

WHITE PAPER

# SAVE \$36 BILLION IN U.S. HEALTHCARE SPENDING THROUGH PRICE TRANSPARENCY

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# INTRODUCTION

Healthcare in the United States is a \$2 trillion industry that accounts for 17 percent of the Gross Domestic Product (GDP).<sup>1</sup> Healthcare spending continues to increase at a rate of nearly 10 percent annually. By 2020, experts estimate that it will grow to consume 21 percent of GDP.<sup>2</sup>

Finding ways to better manage healthcare spending is critical to the nation's financial future and its ability to remain competitive. Recent changes to healthcare benefits, including the opportunity for consumers to exercise more choice in selecting providers and treatments, have the potential to help reduce costs. Yet despite the choices available, consumers often lack information vital to making informed decisions about their healthcare.

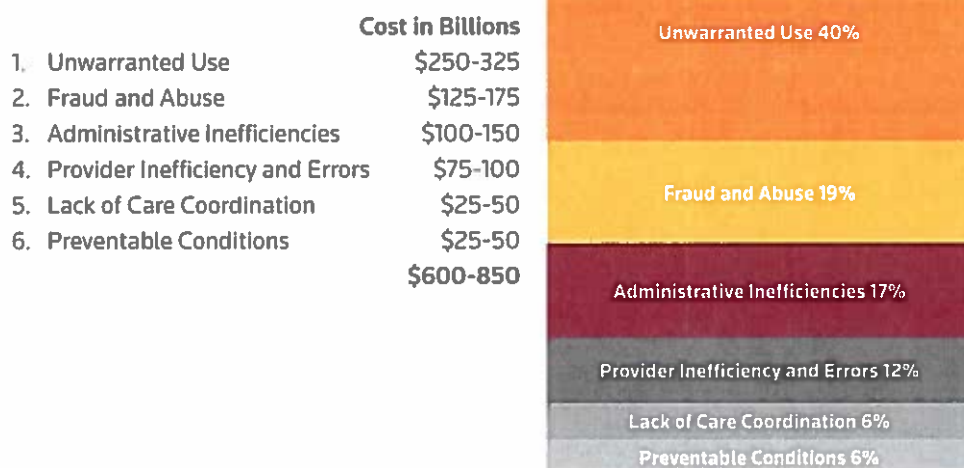
Price transparency is one area where information is especially lacking. Studies show that healthcare costs for the same procedure in the same market can vary by more than 100 percent. Providing consumers with clear, comparative information on the cost of services is key to further engaging them in the decision-making process and, ultimately, reducing healthcare costs.

This white paper explores how reducing price variation for the 108 million Americans with employer-sponsored insurance could save the nation as much as \$36 billion per year.<sup>3</sup> It also draws on Thomson Reuters research findings and respected literature in the field to identify key issues surrounding price transparency and offers eight best practices for implementing successful price transparency initiatives.

## EXPLORING THE RADICAL VARIATION IN HEALTHCARE PRICING

Much has been written about healthcare waste in the United States. The facts, as outlined in the chart below, tell a powerful story. The bottom line is, if the United States does not better control healthcare expenditures, system waste could reach \$1.6 trillion by 2020 — doubling in just 10 years.<sup>4</sup>

