CALIFORNIA HEALTHCARE FOUNDATION

Inside the Black Box: The Future of Price Transparency in California

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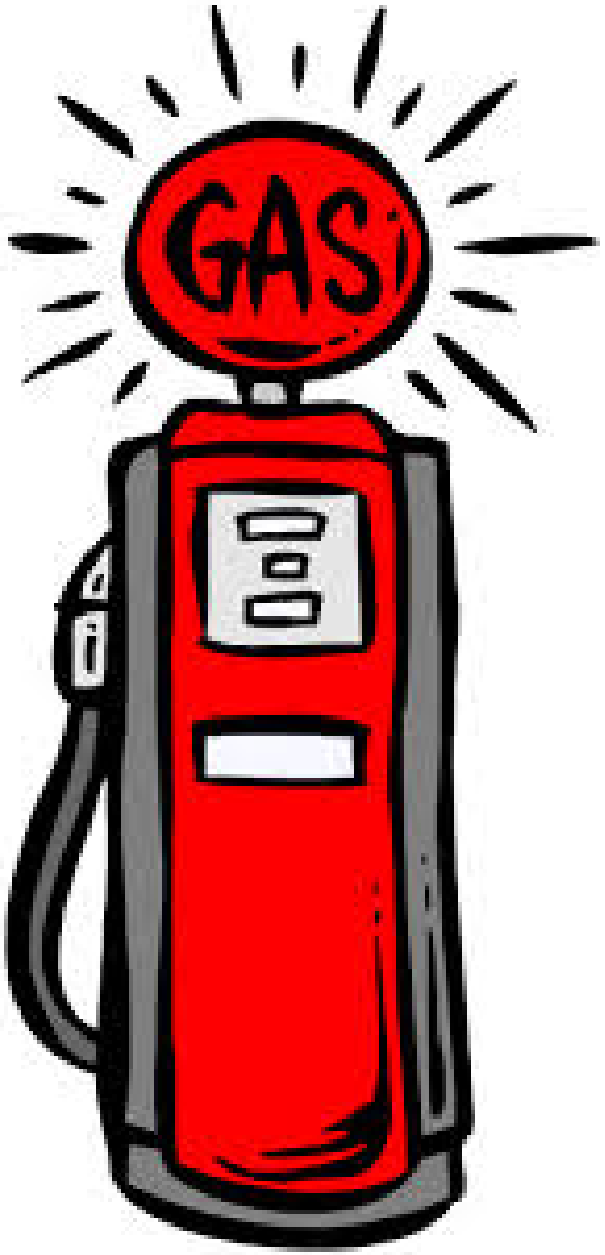
The Problem

"If gas stations worked like health care, you wouldn't find out until the pump switched off whether you paid $3 or $30 a gallon."



…and you wouldn't know how many gallons you needed…

….or whether it is even the right octane.

Key Terms

- Charges: Total amount billed
- Price or Allowed Amount: Rate negotiated by contract (private sector) or set (public sector)
- Out-of-Pocket: Patient's responsibility based on contracted rates, benefit plan, etc.
- Cost: The actual cost of delivering a particular service

