cognitively complex. In order to “vote with their feet,” consumers would need trusted, actionable information that reduces that cognitive burden.

Using price transparency effectively will require a nuanced understanding of its strengths and limitations with respect to each audience using the information: patients, policymakers, regulators and providers.

Notes

1. We are aware of only two studies that found very modest impacts from the introduction of a consumer-facing price transparency tool: Sinaiko, Anna D., Karen E. Joynt, and Meredith B. Rosenthal, “Association Between

Viewing Health Care Price Information and Choice of Health Care Facility,” *JAMA Internal Medicine*, Vol. 176, No. 12 (Dec. 2016). <https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2571612> and Whaley, Christopher, et al., “Association Between Availability of Health Service Prices and Payments for These Services,” *Journal of the American Medical Association*, Vol. 312, No. 16 (October 2014). In contrast, many studies find no impact. See, for example: Mehrotra, Ateev, et al., “Promise and Reality of Price Transparency,” *New England Journal of Medicine*, Vol. 378, No. 14 (April 5, 2018). <https://www.nejm.org/doi/full/10.1056/NEJMhpr1715229>

2. When price transparency is accompanied by other interventions that reduce the patient’s cognitive burden in comparing providers, the impacts are larger. See, for example: Wu, Sze-Jung et al., “Price Transparency for MRIs Increased Use of Less Costly Providers and Triggered Provider Competition,” *Health Affairs*, Vol. 33, No. 8 (August 2014).
3. Austin, D. Andrew and Jane G. Gravelle, *Does Price Transparency Improve Market Efficiency? Implications of Empirical Evidence in Other Markets for the Health Sector*, Congressional Research Service, Washington, D.C. (July 2007).
4. Melecki, Sarah, Victoria Burack and Lynn Quincy, *Consumer Attitudes toward Health Care Costs, Value and System Reforms: A Review of the Literature*, Consumers Union, Yonkers, N.Y. (October 2014). <https://consumersunion.org/research/consumer-attitudes-toward-health-care-costs-value-and-system-reforms-a-review-of-the-literature/>
5. Sommers, Roseanna et al., “Focus Groups Highlight That Many Patients Object To Clinicians’ Focusing On Costs,” *Health Affairs*, Vol. 32, No. 2 (Feb. 2013). <https://www.healthaffairs.org/doi/10.1377/hlthaff.2012.0686>
6. Frost, Amanda and David Newman, *Spending on Shoppable Services in Health Care*, Health Care Cost Institute, Washington, D.C. (March 2016). http://www.healthcostinstitute.org/files/Shoppable%20Services%20IB%203.2.16_0.pdf See also: White, Chapin and Megan Eguchi, *Reference Pricing: A Small Piece of the Health Care Price and Quality Puzzle*, National Institute for

- Health Care Reform, Washington, D.C. (Oct. 1, 2014). Available at: <https://www.mathematica-mpr.com/our-publications-and-findings/publications/reference-pricing-a-small-piece-of-the-health-care-price-and-quality-puzzle>
7. Ibid. Note: This analysis comports with CMS estimates finding that consumer out-of-pocket costs represent just 13% of total spending (for shoppable and urgent services). This finding is also aligned with an earlier study by White and Eguchi (2014).
 8. It should be noted, as well, that what type of health plan a consumer has—particularly if it is a high-deductible health plan—is also likely to influence whether consumers forego care altogether, temporarily reducing healthcare costs but potentially increasing future costs. See: Brot-Goldberg, Zarek C. et. al., *What Does a Deductible Do? The Impact of Cost-Sharing on Health Care Prices, Quantities, and Spending Dynamics*, National Bureau of Economic Research (Oct. 2015). <http://www.nber.org/papers/w21632>
 9. The Commonwealth Fund, “Underinsured Rate Increased Sharply In 2016; More Than Two Of Five Marketplace Enrollees And A Quarter Of People With Employer Health Insurance Plans Are Now Underinsured,” News Release (Oct. 18, 2017). <http://www.commonwealthfund.org/publications/press-releases/2017/oct/underinsured-press-release>
 10. Institute of Medicine, *Learning What Works: Infrastructure Required for Comparative Effectiveness Research: Workshop Summary* (2007). <https://www.ncbi.nlm.nih.gov/books/NBK64784/>
 11. Massachusetts Special Commission on Provider Price Variation, Report to the Legislature (March 15, 2017). <http://www.mass.gov/anf/budget-taxes-and-procurement/oversight-agencies/health-policy-commission/publications/special-commission-on-provider-price-variation-report.html>
 12. Tu, Ha, and Rebecca Gourevitch, *Moving Markets: Lessons from New Hampshire’s Health Care Price Transparency Experiment*, California Health Care Foundation (April 2014). <https://www.chcf.org/wp-content/uploads/2017/12/PDF-MovingMarketsNewHampshire.pdf>
 13. Massachusetts Special Commission on Provider Price Variation (March 15, 2017).
 14. Active purchaser health insurance marketplaces like Covered California are different from average marketplaces in that they can selectively contract with some insurers, while excluding others. Price transparency strengthens active purchasers’ contract negotiations by allowing them to identify (and decline to contract with) plans with networks that include many high price providers.
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 18. See <http://www.healthcarevaluehub.org/improving-value/browse-strategy/reference-pricing/> for additional resources on reference pricing.
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- 5, 2008). <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/92xx/doc9284/06-05-pricetransparency.pdf> See also: Sinaiko, Anna D., and Meredith B. Rosenthal, “Increased Price Transparency in Health Care - Challenges and Potential Effects,” *New England Journal of Medicine*, Vol. 364, No. 10 (March 2011).
22. See, for example, Whaley, Christopher et. al., “Association Between Availability of Health Service Prices and Payments for These Services,” *Journal of the American Medical Association*, Vol. 312, No. 16 (Oct. 2014). See also: King, Jamie S., Morgan A. Muir and Stephanie A. Alessi, Clarifying Costs: Can Increased Price Transparency and Reduce Healthcare Spending?, University of California Hastings College of the Law, San Francisco, C.A. (Feb. 26, 2013) https://repository.uchastings.edu/cgi/viewcontent.cgi?article=2099&context=faculty_scholarship
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 27. Sinaiko, Joynt and Rosenthal (2016).
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