Transparency: A Needed Step Towards Health Care Affordability

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Introduction

Transparency is a vital component of an efficient and effective health care system. As concerns about the cost and quality of health care in the United States continue to grow and large employers explore innovative ways to manage their health care benefits in a rapidly changing environment, the need for greatly improved transparency is widely recognized for its ability to foster improved management of the cost and quality of the U.S. health care system.

The recognition of the importance of health care transparency is not a new phenomenon. Both private purchasers and policymakers have long sought to make better information available to consumers regarding the relative cost and quality of care throughout the health care supply chain. However, in spite of decades of effort, the tools and information available in the market today fall far short of what is needed by both consumers and employers.

The need for robust transparency is growing. First, the rapid adoption and growth of consumer directed health plans that encourage beneficiaries to choose providers and treatments based on relative cost and quality makes it even more critical that they have the information needed to compare health care alternatives using a trusted source of user friendly cost and quality measures.

Second, the movement towards public and private exchanges further exacerbates the need for vastly improved transparency in health care. The Affordable Care Act is largely based on the premise that consumers will discipline the market, resulting in lower costs and improved quality. This simply cannot happen if consumers don’t have the tools to make informed and rational choices regarding health plans, providers, or treatment alternatives.

Third, as states and the federal government continue to struggle with rising health care costs, it is becoming more and more important that real price transparency be achieved. Real transparency would allow private purchasers and policymakers to fully understand the consequences of government actions such as dramatic reductions in payments to the health care supply chain for serving individuals covered by publicly funded programs.

What is Transparency in Health Care?

Health care, like any other product or service, can and should be measured based on relative cost and quality. The results, in turn may be shared with those who consume and purchase health care to create a more competitive and accountable marketplace. Measures of relative cost and quality can be applied throughout the supply chain. In a fully transparent market, measures that disclose the relative cost, quality and customer experience for all elements of the health care supply chain would be publicly available. The following table illustrates what full transparency what those key elements are.
Transparency enables and drives many changes that are essential to reforming the U.S. health care system. First and foremost, it holds the health care supply chain accountable for its performance. In addition, it enables consumers and group purchasers to make more fully informed choices of health plans, providers and treatments. It also helps employers and other group health care purchasers design benefits to drive business to the best alternatives through benefit designs and other tools such as creating tiered or limited networks featuring the best performing providers.

Transparency for every element of the health care supply chain is essential. Policymakers and employers need to be aware of the relative performance of both public and private health care exchanges as this new market develops. Employers, government and consumers all have a vested interest in the need to compare relative cost and quality when choosing hospitals, doctors and other caregivers. Further, as new medical treatments, technologies and prescription drugs enter the market, it is important to understand the relative effectiveness and cost of these alternative therapies. In sum, full transparency provides robust, publicly reported measures across the entire spectrum of the health care supply chain.

To be effective, disclosure of the relative cost and quality of all elements of the supply chain must be uniformly reported using standard measures. This would allow stakeholders to compare performance on an apples-to-apples basis. Measures must also be based on scientifically valid methodologies that draw from reliable sources of data, including both administrative or claims data, as well as clinical data. Patient reported measures are also a key element of a fully transparent marketplace. Publicly reported measures must also be provided on a timely basis, in a form that is easily understood by end users, including employers and consumers.

Further, it is important that employers offer benefit designs that make the variance in provider performance more relevant to consumers, which in turn will create increased demand for transparency by the American public. Offering benefit designs such as consumer driven health plans and tiered or limited networks will be essential in helping advance a robust transparency agenda.
Why is Transparency in Health Care Important?

It is well documented that the U.S. health care system is performing at a suboptimal level, with high costs and significant variation in the quality of services it delivers. Recent data published in the New York Times using a study conducted by the International Federation of Health Plans not only highlights the cost issues the nation faces, but also dramatically illustrates just how much U.S. health care costs exceed those of other developed nations for common medical procedures and drugs. It also illustrates just how informative improved access to information on the cost and quality of health care can be. The study shows how U.S. health care costs compare to other nations.

<table>
<thead>
<tr>
<th>Normal Delivery</th>
<th>Colonoscopy</th>
<th>Hip Replacement</th>
<th>MRI Scan</th>
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(1) Source: New York Times; June 1, 2013 - based on results of study conducted by the American Federation of Health Plans

As the data show, improved transparency can help consumers, group purchasers and policymakers obtain price and quality information so they can be informed buyers and hold the market accountable. This in turn allows them to make informed choices of health plans, providers, and treatments. Without public accountability for both price and quality, consumers and group purchasers lack the critical information needed to create a rational marketplace in which those who provide superior value are rewarded with more business, and those who don’t suffer the consequences. To many, this is an obvious need, yet the market continues to strongly resist offering information that allows for comparison of even the most basic elements such as how much Provider A charges compared to Provider B. And limited information is available comparing the relative quality of various alternatives in the supply chain.

