Transparent Prices Will Help Consumers and Employers Reduce Health Spending

By Brian Blase, PhD

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EXECUTIVE SUMMARY

Many skeptics of price transparency argue that price transparency tools have relatively low take-up and that most consumers have little incentive to seek out low-cost providers and services. Under the dominant health system structure, the skeptics are generally correct. Most studies show that few patients use transparency tools, and relatively small savings result system wide. However, consumers that do shop, can save a great deal of money. Those who used a New Hampshire price website prior to medical imaging visits saved 36 percent off the original cost, for example. This shows that policy changes to encourage greater consumerism can produce significant benefits to employers, employees, and patients—enhancing their ability to obtain greater value from their health spending.

Importantly, the skeptics neglect a complete view of the ways that price transparency can reform the health care system. Transparency should have four key beneficial impacts:

1. Better informed consumers and patients
2. Better informed employers that help workers shop for value
3. Improved ability for employers to monitor insurer effectiveness and eliminate counterproductive middlemen
4. Public pressure on high-cost providers.

The skeptics fail to consider that price transparency will help American employers, who are collectively the largest purchasers of health care. Price transparency will help employers establish improved payment structures for their employees. For example, under a reference price model, the employer or insurer agrees to pay a set amount they will pay per procedure. Reference pricing creates both a transparent price and provides patients with an incentive to shop as they bear the cost above the reference price. Economists found that a reform by Safeway that linked price transparency with reference pricing led employees to save 27 percent on laboratory tests and 13 percent on imaging tests.
Most employers don’t yet offer reference pricing models. Additional price transparency aided by consumer-friendly applications to help employees navigate options should lead to greater employer adoption of reference pricing models and sizeable savings.

If enough people become shoppers, higher-priced facilities will begin to lower prices to avoid losing customers. This happened in California earlier this 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 percent reduction in prices.

Both the New Hampshire price website and the California reference pricing system produced ‘spillover effects,’ meaning that people benefitted who did not shop. They benefit because providers lowered prices for everyone, not just the active shoppers. In California, about 75 percent of these price reductions spilled over to populations that were not participating in the reference pricing model.

Employers can also use increased price transparency to discipline 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 percent below negotiated insurance rates. According to the RAND Corporation, Medicare rates average nearly 60 percent below negotiated rates that insurers pay for hospital services in employer plans.

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 ones outside of their local region. Since price information is difficult to obtain, transparent prices will reduce barriers that innovators face in developing tools and applications to assist employers in lowering costs.

Finally, transparent prices should put public pressure on high-priced providers to lower their rates. Many charges, including those of tax-exempt hospitals, will likely be an embarrassment when they are subject to sunlight. In the past few months, media reports on noxious collections practices by tax-exempt hospitals have caused them to change these practices, often within days. The same will likely occur when the media starts reporting on some of the rates that providers charge.

Ultimately, price transparency represents a light regulatory approach, particularly considering other legislative proposals that would impose government price-controls throughout the health sector. While price transparency efforts are not sufficient by themselves to reform America’s health care system, transparent prices should make other reforms, including employer-driven reforms, easier.
Advancing price transparency to help reform health care

High and growing health care spending and uneven quality of care frustrate consumers, employers, and taxpayers, increasingly crowding out spending on other needs. There is a growing sense that something must be done. All potential policy responses carry a risk of disruption, although some disruption can be warranted when the status quo is untenable. Price transparency is an area being explored by policymakers that carries a significant upside.

On June 24, 2019, President Trump signed an Executive Order on Improving Price and Quality Transparency in American Healthcare to Put Patients First. The order called for the Secretary of Health and Human Services (HHS) to propose a regulation to require hospitals to post standard charge information. On July 29, 2019, HHS included this proposal in the annual Medicare Hospital Outpatient Prospective Payment System (OPPS) rule. The proposed regulation defines two types of standard charges: gross charges and payer-specific negotiated charges. The rule would require the information to be displayed on the Internet in a machine-readable file that includes a description of the item or service and a common billing code. The rule also proposes publicizing payer-specific negotiated charges for common shoppable services in a manner that is consumer friendly. The rule proposes new enforcement tools including monitoring, auditing, corrective action plans, and civil monetary penalties of $300 per day to enforce compliance with the new requirements.

