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A Better Way to Encourage Price Shopping for Health Care

Neeraj Sood, Ph.D., and Michael E. Chernew, Ph.D.

Neeraj Sood, Ph.D., is an associate professor at the Leonard D. Schaeffer Center for Health Policy and Economics, University of Southern California, and Michael E. Chernew, Ph.D., is a professor in the Department of Health Care Policy, Harvard Medical School.

Several studies show wide variation in prices for common health care services, even within local areas. For example, a recent report from Massachusetts (www.mass.gov/chia/docs/cost-trend-docs/cost-trends-docs-2011/price-variation-report.pdf) found that there was at least a threefold difference between the maximum and minimum price for common hospital and professional services such as cesarean or vaginal delivery, MRIs, and office visits, and that for most, including office visits for psychotherapy or eye exams and hospitalizations for appendectomy or heart attacks, the difference was six- or sevenfold. These findings are also echoed in the recent release of Medicare data showing large variation in charges for hospitalizations across communities in the United States. Moreover, prior research has also shown that there is little correlation between price and quality of care for inpatient care and that higher-priced providers control a large share of the market. Not surprisingly, given these facts, most analyst agree that encouraging price shopping for health care represents an important opportunity for reducing health care costs without adversely affecting patient outcomes.

Clearly, existing efforts to encourage price shopping haven't led to desired results. We need fresh thinking and new solutions to tackle this seemingly intractable problem. However, before we look at new ways to address this issue, we need to understand why Americans aren't bargain hunters for health care, especially given the constant drumbeat about the high cost of health care in the United States.

One theory holds that Americans don't price shop for health care because health care prices are opaque and it is difficult for consumers to know the price of health care services. In response, more than 40 states have launched price-transparency initiatives. These initiatives vary in how pricing information is provided to consumers: under Connecticut law, for example, information is provided to individual consumers on request, whereas in New Hampshire information is available on a public website. The laws also vary in what type of price information is reported: in California, for example, only charges, which do not reflect the price paid by insurers or insured patients, are reported, while in New Hampshire both charges and amounts paid by both insurer and patient are reported. However, emerging evidence suggests that even the most comprehensive price-transparency initiatives, such as the one in New Hampshire, (http://www.ncbi.nlm.nih.gov/pubmed/19908405) do little to reduce the variation in prices for health care services.

One potential reason these initiatives have little bite is that most insured consumers pay only a fraction of the true cost of health care

and thus have little incentive to shop for lower-cost care. Therefore, some have argued that high-deductible or consumer-driven health plans in which consumers have more skin in the game should encourage price shopping. However, a recent study (http://www.degruyter.com/dg/viewarticle/j$002ffhep.2013.16.issue-1$002ffhep-2012-0028$002ffhep-2012-0028.xml) shows that is not the case. Examining prices paid by employees of 63 large companies for nine common outpatient services (such as office visits, chest x-rays, and colonoscopies), researchers found that patients with high deductibles paid roughly the same amount as their traditionally insured counterparts for eight of the nine services. The only exception was office visits, where the researchers found that patients with high deductibles paid about 2% less. They also found that within high-deductible health plans, prices did not change depending on whether the service was bought before or after the employee reached the deductible.

So why are these consumers, in increasingly popular high-deductible health plans, leaving money on the table? There are several potential explanations. First, despite the proliferation of state-level price transparency initiatives, health care prices may still be opaque to consumers. In response, several private companies now offer more tailored and consumer friendly pricing information. Although these new initiatives show promise, whether they will solve the price-shopping conundrum remains to be seen. Second, consumers may use price as a signal of quality of care, since information on quality is notoriously hard to find; even the new private-sector initiatives provide scant information on quality. The notion that higher prices indicate better quality may discourage consumers from bargain hunting. And third, patients may be reluctant to question the advice of their doctors on where to get a particular service (http://www.nejm.org/doi/full/10.1056/NEJMp1100041).

This last explanation also provides a way to solve the price-shopping conundrum: encourage doctors or their medical groups to price shop for their patients. Doctors can influence their patients' health care decisions, including where to get services such as radiology and laboratory services. They are also likely to be more informed about the quality of services offered by various providers. Indeed, experience from the alternative quality contract (http://www.nejm.org/doi/full/10.1056/NEJMsa1101416) shows that medical groups, given the right incentives, can be effective shoppers for their patients. Medical groups facing global budgets (which set an annual budget for caring for a specified population) and that had not previously faced risk reduced spending by about 6% in the first year, and much of the savings was due to referrals to lower-price providers and settings.

Moving forward, we need to harmonize patient-oriented and provider-oriented strategies for encouraging price shopping. Patients need easily accessible information about price that is tailored to their individual needs. This information should include not only the out-of-pocket price of the service (e.g., a doctor visit) but also more holistic information on downstream costs for the entire episode of care and data on the quality of care. We do not, for example, want patients to choose doctors who charge a low price for the initial visit but provide poor-quality care or have higher episode costs. Such holistic information must reflect the patient's insurance coverage so that it captures plan features designed to bolster patient price sensitivity through innovative insurance design, in which patients pay higher out-of-pocket costs for seeking care from higher-priced providers. Benefit designs should be harmonized so that patient incentives and provider incentives are more closely aligned in situations where provider groups have reason to consider price and total episode costs when discussing health care decisions with their patients. Perhaps accountable care organizations or other provider groups that accept accountability for patient spending and outcomes should have greater influence on benefit design. These efforts can lead patients to shop more effectively for doctors and can lead doctors to be better stewards of their patients' health and dollars.

Such a multipronged approach to encouraging price shopping has generally not been attempted, partly because of lack of data and partly because of institutional barriers. However, the confluence of recent trends in health care offers a unique opportunity for such strategies to gain a foothold. Insurers, both public and private, are increasingly willing to abandon fee-for-service payment models and to create incentives for doctors and other providers to make value-based decisions. The big-data initiative of

the Department of Health and Human Services (http://www.hhs.gov/open/initiatives/hdi/index.html) and widespread adoption of electronic health records will unleash a new wave of information on health care delivery, a necessary component of the better quality measurement that is needed to support value-based decisions. Moving forward, policy should encourage such price shopping by providers and patients by facilitating the dissemination of information on price and quality and by strengthening antitrust enforcement to deter collusion or price fixing by providers.