



# Price Transparency: Empowering Patient Choice and Promoting Provider Competition

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## Abstract

In light of recent health policy efforts to promote price transparency, this perspective reviews the challenges and benefits of price transparency. These price transparency efforts include the recent executive order and associated rulemaking directing providers to disclose negotiated and out-of-pocket costs for “shoppable” healthcare services. First, we explore the previous efforts of states and health plans targeted at price transparency, reviewing lessons for future implementation. Second, we address the value of price transparency in light of various policy concerns and objections. Finally, we jointly hypothesize potential effects of and opportunities presented by price transparency for patients, physicians, and other healthcare industry stakeholders.

**Keywords** Price transparency · Competition policy · Antitrust · Quality improvement · Systems improvement

Much of U.S. healthcare pricing remains shrouded from patients until they are billed. This limited transparency at the point of service exacerbates the U.S. system’s high costs. Even patients well-positioned to make informed choices often do not see actual prices before receiving care. The consequences of the system’s costs are far-reaching. Bankruptcy due to health expenses remains a risk even for the insured, and four in ten Americans with employer-sponsored insurance report difficulty paying medical bills. [1]

This article reviews the challenges and potential benefits of making price transparency work. These efforts span administrations and include the most recent effort: a 2019 Executive Order (EO 13877) that directed rulemaking that require disclosures of negotiated rates and expected out-of-pocket costs for “shoppable” healthcare services and seeks to identify barriers to price and quality transparency. To be effective, these efforts face various hurdles. Healthcare is difficult to predict, especially before diagnosis or observing a patient’s response to treatment. Patients may require service from multiple providers—hospitals, doctors, pharmacists, labs, and others all may bill separately. Patients have varied insurance policies as carriers have negotiated different rates with different levels of cost-sharing. Further, patients may struggle to evaluate tradeoffs associated with their options—reliable, comparable quality information can be less accessible than prices. Moreover, industry may lack incentives to tackle transparency on its own, and some providers even restrict what information payors can share with patients. All this highlights the need for effective transparency.

Price transparency likely is most impactful for “shoppable” services where patients can make choices *ex ante*—imaging, laboratory tests, clinic visits, outpatient procedures, elective surgery requiring an inpatient stay, and other services. Experience illustrates that healthcare entities have surmounted technical hurdles to identify relevant, specific pricing information in advance for patients. For example, for over a decade, pharmacy benefit

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managers have provided real-time claims adjudication and pricing information to patients at their local pharmacy check-out counter. In recent years, most health plans offer online price estimator tools, including provider comparison shopping. [2]

To promote informed patient decision-making, transparent pricing must be accessible and utilized. State government and industry examples illustrate the challenge. Launched in 2007, New Hampshire's price transparency website allows patients to input their insurance and location to query negotiated rates and estimated out-of-pocket expenses for several dozen elective services. The estimated effect was a 3% reduction in total visit costs for displayed services, [3] likely reflecting modest utilization. Similarly, studies evaluating health plan price transparency tools report at least some savings for those who use the tool but low utilization rates. For example, one study reports 14% savings for those who used the price transparency tool for imaging services but only 1% of enrollees used the tool prior to an imaging service claim. [4] Unfortunately, many are unaware of these tools.

Research illustrates the potential value of engaging patients on price directly in advance of care. In a study of 100,000 patients who appropriately received outpatient MRI scans between 2010 and 2012 [5], a health plan called beneficiaries directly with comparative pricing information when another option was available—not merely pointing members to a static webpage. After 2 years, MRI costs decreased on average by 18.7% for those presented with lower-priced options as compared to the control group, and dozens of providers renegotiated prices to stay competitive.

Transparency initiatives should engage patients directly, be specific to patient needs, provide comparisons to available alternatives, and be available before service. Economics generally suggests that reducing information frictions pertaining to price can facilitate patient choice and promote provider competition based upon price, quality, and innovation. Nevertheless, price transparency remains a source of debate.

Some may fear that faced with high prices, patients may avoid seeking care. In studies like RAND's Health Insurance experiment, patients facing higher out-of-pocket expenses tended to reduce healthcare utilization. [6] But transparency does not change what patients owe and instead provides patients and providers with information to make better choices.

Another perspective argues transparency benefits will fall short because of third-party payers: patients with less price sensitivity (e.g., after meeting their deductible) may choose costlier options believing they signal higher quality.<sup>7</sup> But health plans have tools to align patient incentives, including dissemination of quality information, cost-sharing tools, and network design.

Another concern: absent quality information, providers will compete foremost on price, not quality. Yet research suggests that patients can identify high-value healthcare when presented with quality and cost data together. [7] Thus, price transparency ought to be paired with quality transparency efforts whenever possible.

Also, high-quality providers have incentives to signal quality and maintain standards of care to the extent they can.

Others suggest price transparency may be impactful for relatively fungible services, such as imaging and laboratory tests, but less impactful for services targeting higher severity, greater risk, and more acute conditions. Certainly, transparency initiatives should target low-hanging fruit. Yet initiatives also must develop consumer-friendly transparency tools for complex healthcare services, many of which are already subject to bundled payments.

Some consumer advocates suggest price transparency may promote coordination, collusion, or the exercise of market power in concentrated payer and provider healthcare markets. These concerns counsel against unnecessary disclosures of intermediate prices or other costs incurred by industry (rather than consumers) that may chill competition. By contrast, transparency of consumer-facing prices, including payer-specific charges for items and services that a consumer may pay under their deductible, is more likely to promote competition and benefit patients.

Arguments aside, stakeholders should expect the transparency trend in healthcare to continue. Providers should evaluate their price competitiveness, whether their branding highlights their value proposition, and if additional investments are needed for reporting requirements. Physicians should expect to continue conversations about cost, serving as careful stewards of their patients' financial resources. Finally, insurers should refine their products to better promote high-value care while advancing quality research and metric design.

Transparent, accessible pricing empowers patients and physicians, the joint stewards of the healthcare dollar, to make better decisions for patient welfare. Transparency also benefits patients by promoting more competitive health services. We should encourage these benefits whenever possible.

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## Compliance with Ethical Standards

**Conflicts of Interest** These views represent those of the authors, and do not necessarily represent those of the United States Department of Justice. Dr. Ehrenfeld reports serving as the Chairman of the Board of Directors of the American Medical Association. Dr. Miller reports serving as a consultant to the Federal Trade Commission (FTC); his are his own and do not represent those of the FTC or its Commissioners.

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