Price Transparency

A Necessary Tool for Health Care Affordability

NATIONAL COALITION ON HEALTH CARE

Working Together for an Affordable Future

Price Transparency: A Necessary Tool for Health Care Affordability

The National Coalition on Health Care convened a group of leading health care purchasers, payers, academic researchers, advocates, and consumers in February 2020 to discuss the role that price transparency can play in advancing health care affordability. Specifically, we wanted to understand the role price transparency, as required in two federal rules finalized in 2020, could play to support smarter health care purchasing and to spur greater price competition in health care.

Why Price Transparency? NCHC's Mission is to Advance Affordability, Value

In our recent letter to the Biden Administration, the National Coalition laid out five high-level priorities for responding to COVID-19 and improving health care affordability in 2021:

1. Address key health care priorities for the COVID-19 crisis
2. Lower prescription drug costs
3. Improve price and quality transparency
4. Promote integrated and value-based care models
5. Prioritize social determinants of health

WHO WE CONVENED

Leading private and public employer purchasers were represented, as were leaders of joint union-employer health care funds. High-performing health plans and other entities that organize and contract with provider networks also participated, along with purchasing coalitions, advocates for ERISA plans, and a consumer representative. A leading researcher from Johns Hopkins University joined us, as well as experts from Georgetown University's Center for Health Insurance Reforms. The National Coalition distributed a backgrounder in advance of the meeting.

WHAT WE HEARD: KEY TAKEAWAYS

Both of the federal transparency regulations finalized in 2020 (Hospital Price Transparency and Transparency in Coverage) will be useful to purchasers and other entities in pursuit of greater value from provider networks, alternative payment models, and plan designs.

1. **Prices for the Same Services and Therapies Vary Widely**
   Attendees were informed by recent research from RAND and the Health Care Cost Institute showing that prices—particularly hospital and drug prices—are highly variable, rising at rates above inflation, and generally unrelated both to quality and underlying costs. Price hikes, rather than utilization increases, are driving health care inflation in commercial plans.
2. **Price Information is Necessary but Not Sufficient to Drive Greater Value**
   Purchasers agree that price transparency is a necessary, but insufficient, lever to spur more price and value-based competition. Pricing power amassed through provider and plan consolidation, however, cannot be addressed with price transparency alone.
3. **Standards and Standardization are Needed**
   Lessons learned from the federal role in fostering standardized quality measures should inform nascent price measurement methods. Public-private collaboration can drive adoption. Ultimately, purchasers seek solutions that combine price and quality insights to build high-performing provider networks and to use standardized bundled, episode-based, and total cost-of-care payment models to reward high-value care.
4. **Policymakers Should Minimize Unintended Consequences and Foster Competition**
   Regulators should craft network adequacy rules, balance billing protections, and state certificate-of-need laws to avoid boosting provider pricing power. Attendees noted that policymakers recognize that the power of drug companies to extract high prices threatens affordability for individuals and for the overall system. Fewer lawmakers understand that some providers exploit government rules and market failures to garner excessive prices, which poses a similar threat to affordability and sustainability of commercial coverage.

BACKGROUND

The National Coalition wanted to understand if and how leading purchaser and payer organizations intend to use price information that is becoming publicly available under two federal rules finalized in 2020. The two federal rules that informed the discussion, Hospital Price Transparency (CMS-1717-F2) and Transparency in Coverage (CMS-9915-F), are both based on statutory authority created by the Affordable Care Act. The passage of the No Surprises Act at the end of 2020 places additional price disclosure obligations on both health plans and providers.

The focus of our discussion was on the capacity and interest of purchasers and payers to act on increased availability of price information at the provider and payer levels. Our review of the evidence on consumer use of digital decision support tools with price information suggests that uptake of these tools remains low and the opportunities to use them are limited. Purchasers, on the other hand, may have more levers and clout with providers, health plans, prescription benefit managers (PBMs), third-party administrators (TPAs), and consultants to use newly available price information to spur price and value-oriented competition.

DISCUSSION

1. Will purchasers act on price information?

NCHC President John Rother kicked off the discussion by asking, "will purchasers act on this new information?" Participants agreed that it is not necessary for all purchasers to act to change market dynamics, but that the impact of price transparency will be proportional to the number and size of purchasers who act to change plan and network designs and vendor relationships as a result of newly available price information. It will also be proportional to the degree of compliance by providers, plans, PBMs, and plan sponsors themselves. One purchaser noted that "price transparency by itself will not create change, but it will help create the conditions for change."