While President Trump and his administration have signaled strong support for efforts to boost health care price transparency, many industry groups, particularly hospitals and insurers, have expressed deep opposition. They claim that negotiated rates are proprietary and that publicizing rates could enable

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2 According to the rule: “Shoppable” services are services that can be scheduled by a health care consumer in advance. Examples of shoppable services include x-rays, outpatient visits, imaging and laboratory tests or bundled services like a cesarean delivery, including pre-and post-delivery care. Consumer-friendly means the hospital charge information must be made public in a prominent location online (or in written form upon request); that it is easily accessible, without barriers, and searchable. It also means the service descriptions are in ‘plain language’ and the shoppable service charges are displayed and grouped with charges for any ancillary services the hospital customarily provides with the primary shoppable service.
price-fixing and put upward pressure on prices—the latter being an odd concern for providers.

Unknown and obscured prices are unique to health care. People know the prices in advance for almost all goods and services they purchase—the items on the grocery store shelves, houses, automobiles, hotel rooms, flights, beauty services, and financial products like life and auto insurance, for example. Because people are shopping in these areas, there are also numerous sites that provide pricing information along with corresponding quality reviews.

In a normal market, suppliers and producers compete on both price and quality. They often advertise their prices, and they attempt to undersell competitors and build a strong reputation so consumers know that they offer reliable products for a reasonable price. In general, prices for certain products or services will tend to be similar for similar products or services (think of a Honda Odyssey, Toyota Sienna, and Dodge Grand Caravan) with price variations accounted for by marginal differences in quality and consumer tastes.

Again, health care is different. Prices\footnote{In this paper, the term “price” will refer to the rate actually paid for health care goods and services, whether it is a negotiated rate with an insurer or a cash rate if insurance is not used.} for the same or similar services and treatments can vary widely, both among regions, among facilities within a region, and even within a facility, based on the payer.\footnote{Cooper, Zack, Stuart V. Craig, Martin Gaynor, and John van Reenen. 2015. “The Price Ain’t Right? Hospital Prices and Health Spending on the Privately Insured.” The Quarterly Journal of Economics. 2018; 134(1): 51-107. See: https://academic.oup.com/qje/article-abstract/134/1/51/5090426?redirectedFrom=fulltext}

The problems in health care markets are driven by three main features that are largely absent in other markets. First, most people are not directly spending their own money, so they lack incentives to obtain value from their consumption decisions. With employer-sponsored health insurance, premiums are aggregated, and employers and insurers are in key decision-making roles. This isolates individual employees and consumers from the marginal financial cost of their health care decisions. Second, markets are largely noncompetitive, increasingly dominated by large, integrated hospital systems consisting of inpatient facilities, outpatient facilities, and physician practices. Third, people rely very heavily on doctors for referrals. Since doctors are increasingly part of these consolidated hospital systems, they generally refer patients for services within the system regardless of price. All these features diminish price competition in health care.
In health care markets where third-party payment is rare, such as LASIK eye surgery and cosmetic surgeries, prices tend to be transparent with robust competition among providers. Under these conditions, the result is generally what is found in other markets: declining quality-adjusted prices over time, meaning prices generally decline while quality improves.\(^5\) The Surgery Center of Oklahoma, which has posted its prices on a consumer-friendly website for 11 years, has changed its prices four times during that period—lowering them each time.\(^6\) Competition leading to quality-adjusted price declines was a theme of the Trump Administration's report, *Reforming America's Healthcare System Through Choice and Competition* (Choice and Competition report).

\[T\]he inflation-adjusted price of LASIK eye surgery declined by 25 percent between 1999 and 2011, even as quality markedly improved.\(^7\) Notably, third-party payers (including the government) generally do not cover the procedure and so ophthalmologists have had to compete directly for consumer dollars.\(^8\) Similarly, though the price of health care grew at double the rate of inflation between 1992 and 2012, the price of cosmetic surgery—for which consumers pay almost exclusively out of pocket—grew at less than half the rate of inflation.\(^9\) These examples also highlight that when consumers are spending their own dollars and shopping accordingly, providers have greater incentives to improve quality and cut costs.

Un fortunately, most of the health sector is not characterized by this success. For Americans to pay less for better care, we need to learn from what works elsewhere and change policy accordingly while making sure consumers have access to necessary care.

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\(^{5}\) As an example, in the 1950s, the average American worker needed about three weeks of wages to afford a rudimentary washing machine. Today, the average American worker needs to work about four days for a far superior washer and dryer.