FIGURE 1: The High Cost of Healthcare Waste

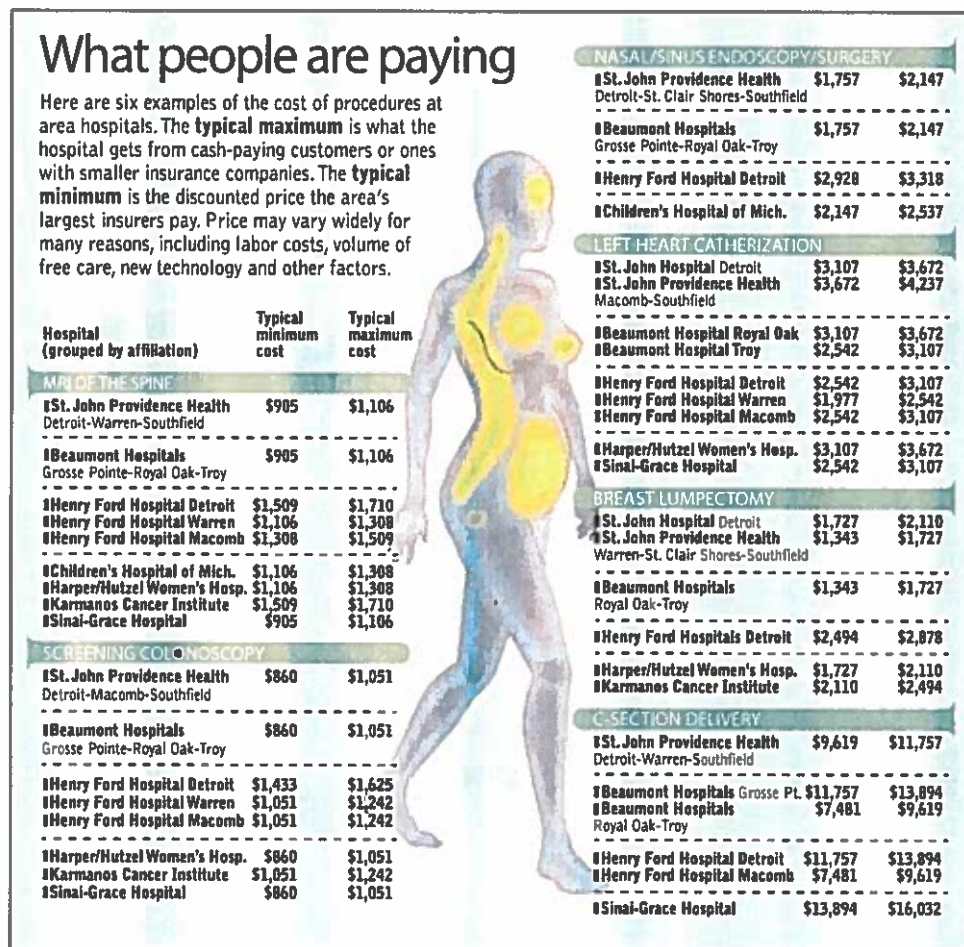


Source: Where Can \$700 Billion in Waste Be Cut Annually From the U.S. Healthcare System?, Thomson Reuters, 2009

One specific factor driving the high cost of healthcare is the significant price variation — sometimes more than 100 percent — for the same healthcare services in the same geographic market. This topic has been well-documented. An annual survey of healthcare costs in Massachusetts found that prices paid for the same hospital and professional services vary significantly and cited a three- to six-fold price difference. The most striking finding was that if prices for hospital inpatient and professional services were narrowed to the range spanning prices in the 20th to 80th percentile, the potential savings were more than \$265 million.<sup>2</sup>

The chart below clearly illustrates the broad range of prices paid for different services in the Detroit metropolitan area. Broad variances such as these reinforce the importance of providing consumers with access to pricing information specific to their benefits and location, so they can make informed decisions about their care.

FIGURE 2 Shopping Comes to Healthcare



Source: Detroit Free Press, March 4, 2011

### Service Sites Impact Costs

When it comes to outpatient procedures, the location where services are rendered — physician's office, ambulatory care facility, or hospital outpatient facility — can dramatically impact the cost. The total cost of procedures performed in a physician's office or an ambulatory care facility is typically much lower than those accrued in a hospital outpatient site.

The degree to which services are delivered in office settings varies geographically. Recent data from a large New York health insurer show that 85 percent of colonoscopies (about 26,000 procedures) for metro New York consumers were performed in physicians' offices. The cost for these procedures averaged \$450 each, with no additional facility fee. In contrast, a Chicago insurer found that 78 percent of its colonoscopy procedures were performed in hospital outpatient facilities. While the average physician fee for this service was just \$330, the facility charge for each procedure ranged from \$2,000 to \$6,000.<sup>6</sup> Thus even though the professional fee was \$120 more expensive in New York, the total cost for Chicago consumers was dramatically higher due to the facility component of the charge.