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Healthcare Price Transparency and Competition

How Real Price Transparency Can Reduce American
Healthcare Costs More Than \$1 Trillion Annually and
Extend Life Expectancy

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EXECUTIVE SUMMARY

American healthcare is in a crisis. Costs are soaring, and life expectancy is plummeting. Over the last 50 years, U.S. healthcare spending as a share of GDP has gone from in line with the Organization for Economic Cooperation and Development (OECD) average to nearly twice as much. At the same time, the U.S. has gone from a leader to a laggard in life expectancy, with Americans dying four years earlier than their counterparts in other OECD countries. Essentially, we are paying twice as much to die far younger than in competing developed nations. (See Chart 1.)

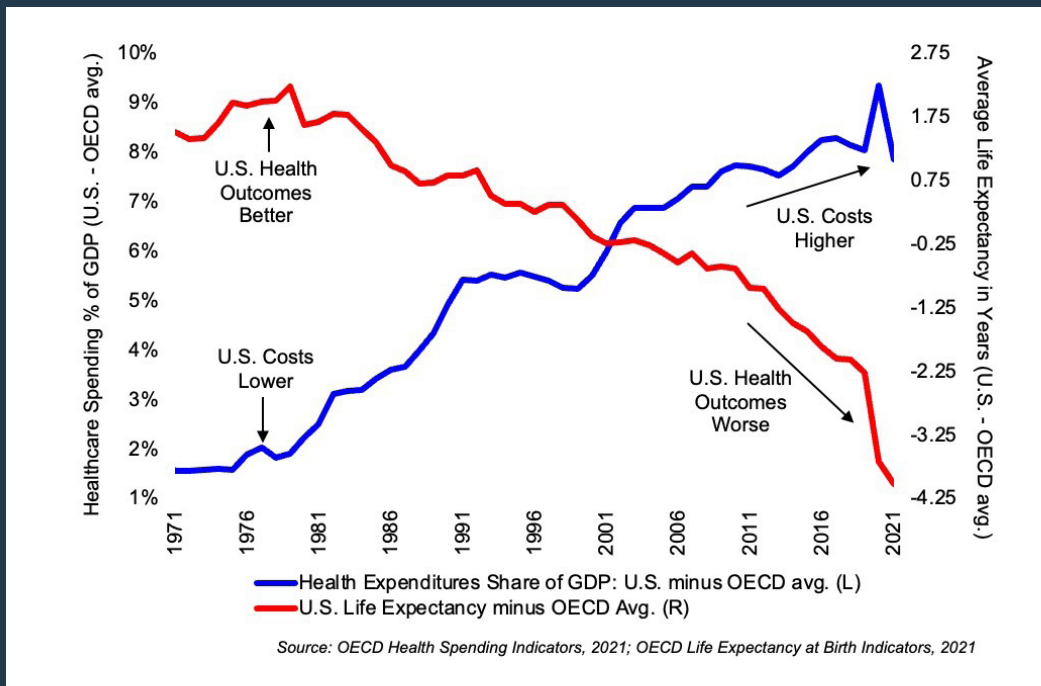
These alarming health spending and life expectancy trends cause undue and unnecessary harm to the American people, businesses, unions, and the public sector. Businesses and workers pay for all American healthcare, including private commercial and all government plans through earnings, wages, and taxes. Runaway healthcare costs suppress workers' wages and savings, with both paycheck deductions and out-of-pocket costs eroding individual and family budgets.

As a result, 100 million Americans are burdened by medical debt. Across the country, hospitals are suing patients to garnish wages, put liens on homes, and seize assets, placing an undue burden on individuals and their families. The insurance industry's year-after-year high single- and double-digit price increases for employer and union health plans reduce corporate earnings and consume public-sector budgets. These spiraling costs ultimately hurt U.S. competitiveness on the domestic and global scale.

America has a momentous opportunity to put these trends in reverse through systemwide healthcare price transparency, which can reduce U.S. healthcare spending by more than \$1 trillion per year while increasing life expectancy. Price transparency shifts power from hospitals and insurance companies to consumers, employers, and unions.