Improved transparency can directly benefit employers as they seek to more effectively manage their health care resources in a variety of ways.

1. Inform their public policy agenda: Access to information on relative health care costs and quality is essential to supporting employers as they develop their public policy agenda. For example, employers can assess if market based reforms are having the desired effect to reduce costs and improve quality, or if they should advocate for regulatory alternatives to address market failures. This might even include consideration of seeking rules that would allow large employers to have
access to the same fees that Medicare pays providers if that proves to be a more cost effective alternative to having private plans negotiate provider reimbursement on their behalf.

2. **Support improved benefit design strategies:** Without access to information on cost and quality, employers cannot make informed and rational decisions on benefit design features, such as offering limited or preferred provider networks and designated centers of excellence for high cost and complex procedures. Some employers are even beginning to discuss adopting what is called "reference based pricing." Through this approach, the employer establishes a fixed allowance for a given procedure (for example, a joint replacement). The beneficiary then shops for a provider with that allowance. For this approach to be effective, it requires vast improvements over the level of transparency that exists today. Without access to the information they need, beneficiaries enrolled in consumer driven health plans or approaches such as referenced based pricing cannot make informed decisions, even if they have a financial incentive to use the best performing providers.

3. **Stimulate competition based on value:** With access to information on the relative performance of health plans and the rest of the health care supply chain, employers will be much better equipped to choose plans and providers who truly deliver the best value. This will enable the right kind of competition that is lacking in the U.S. health care system today.

4. **Advance provider payment reform:** It is widely accepted that one of the greatest problems affecting the U.S. health care system is the prevalence of fee for service payment systems that reward the volume of services instead of outcomes. Employers and other payers need access to provider-specific information on both cost and quality to develop revised payment mechanisms that reward the right behavior on the part of providers.

Health care providers also benefit from improved access to appropriate price and quality information. Currently, providers generally do not know how their cost and price structure stacks up against their competitors. They also lack sufficient information regarding how their quality compares to their peers and competitors. Lacking this knowledge, they are effectively left to navigate the difficult challenge of better managing their costs and improving their quality without a compass that gives them an idea of how they compare to their industry.

Lack of adequate transparency also enables price discrimination. For example, while not universally agreed upon, many studies have illustrated that private payers (employers and private health plans) pay a higher price for certain health care services in part because Medicare and Medicaid, through government regulated pricing, can mandate lower fees as a condition of providers participating in those programs. Further, private payers also pay more to cover the cost of the uninsured in the form of uncompensated care. Providers who are not reimbursed for caring for the uninsured also shift these costs to private payers. Lacking full price transparency, it is difficult to fully quantify the impact of this cost shifting, allowing providers to offset reductions in payments from public programs and the uninsured by
imposing higher fees on private payers – a form of hidden tax that ultimately comes out of employee wages and benefits.

Lack of transparency also enables price discrimination based on factors such as geography and size. For example, a consumer or employer may pay substantially more for a given service in a market lacking competition, either due to excessive consolidation in the supply chain, or in geographically isolated locations lacking competitive alternatives. And, unknown to consumers and purchasers, larger suppliers may be able to command higher fees through increased negotiating power and market dominance. Data regarding the cost of hospital outpatient services billed to Medicare recently released by the U.S. Department of Health’s Center for Medicare and Medicaid Services clearly illustrates how much health care prices vary from region to region.

<table>
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<tr>
<th>Eye Tests</th>
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(2) Source: CMS; Summary of 2011 Medicare Outpatient Payments to Hospitals; June, 2013

Information on the relative quality of care is just as important as price transparency in creating a disciplined and efficient market. Numerous studies have documented the quality gaps in the U.S. health care system, including a landmark 1998 Institute of Medicine study that concluded that as many as 98,000 Americans die annually due to preventable medical errors. Not only are American health care consumers purchasing health care with a blind eye towards price, they are also unable to select providers and treatment alternatives based on which choice will likely yield the best health outcomes. The lack of health care transparency creates not only price discrimination, but also quality discrimination. Factors such as geographic location, ethnicity, and income level may all result in variations in the quality of care received.
What is the Current State of Health Care Transparency?

While there are a significant number of tools and vendors available in the market today, significant gaps remain towards achieving full cost and quality transparency. Based on the current state of the marketplace, the HR Policy staff has prepared the following assessment of the current state of transparency for key elements of the health care supply chain.

| Current State of Health Care Transparency Among Key Elements of the Supply Chain |
|---------------------------------|----------------|----------------|----------------|
|                                 | Access to Quality Data | Access to Pricing Data | Measure Availability | Public Reporting of Results |
| Exchange Vendors                | Poor               | Poor             | Poor             | Poor               |
| Health Plans                    | Good               | Poor             | Good             | Good               |
| Hospitals                       | Fair               | Poor             | Fair             | Fair               |
| Pharmacy Benefit Managers       | Poor               | Poor             | Poor             | Poor               |
| Physicians                      | Poor               | Poor             | Fair             | Poor               |
| Treatments                      | Poor               | Poor             | Poor             | Poor               |

As this chart illustrates, while some progress has been made, much remains to be done in order to achieve the degree of transparency that is ultimately needed to meet the needs of employers and consumers. Following is a brief summary of the current state of transparency for each of these key supply chain elements.

