



How Price Transparency Can Control the Cost of Health Care

Photo: Matt Moyer

Top Takeaways

Health care spending will total nearly 20 percent of the country's gross domestic product (GDP) in the next five years. This snapshot delves into policies that may help curb the price of health care over time and make insurance and treatment more widely accessible.

Price transparency might have the single biggest effect in informing the public about health care costs and could support a more efficient health care delivery system in the United States.

More and more people are becoming increasingly curious about the price of their health care, and understand that more expensive does not necessarily mean better. But people still do not realize that health care prices vary significantly between providers for the same services.

Key Facts

National health care spending amounted to

\$2.7 trillion

in 2011 and will approach

20% of GDP

by 2020 if trends persist.

69%

of people want insurance companies to disclose what they pay physicians and hospitals for procedures.

82%

of people who have compared health care prices say they will do so again.

Price Transparency as a Cost-Lowering Tool

Understanding the price of health care services can be confusing. Rates vary depending on where the service is provided, what kind of insurance the patient has, and other factors. It's difficult, therefore, for patients to determine the amount they will pay for a given test or procedure. Many people are calling for greater price transparency in health care, where patients can clearly see the price of a treatment and determine how much they will pay out-of-pocket before receiving care.

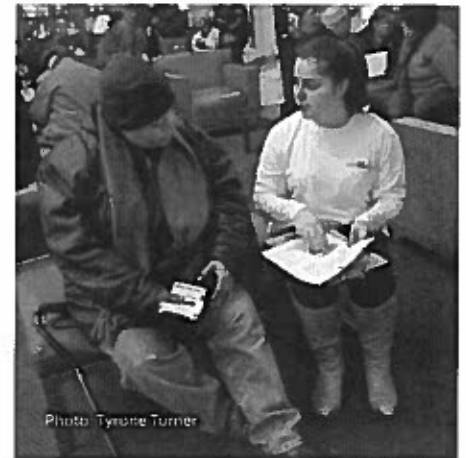
Experts have long agreed that price transparency in the health care industry has a number of positive consequences. It is an important information gathering tool for consumers who want to compare prices so they can make more informed decisions about their health care. Most people in America want greater price transparency and would compare health care prices if given the option, [according to Public Agenda](#).

However, price transparency does not only serve an educational purpose—it actually lowers the cost of health care. According to an [article in Health Affairs](#), both price transparency and reference pricing—the cost consumers can anticipate paying for a given procedure or health

Rising costs can't be controlled until the price of health care is made transparent and consumers know the price of services being provided to them.

service—have helped reduce costs in the long run. “The historical opacity of health care prices is widely believed to be a major factor inhibiting the more efficient functioning of the delivery system,” [according to the Robert Wood Johnson Foundation](#). “Health economists and other experts are convinced that significant cost containment cannot occur without widespread and sustained transparency in provider prices.”

The average health insurance premium in America has increased by 69 percent in the past decade, according to the [Kaiser Family Foundation](#). With premiums increasing, families have to make more educated purchasing decisions in the health marketplace to save money, especially those families with higher deductibles. But accurate price information is hard to come by considering the default price opacity in most states. The Healthcare Financial Management Association [cites a recent report](#) where the U.S. Government Accountability Office asked dozens of health care providers about their price for a knee replacement. The estimates given ranged from \$33,000 to \$101,000. This wide range in prices is difficult to account for, and without more comprehensive price transparency, consumers face a difficult time choosing the most cost-efficient option.



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Price Transparency is Smart Policy

Catalyst for Payment Reform, a group that ranks states based on the sophistication of their price transparency policies, gave **45 states** an “F” grade this year when it came to health care price transparency.

More than half of people in America say they have tried to find out about the price of health care before getting care, [according to Public Agenda](#). And the ones who have found out about health care prices are looking for value. A majority believes that more expensive care does not equate to better care. This demonstrates the demand for transparency among consumers, and the recognition among consumers that price variation in health care is often an arbitrary divide that does not necessarily reflect quality of care.

All-Payer Claims Databases (APCDs), according to the Robert Wood Johnson Foundation, are online databases that comprehensively collect medical and pharmacy claims across the state to create a full picture of price data. New Hampshire established an APCD in 2008, which gives its residents an opportunity to evaluate price differences across multiple settings and providers. Recent improvements to New Hampshire’s system garnered it the only “A” rating in this year’s Catalyst for Payment Reform ranking. APCDs, however, have recently experienced



a setback due to a [Supreme Court ruling](#) in March 2016 that states can no longer mandate insurers to submit claims data that is at odds with the softer requirements laid out in the 1974 Employee Retirement Income Security Act.