Chart 1: La Croix De Santé (The Health Cross)

U.S. Life Expectancy Minus Average of Other OECD Countries and U.S. Health Expenditures Minus Average of Other OECD Countries



INTRODUCTION

Prices give consumers the ability to comparison shop and design health plans, choosing better quality and lower cost providers. Importantly, prices can be compared to claims data to prevent and remedy rampant overcharges, spread pricing, and to expose errors and fraud that occur in the shadows of the current opaque system. In order to have integrity and trust and a true competitive healthcare market, both patients and employer and union health plans need to be fully informed of accurate and actual price quotes, bills to match that price, and reconciliation of employer claims and funds transfer of payment -- just as in any other functioning market. Double-entry accounting needs to apply to healthcare, as much of the overcharges and runaway costs are due to no accounting and accountability.

Price transparency will unleash a competitive, affordable health system that eliminates widespread waste, overbilling, and price gouging under the opaque status quo. Price transparency will shine sunlight on the market distortions, inefficiencies, and asymmetries that drive up expenditures and worsen health outcomes. Actual prices in advance of care empower healthcare consumers to choose the best care at the best prices to substantially lower healthcare costs. Importantly, prices are necessary to hold both hospitals and insurance companies accountable.

Price transparency allows consumers to compare actual prices to medical bills or claims data to prevent overcharges and benefit from remedy and recourse if they don't match. Actual prices -- not estimates or other price substitutes -- and real-time digital receipts of payments allow for consumer auditability and reconciliation like any other market transaction, eliminating health industry spread pricing and upcharging. Healthcare providers and insurers will also respond to prices and outcomes.

A 2019 JAMA paper estimated that at least 25% of the more than \$4 trillion in annual U.S. healthcare spending is administrative waste, errors, overcharging, and fraud. As a result, the U.S. spends 5.5 percentage points more of its GDP on healthcare than the average of the top 10 next highest spending OECD nations,

amounting to \$1.3 trillion in annual overspending that can be saved through price transparency.

Because of the effects incentives have on behavior, price discovery will improve health outcomes and life expectancy. Consumers will know what they're going to get at what price and act accordingly. Hospitals and health insurers will compete on price, quality, outcomes, and access. When consumers can receive care at market prices and hold hospitals and health insurers accountable, they will stop delaying treatment and get the care they need when they need it.

In addition to the enormous human benefits of improved health, these annual healthcare savings can generate a significant economic stimulus, boosting workers' wages and business competitiveness while reducing the financial devastation associated with the high-cost status quo. Consider the following savings success stories that can be replicated throughout the economy with systemwide price transparency:

- **State of Montana Health Plan:** Saved \$121 million in 18 months and avoided insolvency by analyzing transparent claims and pricing data, which revealed rampant overcharging. It contracted with hospitals at prices slightly more than twice Medicare rates.
- **Rosen Hotels and Resorts:** Saved roughly 50% on its health plan costs after identifying widespread overcharging from its health insurer and moving to a direct contracting, price-transparent model that cut out middle players and provides comprehensive preventative and primary care on-site.
- **SEIU 32BJ:** Saved \$33 million a year on its health plan, generating funds to give its nearly 200,000 members \$3,000 bonuses and their largest pay raise in history, by analyzing claims and pricing data. The savings were achieved by carving out one major New York City hospital that was price gouging the plan.

U.S. VS. OECD HEALTH SPENDING AND LIFE EXPECTANCY

According to OECD data, the U.S. spent 17.4% of its GDP on healthcare in 2021, almost two times the OECD average (excluding the U.S.) of 9.5%. (According to U.S. government figures, the U.S. spent 18.3% of its GDP on healthcare in 2021.)

The U.S. experiences significantly inferior health outcomes in return for this excess spending. U.S. life expectancy has declined in recent years from 78.9 years in 2014 to 76.4 years in 2021. U.S. life expectancy is four years less than the 2021 OECD average (ex-U.S.) of 80.4 years. The U.S. is a massive outlier when it comes to the relationship between health spending and life expectancy. (See Chart 2.)