\(^{6}\) For examples of how price transparency can reduce prices, see: https://www.patientrightsadvocate.org/smith


\(^{8}\) Ibid.

The remainder of this essay reviews the four key ways where price transparency can help address the core problems within the health sector to create a direct benefit to Americans:

1. Better informed consumers and patients
2. Better informed employers that help workers shop for value
3. Improved ability for employers to monitor insurer effectiveness and eliminate counterproductive middlemen
4. Public pressure on high-cost providers.

Crucially, these elements together should spur additional competition among providers, largely through new payment structures, such as reference-based pricing and direct contracting enabled by more abundant price information.

**Better informed consumers and patients**

There are three fundamental problems with patients shopping for health care—an information problem, an incentive problem, and an institutional problem. First, it is often difficult for consumers to obtain prices, although it appears to be easier for those paying without insurance.10 Second, most consumers lack incentives to choose lower-priced providers. Once consumers meet their deductible, they have little, if any, incentive to be cost conscious as they face identical or similar copayments regardless of where they receive treatment so long as the provider is in-network.

Consumers, in the aggregate pool, are on the hook for the full negotiated rate, but they bear most of that cost through premiums. And each consumer’s utilization decisions will minimally impact the average premium for the group. (Importantly, there are ways to design benefits and contract with providers that would encourage greater efficiencies and lower premiums across the group.) Third, patients tend to rely on their doctors to refer them when they need additional care, and sometimes the doctors themselves have an information or incentive problem that keeps them from recommending the highest-value care.

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High Deductible Health Plans (HDHPs) were created about 15 years ago to help minimize the incentive problem, and their use has significantly grown over the past decade. Increasingly, employers have turned to these plans to reduce costs. For people with these plans, price transparency is valuable to help consumers understand their out-of-pocket costs. Xinke Zhang et al. find that enrollment in HDHPs leads some enrollees to switch to lower-cost providers (evidence of greater consumer engagement). The provider change, along with lower prices for the HDHP compared to the traditional plan, led to a significant reduction in spending (the larger marginal effect was the lower price of the HDHP relative to the traditional plan, rather than from consumers choosing lower-cost providers). They also found that HDHP enrollment led many consumers to choose lower-cost providers for laboratory tests, resulting in a 13 percent reduction in average prices paid for laboratory tests.

Price shopping in health care still appears relatively rare despite increasing cost-sharing and the proliferation of price transparency apps and tools to inform and assist consumers. Some of these tools, which may provide the billed amount or price ranges, are less useful than others that provide the negotiated rate and cost-sharing amounts. Michael Chernew et al. reviewed how privately-insured individuals choose providers for lower-limb MRI scans, which are a standardized service that can generally be scheduled in advance with minimal differences in quality across providers but often large differences in prices. They found that patients generally do not shop despite large price variations and how much they could save by shopping. On average, patients bypassed six lower-priced providers between their homes and treatment locations.

Physician referrals were by far the most important factor for where patients

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received the MRIs. Chernew et al. found that the median referring orthopedic surgeon sent 79 percent of all her referrals to a single imaging provider and that the median referring orthopedic surgeon sent no patients to the lowest cost provider within either 30- or 60-minutes of the patient’s home.

Zach Brown assessed the effect of the State of New Hampshire’s initiative to post negotiated rates on a website, beginning in 2007. According to Brown, the website allowed any privately-insured consumer in the state to enter insurance information and find the out-of-pocket (OOP) price, the amount paid by insurers, and the total negotiated price across all providers in the state. Brown assessed the impact of the website on prices for relatively simple and standardized outpatient medical imaging procedures (X-rays, CT scans, and MRIs). Initially, the price of each of these procedures varied widely across providers in the state.

Brown found that consumers used the website for about 8 percent of medical imaging visits. As expected, the website primarily benefited individuals who had not yet satisfied their deductible and who thus faced the full price of the service. These individuals saved an estimated $200 per visit, a savings of 36 percent compared to what they would have paid in the absence of the website. Given that these individuals paid the full negotiated rate, the individual captured all of the savings and the insurer captured none. Since most consumers did not use the website, the overall savings are much smaller. Brown's estimates imply that the website resulted in overall savings of 3 to 4 percent. Adding to these findings, shared-savings programs initiated by New Hampshire and Kentucky for public employees, where employees receive payments for choosing lower-cost providers, have both showed promising results so far.

