



Health Policy Snapshot

Health Care Costs

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ISSUE BRIEF

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What's the price of health care?

Takeaways:

- Reducing health care costs is a key public policy issue, but a complicated one because costs and prices are opaque not only to the public but often to health care providers, purchasers, and payers.
- The need for fully transparent cost and price data will only increase as consumers begin to take a more active role in their health care decisions.
- Some states and communities have access to comprehensive cost and price information; these communities are in position to enact policies and track their effectiveness over time.

Overview

In the aggregate, the United States spends far more per capita on care services than does any other industrialized nation; but understanding the price a consumer would pay for an individual service or set of services is far more difficult. This lack of health care price transparency presents a serious challenge for consumers, who are increasingly being asked to pay a greater share of their health care costs.

WHAT DOES HEALTH CARE COST?

The United States spends more on health care, both per capita and as a share of gross domestic product, than any other country in the world. In 2009, spending on health care reached a record high \$2.5 trillion, or 17.6 percent of U.S. GDP.¹

Yet the price of an individual health care transaction, such as a doctor's visit or a procedure in a hospital, is usually a mystery to everyone involved.

Consumers, especially those enrolled in high-deductible or "consumer-directed" health plans, are increasingly being asked to make health care decisions based at least in part on price. Yet they face a significant disadvantage in the health care marketplace, because they rarely have access to accurate price information. Calling a hospital asking the price of a knee or hip replacement (for example) almost certainly won't get a straight answer.²

Consumers aren't the only ones who want to know what health care transactions cost. Policymakers, purchasers (e.g., businesses that buy health care), and even providers themselves would benefit from more clarity in the true price of care.

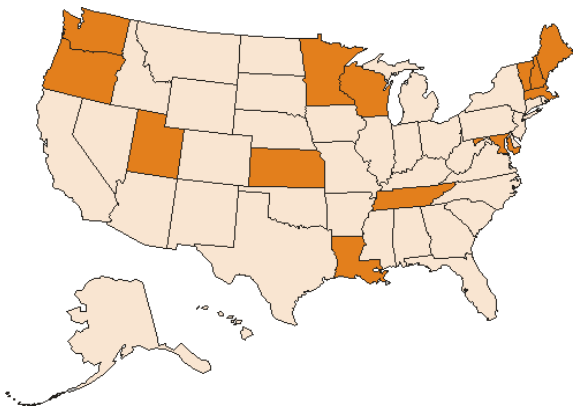
In many instances, the true price of a health care service is not only unknown, but unknowable. It is complicated by many factors, including discounts that a health plan negotiates with a provider.

SHOPPING ON PRICE: LIMITATIONS

Although the challenges in understanding health care prices are numerous, the fact remains that a growing number of consumers need to know health care prices. The growth of "consumer-directed" health plans, health savings accounts, and other patient cost-sharing benefit designs are all creating undeniable incentives for patients to consider price when they shop for care.³

However, current limitations and cultural resistance conspire against the publication of true health care prices in a meaningful way that consumers can

States with Existing All-Payer Claims Databases



Source: http://www.commonwealthfund.org/~media/Files/Publications/Issue%20Brief/2010/Sep/1439_Love_allpayer_claims_databases_ib_v2.pdf

understand. Insurers are positioned to break through this resistance because of the data that they own or can access, and because of their ability to communicate these data in meaningful ways to their members should they so choose.

Government, particularly at the state level, also can increase transparency by mandating publication of true prices. However there is great resistance to government-mandated price publication in many communities. Furthermore, government must tread carefully because of concerns that price transparency may have the unintended consequence of raising prices.

EFFORTS AT TRANSPARENCY: ALL-PAYER CLAIMS DATABASES

Several states have created all-payer claims databases, which combine data from all public (e.g., Medicare) and private (e.g., commercial insurance) payers. These databases give statewide information on costs and, sometimes, on other information such as quality data and access.⁴

All-payer claims databases have several benefits. First, they typically include data from a full range of services, including both inpatient and outpatient stays, lab tests, and pharmacy data. This can be a rich source for policymakers and others to analyze utilization trends. Secondly, because they are based

on claims rather than clinical data, there is virtually no risk of violating anyone's medical privacy. Third, they promote general transparency among health plans, providers, and purchasers, contributing to an environment in which all stakeholders are more comfortable reporting cost information to the public.

However, all-payer claims databases are limited in what they can accomplish. This is because they usually report charges, which are the "retail prices" that health providers would seek across the board, but do not typically report "allowed amounts," which is the actual negotiated price paid to a provider by a commercial health plan for a service. The charge figure often is presented to patients lacking insurance; health plans negotiate this amount down on behalf of their members, and thus charges do not represent the true price of care. Allowed amounts often are kept behind a veil of secrecy, usually because of contractual obligations—but these reflect the true price of care and would be most useful to an individual consumer. Further, these databases usually are created by state mandate, so many states don't possess them at all.

States that have created all-payer claims databases have taken a significant step toward exposing the health care industry to true price transparency. Other steps, such as publication of allowed amounts, are necessary to achieve this, however.

WANT TO KNOW MORE?

- [Counting Change: Measuring Health Care Prices, Costs, and Spending \(RWJF\)](#)
- [Cost & Price Transparency: Building Blocks for Value \(RWJF\)](#)
- [Health Care Price Transparency: Meaningful Price Information is Difficult for Consumers to Obtain Prior to Receiving Care \(GAO\)](#)

¹ http://healthreform.mckinsey.com/insights/latest_thinking/accounting_for_the_cost_of_us_health_care.

² Robert Wood Johnson Foundation. Counting Change. March 2012.

³ Ginsburg P. Shopping for price in medical care. *Health Affairs* 26, no. 2 (2007)

⁴ Love D, Custer W, Miller P. All-payer claims databases: State initiatives to improve health care transparency. Commonwealth Fund pub. 1439, Vol. 99; September 2010.