PRICE TRANSPARENCY CAN REDUCE HEALTHCARE COSTS

Almost everyone has a healthcare billing horror story due to the lack of price transparency. Consider Dr. Laffer's: After his son returned to Nashville after vacationing in Spain with his wife during the early stages of the Covid-19 pandemic, he felt sick and went

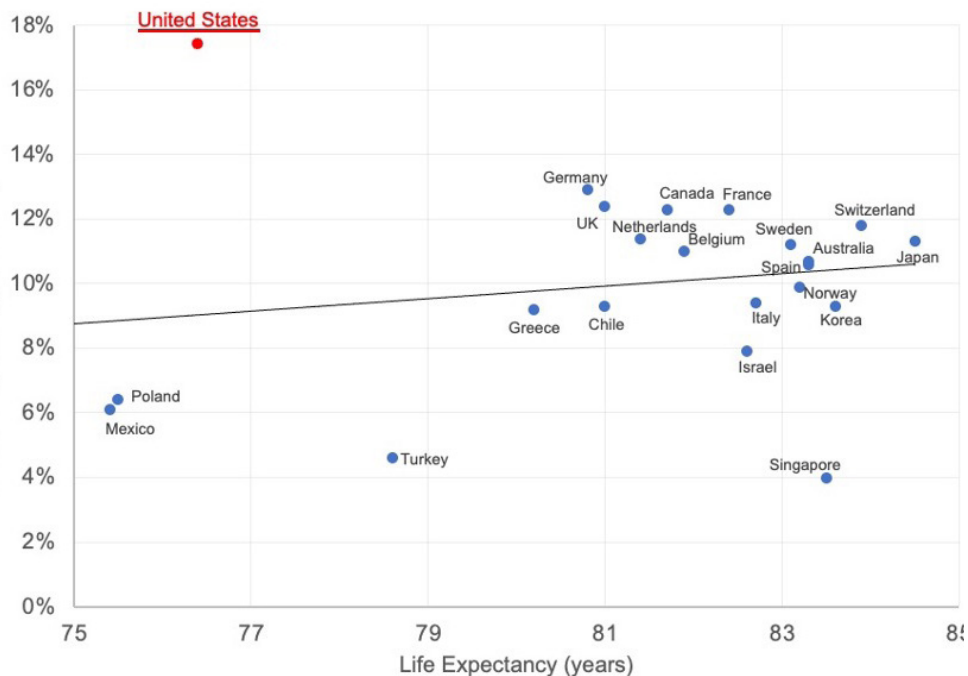
to the emergency room. He did not see a doctor but instead was attended to by four nurses, never tested for Covid, and sent home after a couple hour visit. Several weeks later and feeling better, he was overcharged with a \$16,000 hospital bill. Actual prices are needed for patients to protect themselves from such overcharges and defend themselves from ensuing hospital lawsuits by ensuring the underlying bills are correct.

Hospitals and insurance companies operating in the opaque system unabashedly use revenue-cycle optimization, upcoding, and upcharging to maximize profitability in each patient encounter. Further harming patients is the fact that in order to receive care, they are forced to personally guarantee they will pay all ensuing charges without limit or knowledge.

PRICES VARY TEN TIMES OR MORE FOR THE SAME CARE AT THE SAME HOSPITAL

Empowered with actual prices, patients and employers can spot wide price differences of ten times or more for the same care, even at the same hospital, and choose quality, less

Chart 2: Health Spending vs. Life Expectancy, 2021



Source: OECD Health Spending Indicators, 2021; OECD Life Expectancy at Birth Indicators, 2021

expensive alternatives. For instance, prices for the same standard non-contrast brain MRI (CPT code 70551) at four Los Angeles hospitals vary wildly depending on location and payer. (See table below.)

At the same hospital, Pomona Valley Hospital, prices of this MRI vary by 15 times, from \$450 for consumers paying with cash to \$6,766 for consumers paying with Healthnet insurance. Across hospitals in this market, prices of this MRI vary by more than five times for patients with Cigna insurance, from \$596 at Torrance Memorial Medical Center to \$3,212 at Cedars-Sinai, which is only 20 miles away.

When prices are known, consumers can choose affordable care at best-market rates and benefit from competition. Consumers will avoid price-gouging providers and insurance companies, applying pressure to lower prices. U.S. healthcare quality can improve and costs decrease, as in the cases of LASIK and plastic surgery. In these markets, where prices are transparent and guaranteed, quality and access have improved, and real prices have significantly declined in recent decades.

THE \$1 TRILLION HEALTHCARE SAVINGS OPPORTUNITY

Comparing U.S. healthcare spending to the top 10 next highest spending OECD nations suggests the U.S. can save more than \$1 trillion annually. The top 10 biggest OECD healthcare spenders (ex-U.S.) spent an average of 11.9% of their GDPs on healthcare in 2021. This is 5.5 percentage points less than the 17.4% of GDP that the U.S. spent. If the U.S. could match this 11.9% of GDP spending performance through price transparency reforms, it would cut its annual healthcare spending from \$4.1 trillion to \$2.8 trillion. (See Chart 3.)