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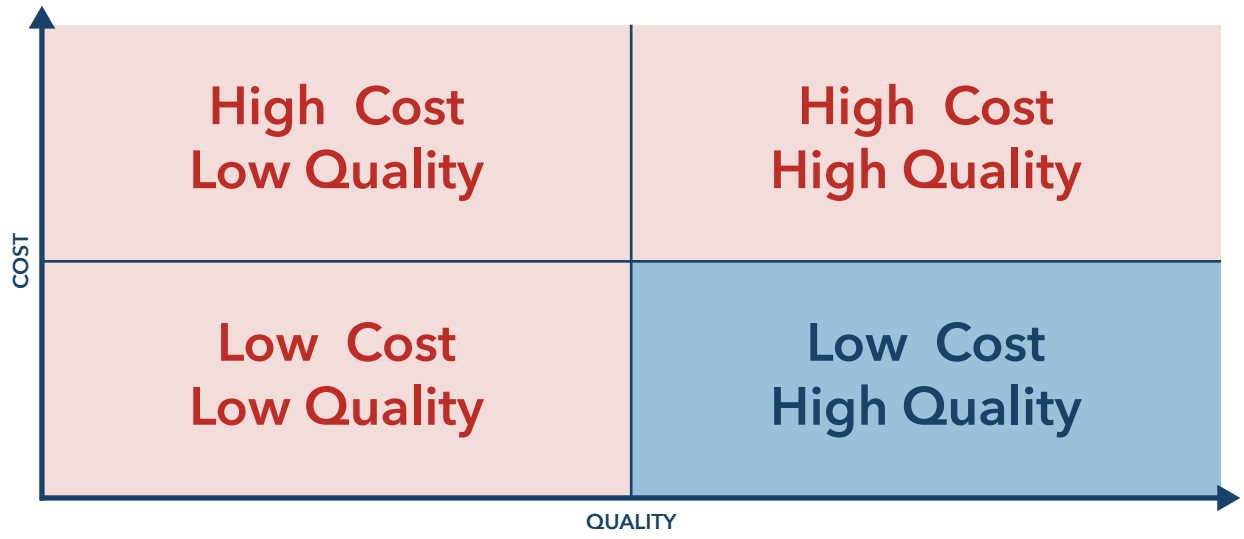
Other tools identified by the discussants as complementary to price transparency include more standardized quality measures and definitions for bundles and episodes of care. Quality measurement has advanced with public and private investment in measure development, willingness of key stakeholders to adopt measures for payment and public reporting, creation of a multi-stakeholder

FIGURE 1
In Search of Value



entity to endorse measures, and groups such as the Leapfrog Group to organize measures into easy- to- understand, actionable tools for purchasers and consumers.

As currently drafted, the hospital price rule does not define or mandate standardized prices to facilitate comparisons across providers beyond 70 defined "shoppable services." The coverage transparency regulation also lacks standardized definitions to support comparisons. Nevertheless, participants agreed it was important to begin publicly reporting prices as reflected in negotiated rates by payer net of discounts and rebates.

A series of three studies conducted by RAND researchers using paid claims data from employer-sponsored plans acting together has been a powerful tool in educating employers and policymakers about extreme variation in hospital prices. By standardizing and benchmarking commercial claims to Medicare fees using Medicare diagnostic related groups (DRGs) and definitions of outpatient services, adjusted for case mix and other factors affecting hospital costs, RAND's method enables comparisons across hospitals. The RAND reports also highlight the weak association between prices and quality. The reports have empowered purchasers to ask hard questions and seek more information from providers, plans, and other vendors and intermediaries.

2. Can purchasers act on price information?

Purchasers and plans may want to act on price information, but can they? Even when armed with comparable price and quality data, and tools to benchmark their plan experience to that of others, purchasers face internal and external constraints to acting on the information. The biggest external constraint is the trend of provider consolidation. Provider concentration within markets makes large health systems "must have" network providers, even if the system delivers inconsistent and widely variable value. Discussants agreed that price transparency is no match for addressing high prices found in concentrated markets. Some are more optimistic than others that shining a public spotlight on high prices will play a role to moderate provider pricing behavior in concentrated markets. In light of the challenges in unwinding mergers after they've occurred, others expressed interest in solutions such as all-payer rates or rate caps established at the state level, and increased antitrust authority and enforcement.

Purchasers face the internal constraint of pushback from plan enrollees when they attempt to exclude local health systems that may have an outsized reputation for quality due more to an outsized marketing budget rather than demonstrated evidence of better outcomes. Purchasers are reluctant to disrupt long-standing patient-provider relationships but will use benefit design features to steer enrollees to higher-value providers. Finally, purchasers lamented that fee-for-service payment, paid after services are delivered, inherently leaves them vulnerable to "surprise" charges and fees.

One union purchaser described success in engaging its members to understand certain tradeoffs between wide choice of providers and therapies and the plans' ability to manage the costs and quality of care. Workers were willing to make changes to the plan and provider network to keep their benefits affordable. They embraced plan design changes that leverage telehealth and provide transportation for enrollees to receive services at Centers of Excellence to avoid high prices charged by local market dominant providers. Other benefit designs described by purchasers use tiered networks with variable cost-sharing to steer patients to higher value providers. California public

employee plan CalPERs, for example, has been a leader in using reference pricing for certain procedures and therapies to drive enrollees to high value care.