Based on survey data, shopping in health care does appear to be increasing. According to the 2018 UnitedHealthcare Consumer Sentiment Survey, 36 percent of respondents—a random sample of U.S. adults over the age of 18—indicated they used the Internet or a mobile app during the previous year to compare the quality and cost of medical services. That is a substantial in-

crease from 2012, when just 14 percent of respondents indicated they had done so. The increase is driven by millennials, with 51 percent indicating that they shop for health care services online.

More people shopping is useful since most health care services, representing a large amount of total health spending, are shopable. According to the administration’s Choice and Competition report, “[t]he vast majority of health care services are routine or elective services that can be organized by markets to enhance patient welfare.” The report cited one study that found emergency department spending equaled 6 percent of total health spending, and another study that classified 43 percent of health care spending as “shopable” with another 11 percent of spending on prescription drugs that is generally shopable.

**Better informed employers that help workers shop for value**

Earlier this year, Katherine Hempstead and Chapin White published a short and intriguing essay on how the Amish and Mennonites obtain a clear and simple list of health care prices. The Plain Community Amish and Mennonites make prompt cash payments, and the local health system has established a relationship with them. According to Hempstead and White, “The interactions between providers and patients from the Plain Community are bracingly direct, bypassing health plans, government agencies, banks, credit card com-

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17 Ibid
18 Ibid
panies, collection agencies, and other intermediaries.” Hempstead and White conclude that “The reason that price transparency works for the Plain Community is that incentives between providers and consumers are aligned. The community knows that it must shop for care, and that they, either individually or collectively, must pay the prices that they negotiate.” Two clear and somewhat intuitive takeaways emerge from this work. First, as referenced above, incentives matter. Second, minimizing the role of the middleman (employers, insurers, and government bureaus) who engage in complex and often secret negotiations may help promote the dynamic consumerism present in the rest of the economy.

Christopher Whaley, Timothy Brown, and James Robinson analyzed a reform effort by Safeway to assess the impact of price transparency as well as price transparency linked with a reference pricing initiative. In August 2010, Safeway, which offered its employees a HDHP with a $1,200 deductible, provided its employees access to an online price transparency tool. This tool showed the negotiated rate and the patient’s expected cost-sharing amount, and it also displayed information on provider location, quality, and patient satisfaction. In March 2011, Safeway implemented reference pricing for laboratory tests, and in November 2011, Safeway implemented reference pricing for CT scans and MRIs. Safeway set the reference price at approximately the 60th percentile of the price distribution, which represented the maximum that Safeway’s plan would contribute to the service. Spending above the reference price did not count toward the deductible or OOP maximum. In theory, reference pricing creates both a transparent price (solving the information problem) and provides consumers with an incentive to shop and maximize value (solving the incentive problem).

The Safeway initiative allowed Whaley et al. to test the sequential effect of price transparency followed by the application of reference pricing. Consistent with other studies, they found that, “when offered price transparency alone, Safeway employees do not shop.”

“However, when subject to a different incentive scheme, reference pricing, approximately a year later, there is substantial price shopping.” The reduction in amounts paid was sizeable, approximately 27 percent for laboratory tests and approximately 13 percent for imaging tests. This magnitude was approximately twice the reduction of the effect Zhang et al. found from moving employees to

HDHPs. Whaley et al. conclude that “by changing the marginal out-of-pocket prices between high- and low-priced providers [i.e., making high-priced providers relatively more expensive than low-priced providers for the employee], reference pricing amplifies the effects of reduced search costs [that results from price transparency].” Thus, the price transparency tools “will capture the attention of consumers, and influence their behavior, only if patients have strong financial incentives to care about prices.”

An important benefit of price transparency is that it enables more employers to offer reference price payment structures for shoppable services. This holds the potential for substantial reduction in spending as employees and their families would have improved information about prices and incentives to choose lower-priced facilities.

Most large carriers now maintain price transparency websites of various quality, but far fewer offer reference pricing or similar types of payment programs. Even with price transparency tools, many employers have been resistant to adopt reference pricing models into their health benefit plans, generally expressing concern that it could increase complexity for workers and leave workers exposed to high out-of-pocket costs. Additional price transparency and more consumer-friendly applications, along with efforts to help employees navigate these decisions, may cause employer resistance to wane.

