Aligning Forces for Quality | Improving Health & Health Care in Communities Across America

Robert Wood Johnson Foundation

COMMENTARY

Cost and Price Transparency: Building Blocks for Value

November 2011

If you're in the market for a new car, it's easy to find out if, say, a Toyota costs more than a comparable Chrysler. If you need a new pair of sandals, any smart shopper can find out if the neighborhood shoe store is more or less expensive than the department store downtown. In fact, a small amount of research can help a consumer compare prices on just about any good or service in America.

The exception: health care. If you need a hip replacement, diabetes treatment, or heart surgery, and you want to know how much you will have to pay, you're likely out of luck. Health care costs in America are such a mystery that often even doctors and most people who work in hospitals or clinics don't know what they're charging.

We do know that health care is more expensive in the United States than in any other nation in the world. U.S. per capita health expenditures are far greater than those of other industrialized nations.[1] [2] We also know that health care in the U.S. is more expensive today than ever, as health care inflation in the U.S. has outpaced general inflation for several years. Americans consistently indicate in polls that they are happy with the care they receive, but think it is too expensive.

But the answers to apparently simple questions—what does health care cost, and what do we get in return—aren't just complicated. They are in many instances unknowable.

In fact, we're not even clear about our definitions. What do we mean when we say that health care costs too much? Is it that health *insurance* costs too much? Resentment of out-of-pocket costs (e.g., co-pays) that patients have to cover in addition to their insurance? The common perception that

About Aligning Forces for Quality

Aligning Forces for Quality (AF4Q) is the Robert Wood Johnson Foundation's signature effort to lift the overall quality of health care in targeted communities, as well as reduce racial and ethnic disparities and provide real models for national reform. The Foundation's commitment to improve health care in 16 AF4Q communities is the largest effort of its kind ever undertaken by a U.S. philanthropy. AF4Q asks the people who get care, give care and pay for care to work together to improve the quality and value of care delivered locally. The Center for Health Care Quality in the Department of Health Policy at George Washington University School of Public Health and Health Services serves as the national program office. Learn more about AF4Q at www.forces4quality.org. Learn more about RWJF's efforts to improve quality and equality of care at www.rwjf.org/qualityequality/af4q/.

About the Authors

Robert Graham, MD
National Program Director
Aligning Forces for Quality

Michael W. Painter, JD, MD
Senior Program Officer
Robert Wood Johnson Foundation

[1] Anderson GF, Frogner BK. Health spending in OECD countries: Obtaining value per dollar. *Health Affairs*, Nov/Dec 2008; 27(6):1718–1727.
[2] Kimbuende E, Ranji U, Lundy J, et al. U.S. Health Care Costs. Available at www.kaiseredu.org/Issue-Modules/US-Health-Care-Costs/Background-Brief.aspx. Accessed May 2011.

physicians are highly paid and hospitals are money-making enterprises? Frustration over paying for care for others through government-funded programs? Perhaps a suspicion that the care we receive isn't good enough or comprehensive enough, considering the amount we pay?

The fact is, Americans are confused about health care costs because no one really knows what those costs are. It's easy to say health care costs too much, and in some instances it does—but most of us can't say that for certain, because we can't attach a hard number to it and have no basis for comparison.

Shopping Based on Price

The problem of evaluating how much health care costs is highlighted, for instance, with growth of high-deductible (or, "consumer-directed") health plans. These plans feature lower premiums but higher deductibles, meaning consumers pay for a significant portion of their care—giving them an incentive to comparison shop based on price. These consumers desperately need cost information to make the kind of smart decisions the plans envision. In 2009, about 20 percent of Americans with employer-sponsored health coverage were enrolled in such plans, while a 2010 survey found more than half of large employers offered at least one high-deductible health plan to their employees.[3] While consumers are increasingly being asked to compare care providers based on price, they haven't been given the tools to do so.

Aligning Forces for Quality (AF4Q), the Robert Wood Johnson Foundation's signature effort to lift the quality of care in America, has begun to tackle these questions. AF4Q, part of the Foundation's $300 million Quality/Equality portfolio that is seeking to improve the quality of care for all Americans, draws together health care stakeholders in 16 communities across the nation. AF4Q has worked with these communities since 2006 to collect and report health care quality information, with the goal of improving quality in targeted areas (e.g., hospital performance, diabetes care). Now these communities are undertaking to collect and, in some instances, report information on cost.

Driving this effort is AF4Q's commitment to payment reform, which is led by the recognition that health care in the United States—despite the often heroic efforts of individual providers—is inefficient.

A few AF4Q communities are able to report basic charge information—that is, the "retail price" a doctor or hospital would charge an individual customer. These are usually based on Medicare or, in rare instances, "all-payer" (a combination of government-funded and private health plan) data. But these communities are the exception—and they're by and large fictional, because virtually nobody pays the full charge amount. The majority of AF4Q communities are only at the beginning of the process of reporting cost data, convening disparate stakeholders (e.g., hospitals and physicians, health plans, employers, consumers) to find consensus on goals and definitions.

