Healthcare Price Transparency: Understanding the Cost-Pricing Relationship

Health Catalyst Editors

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This article is based on a webinar by Deb Gordon, healthcare executive and author of the book, "The Health Care Consumer's Manifesto: How to Get the Most for Your Money," and Pat Rocap, Director of Cost Management Services at Health Catalyst, titled Healthcare Consumerism and Cost: Dispelling the Myth of Price Transparency.

The federal government's final rule on price transparency took effect on January 1, 2021, pushing healthcare organizations to increasingly prioritize the price disclosure to consumers before receiving care. As health systems plan their price transparency strategies, they must understand consumer pressures and expectations and plan to bridge the gap between their costs and what they charge patients.

Consumer-grade price transparency, however, hasn't historically worked in healthcare. Care delivery's complexity and fluidity make price determination and understanding more complicated than in other consumer environments, such as supermarkets. Health systems must identify the importance of price transparency in their business models and connect their costs to the prices they pass to their customers to give healthcare consumers the same level of price transparency they expect in other everyday transactions.

Why Healthcare Price Transparency Matters to Consumers

As healthcare moves away from a fee-for-service model, patients are responsible for larger portions of their medical bills, with deductibles and higher out-of-pocket costs increasingly common. With growing financial responsibility, the American public wants to understand more about the healthcare market and what drives consumer costs.

Additionally, healthcare's role in the national economy makes the industry's financial well-being a significant concern for the U.S. population at large. Healthcare is an essential contributor to the overall U.S. economy, with the national healthcare spend comprising almost 20 percent of the gross domestic product. In 2019, before the pandemic, the estimated gross spend was $3.8

trillion, with hospital expenditures accounting for $1.2 billion of that amount. Beyond healthcare's national social and economic impact, the industry also affects local economies and daily lives, as healthcare providers are often a community's largest employer.

Why Healthcare Needs a Consumer Lens on Price Transparency

With growing public interest in healthcare charges, health systems must take a consumerism approach to pricing, enabling healthcare to succeed as a working market and allowing consumers to make economically rational choices. Consumer confidence, or lack thereof, and experience in the healthcare system, directly impacts the industry's bottom line, as the public will avoid medical care when they don't know the financial outcomes.

For example, more than two-thirds of Americans report concern about receiving a surprise medical bill, and 68 percent have gotten one. These unexpected charges cause confusion and anxiety that lead many individuals to forgo medical care.

Furthermore, consumers want to understand their financial responsibility for healthcare but are too often unsuccessful. According to a Public Agenda survey in 2017, of 57 percent of Americans who have not tried to find price information before getting care but would like to know the prices, 51 percent indicated they didn't know how to do so. Additionally, 70 percent of Americans said it was a good idea for clinicians and healthcare staff to discuss prices with patients before ordering tests or procedures or referring patients to specialists (even though only 28 percent reported having such price conversations).

From the consumer perspective, a lot of healthcare prices don't add up. For example, a sling that sells online for $10 may cost $30 at a hospital or clinic. This price gap might not make sense to the consumer unless they understand that, in the healthcare setting, the sling's price also reflects the overhead cost of the facility, administration, services, providers, and more.

For consumers, price transparency, in healthcare and otherwise, means the seller lists the price on products or services. Price transparency gives the consumer a basis for making a comparison, and therefore a judgment, about what purchases make sense to them. For example, a supermarket offers various products with the charge to the consumer clearly marked, allowing the buyer to choose between options knowing what they'll pay at the register.

The Complexity Behind Healthcare Price Transparency and Consumerism

Healthcare consumers, however, frequently have the opposite of the supermarket experience. While purchasing healthcare services is much more complex than groceries, as consumers, patients need and expect a similar level of price transparency as the supermarket. For most individuals who go into a healthcare encounter, choose a health plan, or evaluate a service, the healthcare "market" they enter doesn't resemble their other consumer experiences (e.g., the price-transparent supermarket). In no other common encounter does the buyer agrees to a purchase—especially a potentially large one—without knowing the price.

The central challenge to achieving healthcare consumerism and price transparency is that the industry doesn't know the cost of its services. Providing transparency is complex, as healthcare's countless services and codes rarely, if ever, correspond directly to a specific price. Furthermore, price depends on the service, the provider, the insurer, and where the patient is on their deductible with a particular plan.

Closing the Provider Cost and Price Transparency Gap

In January 2021, price transparency final ruling solidified hospital price transparency requirements, further closing the gap between provider cost and consumer price. The rule aims to make it easier for consumers to shop and compare prices across hospitals and estimate the cost of care before a healthcare encounter. Healthcare organizations must now share their priced items and services on their websites in two different ways:
• 　　A comprehensive machine-readable file with all items and services.
• 　　A list of shoppable services in a consumer-friendly format.

The machine-readable file contains gross charges, discounted cash prices, payer-specific negotiated charges, and de-identified minimum and maximum negotiated charges. The consumer-friendly display of shoppable services includes a collection of at least 300 services that a healthcare consumer can schedule in advance (70 of which are CMS defined). Shoppable service lists must contain plain language descriptions of services and group them with ancillary services, proving the discounted cash prices, payer-specific negotiated charges, and de-identified minimum and maximum negotiated charges.

