

III Cicero Institute

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# Pull Back the Curtain on Hospital Prices

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*Judge Glock*

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Prices don't just reveal. They discipline. Prices allow consumers to goad businesses for the best deal, and they allow businesses to see how they can best their competitors.

In the healthcare industry, prices aren't revealed and they don't discipline. Prices for the same service can vary by factors of four or five between regions, between hospitals, and even within the same hospital. In fact, about 20% of all price variations come from charging different prices to similar patients in the exact same location.<sup>1</sup>

In June of 2019, the Department of Health and Human Services, along with other federal agencies, proposed a new rule, which would demand price transparency on at least 70 "shoppable" procedures from both hospitals and insurers. The rule would require hospitals and insurers to post publicly-accessible and machine-readable prices, both for cash and negotiated insurance prices, and both before and after insurance co-pays and deductibles.<sup>2</sup> The rules will increase competition and lower prices, and they deserve your support.<sup>3</sup>

Real price transparency and real competition is not an impossible dream. Today, the Surgery Center of Oklahoma posts the exact price for every service on its website. (As an exempli grati, an elbow Cubital Tunnel Release costs \$4,510; an adenoidectomy, \$2,695.) Its costs are among the lowest in the nation.<sup>4</sup> Employers like Safeway Supermarkets and the State of California have demanded transparent prices from providers, and offered their employees "reference price" plans,

where employees can shop around and keep the savings relative to a set price. Both employers and employees have saved up to 20% on covered procedures.<sup>5</sup> Even some hospital systems, such as Baylor in Texas, publish calculators that allow patients to see different estimates of charges, which has allowed more comparison shopping.<sup>6</sup> The new federal rule would expand these incipient but successful attempts at openness.

Price transparency would encourage other innovative insurance models. Today, cash payments with subsequent indemnity offers a new frontier for insurance, since many hospitals charge cash-paying patients from 1/2 to 1/10th of insurance-negotiated rates.<sup>7</sup> New insurance companies like Sidecar Health indemnify patients against hospitals' cash charge using the reference price model. Yet Sidecar now has to discover hospital cash prices one-by-one. A machine-readable price would allow them to obtain this information in seconds instead of years.<sup>8</sup>

There is no end to the innovative businesses that can be built in a price transparency regime. New tech companies could search not just the region but the whole nation for the lowest possible surgery prices, and thus turn the hospital market from a series of local monopolies into a national and competitive industry. Based on current divergences in prices across hospitals and regions, the savings could be from 50 to 80%.<sup>9</sup>

Insurers also could offer deals for members on bundled services across different hospitals, such as using imaging in one, surgery in another, and

<sup>1</sup> [https://healthcarepricingproject.org/sites/default/files/Updated\\_the\\_price\\_aint\\_right\\_qje.pdf](https://healthcarepricingproject.org/sites/default/files/Updated_the_price_aint_right_qje.pdf)

<sup>2</sup> <https://www.hhs.gov/sites/default/files/cms-1717-f2.pdf>  
<https://www.regulations.gov/contentStreamer?documentId=CMS-2019-0163-0001&contentType=pdf> <https://www.healthaffairs.org/doi/10.1377/hblog20190822.353918/full/>

<sup>3</sup> You can send your supportive comment to Health and Human Services through the Patient Rights Advocacy Website here: <https://www.patientrightsadvocate.org/tell-your-story>

<sup>4</sup> <https://surgerycenterok.com/>

<sup>5</sup> <https://nypost.com/2019/10/12/how-price-transparency-would-revolutionize-healthcare/>. See also H.B. Global of Pennsylvania's efforts to negotiate transparent prices. [https://www.realclearhealth.com/articles/2019/10/30/price\\_transparency\\_is\\_more\\_than\\_a\\_worthwhile\\_experiment\\_\\_110959.html](https://www.realclearhealth.com/articles/2019/10/30/price_transparency_is_more_than_a_worthwhile_experiment__110959.html)

<sup>6</sup> <https://www.statnews.com/2019/02/04/missing-true-point-hospital-price-transparency/>

<sup>7</sup> <https://www.latimes.com/business/healthcare/la-fi-medical-prices-20120527-story.html>

<sup>8</sup> <https://www.consumerreports.org/healthcare-costs/how-paying-your-doctor-in-cash-could-save-you-money/>

<sup>9</sup> <https://sidecarhealth.com/>

<sup>9</sup> See how some insurers already pay their members to travel abroad for cheaper procedures <https://www.nytimes.com/2019/08/09/business/medical-tourism-mexico.html>

outpatient check-ups in a third. The disaggregation of hospital services could help transform even the regional hospital markets into dozens of separately competitive industries, and again save more than 50% over the current costs. These immense savings are exactly why the American Hospital Association and other hospital groups are suing to stop the transparency rules right now.<sup>10</sup>

A price transparency rule would also eliminate the work of today's unfortunately necessary middleman, such as Compass Professional Health Services, which insurers pay to track down the prices of procedures in their area, so they know what baseline to use in negotiations.<sup>11</sup> Such busywork would disappear under the new rules. As Center for Medicare Services Administrator Seema Verma has shown, price visibility can also help cure abusive practices such as surprise billing and supplementary charges.<sup>12</sup>

Most importantly, the new rules can move healthcare markets closer to the competitive markets that exist in other industries. Today, a national survey found that over 70% of patients do not consider alternative providers for their

health care, and only 3% actively compared prices before deciding on care.<sup>13</sup> The most commonly reported barrier to price-shopping was the absence of cost comparisons. The majority of patients said they would comparison shop if provided with the information<sup>14</sup> And just as patients could comparison shop if given prices, businesses could see where high prices allow them to come in and undercut their competitors.