It hasn't been easy. The cost issue is proving vexing to many communities. Most communities are struggling to define it. Many communities are having trouble getting access to good data and finding difficulty in meaningfully reporting those data.

Health care pricing is, as one analysis finds, "complex and opaque."[4] The reason is twofold: first, prices today are set around discrete goods and services rather than care cycles or episodes. Second, prices for these services vary widely based on insurance status, group affiliation, or health plan. In many instances no one, including providers themselves, knows the "true price" of care.[5]

---

[3] RAND Corp. *Largest study of high-deductible health plans finds savings, less preventive care*. Press release, 25 March 2011.

[4] Porter ME, Teisberg EO. *Redefining Health Care: Creating Value-Based Competition on Results*. Boston, MA: Harvard Business School Publishing; 2006.

[5] *Ibid*.

Think of it this way: If you were to call up your local hospital and say, "I need a procedure done, how much will it cost?" you won't get a straight answer. The hospital will tell you that there are too many variables—your age, weight, co-morbidities, patient history, factors that could complicate the procedure. This is true, but incomplete; a cost can conceivably be calculated, and adjusted later if complications arise, but it never is. Nobody knows what you'll get charged until after the procedure is over.

Even then, the cost usually isn't clear. This is because providers charge for health care not based on what the procedure costs them to produce, but what the payers—health plans, usually—will pay. Health plans pay less than individual consumers for the same service, because they buy in bulk. (Individual patients also can negotiate their prices, sometimes—but few have the capacity to do so.) These negotiated rates, known as "allowed amounts," would be the truest measure of cost if they were reported publicly.

However, health plans and providers usually won't disclose allowed amounts, declaring this information proprietary. Health plans and providers have declared that sharing this information publicly may actually drive up costs—although this is information that others need to make informed decisions. Instead, some communities are seeking to report "charges," which in effect are the retail price that a provider would charge on the open market.

Some health care advocates propose reporting not on cost per treatment given but, on cost for an "episode of care." Episode-of-care measures calculate the total resources required for treatment of an event, such as a heart attack or knee replacement. These measures aim to capture care from the patient's point of view by including care delivered by different providers across settings of care.[6] However, episode-of-care measure development remains in its infancy, and allowed amount information is necessary to calculate episode-of-care costs.

While health care costs in the United States often are a mystery, they have become a matter of great public interest, and are the focus of regional and national health care quality improvement initiatives. Demystifying the cost question will be the first step toward solving it—and may reveal that health care doesn't cost too much at all, it's only that we're spending our money on the wrong things.

The Quest for Value

The most price-transparent industry in the United States might be gas stations. If you need gasoline, you know how much you'll pay before you fill up, because the price per gallon is posted for all to see.

But drivers don't buy their gasoline based only on cost. There are other factors, such as convenience, service, and brand loyalty, to be considered. For instance, would you turn left across three lanes of traffic in order to save a nickel per gallon, or would you rather pull into the more convenient gas station on the right side of the street and pay a little more? How about if the difference per gallon were a quarter rather than a nickel?

Those factors—cost, convenience, service, and a host of others—together add up to a quest for value. The same is true with health care. While many health care advocates are seeking to reduce costs, it's not for the sake of cost reduction itself. The goal instead is value—achieving the best possible care for the lowest possible cost. Communities are seeking to make the case that more efficient care and greater attention to cost does not automatically mean that health care services are cut or rationed, a fear that has been expressed by some health care advocates.

The goal in seeking value is to make the health care system more efficient. Efficiency is not simply a happy byproduct of improving quality; it is a core element.[7] But efficiency does *not*, under any circumstance, mean denying needed care

[6] Damberg C. *Overview of Resources Use Measurement*. Agency for Healthcare Research and Quality Chartered Value Exchange Webinar; March 16, 2010. From: *Reporting Cost & Resource Use Measures to Consumers: A Primer*; prepared by American Institutes for Research on behalf of Aligning Forces for Quality; 2011.
[7] Institute of Medicine, Committee on Quality of Health Care in America. *Crossing the Quality Chasm: A New Health System for the 21st Century*. Washington, DC: National Academy Press; 2001.

to certain patients. Instead, it means ensuring that patients get the care they need—and *only* the care that they need, because any additional care likely injures or sickens patients rather than serving a net benefit. The societal costs, additionally, are enormous; one prominent expert estimates that up to one-third of our nation's health care dollars, up to $700 billion a year, is spent on care that does nothing to improve our health.[8]

Value and efficiency remain a challenge, however, in part because it is difficult to quantify and in part because AF4Q-commissioned research indicates that consumers equate value only with low cost, not as a balance between cost and quality.

While the challenges are great, they are not insurmountable. Thus, communities should push ahead even when data are less than perfect. Yes, it's important to get it right with health professionals before engaging consumers, but it's equally important not to wait for the perfect metrics, because those may never come. Instead, communities should have the conversation about cost, work hard to get the technical aspects of data collection and reporting right, and move forward with currently available metrics and data. Cost information is too important not to share with the public.

[8] Brownlee S. Overtreated: Why Too Much Medicine Is Making Us Sicker and Poorer. New York, NY: Bloomsbury USA; 2007.