



# Solutions

August 2019

## Can More Sunshine on Healthcare Pricing Lower Cost?

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### *Executive Summary*

Skyrocketing healthcare costs are a major concern for Americans across the nation, and in Wisconsin. Since the year 2000, healthcare costs have risen from 13.4% of Gross Domestic Product to 17.9%, and most forecasts are for continued growth in the future. More than two-thirds of Americans expressed fears over unexpected healthcare costs in recent polling.

To get a handle on exploding healthcare costs, our system desperately needs an injection of market forces. Like nearly everything else in life, when consumers have information and competition is encouraged, producers will respond. The result is more of what consumers want, at the prices consumers will pay.

Unfortunately, the healthcare industry largely doesn't function that way. Information is opaque, competition is limited, and consumers lack options. But

#### Takeaways:

1. In Wisconsin, healthcare costs have grown by more than 60% since 2001. Two out of every three Americans fear unexpected healthcare costs.
2. Unlike other sectors of economy, there is little transparency in pricing. People do not know how much basic procedures cost – until they get the bill.
3. Wisconsin has earned an “F” for transparency in healthcare pricing.
4. This study looks at 4 years of national data from the CDC to compare a state's healthcare price transparency laws with affordability of coverage.
5. Conclusion: There is a statistically significant correlation between how transparent a state's healthcare laws are with affordability in healthcare.
6. Recommendation:
  - a. Wisconsin: Improve PricePoint, Wisconsin's All Payers Claims Database to include the average and median out-of-pocket cost based on various insurance coverages.
  - b. Federal: Pass bipartisan legislation that requires providers to disclose prices.

one way government can help is to foster price transparency. When consumers are empowered with basic information, like the price of a good or service, we can expect them to respond—even when it comes to healthcare.

To further explore the relationship between price transparency and consumer healthcare prices, this study takes advantage of four years of national data on the affordability of healthcare from an annual poll by the Centers for Disease Control and Prevention. This data is compared with an annual rating of each state's price transparency laws produced by Catalyst for Payment Reform, an organization devoted to increasing transparency in the healthcare industry, as well as additional state-level control variables that could plausibly affect consumer costs.

**Key Finding:**

Effective healthcare transparency laws can have an impact on the cost of healthcare. A unit change in a state's healthcare transparency rating is associated with a 1.38% decrease in the number of people saying that they were unable to afford medical care. Moving from the worst transparency rating to the best is associated with a decrease in the percentage of people finding medical care to be unaffordable.

**Recommendations:** At both the state and national level, policymakers should work toward establishing an All Payers Claims Database (APCD) that aggregates insurance claim data from each state on an annual basis. The APCD should be readily accessible to citizens and presented in a manner similar to other states, like New Hampshire, that have such a website. The most critical aspect is that the APCD include the price that individuals are likely to pay under their insurance rather than the charge price, which can be very different and is uninformative to most consumers. New Hampshire state law mandates that health carriers and administrators provide the state with their encrypted claims data on an annual basis.

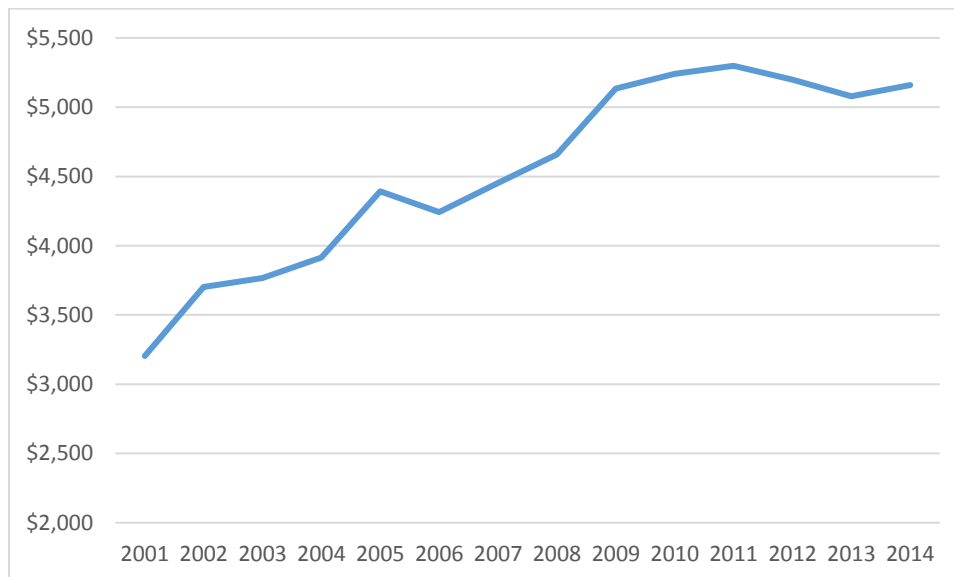
In nearly every sphere of life consumers are equipped with information about products and prices. That we have, until now, largely settled for a healthcare system where consumers are consistently in the dark when making critical decisions for themselves or their loved ones is shameful and counterproductive. Injecting price transparency is a small, but valuable step toward giving patients more control and more options.