In addition to public ACPDs, the Healthcare Financial Management Association highlights a number of other tools that can be used to increase price [transparency](#). These include tools from the insurance company, like Member Payment Estimator by Aetna®, similar tools from hospital associations and provider organizations, as well as crowd sourced platforms like ClearHealthCosts. Price transparency tools can be both public and private, but in order to free up the data currently locked in by non-disclosure agreements and contractual limits, states must pass legislation that mandates increased price sharing across providers, hospital networks, physicians and consumers. Increased price transparency combined with reference pricing, the price consumers can expect to pay for services, has shown to put pressure on providers to lower their prices.

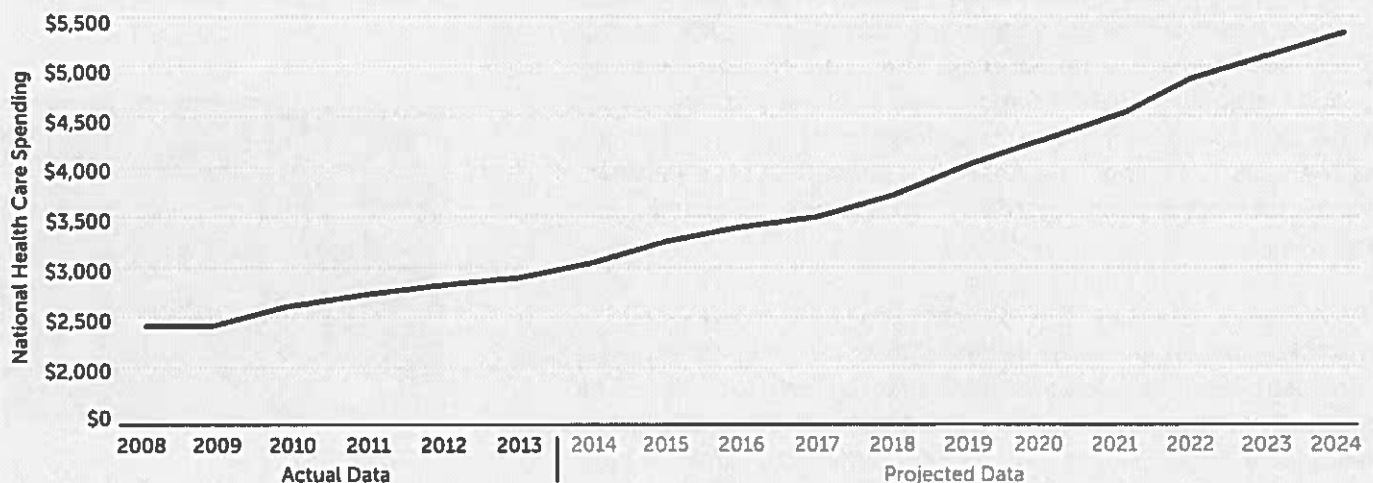
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The cost of health care is expected to rise by more than

85%

over the next
20 years.

Projected Annual Cost of Health Care in the United States Dollars in Billions



SOURCE: Centers for Medicare and Medicaid Services, 2015

The Agenda

- One way state governments can combat price opacity is by empowering providers and insurance personnel to talk about pricing, as well as guiding people toward reliable price information and explaining to them how prices vary across providers, according to Public Agenda.
- The Catalyst for Payment Reform says states can fight price opacity through legislation and litigation.

Many providers and insurance companies have succeeded in keeping health care prices opaque using non-disclosure agreements and restrictive gag clauses in contracts. Because of this, a majority of states have been unsuccessful in achieving greater price transparency to help consumers make educated choices about their health care.

However, a greater push from local governments and advocacy groups for greater price transparency has led to establishing online databases and passing legislation that calls for greater disclosure from providers.

Want to Know More?

[Understanding Healthcare Prices: A Consumer Guide](#)

[Kaiser Family Foundation Health Benefits Survey, 2014](#)

[Health Care Price Transparency From the U.S. Government Accountability Office](#)

[The Basics of All-Payer Claims Databases](#)

Background

After the U.S. government passed the Patient Protection and Affordable Care Act (ACA) in 2010, millions of previously uninsured people became consumers in the health insurance market. Many of these consumers bought basic health care plans, which means that their new insurance would cover most but not all of their health care expenses. With such a plan, a patient could pay anywhere between \$458 or \$56,000 for an appendectomy, [according](#) to George Washington University.

This enormous price disparity for insured people under the ACA has sparked recent conversations about the importance of price transparency as a cost containment mechanism, as well as a valuable source of consumer information.

