

Health Issue Brief:

Price Transparency

Background

Rising health care prices have fueled an increase in the number of government initiatives that push for price transparency. The variation between health care prices, cost and what is actually paid for services has led to confusion and frustration for consumers and government officials alike.

Rising Concern for Consumers

Consumers are paying more health care costs as insurers shift more of the burden onto them by raising deductibles and co-payments and narrowing their portfolio of in network providers. News outlets have increasingly highlighted the number of unaffordable surprise bills for hospital and physician services that consumers thought would be less covered by their insurer. The inflation of health care costs and the inconsistent range of costs for similar services across the nation has also drawn the scrutiny of law makers who want to know if prices are being set fairly. The lack of clarity and understanding of the aforementioned issues have led consumers and lawmakers to demand more accountability and transparency.

High Cost of Health Care

U.S. health care facilities are equipped with the technology and resources needed to respond to and treat a wide variety of medical procedures, which contributes to the high cost of health care services. For health systems, the most expensive commodity is the staff needed to provide high-quality, modern health care. In addition, the rising prices of drugs (as well as the equipment and facility fees required to run a 24/7 operation) contribute to overall costs. Hospitals must also ensure that they meet all the clinical and governmental regulations required to be licensed and to operate, which further bloats administrative expenses. Moreover, health care's final price tag includes delivering care to patients who cannot pay for all or some of the services they are provided. This includes patients with government insurance, which pays below cost, uninsured and underinsured patients.

Key Highlights:

- 70% of consumers are confused by their explanation of benefits and medical bills.¹
- Hospitals' gross charges, insurer negotiated rates and patient liability are not the same price.
- Many hospitals have price estimator tools for patients.
- Providing a patient's out-of-pocket costs remains challenging because information from insurers is needed to provide an accurate estimate.

Types of Charges

Gross Hospital Charges

Hospitals were mandated to maintain a summary of their gross charges for all of their services, called a chargemaster, in 1965 under the Federal Medicare program. Today, these gross prices are set at the market value in the hospital's service area, and public and private payers only pay a percentage of the price listed in the Chargemaster.

Insurer Negotiated Rates

Insurers negotiate the rates they will pay hospitals for their services. These rates are a percentage of the gross charges. Insurers are also able to negotiate rates separately with the physicians at a hospital, which can result in hospitals being in a patient's network but individual physicians being out-of-network.

Prices Meaningful to Patients

The amount of money that a patient will need to pay out-of-pocket is what matters most to consumers. Up to 62% of patients list their out-of-pocket costs as the deciding factor in whether to visit a hospital or doctor.¹ Under a recent federal initiative, the Center for Medicare and Medicaid Services (CMS) has mandated that hospitals make public a their chargemaster and insurer-negotiated rates.² Hospitals' gross charges and insurer negotiated rates are not as meaningful to patients because the patient almost never pays the full charges. Not-for-profit hospitals give self-pay and uninsured patients a discount from the gross charge. Patient liability usually includes a deductible (the amount paid out-of-pocket, before the insurer starts covering services) and co-payments (a small flat fee a patient must pay every time he/she utilizes a service). Additionally, after a patient reaches their deductible, they are liable for a percentage of the insurers negotiated rate.

Variables Impacting Patient Pricing

Some hospitals have initiatives to provide patients their out-of-pocket costs through online pricing tool estimators but providing an accurate estimate upfront remains a challenge. Unforeseen circumstances can impact the amount of care a patient is predicted to receive such as comorbidities and complications. Additionally, a patient's liability greatly depends on factors regarding their insurance plan. These factors include if they have met their deductible, the cost-sharing liability included in their plan and whether the physicians are in-network or out-of-network.

¹ TransUnion, [Price Transparency May Help Patients Swallow Bad Economic News.](#)

² NPR, [Trump Wants Insurers and Hospitals to Show Real Prices to Patients.](#)