In other words, if the U.S. could match the top 10 biggest OECD healthcare spenders, it could save approximately \$4,000 annually per man, woman, and child in the country. (Limiting the analysis to the top 10 largest OECD healthcare spenders eliminates nations such as Mexico and Turkey, which spend very little on healthcare, but whose economies and healthcare standards, expectations, and services are still developing and aren't appropriately comparable to the U.S.

Price Comparisons for a Brain MRI (CPT CODE: 70551) at Los Angeles-Area Hospitals

Insurance Plan	Hospital			
	Cedars-Sinai Medical Center	Torrance Memorial Medical Center	Huntington Hospital	Pomona Valley Hospital
Aetna PPO	\$3,059	\$1,434	N/A	\$2,427
Blue Cross HMO	\$2,676	\$1,515	N/A	N/A
Blue Cross Sr HMO	\$700	\$1,107	N/A	N/A
Blue Shield HMO	\$2,403	\$1,189	\$1,134	\$5,646
Blue Shield PPO	\$2,403	\$1,498	\$1,514	\$5,646
Cigna PPO	\$3,212	\$596	\$945	\$6,500
Healthnet HMO	\$3,867	\$2,087	\$2,134	\$6,766
Healthnet PPO	\$3,485	\$2,087	\$2,488	\$6,766
Kaiser	\$4,250	\$4,291	\$1,939	N/A
UHC_HMO	\$2,700	\$1,259	\$2,555	\$1,210
UHC_PPO	\$3,303	\$1,115	\$1,494	\$1,283
Medi-Cal HealthCare LA	N/A	N/A	\$39	N/A
Cash	N/A	N/A	N/A	\$450

N/As reflect lack of payer price published by hospital; yellow shade is highest hospital price, green is lowest. Source: Cedars-Sinai, Torrance Memorial, Huntington Hospital, and Pomona Valley hospital pricing website pages. Data derived from hospitals' standard pricing files on Aug. 24, 2023, by PatientRightsAdvocate.org.

Looking at the top 10 biggest spending OECD nations offers the most direct comparison possible to the U.S. economy, standard of living, and healthcare standards, expectations, and services.)

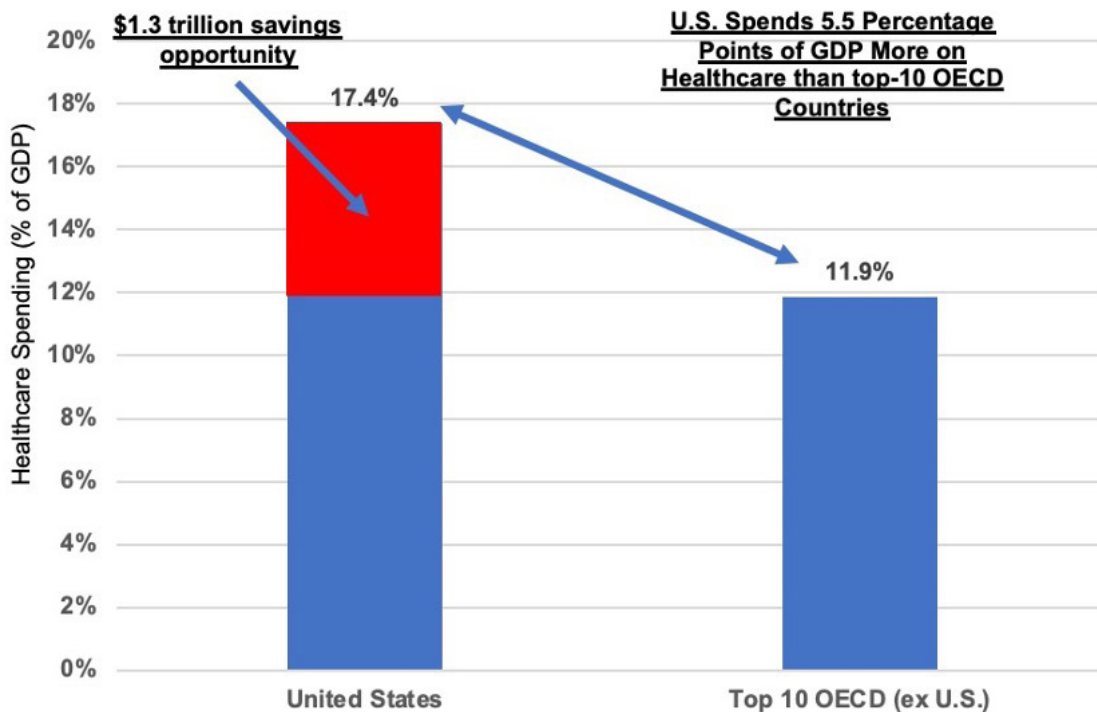
This U.S. spending relationship with other OECD nations is not without precedent. The U.S. didn't spend the most on healthcare among OECD nations until 1982 when it spent 9.2% of GDP on healthcare. For the rest of the 1980s, the U.S. only spent one percentage point or so more than the next largest OECD spender. As recently as 1991, the U.S. spent less than 12% of its GDP on healthcare. If the U.S. can return to spending around 12% of its GDP on healthcare, it can save more than \$1 trillion per year. (See Chart 4.)

