National Center for Policy Analysis

BRIEF ANALYSIS
No. 548
For immediate release:
Wednesday, March 29, 2006

Transparency in Health Care

by John C. Goodman

Consumers may soon be able to shop for health care the way they shop for groceries. But in order for patients to become savvy shoppers in the medical marketplace, they must be able to discover what things cost and to compare prices as well as value. Today, that's not easy.

A recent Harris Poll found that consumers can guess the price of a new Honda Accord within $300. But when asked to estimate the cost of a four-day stay in the hospital, they were off by $8,100! Further, 63 percent of those who had received medical care in the last two years did not know the cost of the treatment until the bill arrived, and 10 percent never learned the cost.

Employees are increasingly being asked to make their own choices and manage their own health care dollars. Within the last few years, employers have raised health insurance deductibles and copayments, and many employees have a special account from which to pay bills directly. The medical marketplace is not prepared for these changes. Not only do patients typically not know the cost of the medical services they receive, health care providers often make price and quality information difficult, if not impossible, to obtain. Why is this so? What institutional and technological changes are needed to make such information routinely available? What is the appropriate public policy?

Source of the Problem. The principal reason why prices for health care are not easily accessible to consumers is that prices do not serve the same function they do in other markets. Specifically, doctors and hospitals do not compete on the basis of price, and prices do not ration scarce resources as they do in other markets.

On the average, every time an American spends a dollar on physicians' services, only 10 cents is paid out of pocket; the remainder is paid by a third party. From a purely economic perspective, then, our incentive is to consume these services until their value to us is only 10 cents on the dollar. Moreover, millions of Americans do not even pay the 10 cents. Medicaid enrollees, Medicare enrollees who have medigap insurance, and people who get free care from community health centers and hospital emergency rooms pay nothing at the point of service. And most members of managed care organizations (HMOs and PPOs) make only a modest copayment for primary care services. Clearly we are not rationing health care on the basis of price.

Instead, we ration physicians' services the same way other developed countries do. We force people to pay for care with their time. The services of physicians are a scarce resource. So at a very low out-of-pocket price the demand far exceeds supply. Unable to balance supply and demand with money prices, our system rations by waiting.

Health care cannot be both easily accessible and free. It must be one or the other. Waiting is not an accidental byproduct of modern health care delivery. It is an essential component. In general, if doctors do not compete with each other on the basis of price, they do not compete at all. Because time, not money, is the currency we use to pay for care, the physician doesn't benefit (very much) from patient pleasing improvements and is not harmed (very much) by an increase in patient irritations.

Consumers may soon be able to shop for health care the way they shop for groceries.

As with physician services, third-party payers set and pay fees for hospital services. The scarce resource again is the doctor's time. Here, however, it is not patients who are waiting on doctors; it is empty hospital beds (and other facilities) that wait on doctors to fill them. In neither sector are prices used to bring supply and demand into balance. In neither sector do providers compete based on price.

Can Health Markets Be Different? Waiting is a wasteful way to allocate resources. In markets for other goods and services, the consumer's cost is typically the producer's or seller's income. But when people pay for goods with their time, their waiting cost is not someone else's income, it is a net social loss.

Rationing by waiting is also a poor way of delivering health care. It does not provide a way to ensure that those who need care the most get it first, or even at all. Human resource experts estimate that one-quarter of physician visits are for conditions patients could easily treat themselves. Balanced against these "unnecessary" visits are all of the potential patients who choose not to seek care.

Dallas Headquarters: 12770 Coit Rd., Suite 800 • Dallas, TX 75251• 972-386-6272 • Fax: 972-386-0924 • Web site: http://www.ncpa.org
Washington Office: 601 Pennsylvania Ave., N.W., Suite 900, South Building • Washington, D.C. 20004 • 202-220-3082• Fax: 202-220-3096
For more information, contact the NCPA Communications Department at 972/386-6272 or 800/859-1154.

To find radically different physician behavior, one must look at markets where third-party payers are not involved at all, such as the markets for cosmetic and laser vision correction surgery. Unlike other forms of surgery, the typical cosmetic surgery patient can (a) find a package price in advance covering all services and facilities, (b) compare prices prior to the surgery and (c) pay a price that is lower in real terms than the price charged a decade ago for comparable procedures — despite considerable technological innovations in the interim.

These entrepreneurial activities eliminate waste and inefficiency: (a) they allow patients to economize on time and (b) they step outside the normal reimbursement channels, usually asking for payment at the time of service. Here are some other examples:

- MinuteClinics are walk-in facilities located in selected Target and Club Food stores and some CVS Pharmacies, and Wal-Mart has signaled its interest in providing a similar service nationwide. Staffed by nurse practitioners, no appointments are necessary at these clinics and most visits take only 15 minutes. Treatments range from $25 to $105. In contrast to standard physician practice, both medical records and prescriptions are processed electronically.
- TelaDoc is a service offering medical consultations by telephone. A doctor usually returns patients' calls within 30 to 40 minutes. If the call is not returned within three hours the consultation is free. Access is available around the clock. Registration for the service costs $18. Phone consultations are $35 each, with a monthly membership fee ranging from $4.25 to $7.
- CashDoctor.com is a loosely-structured network for doctors across the country that are "cash friendly." Practice styles and fee schedules are available online.

Is Needed Technology Available? If health insurance worked like the insurance people purchase for their homes and automobiles, reimbursements would cover the expected cost of care for most providers; but patients would be free to negotiate prices with individual providers and pay more for better service. However, patients must be able to access price and quality information. Some assume that we need a new government program to kick-start needed technological changes. Yet the private sector already has developed many of the tools to solve these problems.

- The Web site Rxaminer.com allows patients to discover therapeutic and generic substitutes for brand-name drugs, and over-the-counter alternatives. DestinationRx.com allows patients to compare prices nationwide.
- HealthMarket has developed a model that allows insurees to compare the price they would pay for any of 20,000 procedures performed by 400,000 doctors around the country.
- A product developed by Subimo allows patients to compare data on the quality of performance among most hospitals in the country.
- A product developed by eMedical*f*iles creates needed transparency for doctors — it allows medical records to travel electronically as patients go from doctor to doctor and hospital to hospital.

What Public Policy Changes Are Needed? If we do not need government to fund or regulate new technologies, what changes are needed? New government policies can help in two ways. First, in markets where government is the primary third-party payer (for example, Medicare or Medicaid), policymakers can use existing technology to let enrollees access price and quality information. (Some modest steps in the right direction are already underway.)

Second, we need to change the tax law to make it easier for people to self-insure for medical expenses instead of over-relying on third-party insurance. A step in the right direction is the creation of Health Savings Accounts (HSAs). Instead of an employer or insurer paying all the medical bills, about 3.2 million people are managing some of their own health care dollars through these accounts and another 3 million have Health Reimbursement Arrangements.

Conclusion. Health care services will be delivered more efficiently if patients are charged money prices for the use of the doctor's time. This will give consumers incentives to shop for the best health care available at the lowest price — the way they do for every other good.

John C. Goodman is president of the National Center for Policy Analysis.