

POLICY FORUM: PEER-REVIEWED ARTICLE

If Patients Don't Use Available Health Service Pricing Information, Is Transparency Still Important?

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Abstract

The US health system is replete with health service pricing idiosyncrasies and opacity unrelated to quality. Online tools intended to make health care purchasing resemble consumerism by making prices transparent have had little if any effect on improving health care market functioning and changing patient behavior. Although price transparency is still in its infancy, it holds promise to be as useful to patient-consumers as it has been to large purchasers (eg, employers) of health services and policymakers. But even if price information is not routinely used by patients, transparency of such information still has ethical importance in a market in which patients pay increasingly high out-of-pocket costs.

Introduction

Apart from some public programs (eg, Medicare), US health care prices are subject to negotiation and dictated by providers' and insurers' market power. In this sense, health care is a market, but one that is different for consumers than other markets, such as for breakfast cereal or cellular phones. In particular, quality of service is difficult to assess, consumption is often not optional, and most consumers don't pay the full price (ie, they are insured).

Nevertheless, the plurality and power of providers and insurers lead to price variation for the same service across and within markets. For example, private insurance average prices for lower-back magnetic resonance imaging vary by more than \$500 across US metropolitan areas, but, in Dallas, the difference between the price at the 75th percentile and the 25th percentile is \$799.¹ Yet the association between health care cost and quality is inconsistent and moderate at best.²

Moreover, clinicians frequently do not have information about their own organization's prices.³ Even when they have access to price information, clinicians are unlikely to incorporate prices in their treatment decisions.⁴ If, unlike virtually every other market, sellers—in this case, health care professionals—do not know the prices of the services they offer, it is unreasonable to expect that their customers—in this case, patients—will make **decisions based on prices**. Yet moving patients from higher-priced to lower-priced provider organizations would represent a sizable savings opportunity for patients and

health care purchasers, such as employers.⁵ While making prices more transparent has not yet been successful in achieving these savings, increased price transparency is still economically and ethically important.

Limited Economic Impact

In the last few years, several online tools have been developed to provide patients with health care prices. These tools, often tailored to a patient's benefit design and insurance networks, provide patients with their estimated out-of-pocket costs for a given service or procedure.^{6,7,8} Some initially thought that increased price transparency would spur market competition and make health care purchasing resemble consumerism in other markets.⁹ However, while some patients who use these tools do go to lower-priced providers,⁶ use of these tools has not been sufficient to lower overall spending.^{7,8} Price transparency tools so far have led to only modest provider price competition.^{10,11}

There are several possible reasons for this finding. Even with full information on provider prices, patients have limited reason to care about prices if their insurance pays the majority of costs.¹² Indeed, studies have found that consumer-facing price transparency information is only effective when it is paired with patient incentives to select lower-priced providers.¹³ Assuming patients are cost conscious, they still face barriers to accessing lower-priced providers because many services require referrals from a physician.^{14,15,16} In addition, patients may lack the ability to interpret price information and determine a procedure's appropriateness when selecting providers, much less assess quality differences among providers.

Federal Policies

As of January 1, 2021, US hospitals are required to disclose their prices on their website.^{17,18} However, implementation and enforcement of this policy has been challenging, with many hospitals not complying 20 months after it went into effect.¹⁹ In addition, media reporting has highlighted that some hospitals use blocking code to prevent pages with price lists from appearing in internet searches.²⁰ Efforts to extend price transparency requirements to insurers have been met with industry opposition; both hospital and insurer lobby groups have filed lawsuits to prevent price disclosure.²¹

The initial evidence of modest impacts of price transparency raises a natural question of what role price information should play in the US health care system. After all, even with full price information, most patients will still require referrals and have to interpret quality to select providers. Does expanded price transparency still have economic and ethical value?

Price Transparency Still Has Economic Value

Despite current disappointments,²² price transparency is still economically important for the US health care system for 3 reasons.

First, price transparency is in its infancy. It is possible that future health care practice or price transparency tools will more effectively change patient behavior. In other countries, such as Singapore, price information is regularly incorporated in medical decision making.²³ Perhaps in the United States, as price transparency tools become more commonplace, patient behavior will similarly adapt. Several other digital tools, including online shopping and restaurant review sites, grew slowly but are now commonplace. Likewise, it is possible that the small number of patients who currently avail themselves of price transparency information will grow.^{7,24,25}