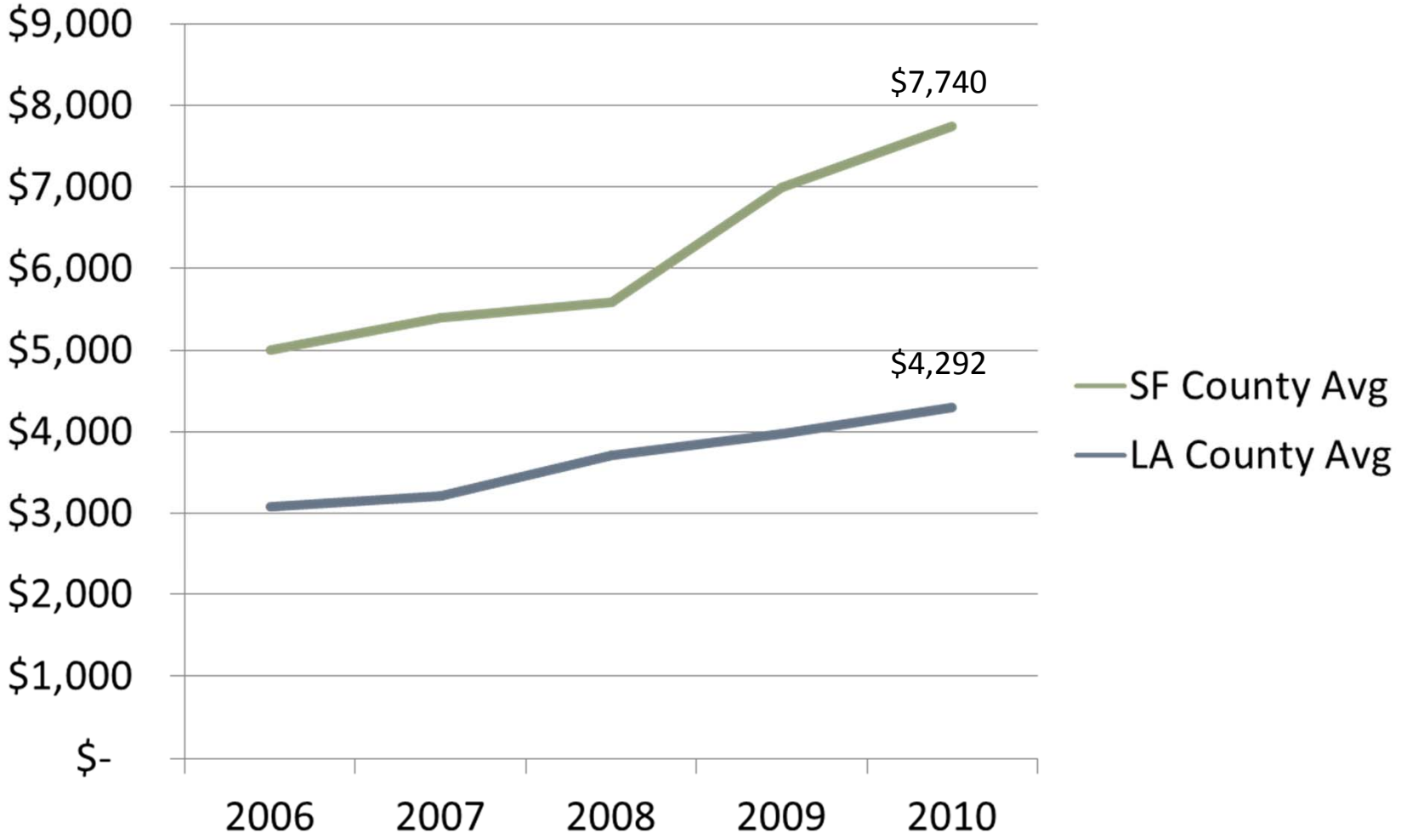
Difference in Premiums for Similar Plans

Premiums through Covered California vary significantly by geography

Silver plan, single 40 year old, $75,000 income

Difference in Hospital Payments

OSHPD - Net Revenue Per Adjusted Patient Day (Third Party)



Differences in Total Cost of Care (IHA)

Region	Average MY 2011 TCC	Average MY 2010 TCC	Average 2010-2011 Trend
Bay Area, Sacramento	$4,441	$4,203	6.4%
Central Coast, Central Valley, North	$4,045	$3,689	7.7%
Inland Empire	$3,294	$3,028	8.9%
Los Angeles	$ 3,282	$3,104	6.9%
Orange County, San Diego	$3,600	$3,465	8.2%

Note: Results for plan-physician organization combinations for four plans submitting member-level data.

What Drives Differences in Provider Prices?

- Market power/competition
  - Provider market strength
  - Health plan market strength
- Payment methodology (e.g., capitation vs. per-diem payments)
- Technology arms race
- Patient mix (severity of illness)
- Cost-shifting

Death of Cost Shifting?

How Do Hospitals Cope with Sustained Slow Growth in Medicare Prices?

Chapin White and Vivian Yaling Wu

Objective. To estimate the effects of changes in Medicare inpatient hospital prices on hospitals' overall revenues, operating expenses, profits, assets, and staffing.
Primary Data Source. Medicare hospital cost reports (1996–2009).
Study Design. For each hospital, we quantify the year-to-year price impacts from changes in the Medicare payment formula. We use cumulative simulated price impacts as instruments for Medicare inpatient revenues. We use a series of two-stage least squares panel data regressions to estimate the effects of changes in Medicare revenues among all hospitals, and separately among not-for-profit versus for-profit hospitals, and among hospitals experiencing real price increases ("gainers") versus decreases ("losers").
Principal Findings. Medicare price cuts are associated with reductions in overall revenues even larger than the direct Medicare price effect, consistent with price spillovers. Among not-for-profit hospitals, revenue reductions are fully offset by reductions in operating expenses, and profits are unchanged. Among for-profit hospitals, revenue reductions decrease profits one-for-one. Responses of gainers and losers are roughly symmetrical.
Conclusions. On average, hospitals do not appear to make up for Medicare cuts by "cost shifting," but by adjusting their operating expenses over the long run. The Medicare price cuts in the Affordable Care Act will "bend the curve," that is, significantly slow the growth in hospitals' total revenues and operating expenses.
Key Words. Medicare, hospitals, health care costs, payment