Previous health-care price transparency laws on the state level have shown only modest success.<sup>15</sup> Yet the kind of price transparency matters, as does the long-term effects of price transparency.<sup>16</sup> Although sixteen states have an "All Payers Claim Database," only two demand disclosure of direct charges to patients and make those charges publicly available.<sup>17</sup> A survey of studies by the Congressional Research Services shows that the right kind of price transparency can indeed lower prices in a range of markets.<sup>18</sup> And some of the biggest problems with the hospital market, such as local concentration, and insufficient incentives for patients to shop around, will become more apparent and more easy to ameliorate once price transparency is in place.<sup>19</sup> Thankfully, the new

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<sup>10</sup> <https://www.reuters.com/article/us-us-hospitals/hospital-groups-file-lawsuit-to-block-trumps-price-transparency-rule-idUSKBN1Y81YY>

<sup>11</sup> Rosenthal, *An American Sickness*, 180.

<sup>12</sup> <https://www.beckershospitalreview.com/finance/seema-verma-talks-surprise-billing-price-transparency.html>  
<https://www.nytimes.com/2019/12/07/opinion/sunday/medical-billing-fraud.html>

<sup>13</sup> <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2016.1471> The absence of comparison shopping is despite the fact that across a variety of services such as imaging and lab work, price-shopping would permit price savings without sacrificing quality of care. <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2016.04.08>  
<https://www.ascassociation.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=829b1dd6-0b5d-9686-e57c-3e2ed4ab42ca&forceDialog=0>

<sup>14</sup> <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2016.1471>

<sup>15</sup> New Hampshire's "HealthCost" transparency program has had little impact on prices since it was inaugurated in 2007, but it did increase comparison shopping and slightly lower prices on some procedures. [https://www.researchgate.net/profile/Ha\\_Tu5/publication/38084827\\_Impact\\_of\\_Health\\_Care\\_Price\\_Transparency\\_on\\_Price\\_Variation\\_The\\_New\\_Hampshire\\_Experience/links/5b7ec78e92851c1e122a41eb/Impact-of-Health-Care-Price-Transparency-on-Price-Variation-The-New-Hampshire-Experience.pdf](https://www.researchgate.net/profile/Ha_Tu5/publication/38084827_Impact_of_Health_Care_Price_Transparency_on_Price_Variation_The_New_Hampshire_Experience/links/5b7ec78e92851c1e122a41eb/Impact-of-Health-Care-Price-Transparency-on-Price-Variation-The-New-Hampshire-Experience.pdf); <https://www.wsj.com/articles/one-states-effort-to-publicize-hospital-prices-brings-mixed-results-11561555562>  
<https://www.wsj.com/articles/one-states-effort-to-publicize-hospital-prices-brings-mixed-results-11561555562>  
<https://hbr.org/2019/07/price-transparency-in-health-care-is-coming-to-the-u-s-but-will-it-matter>

<sup>16</sup> <https://www.commonwealthfund.org/blog/2019/hospital-price-transparency-making-it-useful-patients> Many price transparency programs (such as the hospital transparency requirements in Minnesota and Ohio) only demand average reimbursement charges across all payers, which does not provide enough information for comparison shopping. <https://dash.harvard.edu/bitstream/handle/1/26640487/nejmp1100540.pdf>

<sup>17</sup> <https://revcycleintelligence.com/news/price-transparency-a-key-way-states-control-healthcare-costs> [https://www.catalyze.org/wp-content/uploads/2017/11/Price-Transparency-and-Physician-Quality-Report-Card-2017\\_0-1.pdf](https://www.catalyze.org/wp-content/uploads/2017/11/Price-Transparency-and-Physician-Quality-Report-Card-2017_0-1.pdf)

<sup>18</sup> <https://fas.org/sgp/crs/secs/RL34101.pdf>. Studies of real estate "nondisclosure" states, where home sales prices are not publicly available, have found wider variability of home prices and disproportionate negative impacts on poorer households. <https://www.wsj.com/articles/the-states-where-home-prices-are-secret-11560956939>

<sup>19</sup> <https://www.modernhealthcare.com/reports/achieving-transparency-in-healthcare/#/> <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/highlights.pdf>

federal price transparency rule demands just the sort of prices that help the most, such as specific cash charges and charges to patients after insurance deductibles.<sup>20</sup>

We've written about the benefits of price transparency for Pharmacy Benefit Managers (PBMs), but the benefits of transparency are universal.<sup>21</sup> Since hospital spending is the largest single part of healthcare spending (over a third), and since it is the fastest growing portion of it (over a 150% increase over two decades), price transparency here is more urgent than anywhere.<sup>22</sup>

The new transparency rule has attracted bipartisan support, as it should.<sup>23</sup> It offers the hope that the open competition that works so well in other sectors of the economy can finally be brought to health care.

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<sup>20</sup> The laws require reasonable estimates of bundled payments and services, which the Surgery Center of Oklahoma shows are possible. The next step for transparency would be mandating publication of quality metrics, which a handful of states, such as California and Minnesota, already do for physicians, and Maryland does partially through reporting "avoidable costs" in its price transparency releases. [https://www.catalyze.org/wp-content/uploads/2017/11/Price-Transparency-and-Physician-Quality-Report-Card-2017\\_0-1.pdf](https://www.catalyze.org/wp-content/uploads/2017/11/Price-Transparency-and-Physician-Quality-Report-Card-2017_0-1.pdf)

<sup>21</sup> <https://medium.com/8vc-news/pbm-price-transparency-dd8e0bc84eab>

<sup>22</sup> Rosenthal, American Sickness, 23, <https://www.healthaffairs.org/doi/10.1377/hlthaff.2018.05424>

<sup>23</sup> <https://www.commonwealthfund.org/blog/2019/hospital-price-transparency-making-it-useful-patients>