Second, price transparency can be used by purchasers other than patients. Employers purchase health insurance for over 150 million people in the United States but often have little insight into the prices negotiated on their behalf.²⁶ Appropriately designed price transparency tools can inform employers of these prices. In fact, some innovative employers have already used pricing information to redesign health benefits and inform purchasing decisions.²⁷ For example, the California Public Employees Retirement System used price information to direct patients to lower-cost surgical providers for joint replacement and outpatient surgery.²⁸ Similarly, the Montana state employee health plan used price information to negotiate lower prices for hospital services.²⁹

Third, policies—such as limiting market concentration, implementing public options, and potentially regulating provider prices—require transparent information on prices. As highlighted in several recent media stories, price transparency can also be used to “name and shame” higher-priced providers and create more general **awareness of health care prices**.^{30,31,32} Recent price transparency reforms have been motivated by rising provider prices and media reports of provider price variation.³³ Understanding the necessity of and designing these policies is not possible without transparent information on prices.

Autonomy and Collective Efficiency

As economists, we view price transparency as a necessary, but not a sufficient, condition for enabling patient (consumer) autonomy in voluntary market transactions, as well as for more effective collective action on health care spending. Below we elaborate on both considerations.

Autonomy. In nearly every market, prices are the key economic signal that are used to allocate resources. US consumers are accustomed to having price information and rightfully expect it, even for regulated services for which they have no choices, such as utilities like water, gas, or electricity. In most markets, prices for a good or service are reflective of the value of that good or service. Through their choices (when they have them), consumers can and often do drive down the prices of lower-quality or less-valued goods and services and drive up the prices of higher-quality or more-valued ones. In the United States, all enrollees in employer-sponsored coverage or individual market plans pay something for their care (ie, premiums, deductibles, copays) and can experience price variation (ie, different prices from different providers). Even within Medicare and Medicaid, a large proportion of enrollees are in private plans for which prices are negotiated and can vary for the same service within markets. Although this market dynamic will always be attenuated in health care because of its unique features (eg, third-party payment), it is impossible for consumers to **exercise their autonomy**—or for health care to fully benefit from market forces—without price transparency.

It is important to note that consumer autonomy is limited to voluntary (ie, nonurgent) health care transactions. Studies have found that up to 43% of health care services for people with private health insurance is “shoppable” in the sense that the timing and the provider of that care are elective, providing the opportunity for patients to respond to prices, if available.³⁴ For voluntary transactions such as these, it is immoral not to inform patients of prices before the transactions are made. Arguably, transactions cannot actually be voluntary without the consumer possessing (or having the ability to possess) full information, including information about out-of-pocket prices, analogous to informed consent in health care. Therefore, even if price information is not routinely used, it still has ethical import. Failure to disclose relevant price information—and charging the

consumer hidden prices after the fact—are characteristics of a dysfunctional market that we can remove through policy. There is no other market in which we tolerate, prior to purchase, not knowing prices of goods and services we buy.

Collective efficiency. Not only does the consumer have a right to know the prices of health care goods and services, so does the general public. Although incurred by individual patients, health care spending is largely borne by individuals beyond the patient, whether through taxes, premiums, or forgone wages.³⁵ Therefore, members of the general public have a right to know the prices of what they are collectively paying for. Analogously, regulated monopoly utility companies must transparently disclose and justify the prices they charge. Doing so helps government hold utilities accountable for what they provide relative to their costs. Thus, an additional upstream benefit of price transparency in health care is that it would allow employers, insurers, and public programs to better manage the benefits they provide (eg, by designing networks and cost sharing that encourage enrollees to use lower-priced providers).

Conclusion

The consequences of these ethical considerations are twofold. First, consumer-specific prices should be transparent to individuals, reflecting the prices they face as determined by their insurance coverage. Second, the prices paid by taxpayers and premium-paying policyholders should also be observable to decision makers responsible for crafting, regulating, and managing public and private plans. Note that changes in prices and spending need not occur for price information to be useful. Patients and other payers might reasonably conclude that a health care price is appropriate, but they can only do so if it is known to them. Apart from payment rates for public programs (eg, Medicare and Medicaid), transparency on health care prices paid by individual consumers and by the general public has not been fully implemented. This leaves most consumers, employers, and policymakers in the dark about one of the most important aspects of health care services.

Due in part to improvements in technology and provider consolidation, prices for common health care services will undoubtedly continue their upward trend.^{36,37} As health care becomes more expensive, patients and purchasers will face an increasing burden of health care costs. While currently not a meaningful feature of the US health care system, price transparency can be important for assessing and ensuring health care affordability. Nevertheless, barriers to realizing the full potential of price transparency, such as limited information about procedure quality or limitations in accessing lower-priced providers due to the referral process, will always exist. As we continue to wrestle with the cost and value of health care in the United States, we can no longer afford—economically or ethically—to remain in the dark about the prices we pay.

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