**Exchange Vendors**

Because public and private exchange vendors are just beginning to emerge, it is not surprising that the current state of transparency for this market segment is lagging. However, government, employers and consumers will want access to information on the performance of both public and private exchange vendors as they grow in importance and prevalence. This will likely be a priority for both the public and private sector over the coming years.

**Health Plans**

Health plan transparency is probably the most advanced of any industry segment at this time. To their credit, the health plan industry has done much to advance public reporting of their performance through NCQA and their HEDIS data and measurement set. However, the industry is lagging in reporting cost information, especially as it relates to the cost of health care providers for whom they pay medical claims. It resists disclosing key provider contract
terms and in some cases resists giving employers full access to their own claims and administrative data. Addressing these issues should be a major priority for employers.

**Pharmacy Benefit Managers (PBMs)**

The PBM industry has lagged behind the health plan industry in taking proactive efforts to develop and report consensus measures on quality. And many would argue that the PBM industry is among the least transparent in disclosing cost information. Specifically, the industry relies on contracts based on discounts off of average wholesale price (manufacturer’s suggested retail price) when comparing the prices that employers will pay for prescription drugs. Correcting this highly flawed methodology and requiring PBMs to disclose the actual price they pay for drugs should be a high priority for employers.

**Hospitals**

Hospitals have a more advanced level of transparency compared to physicians and treatments. The American Hospital Association (AHA) has helped advance transparency in the industry. Hospital measurement and reporting has also been a relatively high priority for the government, with HHS and CMS placing a fairly high degree of emphasis on advancing hospital transparency. A standard patient satisfaction survey, called H-CAHPS, exists. However, significant gaps in measuring and reporting quality exist and measures comparing cost lag behind efforts to measure and report quality.

**Physicians**

Transparency for physicians has lagged behind that for health plans and hospitals. HHS and some private entities have taken modest steps to advance this agenda. However, physicians tend to have more limited resources to support transparency initiatives. There is also wide variance in the size of physician practices, as well as dozens of medical specialties to be addressed. Still, physician level reporting will be critical to make transparency relevant to consumers. This is yet another area that will require significant effort.

**Treatments**

It is not surprising that transparency for treatments also lags behind other industry segments such as health plans and hospitals. While the FDA collects extensive data through clinical trials before approving new drugs and medical devices, this information is not available in a consumer friendly format. Further, virtually no consumer friendly information exists comparing treatment alternatives such as whether a patient should have angioplasty or bypass surgery when seeking treatment for blocked coronary arteries. While particularly challenging, this is another area of development that is of particular importance to health care consumers.
Given current conditions, what conclusions can be drawn from the current state of the market, and what are the implications for what large employers should do to fill the gaps? In sum:

- There is a growing recognition of the need for transparency, but the gap between what is available and what is needed is significant.

- Industry leading efforts such as those being advanced by HHS, NCQA and The National Quality Forum are making significant contributions towards identifying a consensus set of standard measures. However, employers will need to pursue other venues to fill gaps in existing measurement sets.

- The government will play an expanding role in advancing transparency, but it will continue to be subject to considerable resistance and lobbying pressures by industry interest groups. The government will likely continue to place a disproportionate emphasis on carrier performance and transparency.

- Robust data warehousing capabilities exist for claims and administrative data. However, access to clinical data is still somewhat limited and will likely remain that way until electronic medical records have been more fully introduced.

- The market is most mature for measuring and reporting the performance of health plans and hospitals. However, the primary emphasis has been on quality indicators, and there is a significant amount of work needed to address cost transparency for plans and hospitals.

- The rest of the supply chain lags behind health plans and hospitals with more even work to be done to achieve cost and quality transparency.

- There is an emerging vendor market entering this space that holds significant promise. However, whether or not these vendors can deliver the level of transparency that is ultimately needed to address the market and political headwinds is a critical question.
Conclusion

As this paper shows, transparency is an untapped resource in the effort to rein in health care costs. There is significant upside to improving transparency throughout our health care system, and it is regrettable that we have not yet made more progress in this area. Fortunately, we may be at a moment in history where the buy side of the health care market can seize the initiative to rapidly advance transparency. However, without sufficient passion and resources to pursue the challenging goal of achieving the degree of transparency, employers will continue to achieve limited results if they act alone. We need a more significant national effort to promote a market-based solution to address the challenges facing the U.S. health care industry.

Failure to achieve the transparency needed to create a properly functioning market will reinforce the persistent movement to a solution that relies more and more heavily on government regulation and oversight of the U.S. health care market, which could ultimately place employers in the limited role of just “paying the bill.”