What changed in the U.S. healthcare system since the 1970s and 1980s? Healthcare delivery has become contaminated with countless opaque middle players that pursue revenue cycle optimization and profiteering,

driving up costs and distorting the market. These middlemen include insurance carriers, third-party administrators (TPAs), nurse navigators, claims processors, billing department administrators, pharmacy benefit managers, and group purchasing organizations. According to OECD data, around one-third of U.S. healthcare spending in 1975 was paid directly from patients' wallets versus only 11% today. This has divorced patients from the true cost of their care, prevented them from shopping for the best care at the best prices, and allowed an inflationary infrastructure to grow between them and their care.

As recently as the 1970s and 1980s, American healthcare consumers shopped for the best care at the best prices for routine care. They paired this direct, transparent care with what was known as "major medical" insurance to cover severe health events. This competitive model kept healthcare prices in check and can do so again.

Chart 3: U.S. vs. Top 10 OECD (ex U.S.) Health Spending (% GDP), 2021



Source: OECD Health Spending Indicators, 2021

PRICE TRANSPARENCY CAN IMPROVE HEALTH OUTCOMES

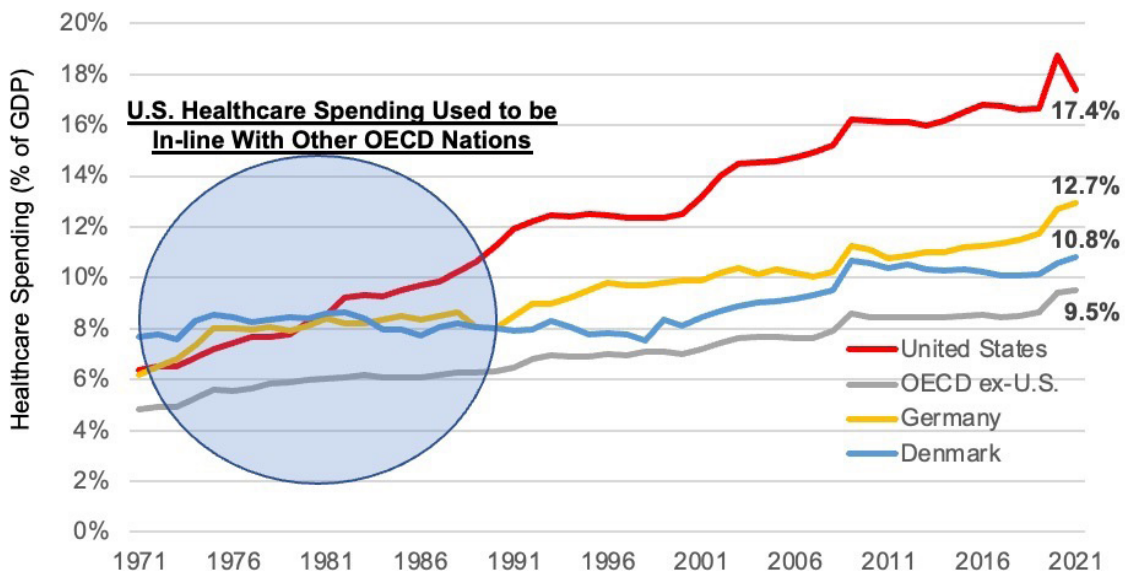
Price transparency and competition will create quality and outcomes transparency. Hospital and health insurance accountability will improve health outcomes.

