Testimony of:

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Examining State Efforts to Improve Transparency in Health Care Costs for Consumers

Subcommittee on Oversight and Investigations

Committee on Energy and Commerce

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Main points

- Well-functioning markets require well informed consumers.
- Consumers in health care markets are poorly informed and health care markets do not function well.
- It is logical therefore to assume that improving information in health care markets would support lower prices and better quality
- However, evidence suggests transparency initiatives that improve information in health care will not have a significant impact, though there are some clinical areas (e.g., imaging) where research is more positive. The reason for the limited broad impact is that other aspects of health care markets limit their effectiveness
    - Health care services are purchased in very fragmented units
    - Patients defer to physicians
    - Some markets have too few providers to be considered competitive
    - Insurance masks true price differentials
- Nevertheless, policy makers can take some action to support greater competition, these include
    - Requiring ERISA plans to submit data to All Payer Claims Databases
    - Providing financial support to APCDs
- Funding greater research on competition and competitive strategies

Testimony

Chairman Harper, ranking minority member Degette, members and staff, thank you very much for the opportunity to speak with you today about price transparency in health care. I am going to confine my remarks to transparency in the context of medical services, excluding prescription drugs or insurance. This is only because the market for insurance is completely different than that for health care services and the prescription drug market has unique issues and complexities.

Before I launch into the main thrust of my comments, I would like to emphasize that as an economist I believe strongly in the merits of markets. Moreover, I suspect that you have asked me here today because you, correctly, recognize that markets for medical services are not working well. This is part because well-functioning markets require buyers to effectively shop for the combination of price and quality that best meets their needs and in the market for medical services buyers—in this case patients—do not have the necessary information.

Taken together, the logic outlined above would suggest that efforts to promote price transparency in health care would be able to significantly lower the cost, and perhaps improve the quality, of care. In fact, this logic has spawned the creation of numerous transparency initiatives and launched several innovative companies. All of the major insurers I am aware of have transparency tools, as do many other vendors and several states are pursuing transparency related programs. Although there are a few studies that suggest transparency initiatives, such as New Hampshire, can have a modest impact on spending for some services,[1].

First, health care is complex. Any course of treatment (or diagnostic pathway) is comprised of many individual services. For example, there are 10 codes for office visits and 56 for CT scans (based on the CPT code list CMS released in Nov 2017).[2] If one wants to know the price of a service, one would need to specify the exact service and that is hard. In some cases, it is even unknowable because

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[1] http://www.economics.illinois.edu/seminars/documents/Brown.Pdf; Whaley C, Schneider Chafen J, Pinkard S, et al. Association between availability of health service prices and payments for these services. *JAMA*. 2014;312(16):1670-1676. doi: 10.1001/jama.2014.13373.

[2] https://www.cms.gov/Medicare/Fraud-and-Abuse/PhysicianSelfReferral/List_of_Codes.html

the exact service delivered may change during the course of a test or procedure based on clinical information that arises. Though this complexity can be minimized by reporting averages for broader service groups, many providers are often involved in care delivery and each has a different price. For example, a surgery will include different fees to the hospital and surgeon. The hospital will likely not know the surgeon's fee and the surgeon will not know the hospital fees.

I am aware of several website that support shopping for other important items such as cars. But imagine those websites could only provide data on specific parts and the customer had to know which were needed and how well they would work together. That would diminish, if not destroy the usefulness of such shopping tools. In addition to the complexity arising from the fragmented way in which we buy care, any given provider is paid a different amount from different insurers. In one study we found that large insurers paid 21% less than smaller ones.[3] Therefore, to quote an accurate price, one must know the patient's insurer (and maybe even their exact health plan). All of this complexity makes seemingly simple goals, like requiring providers to post or provide accurate price quotes, difficult.

Second, the physicians are central to almost all consequential decisions in health care. Patients trust their physicians to guide them through the episode of care, laying out alternatives and recommending treatments. Physician recommendations about where to seek care carry enormous weight. As a result, few patients shop for care. In our work we find that around 10% to 15% percent of patients used a transparency tool when offered.[4] This result seems pretty standard in the literature.[5] While it is certainly true that patients can question, or even ignore, their physician's referral recommendations, few do.

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[3] Roberts ET, Chernew ME, McWilliams JM. Market Share Matters: Evidence of Insurer and Provider Bargaining Over Prices. HEALTH AFFAIRS 36, NO. 1 (2017): 141–148

[4] Desai S, Hatfield LA, Hicks AL, Sinaiko AD, Chernew ME, Cowling D, Gautam S, Wu SJ Mehrotra A. Offering A Price Transparency Tool Did Not Reduce Overall Spending Among California Public Employees And Retirees. Health Aff (Millwood). 2017 Aug 1;36(8):1401-1407.

[5] Desai S, Hatfield LA, Hicks AL, Chernew ME, Mehrotra A. Association Between Availability of a Price Transparency Tool and Outpatient Spending. *JAMA.* 2016;315(17):1874-1881.

