

# Why We Need Price Transparency in Healthcare

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**A**s consumers, we expect to see prices before making a purchase. We would probably laugh if a store told us they could only tell us the price 4-6 weeks after we agreed to buy the item. Yet you will likely accept this bizarre scenario at the doctor's office.

Economics tells us that markets do not function well without good information. If consumers don't know about cheaper options, those options might as well not exist.

Even determined consumers can have trouble finding prices for their healthcare.<sup>1</sup> Consumers who do find a price might only find the "list price," or pre-discount price. Insurers, however, negotiate "allowed amounts" that come with dramatic discounts from the "list price," often 40-60%.<sup>2</sup> Imagine if I handed you a menu and told you that the list price of your chicken is \$80. "Not to worry," I add with a wink, "that's the pre-discount price."

Insurance benefits add further wrinkles. They often confuse consumers, with benefits that differ depending on the service and the level of YTD health spending.<sup>3</sup> Research documents just how poorly consumers understand and use their health insurance. People often select non-optimal plans, with one study showing that subjects chose plans that cost at least \$500 more than the optimal plan 40% of the time.<sup>4</sup> Consumers *believe* they understand their insurance benefits, but in reality often fail to understand what basic terms like "coinsurance" means.<sup>5</sup> Most startling, one study found that only 11% of consumers could answer a simple fill in the blank question about the cost of a hospitalization.<sup>5</sup> I sometimes find myself bewildered by my own insurance benefits; just last week a customer service rep at my health plan explained how I had unknowingly gone out of my plan's network. She could only explain this to me after she checked her understanding with two other employees.

By now we see the momentous struggle a consumer must go through to find prospective prices. Research shows that when confronted with arduous decisions, people instead tend to select the first option or use some other simple heuristic.<sup>6</sup>

Transparency tools can help alleviate some of these issues. They could eliminate out-of-network "surprises," which affect 3% of Americans every year.<sup>7</sup> Even more concerning, consumers often cannot pay their surprise bills, leading to financial harm.<sup>8</sup> With 20% of Americans facing difficulties paying a medical bill, this makes for a very significant issue.<sup>8</sup> Beyond network navigation, they can also ensure that regardless of a patient's understanding of their benefits, they know the cost of their procedure ahead of time.

Further, transparency can help correct the consequences of information failure. Healthcare prices vary a lot, even for homogenous procedures. Consider a knee or hip replacement procedure, for example. A Blue Health Intelligence analysis found that each surgery's price could vary dramatically, even within the same geographical market.<sup>9</sup> Specifically, the most expensive knee replacement surgery cost 2.67 times more than the cheapest surgery, while that number figured at 3.13 times for hip replacements.<sup>9</sup>

Academics have drawn similar conclusions, finding dramatic price differences for something as mundane as a lower-limb MRI. One study, which evaluated prices only for taking, not reading, the MRI (to eliminate any differences in quality), found that prices differed by a factor of 7 in Philadelphia. Other research shows that on average, people pass by 6 cheaper facilities on the way to their lower-limb MRI.<sup>10</sup>

If only we could show consumers the prices of those 6 cheaper facilities! Luckily, price transparency tools do just that. Unfortunately, they have provided lackluster results to-date.

Several factors may explain these disappointing results. First, lacking information on how “good” each MRI facility is, consumers may associate price with quality—even though the literature shows that at best, a very weak relationship exists between price and quality.<sup>[11]</sup> This explains why transparency sometimes causes an *increase* in spending.<sup>[11]</sup> Another problem: price transparency tools have very low usage rates.<sup>[11],[12]</sup> This may be because consumers don’t trust the information they see, or they don’t understand it.

One solution? Show them prices through their doctor. We overwhelmingly trust our doctors.<sup>[13]</sup> In fact, surveys show that Americans consider their doctors as the best readily available source for comparing different health services options.<sup>[13]</sup> This contrasts with today’s current transparency tools, which often go through employers.<sup>[12]</sup> Consumers emphatically do not trust their employer to provide health plan information.<sup>[13]</sup> Doctors also have the expertise to explain the results and provide reassurances that lower prices will not sacrifice quality. Further, research suggests that the influence of the referring physician is “dramatically greater than the influence of patient cost-sharing,” highlighting the importance of involving the physician.<sup>[10]</sup> Lastly, incorporating transparency tools into PCP visits will at least ensure high usage rates for PCP referred services.

We might worry that doctors might resist using such tools. Doctors often oppose new interventions on the basis that they take up valuable, ever-shrinking appointment time.<sup>[14]</sup> Yet research shows that the typical cost conversation takes 68 seconds.<sup>[15]</sup> Other research shows that simply demonstrating the ease of using a low-effort tool convinces doctors to use them.<sup>[16]</sup>

Finally, price transparency through the patient’s doctor makes care more patient-centered by enhancing shared decision making. Traditionally, we think of shared decision making as a collaborative decision process involving an exchange of information: the patient shares his/her values and preferences, while the doctor shares recommended treatments and their benefits and risks.<sup>[17]</sup> This framework may leave out costs, however. This would not only ignore the service’s cost-effectiveness, it also ignores how financial considerations could affect the patient, failing to consider their care in a holistic fashion.

If done right, price transparency can meaningfully improve costs and patient satisfaction in our healthcare system.

## About the Author

Kristoffer Szumigalski graduated in 2019 with an MPH from the Harvard T.H. Chan School of Public Health.

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