Actual, upfront prices encourage widespread preventative care that can treat conditions before they become more serious. Patients will have financial certainty to access care when they need it at prices they can afford. Consumer choice will expose providers to market pressures

and transparent accountability that will boost healthcare quality and outcomes, helping improve life expectancy.

Hospitals already aggregate quality metrics such as length of stay, readmission rates, patient outcomes, and mortality rates. They will widely publish and compete on this quality data in a transparent market to try to gain a competitive advantage. According to Johns Hopkins University, medical errors kill an estimated 251,000 Americans each year. Accountability and further transparency in outcomes can expose and reduce these pervasive medical mistakes.

Chart 4: U.S. Health Spending vs. Germany, Denmark, and OECD Average (ex U.S.)



Source: OECD Health Spending Indicators, 2021

Standards of care would also emerge in a price transparent market, helping boost healthcare quality as overtreatment and unnecessary surgeries are curtailed. For instance, the standard of care for a partial ACL tear may turn out to be physical therapy, including stationary bike use to increase blood flow to the knee, rather than surgery. The reasonable standard of care for a strep throat test can emerge, revealing it can be performed without a doctor or follow-up appointment.

Such standards of care can, on the margin, reduce unnecessary surgeries that may

negatively affect patients' life trajectory and life expectancy. With price transparency, healthcare providers will face strong incentives to stick to standards of care and a strong disincentive to overtreat.

HEALTHCARE PRICE TRANSPARENCY RULES AND LAWS

A hospital price transparency rule that took effect on January 1, 2021, and a health insurance price transparency rule that took effect July 1, 2022, already require hospitals and health insurers to post their actual prices, including

their negotiated health plan rates. The hospital rule requires publication of discounted cash rates, which research by Vanderbilt healthcare economist Larry Van Horn concludes are on average 39% lower than negotiated insurance rates. Direct contracting and upfront cash payments with certainty can allow for novel health plan design to drastically lower costs and cut out the many unnecessary middle players capitalizing on the patient encounter.

Unfortunately, this information is still not widely available to health consumers. According to a recent study by PatientRightsAdvocate.org, only 36% of American hospitals reviewed are fully complying with the rule. Health insurers have dumped prices in massive files that are uninterpretable for ordinary folks.

Due to the Consolidated Appropriations Act of 2021, employers also now have the legal right to all of their health receipts and itemized claims to evaluate and reconcile payments to providers and compare to third-party negotiated prices and have clear understanding of their insurance brokerage compensation. However, many large insurance carriers and TPAs have been withholding this critical data and engaging in anti-competitive behavior and overcharging, requiring employers and unions, including Ford, Kraft Heinz, Owens & Minor Inc., and Bricklayers and Sheet Metal Workers unions, to file lawsuits to access these charges. It is imperative that every employer, as a fiduciary of their health plan, can clearly analyze this data for fraud, overcharges, errors, and any insurer comingling or spread pricing.

These recent employer and union lawsuits, which cumulatively represent billions of dollars of overcharges, are a sign of a major shift in how employers and unions are managing healthcare and coverage costs. Access to pricing and claims data allows them to manage their healthcare costs like any other aspect of their supply chain, with a keen eye toward price and quality. They can replace opaque and conflicted TPAs with direct contracts with independent and transparent consultant TPAs who design plans based upon analytics of quality and price.

These savvy employers and unions have the opportunity to drive down healthcare costs and share the savings with their employees and members.

Prices transfer power to employers, unions, and patients. When these healthcare consumers can analyze prices, they can identify the best quality care at the lowest possible price and benefit from competition. They can benefit from remedy and recourse when final bills don't match. Employers can hold hospitals and insurers accountable and fine-tune their healthcare plans by drawing on claims and price data to reduce care and coverage costs by 25% to 50%. They can share these savings with both union members and company employees in the form of higher wages and take-home pay. Federal, state, and local governments can direct savings to improving infrastructure and education. Systemwide price transparency will improve American business and union competitiveness on the local and global scale.

This revolution can lower national healthcare expenditures by more than \$1 trillion annually. Empowered with financial certainty and affordable prices, Americans can get the care they need when they need it. Price and quality competition will improve healthcare outcomes, resulting in the greatest positive outcome of all: longer lifespans at a far lower cost.