## Introduction

The exploding cost of healthcare continues to concern hardworking families everywhere (Blendon et. al. 2019). In recent polling from the Kaiser Family Foundation, more than two in three Americans expressed concern over unexpected medical bills (Rau 2018). With costs rising faster than many other industries (Kamal and Cox 2018), reining in healthcare costs has become a top priority.

As it stands, there are two paths. One is where the costs aren't controlled, just borne by a federal government that cannot afford to pay its bills. While seductive, this way leads to ruin and rationing. The alternative path looks to the market, that engine of innovation that has increased quality and lowered costs through competition and consumer choice. But to choose this path, our healthcare system desperately requires the types of mechanisms that make markets function. At minimum, consumers deserve clear and transparent information about the price of goods and services.

**Figure 1. Inflation-Adjusted Per Capita Private Health Spending, Wisconsin**



In too many healthcare decisions, individuals make decisions and, quite simply, hope for the best when it comes to the price and cost. This is a preposterous state of affairs. In this paper, we make the case that when healthcare consumers are equipped with clear and accurate prices, they respond, and, in turn, the effect is meaningful in driving down the cost of healthcare.

## *Why Healthcare Pricing is Complex*

Unlike other markets where individuals pay for services and products directly, healthcare often doesn't work that way. This is due in large part to the system of third-party payment negotiated by insurance providers. Since the vast majority of healthcare consumers have some insurance coverage, the listed charges for a particular procedure bear little resemblance to the price an insured patient will actually pay. Healthcare providers engage in private, generally secret negotiations with insurance companies to determine how much a service costs and how much will be borne by the consumer or policyholder. And insurance companies have an interest in protecting the privacy of this information for reasons that will be described in the subsequent section. The result is opaque, sometimes useless, public price information.

But states like New Hampshire have implemented systems that are far more consumer friendly. An APCD provides a one-stop shop that tells consumers what the average patient can expect to pay for their particular procedure from various providers and with various health insurance coverage. The next section describes existing research on why this information could be useful for consumers.

## *Price Transparency*

The price of goods is a fundamental input in a free market. All goods are subject to some extent to the price elasticity of demand. Price elasticity means that as the price of a good increases, demand for the good decreases. Some goods are relatively inelastic—meaning that it takes an extremely significant change in price for demand to be effected.

The conventional wisdom is that healthcare expenditures are relatively inelastic—if someone is sick, they are likely to seek out care without much concern for how much it costs. However, many of the barriers to market forces come from government interventions rather than from necessary features of healthcare itself. For instance, the advent of the third-party payer system where insurance companies foot the actual bill for services created few incentives for consumers to know the cost of a particular procedure (Singer 2013).

But not all healthcare decisions are made under the dramatic conditions of immediate need, which means there is room to reintroduce market forces on the margins (Roy 2012). Indeed, some economic research suggests that there is greater elasticity in medical costs than conventional wisdom suggests.

The seminal work on this question was conducted by RAND economists in the 1970s and 80s (Manning et. al. 1987). In this study, individuals were randomly assigned to various kinds of healthcare coverage and cost sharing. Among the key findings was that plans that required consumer contributions to the cost of care after the deductible was met decreased the likelihood that the insured would utilize healthcare services. In other words, people will make healthcare

decisions based, at least partially, on their out-of-pocket costs, for better or worse. More recent work with differing research methods found the elasticity of demand for healthcare to be higher than the RAND study (Kowalksi 2016). Even more explicitly, Lieber (2017) examined the results when a large corporation began to make information available about the price of healthcare to its employees. He found that gaining access to this information reduced healthcare prices by about 1.6 percent.

