



Making Health Care Costs More Transparent to Consumers: A Summary for Policymakers

GOVERNMENTS, HEALTH PLANS, AND OTHERS believe that cost-sensitive decisions by individuals can help control the overall cost of health care. Some have begun to provide price information to the public, with the dual goals of informing individual decision-making and reining in health care spending. It appears, however, that these “price transparency” initiatives often do not provide information that patients and families find useful. The National Quality Forum (NQF), with funding from the California HealthCare Foundation and the Robert Wood Johnson Foundation, recently published an issue brief and a background paper on the use of price transparency information among consumers.^{1,2} This fact sheet summarizes the findings. An accompanying fact sheet examines price transparency for prescription drug prices (available at www.chcf.org).

Consumer Stake in Health Care Costs

Consumers are paying more attention to the cost of their health care these days because they have greater responsibility for paying for it. Those with insurance are coping with higher deductibles and copayments and some are being offered consumer-driven health savings accounts as an alternative to traditional insurance.³ The growing number who lack health insurance altogether have an even more daunting task of anticipating and managing their health care costs.⁴ Whether insured or uninsured, consumers are learning that they need to understand their financial liability and find the best value, tailored to their individual needs.

For their part, providers who now depend increasingly on their patients for direct payment

find they must communicate more effectively about prices and payment than in the past.⁵

About Price Transparency

The trend toward price transparency began with a few hospitals, state governments, and commercial health plans posting price information online.⁶ The initiatives gained momentum after an August 2006 Executive Order.⁷ Nevertheless, the NQF analysis found that the available information is either too general (for example, giving the average charges for all providers in a region) or too detailed (for example, giving the nominal “retail” price of every service or procedure) to be useful to consumers. To be “transparent” in any meaningful way, price information must be tailored to the needs and interests of specific audiences.

Making Price Information Useful to Consumers

Price information that is useful or “actionable” for consumers has the following characteristics:

- It enables comparisons among different providers and different treatment options.
- It is clearly written and formatted and customized for the user’s language preference and comprehension level.
- It covers all the costs associated with a given episode of care (such as treatment for a heart condition), including diagnostic tests, prescription drugs, hospital days, and physician fees before, during, and after hospitalization.
- It is linked to quality information.

Beyond these general attributes, the information needs to be tailored to the actual financial liability that consumers bear for their health care. In this respect, people with health insurance need quite different information than those who are uninsured.

- For people with health insurance, actionable cost information focuses on their copays, deductibles, and exclusions.
- For uninsured people, the full cost of almost any hospitalization is unaffordable. For them, the most important information concerns how to negotiate charges, work out payment plans, and apply for financial assistance.⁸ Indeed, a hospital's financial assistance policies, rather than the nominal cost of care, may be the determining factor in their choice of a provider.

For more information, see the California HealthCare Foundation report, *Price Check: The Mystery of Hospital Pricing*, at www.chcf.org.

Potential Danger Zones

Price transparency is not without downsides, so it must be done thoughtfully. There are two major issues: fears about antitrust violations and the possibility of inadvertently contributing to a rise in prices.

On the first issue, providers may be concerned about exposure to federal antitrust actions if they publicize negotiated prices. However, in 1996 the Department of Justice and the Federal Trade Commission established an antitrust “safety zone” with several conditions. One condition is that the pricing displayed by third parties be at least three months old.⁹ (But this makes the information somewhat less useful to consumers because it is not current.)

On the second issue, economists have found that when a market is highly concentrated and there is little competition, cost transparency can lead to higher,

not lower, prices. However, if prices are bundled for consumers based on episodes of care, as suggested previously, the information is not only more useful but less likely to lead to cost inflation.

Factoring in Quality

Prudent health decisions require information on both the quality and the cost of different health care options. For example, an individual with chronic knee pain may wish to compare recommended surgery, non-surgical interventions, and watchful waiting in light of the evidence for the outcomes and risks of these approaches. Then, having chosen a treatment strategy, the patient could use performance and price information to identify a physician and a hospital for the procedure. A rational strategy for considering both quality and price factors is to start with information on the quality of the providers available, rule out the low-performers, and then compare the high performers on the basis of price. While many people assume that higher price means higher quality, research indicates that this is not necessarily the case.¹⁰

Challenges for Policymakers

Efforts to provide useful information on prices and quality are still at an early stage of development and there is room for more research, experimentation, and evaluation. The evidence to date suggests that the public does not benefit from hasty, perfunctory gestures at transparency. Fortunately, studies such as the NQF report point the way toward the meaningful forms of price transparency that can truly help consumers find and choose value in health care. In addition, it is essential to ensure that consumers have the education and support they need to put price and quality information to use.

ENDNOTES

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4. California HealthCare Foundation, *Snapshot: California's Uninsured 2007*, November 2007, www.chcf.org/topics/healthinsurance/index.cfm?itemID=133500.
5. Allen Puckett, *A Specter Stalking Healthcare Providers: Growing Dependence on Patient Payments*, Topline Solutions, 2007, www.toplinesolutions.biz.
6. For example, Oregon's Compare Hospital Costs displays hospital cost and quality data for nine conditions at www.oregon.gov/OHPPR/RSCH/comparehospitalcosts.shtml. UnitedHealthcare offers a tool to estimate treatment costs for members at www.myuhc.com.
7. Executive Order: Promoting Quality and Efficient Health Care in Federal Government Administered or Sponsored Health Care Programs, The White House, August 22, 2006, www.whitehouse.gov/news/releases/2006/08/20060822-2.html. The Executive Order requires health care programs administered or sponsored by the federal government to promote quality and price transparency.
8. California HealthCare Foundation, *Price Check: The Mystery of Hospital Pricing and Eight Great Tips for Pricing Hospital Services*, December 2005, www.chcf.org/topics/hospitals/index.cfm?itemID=117606.
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10. Fisher ES, Wennberg DE, Stukel TA, et al., "The implications of regional variations in Medicare spending. Part 1: the content, quality, and accessibility of care." *Ann Intern Med*, 2003; 138 (4): 273 – 287.

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