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Price Transparency—Promise and Peril

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Amid the turmoil of its waning days, 2 Trump administration regulations advancing the goal of price transparency in health care moved forward. On October 26, 2020, the US Department of Labor and the US Department of Health and Human Services finalized a rule mandating insurer price transparency. On December 29, 2020, the District of Columbia Court of Appeals upheld the administration’s hospital price transparency rule. The rules both stem from provisions of the Affordable Care Act (ACA) and operate quite similarly. Both require the disclosure of consumer-relevant information in a form intended to make shopping easier and provide information about negotiated rates between clinicians and insurers in a machine-readable file (intended to power apps and research efforts).

Given the origins of these rules in the ACA and the near-universal support for the notion of transparency, it is likely that these rules will be maintained by the Biden administration. Although they are unlikely to make much direct difference to US health care costs, these rules are important because they mark the first step along a new path for US health policy.

Thinking About Cost Containment

The new transparency rules reflect a seismic change in thinking about cost containment in health care from a focus on utilization to a focus on prices. For some 3 decades, cost-containment policies have targeted waste and unnecessary utilization, buttressed by data from the Medicare program showing substantial variations in utilization patterns across the country and robust evidence that consumers respond to cost sharing. This perspective informs policies as diverse as the tax preference for high-deductible health plans and the move to bundled payments.

Alongside this robust literature on quantity variation, however, some health policy analysts have long asserted that prices, rather than quantities, explain high US health spending. Recently, this argument has advanced because of newly available data on prices paid by different payers. These data show that rates paid for hospital and physician services are much higher for commercial insurers than for Medicare, and that prices vary tremendously among commercial payers, even for care provided in the same facilities.

For policy makers, the question becomes what, if anything, should be done about these high and variable prices. Price transparency offers a middle ground for those who are wary of the practical and political challenges of price regulation, but who are not persuaded that current pricing patterns reflect the outcomes of a well-functioning market.

The transparency regulations are intended to lower prices, lead to less price variation, and, ultimately reduce health spending through 2 distinct mechanisms. The first focuses on consumers, particularly those with private coverage who face hefty deductibles. Under these regulations, consumers will have access to personalized information about the out-of-pocket costs associated with their health care choices. The insurer regulations, for example, contemplate the provision of individualized calculators that incorporate both the structure of health benefits and each individual’s spending up to that point, combined with granular information on prices charged by individual physicians and hospitals, allowing patients to see how specific health care choices will affect their own pocketbooks.

Modest Effects Likely From Price Transparency

Although the rationale for offering consumer transparency seems self-evident, its effects are likely to be modest. Some employers have offered similar calculators in the past, but uptake has been consistently limited. One careful study examining the effects on magnetic resonance imaging (MRI) prices after introduction of a cost-comparison tool in New Hampshire from 2005 to 2011 found that those using the tool could see reductions in out-of-pocket prices by as much as 11%, but only a small minority of patients used the tool. Instead, most studies find, patients overwhelmingly follow the recommendations of their referring physicians, who are unlikely to be aware of the patient-specific cost implications of their advice.

This divergence poses risks. Discordant signals from physicians and cost calculators may erode the patient-physician relationship. In that context, calculators may also steer patients wrong, omitting valuable referral-specific aspects of a choice, such as the timing and quality of feedback to the referring physician. More
generally, the transparency approach, with its emphasis on consumer price-based choices, runs directly counter to models that favor greater coordination and integration of care.

Revealing Negotiated Prices
The second—and potentially more disruptive—mechanism through which transparency is expected to reduce costs is by revealing the prices insurers negotiate, a practice that is not the norm in other parts of the economy (as the old saying goes about a legendary department store rivalry, does Macy’s tell Gimbels?). The assumption behind this approach is that insurers will be able to negotiate more aggressively if they are aware of one another’s prices.

But revealing price information might shift negotiating power in the opposite direction. In today’s market, physicians likely have little information about the prices their colleagues have been able to extract from insurers. It could also make it more difficult for new insurers to enter markets, by raising the costs to clinicians and hospitals if they choose to offer favorable prices to new entrants. The likelihood that price revelation will raise prices is the reason antitrust economists generally disfavor it. Although the risks of such price increases are real, the high prices and lack of competition in most US markets already will likely limit the extent of such effects.

As long as consumers face high and varying out-of-pocket costs for their care, as so many now do, price transparency seems obligatory. The potential for these tools to reduce costs appreciably, however, is low. In the New Hampshire study, the most successful price transparency experiment to date, price disclosure and consumer shopping prompted suppliers to reduce their own prices by 3% over time. This is a statistically meaningful result, but it is not transformational. Today, 10 years after initiation of the New Hampshire effort, a national price transparency tool suggests that MRI prices in New Hampshire are no lower than those in neighboring states without such tools.

Price transparency is not, in itself, a solution. It is best understood as an intermediate stage in the policy process as we confront the reality that prices, not utilization, drive high spending in the US. In that spirit, perhaps the most valuable result of these transparency regulations will be the availability of data to health policy researchers, who can use it to develop more powerful strategies to contain US health care costs.

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