



| THERE'S A BETTER WAY. |

Lower Health Care Prices Requires Transparency

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Sam Fleet, CEO
AmWINS Group Benefits
Sam.fleet@amwins.com
samfleetsays@twitter.com



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It's Crystal Clear – Lower Health Care Prices Requires Transparency

Effective health care reform needs to start with the consumer of the care. Empowering the consumer requires mandated transparency, enabling consumers to take ownership of their health care and allowing employers to make informed decisions rather than merely purchasing care for employees.

For several decades, the supply side of health care has been the target when slashing costs. "Managed care" attempted to hold down spending by cutting reimbursement rates and reducing the overuse of health services and products. After initial success, costs began to rise again as health care providers found ways to increase the volume of separate procedures and tests for which they could bill. Patients were exasperated by denial-of-care decisions by insurers, which often appeared based more on financial than medical factors.

As the Senate debates healthcare reform, it's important that we stay focused on the primary objectives...to improve access (providing coverage for the uninsured) and affordability (lowering the cost of health insurance). Obama and Congress through their "public option" are once again focusing on the supply side of the equation. To hear its advocates speak, this government-run plan is the Holy Grail that will offer Americans low-cost coverage and force insurers to cut back their prices if they want to compete and survive. However, the public option is simply a new twist of a bad idea.

Reform should focus on helping the consumers of the health care dollar, patients. It should not come from government dictates. Consumerism will control health care spending through the demand side. Under this approach, patients would have ownership of their health care decisions. Pricing transparency would allow them to shop and make informed choices, and market forces would cause costs to grow more slowly.

Consumerism across the entire health care spectrum requires: 1) transparent pricing from providers so that consumers know what they are paying, 2) comparative quality ratings so consumers can make judgments about the value and 3) detailed disclosure by insurance companies to employers purchasing coverage for their employees.

Shopping Blind - Price

The owners of a home damaged by a falling tree during a storm can look to their insurance company to cover their costs. But they know it is up to them to get estimates from workers, check out references and credentials, perhaps even look for customer complaints online so they can avoid a shoddy repair.

Similarly, a driver who is in an accident will see cost estimates before his car is repaired and can choose the body shop based on what he has heard about the quality of its work.

So why do we expect people who are making decisions about something much more personal and vital to their lives than their house or car – their medical treatment – to blindly accept whatever hospital they are referred to for care and then to wait to learn the cost only after their course of treatment is complete?

Patients who ask for pricing information ahead of time are often told it is unobtainable, or even a proprietary matter that is secret under agreements between insurers and health care providers. They are also stymied by the fact that what appears to be a single procedure from their perspective involves many different players,

each of whom may bill separately. An operation may include charges from the surgeon, the hospital, the anesthesiologist, the assisting physician and the lab.

One thing they would quickly learn if pricing were transparent is that charges for the equivalent procedures can vary greatly within the same market. For example, in California a patient who needs a chest X-ray can be charged anywhere from \$120 to \$1,519; in fact, within a few blocks in Sacramento, the price climbs from \$451 to \$790 from one hospital to the next. The charge for a simple blood count ranges from \$47 to \$547.

Such pricing disparity would quickly disappear if the products were cameras or washing machines or even toilet paper, because customers would turn their backs on items whose higher prices were not justified by some additional value.

Weighing Outcomes - Quality

Turning to that additional value, patients find it just as difficult to compare the quality of care as to determine pricing. The medical community has been extremely reluctant to cooperate with efforts to compare outcomes, arguing that such measurements are invariably flawed by subtle differences in patient populations that cannot be accounted for.

Where ratings have flourished, however, not only have patients been able to compare health care providers before making their selection for care, but outcomes have begun to improve as providers change their procedures to improve their ratings. The *Wall Street Journal* recently reported that in Minnesota a quality-rating project has resulted in significant improvement in health outcomes for diabetic patients over the course of four years' worth of published ratings.

Such data sharing has importance beyond helping informed consumers make wise choices and encouraging medical care providers to improve their performance. Trends can be identified when claims data is pooled and analyzed; this information can then be used to change how patients are treated, or to determine what kinds of incentives are needed to encourage preventive care, or even to help employers make better decisions about the coverage they provide.

The Devil is in the Details – Disclosure

The third component of transparency is around insurance companies and administrators of health plans. Just imagine you are an employer, and your health plans representatives present a renewal quote reflecting a 20% rate increase. Your first question is why? Most insurance carriers today won't share detail claims costs or other data with plan sponsors. This is ridiculous; if we want consumers of health care to make smart choices, insurance companies need to provide the data so that employers can identify trends, provider costs and other issues that impact their health program.

I am not suggesting Personal Health Information (PHI) be shared, to the contrary, detailed data can be shared and analyzed without sharing PHI. Part of any health care reform initiative needs to mandate data availability from insurance companies for employers.

Health care consumers want to make good choices, but it is almost impossible to do so today with so much of the information they need hidden from view. Unfortunately, little in the bills under consideration in Congress today will provide the transparency consumers deserve when it comes to pricing and quality issues.

We all recognize that the relentless growth of health care costs will not be solved by simply rebuilding the system to send more of the bill to government. Our strategies largely focus on controlling the supply side, and early indications are that few in Washington are moving beyond that failed approach.

Shifting responsibility solely to the demand side, however, would not only be difficult in today's environment but has already proven problematic. Instead, we need a solution that rests on shared responsibility—with consumers playing their part to take ownership of their health care, with employers moving into the role of facilitating rather than merely purchasing care, and with government mandating the type of transparency and information access that are critical to informed choices. That would be true, effective health care reform.