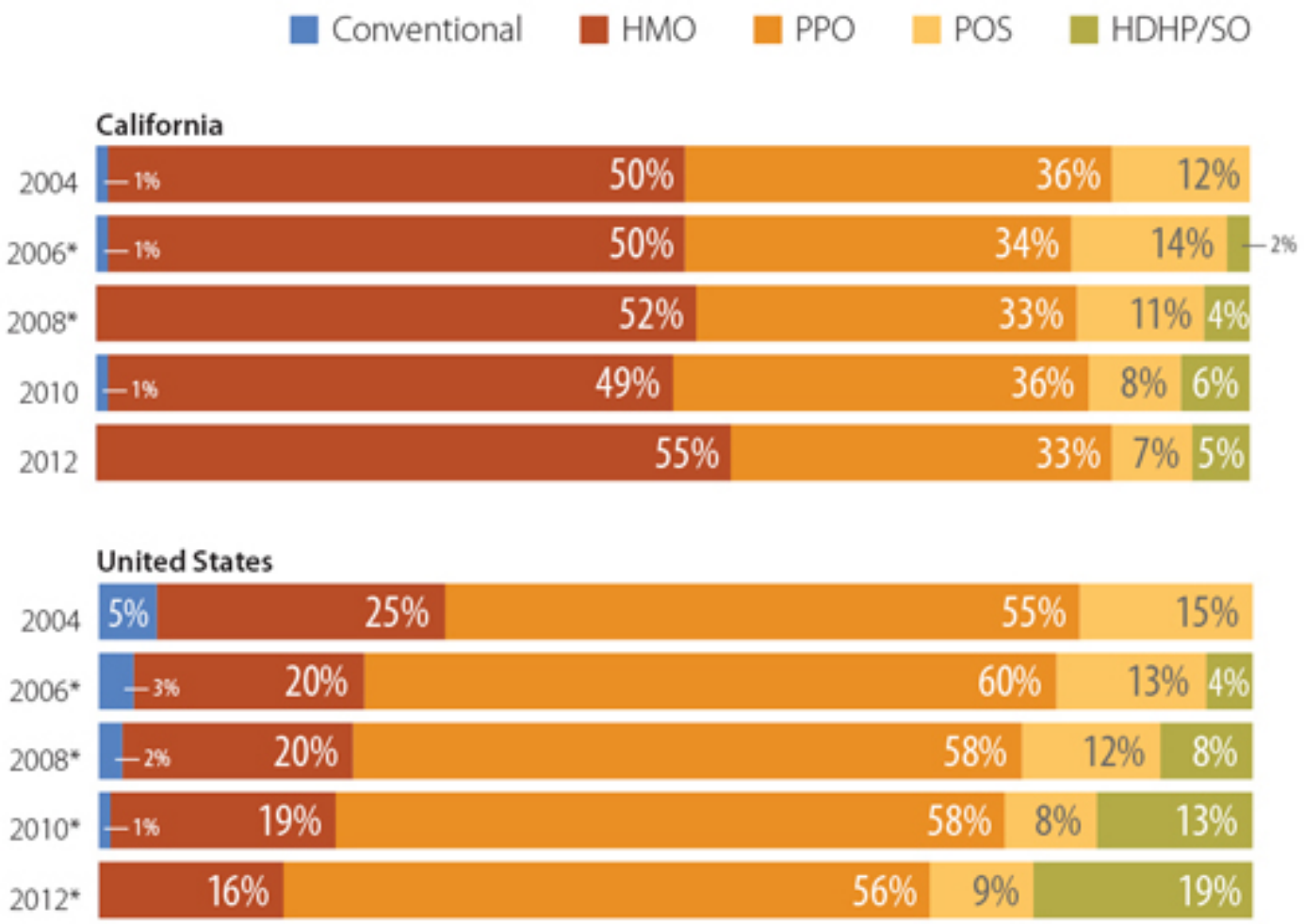
Use Cases: How Can Transparency Help?

Important to have the right data and tools for different audiences:

- Consumers shopping
- Health insurer negotiations
- Employer price calibration
- Policymaker needs

Enrollment of Covered Workers, by Plan Type,

California vs. the United States, 2004 to 2012, Selected Years



Source: California Employer Health Benefits Survey

Current Price Transparency Efforts in California

- Private sector
  - Integrated Healthcare Association
  - California Healthcare Performance Information (CHPI) System*
  - Websites and apps, including new "crowd-sourced" tools
- Public sector
  - California Department of Insurance – $5.2 million federal grant
  - State Innovation Plan – building blocks

* Price information is not currently available through CHPI

Key Questions

- What can price transparency help us do?
- What can we learn from others?
- How can what we learn help shape current efforts in California?