One study has looked at an APCD similar to that proposed here. New Hampshire has one of the longest established APCD websites in the nation. In a peer-reviewed publication, Brown (2018) found that the APCD in New Hampshire lowered patient spending by about 4.3% from 2007 to 2011. This resulted in a savings of approximately \$7.9 million to patients and \$36 million to insurers over that time frame.

Opposition to price transparency for prescription drugs tends to come along with concerns about the potential for collusion. The theory goes that if drug companies are aware of what others are charging, they will artificially inflate their prices to match that of the highest competitor, and that the lack of this knowledge is what keeps some prices down. However, not all economists agree with this assessment. Schulz (2005) showed that increasing price transparency for consumers increases the incentives for companies to undercut competition. While incentives to collude could exist under this model, the countervailing incentive to offer lower prices than competitors is greater.

Indeed, it is already common practice in many states to have price transparency with goods and services. In Wisconsin, gas stations are required under Wis. Stats. S. 100.18 (8) to display the price of gas in a public place and at every pump. Other states, like New Hampshire, by law require retailers to display unit pricing. Unit pricing is the system of identifying a good and labeling the good with its retail cost.

### *Current State of Healthcare Transparency laws in Wisconsin*

Since 2005, the Wisconsin Hospital Association Information Center (WHAIC) has operated a website known as “PricePoint.” WHAIC is owned and operated by Wisconsin Hospital Association. Under contract with the Department of Administration, WHAIC publishes price data related to the cost of services and procedures offered at all hospitals and surgery facilities in Wisconsin. Additionally, pursuant to Ch. 153 of Wisconsin Statute, all Wisconsin hospitals are required to send a quarterly report to WHAIC detailing data for both in and outpatient procedures and services. The website is relatively intuitive and user-friendly but leaves much to be desired in the information that it provides.

Most critically, PricePoint does not include the out-of-pocket cost to the consumer. The charge information that is currently available on the website often varies widely from what patients may pay, and is not all that helpful for consumers when making an informed decision about where to get a particular procedure done. Second, it should include a wider variety of common procedures

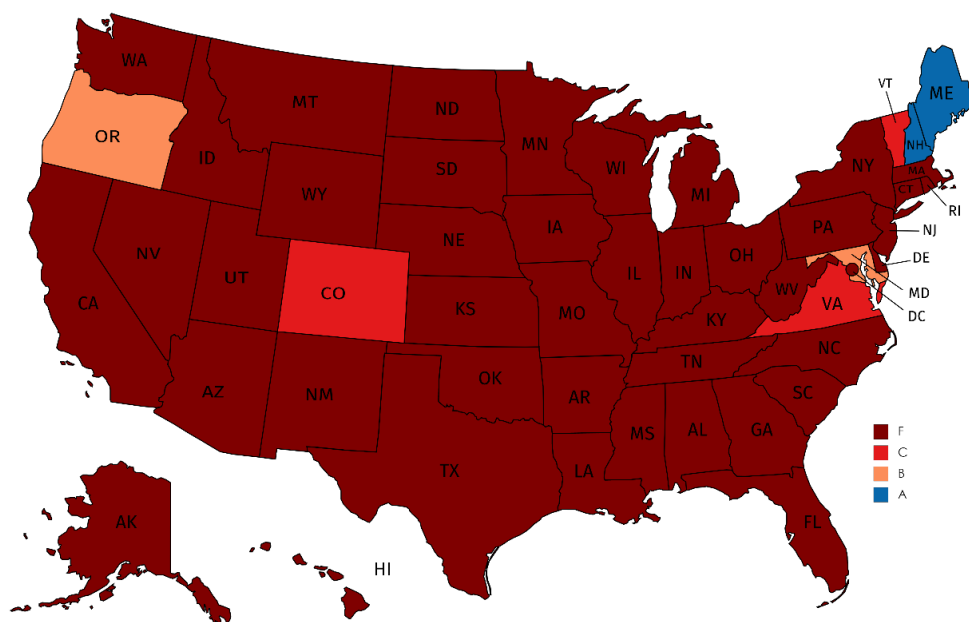
and surgeries. Common procedures such as x-rays are not currently included, even though prices for such things can vary extensively from provider to provider or insurer to insurer.

