Information technologies could remove the 'shroud of secrecy' draped across private health care cost

2 December 2013

The "shroud of secrecy" once draped across private health care service costs could be lifted with innovative information technologies, Princeton University professor Uwe Reinhardt wrote in a review published by the *Journal of the American Medical Association* (*JAMA*).

Until recently, private health care costs have been hidden within a "health care fortress," and increasing amounts of money have vanished behind its walls, Reinhardt writes. This has made it difficult for consumers to understand the actual cost of health care. Reinhardt cites reference pricing – the cost consumers anticipate paying or consider reasonable to pay – as a possible solution for cost-containment.

"The idea that American patients should 'shop around for cost-effective health care' so far has been about as sensible as blindfolding shoppers entering a department store in the hope that inside they can and will shop smartly for the merchandise they seek," said Reinhardt, James Madison Professor of Political Economy and professor of economics and public affairs at Princeton's Woodrow Wilson School. "In practice, this idea has been as silly as it has been cruel."

But electronic informational technologies are now providing a better means of transparency. One example is an independent website called Healthcare Blue Book, which boasts a search function of "fair prices" by zip code for hospital and physician services, laboratory tests and imaging services. Similarly, a start-up company on the West Coast has developed software that provides employees covered under group insurance both the prices and quality of care by individual clinicians and health care organizations. That group is looking to introduce reference pricing – the cost consumers anticipate paying, or consider reasonable to pay, for a particular good or service.

Reference pricing was first introduced in Germany during the 1990s to control the price of pharmaceuticals. But the concept can be applied more broadly, Reinhardt writes, and could influence health care transactions.

Under this method, insurance providers would pay a set amount for a medical procedure based on the lowest price range available for that procedure. If the patient chose a hospital with a higher fee, the patient would then have to pay the difference. Reinhardt describes this as a form of cost sharing that is "much more blunt and powerful than coinsurance." By enlisting raw price competition, reference pricing could turn out to be the "sleeper" in cost-containment efforts in U.S. health care, Reinhardt said.

"The power of reference pricing could be enhanced if all hospitals were mandated to use Medicare's diagnosis-related group system for all patients, with every hospital using the same scale," said Reinhardt. "Broad price competition in U.S. health care could then occur on the basis of only one single number: the monetary conversation factor, which could be easily made public."

Reinhardt writes that those who provide health care in the United States may not be "charmed" by this and other disruptive changes headed their way.

"But the health insurance system was never designed to be fair. It is beside the point. The point is that in developing their next strategic 5-year plans, planners among the providers of health care must include new innovations, like those that promote price and cost transparency into their plans," he said.

More information: The review, "The Disruptive Innovation of Price Transparency in Health Care" was published online Nov. 13 in *JAMA*.

Provided by Princeton University