In place of the consumer-friendly shoppable services, organizations can offer a price estimator via their website. The estimator must display 70 CMS-defined items. These items are non-emergent, planned care. Estimators can include self-pay, particular insurances, and de-identified minimum and maximum of negotiated charges.

For example, using the code for a major joint replacement (e.g., hip or knee), MS-DRG 470, a consumer can enter self-pay on a hospital website. The price transparency regulations specify that organizations include professional services for their employee positions. In the MS-DRG 470 example (Figure 1), the estimator would produce the hospital's charge (such as on a universal billing form for all hospital services during an inpatient stay). The estimator would also show the adjusted charges and the line item the patient would be responsible for in a self-pay scenario.

Figure 1: A price estimator example.

Steps in the Right Direction Leave Room for Improvement

Conspicuously absent in some online price resources, such as the above estimator example, are physician details, leaving room for improvement. An estimator might display "outpatient surgical professional" but doesn't specify whether this means the surgeon, anesthesiologist, or another clinician. This lack of specificity leaves the risk for surprise billing, as the consumer doesn't know which professional the estimator includes.

The estimator also omits other professional services, such as radiology or pathology. Those two items, especially radiology, will be part of a joint replacement procedure in a hospital. For transparency to succeed from a consumer adoption perspective, pricing information needs more clarity.

Other details the consumer might not access on the price estimator include pre- and post-procedure services—where those take place and what's involved. Potential post-discharge scenarios for a joint replacement include a brief skilled nursing facility stay, physical therapy, and medications. The price estimator doesn't have these post-discharges prices, so they're in addition to what the consumer pays before discharge.

How to Bridge the Healthcare Cost-Price Gap

To continue closing gaps in healthcare price understanding, organizations need to fully understand their costs and pass that insight to consumers. Hospital cost is all the expenditures of providing the services to the patient; the provider then constructs the charges (or prices) to cover the cost of providing service. Consumer price is the amount of the provider charges for which the patient is responsible.

The Complexity of Healthcare Cost

The provider has to construct charges, or prices, to cover those costs of its services, which is where the chargemaster (Figure 2), also known as a charge description master (CDM), comes in. The chargemaster is a comprehensive list of an organization's billable procedures to a patient.
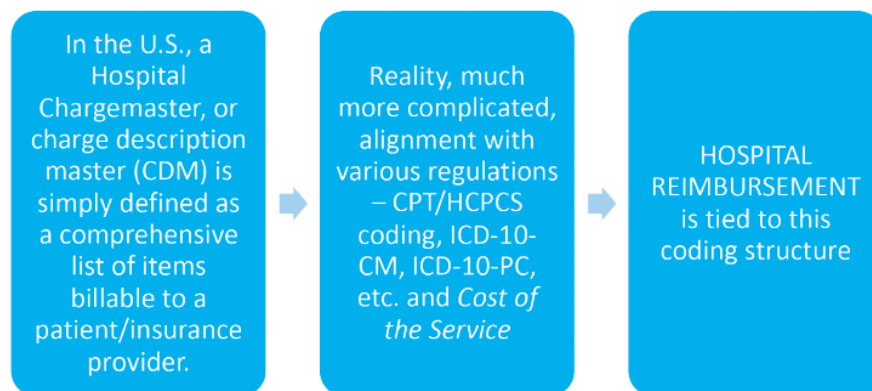

Figure 2: The hospital chargemaster.

Due to U.S. reimbursement regulations (CPT coding, HCPCS coding, ICD-10 procedure coding, and the common diagnosis procedures), the chargemaster is a complicated listing, making transparent healthcare pricing more challenging. Structuring the chargemaster in alliance with coding regulations is so involved that the billing department sometimes loses that individual item's cost.

In addition to chargemaster challenges, healthcare too often silos its costing systems, basing costing around the general ledger. Organizations use departmental cost-to-charge ratios or relative value units attached to charge codes that may not reflect today's healthcare business. Digital health technology, from the EMR to a cloud-based data platform (e.g., Health Catalyst's Data Operating System (DOS™)), has made more costing insights available beyond the general ledger.

When Organizations Know Their Costs

Organizations that know their costs can ensure their expenses align with their patient charges and transparently share their pricing drivers. Health systems must break down cost silos to understand how activity drives cost to find true costs and achieve price transparency.

For example, the operating room (OR) is rich in costs and different service lines. From a traditional, siloed cost perspective, OR physicians appear to bring in more money, as their service charges are higher. But a health system must also consider why OR charges are higher. Are they using more expensive medical supplies? Are they using more labor? Or are they taking longer in the operating room? Only by evaluating these elements behind the charges can organizations accurately understand their costs.

Price Transparency as the Root of Better Healthcare

Health systems must bridge the gap between cost and price to meet today's consumer expectations and remain viable in an environment in which shrinking margins make every dollar count. Organizations that understand their services' true cost can transparently share prices with consumers to earn their trust and thereby build last relationships. Also, by understanding their services' true cost, health systems build practices and processes that remove variation and waste, further positioning themselves for ongoing improvement and market leadership.