At the state level there have been a few attempts in the past to improve on the PricePoint system. Then-Representative Leah Vukmir proposed Assembly Bill 872 during the 2007-2008 legislative session. Among other provisions, the legislation would have required healthcare providers to provide access to information on the estimated cost of many inpatient and outpatient procedures at the time when the procedure was scheduled. Despite having bipartisan support, the bill ultimately did not make it out of committee.

At the federal level, price transparency policy changes have percolated in recent months. The first was an executive order signed by President Trump that directs the Department of Health and Human Services to draft a rule mandating price disclosure for hospitals. Though the order is somewhat vague, it appears that the goal would be to create a system in which consumers would be able to see the out-of-pocket cost for each procedure. More specifics are available in an intriguing piece of bipartisan legislation proposed by Wisconsin Republican Congressman Mike Gallagher and Colorado Democratic Congressman Ed Perlmutter. The bill mandates healthcare providers to disclose in person and online, in print, and at the point of purchase. A number of prices are required to be available by the bill, including the wholesale, retail, subsidized, discounted, or other price. As of the publication of this brief, the bill has not yet been considered, but represents a viable path toward implementing the sort of price transparency at the national level that is under consideration here.

## *Methods*

In order to answer the question of whether price transparency can aid in lowering the cost of healthcare, data was collected from several sources. Comparisons of state price-transparency laws were gathered from a report by Catalyst for Payment Reform (CPR)—a non-profit research and consulting organization that works on a host of healthcare issues. Annually, they release the “Price Transparency and Physician Quality Report Card” which rates states from A to F on their transparency laws annually. States are judged in 3 categories—the ability of patients to request information on pricing prior to health services, having a law mandating a public report on pricing information, and a law mandating the posting of prices on a public website (including paid amounts, not just list prices). We gathered their ratings beginning in 2014. Their ratings from the most recent year available (2017) are displayed in Figure 1 on the following page.

**Figure 1. Price Transparency Ratings, 2017**

Created with mapchart.net ©

As can be seen, the states have quite a way to go in achieving better drug transparency according to CPR. While many states do fall into the ‘F’ range, there is some degree of variation. New Hampshire and Maine, for instance, received an ‘A’ rating, while the rating for Colorado and Massachusetts actually got worse over time due to some changes in state law. Meanwhile, Oregon has improved from an ‘F’ to a ‘B’ since the first report in 2015.

Our dependent variable allows for four years of data to be utilized. This variable comes from an annual survey by the Centers for Disease Control and Prevention (CDC) that asks individuals whether or not they have had to forgo medical care in the past year due to cost. We use the percentage of respondents in each state who said they had. This data is collected annually, giving us a four-year time series with data from each state.

Controls included in the study are state population, logged average annual income, the percentage of residents who are African American, and the percentage of residents over the age of 65. Indicator variables are also included for year and state so that each state is compared only to itself in the time series (in the four-year model).

## Results

Table 1 below presents the relationship between poor healthcare transparency laws and healthcare access throughout the country. First, we mentioned a positive finding from the control variables included in the analysis. The negative coefficient on each of the years in the model means that the percentage of respondents saying they had to forgo medical care due to cost has declined since the omitted baseline year, 2014. There is a substantively and statistically significant relationship ( $p < .05$ ) found here. Moving from an 'A' to a 'B' in healthcare is associated with a .276 percent increase in the percentage of respondents who say that cost impedes access to care. Moving from an 'A' to an 'F' would be expected to increase the rate of people saying they could not afford healthcare by 1.38 percentage points. Across the range of values on our dependent variable, this represents a percent decrease of 7%.

