

Price Transparency

The Issue

It is next to impossible for a patient to walk into a physician's office or hospital and see a list of prices for the services they offer. Yet, according to a national survey from May 2020, nearly 9 out of 10 people believe all prices in healthcare should be disclosed. The responses also showed that patients would feel more comfortable getting the care they may need if they knew the prices in advance. Knowing the negotiated rates can mean a difference of hundreds, if not thousands, of dollars that could remain in Americans' pockets.

Lack of price transparency has contributed to rising health-care costs in the United States and making health insurance almost worthless, especially when consumers are enrolled in high-deductible plans. Most Americans have health insurance, but it offers limited financial protection. According to a 2019 Kaiser Family Foundation survey, the average family with employer-sponsored coverage pays premiums of more than \$20,000 and families enrolled in high-deductible plans through their employers have a deductible of about \$4,800.

Many skeptics of price transparency argue that price transparency tools have relatively low utilization and that most consumers have little incentive to seek out low-cost providers and services. However, consumers who do shop can save a great deal of money.

Price transparency can also help American employers—collectively the largest purchasers of healthcare—establish improved payment structures for their employees. For example, under a reference price model, the employer or insurer agrees to pay a set amount per procedure. Reference pricing creates a transparent price and provides patients with an incentive to shop as they bear the cost above the reference price. In one study, economists found that a reform by Safeway that linked price transparency with reference pricing led employees to save 27% on laboratory tests and 13% on imaging tests.

Importantly, increasing transparency could benefit consumers in many ways. Price transparency will lead to better informed consumers and patients. As people become more knowledgeable shoppers, higher-price facilities will begin to lower prices to avoid losing customers. This happened in California last decade when the state adopted a reference pricing model for state employees. The result: a 9 to 14 percentage point increase in the use of low-price facilities and a 17 to 21% reduction in prices.

Employers can also use increased price transparency to hold accountable the middlemen—insurers and third-party administrators (TPAs)—whom they have hired to negotiate with providers on their behalf. Commercial rates are often far above hospitals' marginal costs for providing services. According to economist Larry Van Horn, cash prices average nearly 40% below negotiated insurance rates.

It is increasingly clear that insurers lack the same incentives as employers and consumers to obtain the lowest possible cost for quality care. Insurers and TPAs often receive payments that are a function of total spending, which creates an incentive for them to prefer higher spending.

With transparency, employers can monitor the effectiveness of insurers by comparing different payment rates for providers across insurers and across regions. Transparent prices will help employers eliminate counterproductive middlemen and contract with other entities to develop new benefit designs that will incentivize employees to utilize lower-cost providers, including those outside of their local region.

A step in the right direction for the state of Texas would be to require any third-party administrator of state employees' health plans to provide all claims data to the state. As an employer, the state of Texas has a vested interest in understanding what value they are receiving for the health coverage they provide to employees.

While price transparency efforts are not sufficient by themselves to reform America's healthcare system, it is a first step to help all parties involved rein in healthcare costs.

The Facts

- 9 out of 10 people believe all prices in healthcare should be disclosed, despite prices rarely ever being disclosed before services occur.
- In one study, economists found that a reform by Safeway that linked price transparency with reference pricing led employees to save 27% on laboratory tests and 13% on imaging tests.
- When California adopted a reference pricing model for state employees, the result was a 9 to 14 percentage point increase in the use of low-price facilities and a 17 to 21% reduction in prices.

Recommendation

Texas should require third-party administrators of state employees' health plans to provide all medical and pharmaceutical claims to the state.

Resources

“[Healthcare Price Transparency Wins in Court](#)” by David Balat, Texas Public Policy Foundation (June 24, 2020).

“[Why Health Care Price Transparency Belongs in the Next COVID-19 Relief Package](#)” by David Balat, and Marilyn Bartlett, *US News and World Report* (June 3, 2020).

- [Transparent Prices Will Help Consumers and Employers Reduce Health Spending](#) by Brian Blase, Texas Public Policy Foundation (Sept. 2019).
- [“Are health care services shoppable? Evidence from the consumption of lower-limb MRI scans”](#) by Michael Chernew, Zack Cooper, Eugene Larsen-Hallock, and Fiona Scott Morton, NBER Working Paper (Jan. 2019).
- [2019 Employer Health Benefits Survey](#) by Gary Claxton, Matthew Rae, Anthony Damico, Gregory Young, and Daniel McDermott, Kaiser Family Foundation (2019).
- [“The Price Ain’t Right? Hospital Prices and Health Spending on the Privately Insured”](#) by Zack Cooper, Stuart V. Craig, Martin Gaynor, and John Van Reenen, *Quarterly Journal of Economics*, 134(1): 51-107 (2018).
- [“Association Between Availability of a Price Transparency Tool and Outpatient Spending”](#) by Sunita Desai, Laura A. Hatfield, Andrew L. Hicks, Michael E. Chernew, and Ateev Mehrotra, *Journal of the American Medical Association*, 315(17):1874-1881 (2016).
- [“Offering a Price Transparency Tool Did Not Reduce Overall Spending Among California Public Employees and Retirees”](#) by Sunita Desai, Laura A. Hatfield, Andrew L. Hicks, Anna D. Sinaiko, Michael E. Chernew, David Cowling, Santosh Gautam, Sze-jung Wu, and Ateev Mehrotra, *Health Affairs*, 36(8) (2017).
- [National Survey Results: 2020 General Election Likely Voters Political Environment, Trends & Analysis](#), McLaughlin & Associates (2020).
- [“Remarks by President Trump at Signing of Executive Order on Improving Price and Quality Transparency in American Healthcare to Put Patients First,”](#) White House (June 24, 2019).
- [“Reference Pricing Changes the ‘Choice Architecture’ of Health Care for Consumers”](#) by James C. Robinson, Timothy T. Brown, and Christopher Whaley, *Health Affairs*, 36(3):524-530 (2017).
- [“Association Between Viewing Health Care Price Information and Choice of Health Care Facility”](#) by Anna D. Sinaiko, Karen E. Joynt, and Meredith B. Rosenthal, *JAMA Internal Medicine*, 176(12):1868-1870 (2016).
- [“Consumer Responses to Price Transparency Alone versus Price Transparency Combined with Reference Pricing”](#) by Christopher Whaley, Timothy Brown, and James Robinson, *American Journal of Health Economics*, 5(2): 227-249 (2019).