3. Can purchasers act together?

Local and regional purchasing coalitions play an important role in convening purchasers to share information, evaluate vendors, and align strategies. The RAND reports are the result of employer purchasers coming together to benchmark their paid claims experience to Medicare rates to gain more insight in local market conditions and hospital level prices. Self-insured employers have also aligned around contracting strategies to send stronger signals to the health plan market and generate more comparable information. Purchasers are also sharing strategies and collaborating with providers to address disparities and advance equity goals by building high-value maternity networks.

Some private purchasers in California said they were able to model their provider payment on public employee purchaser CalPERs' move to reference pricing for certain procedures. Average prices fell for those procedures and utilization rose at more efficient, safe sites of care. One purchaser noted that "physicians put patients in hospitals", and unless physicians are incentivized to make high-value referrals, even the best plan design and provider network can be thwarted.

4. Will there be unintended consequences?

Could price transparency lead to higher prices? Participants in our discussion were not concerned that price transparency would prompt providers to raise prices. One remarked that the underlying costs of care are not fixed. Reports from RAND, state all-payer claims databases, and Medicare cost reports indicate that there are providers in

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>
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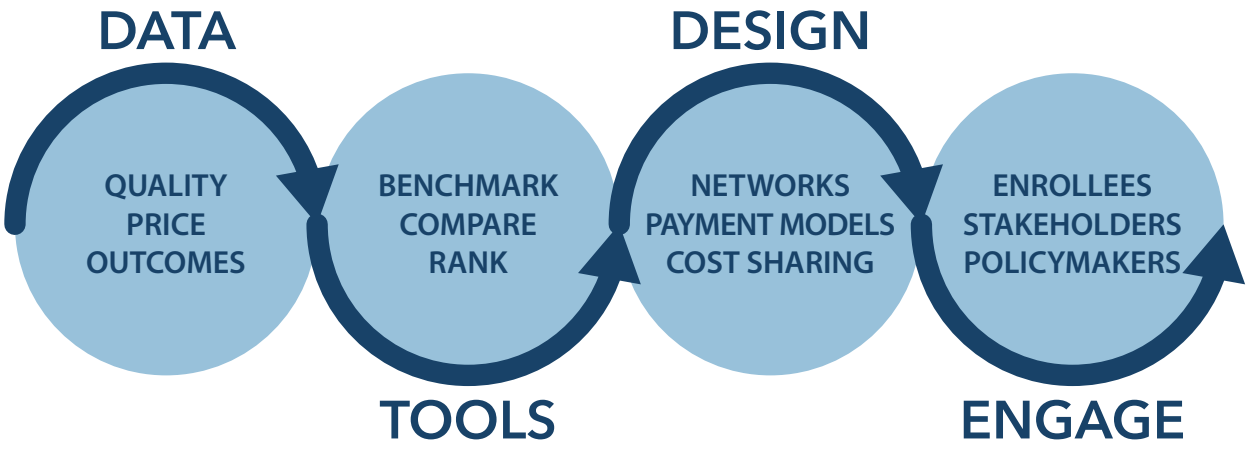
every market who are relatively more efficient while delivering higher quality than the market average. Purchasers must be willing to steer enrollees to these providers.

Purchasers also see new types of third-party administrators (TPAs) and consultants emerging who embrace transparency to help employers and unions understand cost drivers and identify high value providers, therapies, and vendors. Not all purchasers have to switch from their current TPAs; purchasers expect traditional TPAs to respond to new competition with more actionable tools for employers to identify cost drivers and factors that influence patient outcomes in their plans.

Could price competition erode providers' ability to cross-subsidize public goods like uncompensated and undercompensated care? Purchasers were skeptical of the claim that high commercial prices are the result Medicare and Medicaid paying rates below the cost of care. One participant cited the most recent RAND 3.0 study which found no correlation between hospital commercial price levels and higher concentrations of Medicare and Medicaid patient volumes. Medicaid provides billions in supplemental payments to providers shouldering a disproportionate share of uninsured patients

FIGURE 2

Transparency Strategy



and those enrolled in Medicaid. Medicare adds similar extra payment for hospitals serving high proportions of patients eligible for both Medicare and Medicaid. In addition, nonprofit health care entities are expected to provide "community benefits" in return for their federal tax exemption.

CONCLUSION

Purchasers expessed appreciation for the dedication and training of the health care workforce, technological advancements supported by public and private investments in research and development, and the focus of many health systems on quality improvement and safety. The COVID-19 pandemic reinforced purchasers' respect for and pride in the health care industry, while also revealing its shortcomings and vulnerabilities. Attendees expressed a desire to engage more directly to re-shape the system and re-focus its priorities. Newly available price information as required in two new finalized federal rules will support their individual and joint efforts to spur greater value from the health care delivery system.

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The **National Coalition on Health Care** (NCHC) was formed more than two decades ago to help achieve comprehensive health system change and is currently led by John Rother. We aim to be a leader in promoting a healthy population and a more effective, efficient and responsive health system that provides quality care for all.

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