**Table 1. Healthcare Costs and Healthcare Transparency**

VARIABLES	(1) Healthcare costs
Poor Transparency Laws	0.276** (0.134)
Population	-5.99e-06 (1.46e-05)
Income(logged)	0.340 (0.494)
African American	4.085 (12.82)
Older	4.998 (7.489)
Medicaid	-0.255 (0.162)
2015	-1.124*** (0.171)
2016	-1.023*** (0.186)
2017	-0.653*** (0.171)
Constant	7.280 (6.160)
Observations	200
Number of states	50
R-squared	0.322

Standard errors in parentheses



\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

## Recommendations

Wisconsin could improve its price transparency by implementing relatively straightforward reforms to the way it currently collects and reports healthcare data. Currently, PricePoint only details the median charges, average charge, and average charge per day of each procedure listed. This information is of little use to consumers, as it bears little resemblance to the prices people pay to the provider after services. To make the database useful to consumers it should list the out-of-pocket cost to consumers, not just the median or average charge. The median/average charge of a procedure is not relevant to a consumer considering it is not what they will pay after insurance.

The New Hampshire Price Transparency web page provides a model that the state could implement and illustrates the importance of cost data overcharges. For example the median charge statewide in Wisconsin for total knee arthroscopy is \$35,861 according to PricePoint; however, the same surgery after insurance would only cost about \$2,000 in New Hampshire, according to their website. Prices may vary among states, but the numbers demonstrate the vast difference between a charged amount and what an actual procedure costs with insurance.

The APCD should include a wide variety of common procedures and services. PricePoint includes many in and out-patient surgeries and services but lacks price data on common services in the radiology department (x-ray, MRI). These services are extremely common and the data should be included for consumer use.

New Hampshire state law mandates that health carriers and administrators provide the state with their encrypted claims data on an annual basis. For each procedure, an average out-of-pocket cost is generated for each type of insurance at each hospital. An example of how the website looks is included below for a common x-ray of the abdomen with Anthem Insurance. One can see that the average cost varies extensively even for this procedure, with costs as high as \$340 and as low as \$117. The “Precision of the Estimate” column is based on the number of that particular type of procedure that is in their database, and the amount of variability in those prices. The patient complexity column lets the consumer know how healthy or sick the average patient was that got the procedure, with an understanding that being in a worse health condition may also raise prices. Wisconsin should use this site as a model when crafting their APCD.

## Health Costs: X-Ray - Abdomen

X-Ray - Abdomen Procedure code 74000



This event consists of a number of health care services that often occur at the same time. The cost shown reflects the services provided bundled into one cost estimate.

Medical Procedures ▼

**Procedure Name**

X-Ray - Abdomen ▼

**Insurance Carrier \*** ⓘ **Plan Type** ⓘ

Anthem - NH ▼ Individual (self) ▼

**Search**

**Filter Results:** Your Zip Code + Entire State ▼ **Search**

**Sort Results:** Sort by Estimate of Total Cost ▼

Actual driving distances may vary.

Provider Name	<input checked="" type="checkbox"/> Compare Selected	Estimate of Total Cost <span>ⓘ</span>	Precision of the Cost Estimate <span>ⓘ</span>	Typical Patient Complexity <span>ⓘ</span>
<input type="checkbox"/> <a href="#">St. Joseph Hospital</a>		\$117	▼ LOW	● MEDIUM
<input type="checkbox"/> <a href="#">Elliot Hospital</a>		\$168	▲ HIGH	● MEDIUM
<input type="checkbox"/> <a href="#">Exeter Hospital</a>		\$194	● MEDIUM	● MEDIUM
<input type="checkbox"/> <a href="#">Southern NH Medical Center</a>		\$217	▼ LOW	● MEDIUM
<input type="checkbox"/> <a href="#">Mary Hitchcock Memorial Hospital</a>		\$340	● MEDIUM	● MEDIUM

It is also recommended that the database be administered by an independent organization that has no skin in the game. The Wisconsin Hospital Association currently runs PricePoint; which could be a bit of a fox guarding the hen house situation. A better option might be hospitals/providers reporting directly to the Wisconsin Office of the Commissioner of Insurance (OCI) who could work with the UW system to operate the database.

## Conclusion

This study shows that consumers are, in fact, responsive to basic price information when making healthcare decisions. And when given options and basic price information, consumers will shop the competition. But this is about more than free market theory. At a minimum, healthcare consumers deserve the certainty that comes with having all of the information when making important healthcare decisions. It is critical that lawmakers at both the state and federal level work to empower consumers with this basic information. While there may be no silver bullet to solve America's various healthcare dilemmas, we cannot expect consumers to make good decisions without fostering greater price transparency.

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