

## VIEWPOINT

# What Is the Value of Market-Wide Health Care Price Transparency?

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Author Audio Interview

**A primary driver of high spending** in the US health care system, relative to other countries, is the higher prices paid for health care in the United States. Part of what sustains these high prices is that health care prices are largely opaque.<sup>1,2</sup> The goal of price transparency is to empower patients with new information so they can consider prices, along with quality, when making choices about when and where to receive health care. Ideally, such informed decision making would increase competition in the health care system, which in turn, would create incentives to lower prices or demonstrate value.

To that end, on June 24, 2019, the Trump administration issued an executive order to increase health care price transparency in 2 ways.<sup>3</sup> First, hospitals will be required to publicly post their paid prices, not charges or list prices, but actual paid amounts, per medical service, based on negotiated rates. Second, clinicians, health insurance issuers, and self-insured group health plans will be required to provide patients with estimates of their expected out-of-pocket costs before receiving care.

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## Experience suggests that providing personalized price information to patients to reward higher-value clinicians rarely changes behavior.

While minimizing “surprise billing” (ie, when patients receive bills because they receive care from an out-of-network physician at an in-network facility) is one goal of the executive order, the intended reach is to create price transparency much more broadly.

### The Current Landscape of Price Transparency

The idea that price transparency will lead to better choices and higher value has led to efforts to make paid price information available to commercially insured consumers. Since 2011, a proliferation of web-based tools, usually offered through a patient’s health plan or employer, has allowed some patients to learn estimates of their out-of-pocket costs for services from specific physicians or facilities. Despite these estimates being personalized for each patient’s cost-sharing obligations, adjusted for deductible spending in the year to date, and available for nonemergency medical services for which patients have time to consider prices in advance of care, the influence of these initiatives on patient choices and spending has been minimal. In one study involving 148 655 patients, only a small minority (≈10%) of those who could search for price information did so (even among those with high-deductible health plans),<sup>4</sup> and

knowing prices has generally not led patients to select clinicians who charge lower fees or health care centers that charge lower prices (the exception is for advanced imaging services, for which price transparency has been associated with patients choosing lower-price facilities).<sup>5,6</sup> Increased patient access to health care price transparency has not led to lower health care spending.<sup>4</sup>

It seems unlikely that patients would use price information made available under the new executive order any differently than they have used the same information already available through health plans and employers. Thus, expectations that price transparency through this executive order will lead patients to begin to shop for their health care based on price are not supported by current evidence, although there are differences between past efforts and the current initiative of the Trump administration, which should be discussed.

The key difference between the current initiative and past efforts is that private sector tools generally have kept paid price information behind password-protected websites, which are only accessible to select groups of patients. In contrast, the executive order language suggests hospitals will be required to publicly post prices. The potential use and consequences of increased price transparency for other participants in the health care system are not as well understood.

Health systems and hospitals, which currently determine commercial hospital prices through confidential contract negotiations with insurers, will now learn the prices paid to hospitals they compete with in local markets. Similar transparency has changed the dynamics of contracting and has led to higher prices in other industries where prices are set through private negotiations with a small number of firms, and there is concern that transparency in health care could have a similar effect.<sup>7</sup>

The likelihood that prices would increase depends, in part, on how the executive order is implemented. For example, if hospitals are required to post average paid prices (eg, averaged across all insurers with which they contract), such information might not be precise enough to affect price negotiations and there could be no effect on prices. Conversely, the regulation could require hospitals to post insurer-specific negotiated prices; evidence on whether such information would result in higher or lower prices is limited. One study examined the experience in New Hampshire, which is the only state where select insurer-specific prices have been publicly available for a significant amount of time. This evaluation found that over 5 years of transparency (2007-2011), visit prices for imaging services with published

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prices decreased an average of 2% relative to visit prices for imaging services with prices not published by the state; greater price decreases were observed among nonhospital facilities and in markets with fewer facilities (eg, more concentrated markets).<sup>6</sup> However, imaging services are the one medical service for which posted price information has led patients to choose lower-price facilities, which gives facilities an incentive to decrease prices and suggests this result may not generalize to other services.

Another reason that transparency might not lead to a change in prices is that current price variation across hospitals does not reflect differences in health care quality (as economic theory would predict), but rather the balance of market power between the parties during negotiations. Health systems in markets with fewer competitors or with strong favorable reputations are able to negotiate higher hospital prices for similar-quality services than are other health systems.<sup>8</sup> Simply making health care prices public will not give low-price hospitals greater market power, and it is thus unlikely that health systems and hospitals could use knowledge about competitors' prices to raise their own prices to the highest in the market. It is possible that insurers will follow price information carefully and when possible, use it to negotiate lower prices.

What is unknown and critical to monitor is whether in markets with a few large health systems with substantial market power, market-wide price transparency could facilitate coordination or other anticompetitive behavior such that prices increase. Because the number of these markets is increasing due to consolidation of hospitals and physician groups in the health care sector, close oversight in markets with these conditions and strategies to intervene if such behavior is observed will be important.

### What Is the Value of Health Care Price Transparency to Other Groups?

Less often mentioned in health care price transparency policy debates is the potential for effects on groups beyond patients, insurers, hospitals, and health systems, such as purchasers, front-line clinicians, and policy makers. Although these other groups are not the targeted audience for price information, they may be more organized and better equipped to use the information to save money. For example, employer purchasers could modify health insurance benefit design to encourage patients to seek care at hospitals that charge lower prices, select higher-value insurance carriers, or negotiate prices with hospitals directly (the latter recently occurred in Montana). Physicians in risk contracts could similarly leverage hospital price information when making referrals. Journalists, researchers, or policy analysts could use the data to publicly illuminate particularly high-priced hospitals, leading to market pressure to lower prices (as has been the case recently with high-cost drugs such as EpiPen).<sup>9</sup>

The administration's executive order should help to broaden price transparency well beyond information that has previously been available. Experience suggests that providing personalized price information to patients to reward higher-value clinicians rarely changes behavior. It remains to be seen how far greater price transparency will affect the hospital and physician markets. Additionally, purchasers, policymakers, journalists, or others could act as superusers of the data to foster greater competition and put downward pressure on prices through naming and shaming. It will be critical to watch all these groups to understand the full influence of market-wide price transparency on the US health care system.

#### ARTICLE INFORMATION

**Published Online:** September 5, 2019.  
doi:10.1001/jama.2019.11578

**Conflict of Interest Disclosures:** None reported.

**Funding/Support:** Funding from the Commonwealth Fund for this work is gratefully acknowledged.

**Role of the Funder/Sponsor:** The Commonwealth Fund had no role in the preparation, review, or approval of the manuscript; and decision to submit the manuscript for publication.

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