If enough employees and families change their behavior and become active health care shoppers, higher-priced facilities will likely begin to lower their prices. This was the experience in California when the state adopted a reference pricing model for state employees. As summarized in the administration’s Choice and Competition report:

When the California Public Employees’ Retirement System (CalPERS), which provides benefits to over 1.4 million enrollees, started using reference pricing, higher-cost providers soon responded by lowering their prices to attract these enrollees (Robinson 2017). CalPERS distributed lists of hospitals that exceeded a certain quality threshold and had different prices for its enrollees. Consumers increasingly used lower-cost

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providers with no negative impact on quality.\textsuperscript{26} CalPERS’ experience highlights the potential for realigning incentives using reference-based pricing, to lower cost and increase value in the healthcare system.

The CalPERS reference pricing experience translated into a 9 to 14 percentage point increase in employees and dependents’ use of low-price facilities and a 17 to 21 percent reduction in prices.\textsuperscript{27}

Whaley and Timothy Brown utilized the CalPERS reference pricing model to assess providers’ pricing response for three common outpatient surgical procedures (cataract surgery, colonoscopy, and joint arthroscopy), finding that facilities lowered prices in response to the reference pricing program.\textsuperscript{28} Importantly, about 75 percent of these price reductions spilled over to the non-CalPERS population. Whaley and Brown concluded that “this paper is the first to demonstrate that health care providers change their negotiated prices in response to increases in consumer cost-sharing.”

**Improved ability for employers to monitor insurer effectiveness and eliminate counterproductive middlemen**

According to economist Larry Van Horn, average cash prices for health care are nearly 40 percent below negotiated rates.\textsuperscript{29} And according to the Rand Corporation, Medicare rates average nearly 60 percent below negotiated rates that insurers pay for hospital services in employer plans.\textsuperscript{30} This data and the fact

\textsuperscript{26} Ibid.


\textsuperscript{30} White, Chapin and Christopher Whaley, “Prices Paid to Hospitals by Private Health Plans Are High Relative to Medicare and Vary Widely,” 2019. See: \url{https://www.rand.org/pubs/research_reports/RR3033.html}. 

that nearly all hospitals participate in Medicare shows that employers are likely paying rates far above hospitals’ marginal costs for providing services.

In addition to the benefits already discussed, transparent health care prices make it easier for employers to monitor insurers. Employers can offer coverage to their workers by self-insuring or by contracting with an insurer to accept the claims risk. Even employers that self-insure (i.e., internalize the cost of claims) generally contract with insurers to set their rates with providers and process claims. Most employers, however, do not know the rates that insurers are negotiating for their employees’ care, and many of these employers have difficulty obtaining this information if they try.

Transparency will help deal with the principal-agent problem involved with employers purchasing health insurance. Principals often hire agents who specialize in certain capacities that the principal would rather outsource. Ideally, agents act in the principal’s best interests. The principal-agent problem occurs when the agents have incentives that lead them against acting in the principal’s best interest. In health care, insurers and brokers may lack the same incentives as employers and consumers to obtain the lowest possible cost for quality care. Employers want lower health care spending because it allows them to increase employee wages and attract a more talented workforce, among other reasons. However, insurers and brokers often receive payments that are a function of total spending, which creates some incentive for them to prefer higher spending. Employers face difficulties monitoring whether insurers are doing an acceptable job negotiating on their behalf.\textsuperscript{31}

Transparency efforts will reveal the actual reimbursement rates insurers pay providers and will help employers monitor the agents they have hired. First, transparent prices will show employers or emerging entities that specialize in helping employers sort through price data how much more insurers are paying for the same service or procedure performed in a hospital outpatient department as in an ambulatory surgical center (ASC) within a region. This information will enable employers to determine if they want to structure payments to encourage movement away from outpatient departments to ASCs if the insurer is unable to negotiate lower rates with the hospital.

Second, with transparent prices, employers and these emerging entities will be

\textsuperscript{31} It is certainly true that insurance companies compete with each other to attract business and that much of this competition occurs on lower premiums. However, insurance markets in many areas are quite concentrated, insurers are often reluctant to go toe-to-toe with providers, and insurers likely care more about relative premiums to their competitors and not as much in absolute premiums.
able to contrast the rates being negotiated by other insurers within the same region and across regions. For higher cost procedures, where it may make sense to bear travel costs, this information should help employers utilize lower-cost providers outside of their local markets. This will help combat provider consolidation in certain local markets. For example, there are freestanding surgery centers that post their prices and that have prices many times below the rates that providers are charging in a local market.\textsuperscript{32} Increased price transparency will enable employers and entities working on their behalf to better design programs for patients to travel to other locations to receive higher valued surgical care.