Mehrotra A, Dean KM, Sinaiko AD, Sood N. Americans Support Price Shopping For Health Care, But Few Actually Seek Out Price Information. Health Aff (Millwood). 2017 Aug 1;36(8):1392-1400

Third, consolidation in health care markets limits choice, and thus competition, in some markets. Specifically, competitive forces can only work when there are competing firms. Gaynor and colleagues (2015) report that between 1990 and 2006, the proportion of metropolitan statistical areas (MSAs) with "highly concentrated" hospital markets increased from 65 percent to 80 percent.[6] Likewise, Capps and colleagues (2017) report that 22 percent of physician markets in 2013 were highly concentrated.[7] Moreover, hospitals are increasingly buying physician practices further diminishing competition.[8]

Finally, insurance distorts choices. Some patients may care about the total price of care, but most fundamentally care about what they pay out of pocket. Often insurance masks the true cost of care because patients pay just a fraction, if any, of the price. Very sick patients, who spend the most, are the most likely to be largely protected once they hit their out of pocket maximum. Even if they do have to pay, the price will depend on the details of patients' insurance plan and will change over time depending on things like if they have met their deductible. As a result, one cannot quote an accurate out of pocket price without knowing details of a patients plan AND how much they have already spent on care (and often on which types of services). This implies that insurers are best suited to provide transparency information, and, as noted, many do, though most evidence suggests with little impact even in markets where shopping is possible.

I do not mean to imply that transparency, and more generally price shopping for medical services, cannot work. However, even in areas where we might assume it would work well, such as Lasik surgery, evidence is less promising.[9] Perhaps shopping will work better in areas where there is greater patient responsibility for the price, less reliance on referrals, services that are less complex and,

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[6] Gaynor, M., K. Ho, and R. J. Town. 2015. The industrial organization of health-care markets. *Journal of Economic Literature* 53(2):235–284

[7] Capps, CoryC., David D. Dranove, and Christopher C. Ody. 2017. "Physician practice consolidation driven by small acquisitions, so antitrust agencies have few tools to intervene." Health Affairs 36(9):1556-–1563.

[8] Neprash, Hannah H. T., Michael M. E. Chernew, Andrew A. L. Hicks, Teresa T. Gibson, and J. Michael M. McWilliams. 2015. "Association of financial integration between physicians and hospitals with commercial health care prices." JAMA Internal Medicine 175(12):1932-–1939.

[9] http://www.hschange.org/CONTENT/862/?topic=topic01#note8

such as in the case of durable medical equipment, involve repeated purchases. Some of the most positive evidence focuses on imaging. Yet, I consider these areas exceptions rather than the rule.

I should also note that transparency may have an impact even if it does not alter consumer behavior. The widespread availability of data may shame high price providers to lower their prices (particularly when journalists have access). There is some evidence that this effect can be salient in healthcare.[10]

However, one must proceed with caution because it is also possible that widespread availability of information could alter negotiation dynamics in other ways leading to higher prices for some, likely many, patients.[11] This is because payers negotiate discounts with providers. If forced to reveal those discounts health care providers be more reticent to offer them. In fact, there is some evidence, from outside of health care, to support the perverse impact of posting prices.[12]

So where does all of this leave us? Believe it or not, I am generally supportive of transparency initiatives. They are important as we move to newer, innovative benefit designs that attempt to help patients shop. They need not be tremendously detailed and may provide broad categories of price (and/ or quality, which I admitted have not emphasized enough). For example, they can label providers high value or preferred. Simpler information is easier for patients to digest and act upon.

As I mentioned at the onset, I believe in markets and the commercial insurance market is responding by providing transparency tools (and redesigning plans and networks) to encourage shopping.

I am more skeptical about public sector initiatives that entail new mandates on providers to provide data because it is particularly hard to provide the right data. I worry that it will not substantially improve the system and may impose administrative costs. I worry that some transparency advocates, in their zeal to help markets work, will override what markets are doing. That said, there is

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[10] https://www.chcf.org/wp-content/uploads/2017/12/PDF-MovingMarketsNewHampshire.pdf
[11] Cutler D , Dafny L. Designing Transparency Systems for Medical Care Prices. N Engl J Med 2011; 364:894-895
[12] Albaek, Svend, Peter Mollgaard, and Per B Overgaard, "Government-Assisted Oligopoly Coordination? A Concrete Case," *Journal of Industrial Economics*, Vol. 45 (1997): 429-43.

certainly a lot we do not know. While there may be deleterious unintended consequences, there is some positive evidence and I think the shaming effect may be important in the most egregious cases. Moreover, states are experimenting in many ways and there are ways the federal government could support that. For example, requiring ERISA covered health plans to submit data to all payer claims databases (APCDs), which the supreme court, in *Gobeille v. Liberty Mutual Insurance Company*, ruled the states could not do. Providing financial support to APCDs could be a wise investment. Finally, it is clear that healthcare is sufficiently complex that our intuition about how consumers and markets will behave may not be correct. Mine was not. Supporting evidence generation with research funds through AHRQ or other federal mechanisms could help us steer the most productive path forward.

We have a lot of problems in healthcare, I very much applaud your efforts to seek solutions. But please do not let transparency distract you from other strategies, such as supporting alternative payment models, or addressing adverse selection in the individual market for health care, that may be more impactful.

Sincerely,

Michael E. Chernew, Ph.D.