Moreover, the threat of consumers leaving a local market for surgeries puts pressure on local providers to bring prices down to marginal cost. According to Dr. Keith Smith, the CEO and managing partner of a price transparent outpatient surgery center in Oklahoma City, a Georgia woman was quoted a price of $40,000 for a procedure at her local hospital but the price was only $3,600 at the Surgery Center of Oklahoma.\textsuperscript{33} After alerting her local hospital to the price in Oklahoma, the Georgia hospital agreed to do the procedure for $3,600.

Price transparency may also provide employers with relevant information about potential benefits of directly contracting with providers. Employers appear to be increasing the degree that they contract directly with providers.\textsuperscript{34} This is a way for employers to eliminate much of the services provided by the middlemen and to put providers on capitated payment structures. For example, this can include contracting with a physician practice to provide primary care services for the firm’s employees. The employer would pay the provider a fixed sum per employee and avoid much of the administrative costs that come with the current third-party billing system. Anecdotally, it appears that employers who have moved to direct contracting have shown savings.\textsuperscript{35}

Given the apparent increase in employer demand for lower health costs, the companies and entities briefly referenced above can be expected to take the


\textsuperscript{33} Ibid.


next step and develop innovative benefit designs to incentivize employees and dependents to use lower-priced providers. Companies looking to offer these services right now (online price transparency tools, reference pricing benefit designs, and referral management) are stymied by the fact that they need to obtain claims data from employers and insurers. This is often extremely difficult and thus represents a sizeable entry barrier. Price transparency reduces this barrier and will make it easier for entrepreneurs to develop both products and benefit designs to help employers and consumers access higher-valued care.

Public pressure on high-cost providers

Greater price transparency and publicity around health care prices will enable researchers to calculate the real-world tradeoffs involved in health care consumption. For example, this will enable calculations for the time that an average employee will need to work in order to finance a particular treatment or procedure if he or she devoted all of his or her income over a period of time to paying for that treatment or procedure.

Quite frankly, some health care prices are unconscionably high. They have been tolerated because of the abundance of third-party payment, which obscures the total cost from the entity (largely workers and taxpayers) that ultimately bears it, and because of the power of interest groups that benefit from the status quo and that are among the biggest employers in many local areas. Sunlight is often the best disinfectant, and price transparency will show what tax-exempt, non-profit hospitals charge as well as the rates charged by several surgical professions that have managed to secure significant bargaining power over time.

This sunlight will likely pressure high-priced facilities to take steps to lower what are often bloated pricing structures. In just the past few months, drawing attention to several hospitals’ outrageous billing practices caused hospitals to revise those practices. News articles have reported that several hospitals, including Mary Washington and the University of Virginia, had extremely aggressive collection practices for unpaid medical bills (with charges often based

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36 Christopher Whaley deserves credit for providing this insight in his review of the paper.
on the inflated chargemaster rates), even for low-income patients. Within a few days of the stories being published, both hospitals announced changes to their billing practices.

Creating competitive pressure on providers

Brown’s research shows that the overall consumer savings of price transparency in New Hampshire were modest since only about 8 percent of employees utilized the website. However, even with limited take-up, there were spillover benefits to the broader population, i.e., non-website users. According to Brown, “[b]y affecting negotiated prices, price transparency generates spillover effects that benefit all consumers, including those that do not have price information.” Brown’s modeling suggests that price reductions occur when roughly 10 to 50 percent of individuals are informed about prices. Marginal supply-side effects become less relevant once enough consumers are informed. According to Brown, “[p]rices decline because demand effectively becomes more elastic [i.e., consumers care more about prices and alternatives], allowing insurers to negotiate lower prices with most providers in their network.” Specific to the examples he assessed:

Consumers would choose lower cost providers in their choice set, resulting in per visit savings of $39 for consumers and $281 for insurers relative to no price transparency. Savings would come largely at the expense of provider profits, although some of the savings would also be due to individuals switching to providers with lower marginal cost (e.g. imaging centers and clinics rather than hospitals).

Brown’s findings show why high-cost providers likely will oppose price transparency efforts. Of important note, most of the savings for insurers would translate into lower premiums for employees over time.

Brown also finds that increased price awareness decreases price dispersion.

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38 Hancock, Jay and Elizabeth Lucas, “‘UVA has ruined us.’”
Brown hypothesizes that it is possible that price information will have additional dynamic effects that will improve overall system efficiency by encouraging relatively low-cost providers to enter markets. (While entry of low-cost providers into markets is essential, state policies, such as Certificate of Need laws and restrictions on providers’ ability to deliver care, such as stringent scope of practice or supervisory requirements, can impede this entry and harm consumers. As outlined in the Trump administration’s Choice and Competition report, a comprehensive solution to lowering costs while preserving quality will require tackling these policies as well.)

Whaley et al. believe that these dynamic effects of provider price competition were muted in the Safeway experiment since Safeway’s workers were geographically dispersed and thus lacked significant leverage in any local market for providers to lower prices. After the CalPERS referencing pricing implementation, Whaley and Brown did find that prices decreased in areas with a large share of state and municipal employees in a market with a significant number of employees affected by reference pricing.

A 2019 paper by Whaley examined the growth of patient access to a leading online price transparency platform, finding that price transparency leads to a small, but significant decrease in laboratory test prices but not to a change in physician office visit prices.39 The general takeaway is that price transparency by itself can lower spending and prices for shoppable, homogenized services like imaging and laboratory tests, with a bigger price effect when consumers have adequate incentives to consume lower-priced services.

### Advancing Price Transparency

With more than 50 recommendations in the Choice and Competition report, the Trump Administration is advancing a health care agenda centered on empowering consumers and injecting competitive forces into the financing and delivering of care. Transparent prices help advance both. Transparent prices will make it easier for consumers to search for value and for employers to establish proven programs like reference pricing models and going outside of a local market to so-called “Centers of Excellence” for expensive, elective services to help and to encourage their employees to shop for value. There is also evidence that consumers, particularly younger consumers, are more comfortable with shopping for care and asking for price information. Third-party

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administrators and innovators will continue to develop tools and applications to ease consumers’ ability to shop between providers.

Transparent prices also will help employers monitor the effectiveness of insurers by comparing different rates received by providers across payers and across regions. With limited information, employers often now maintain status quo arrangements, with mid-level human resources managers relying on the advice of insurance brokers, who tend to be funded by the insurer and who often are paid a percentage-based commission. Transparent prices could lead employers, along with the assistance of entities specializing in reducing employer benefit costs, to eliminate counterproductive middlemen from the process. Ultimately, greater transparency should constrain prices by placing more competitive pressure on providers.

The notion, advanced by providers and insurers, that negotiated prices are a trade secret and that the status quo should remain in place, is noxious and works for them but not for the rest of society. They’re economically justified in fearing sunlight and competition, but that’s exactly what is needed to reform health care. Concerns from some economists that collusion could result from price transparency appear unjustified. Local markets right now are characterized by a limited number of providers, particularly hospitals, who engage in repeated interactions. They already tend to have knowledge of each other’s payment rates, particularly relative to each other. Moreover, hospitals and other providers already provide consumers with pricing information in the Explanation of Benefits documents when they bill patients.

This analysis focused on the economic and policy reasons to pursue price transparency. If the Trump Administration’s price transparency proposals are finalized as proposed, the $300 daily penalty rate will likely not compel hospitals to comply if they are adamantly opposed to providing this type of information. This amount is a rounding error for most hospitals in terms of total revenue they receive. As a result, the administration should consider the appropriateness of the penalty size. However, as explained in this piece, the economic and policy reasons to pursue price transparency are significant.

Finally, price transparency imposes near negligible regulatory costs on hospitals, and it is a light regulatory approach, particularly given the growing and misguided movement to impose Medicare rates on all transactions. Building public pressure to “do something” about high and growing health care costs, particularly hospital prices, will certainly cause some policy response in the coming years. Let’s start with requiring the disclosure of prices.
Brian Blase, PhD was a Special Assistant to President Trump at the National Economic Council focusing on health care policy from January 2017 through June 2019. In this capacity, he helped develop the Trump Administration’s health policy agenda and coordinated the implementation of many of those policies. He is now a Senior Fellow with both the Galen Institute and the Texas Public Policy Foundation as well as the president of Blase Policy Strategies. He can be reached at brian@blasepolicy.org.

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