Statement of Paul B. Ginsburg, Ph.D.
President
Center for Studying Health System Change

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Hearing on "**The Next Generation of Health Information Tools for Consumers**"

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Mr. Chairman, Mr. Vice Chairman and members of the Committee, thank you for the invitation to testify about the next generation of consumer health information tools. My name is Paul B. Ginsburg, and I am an economist and president of the Center for Studying Health System Change (HSC). HSC is an independent, nonpartisan health policy research organization funded principally by The Robert Wood Johnson Foundation and affiliated with Mathematica Policy Research.

HSC's main research tool is the Community Tracking Study, which consists of national surveys of households and physicians in 60 nationally representatives communities across the country and intensive site visits to 12 of these communities. We also monitor secondary data and general health system trends. Our goal is to provide members of Congress and other policy makers with objective and timely research on developments in health care markets and their impacts on people. Our various research and communication activities may be found on our Web site at *www.hschange.org*.

My testimony today will make three points:

- Engaging consumers to be more aware of cost and quality issues in health care has the potential to increase the value of health care not only for individual patients but also for the U.S. population as a whole. But some are overselling the magnitude of this potential. And achieving this potential will require investment in collecting and translating meaningful consumer price and quality information and encouraging innovative benefit structures. And even if this potential is reached, it will not be the hoped-for silver bullet that solves the health care cost crisis in this country.

- For most consumers who are insured, their health plan has long been their most powerful asset in shopping for lower prices, and insurers have the potential to become even more effective agents as they develop more sophisticated benefit structures and information tools to support consumers in choosing effective treatments from higher-quality, lower-cost providers.

- There are practical limitations on the ability and willingness of consumers to become savvy health care shoppers. Markets for self-pay health services, such as LASIK, are often cited as a model for consumer engagement, but our research indicates that consumers' experiences with self-pay markets have been romanticized and do not offer much encouragement as a roadmap for effective health care shopping without either a large role for insurers or regulation.

The current policy interest in price and quality transparency is essentially the second stage of the evolution of consumer-driven health care. The first stage was financial incentives for consumers in the form of greater cost sharing—high deductibles and coinsurance. Tax-sheltered savings accounts—health savings accounts (HSAs) and health reimbursement arrangements (HRAs)—may be useful tools to make increased cost sharing more palatable to consumers, but they do not reinforce consumer incentives to economize on health care—they actually temper them.

Now industry and policy makers are focusing on the tools needed by consumers to make informed decisions on reducing the costs of their care or ascertaining the quality of care. As insurers compete vigorously to sell consumer-driven products, they seek to differentiate their products on the basis of the tools offered to consumers to compare price and quality across providers. Policy makers are interested in exploring government's role in fostering greater cost-consciousness and a more favorable environment for consumers to make informed choices about health care services.

Traditionally, health insurance has either removed or sharply diluted consumer incentives to consider price in choosing a provider or treatment strategy. It is difficult for consumers to get price and quality information from providers—traditionally they have shown little interest in competing for patients on this basis. Likewise, there is little information available to help patients examine the effectiveness of treatment alternatives. Lack of quality information understandably makes consumers reluctant to choose a provider solely on the basis of a lower price. It is one thing to realize after the fact that you chose a poor-quality provider when price is not an issue but another to have that result from choosing on the basis of price. Similarly, lack of information on effectiveness of treatment alternatives makes consumers more reluctant to consider price in the choice of treatment. Consumer difficulties in weighing alternative treatment approaches reflects not only difficulties in accessing what is known about medical effectiveness but also a failure of government to make adequate investments in effectiveness research. Even with better information on price, quality and effectiveness of different treatments, there are strong indications that many consumers are unable and/or unwilling to seek health information from sources other than their physicians.[1]

Unfortunately, much of the recent policy discussion about price and quality transparency downplays the complexity of decisions about medical care and the dependence of consumers on physicians for guidance about what services are appropriate. It also ignores the role of managed care plans as agents for consumers (and purchasers of health insurance, such as employers) in shopping for lower prices.

Potential for Effective Price Shopping

If you define effective shopping as obtaining better value for money spent, then consumers do have the potential to be more effective shoppers for health care services. There are direct and indirect benefits of choosing providers that offer better value. The direct benefits are simply the cost savings, for example, of choosing the lower-cost of two providers of comparable quality.

But the indirect benefits are potentially more important. If enough consumers become active in comparing price and quality, this will lead to market pressure on providers to improve their performance on both cost and quality dimensions. Providers that measure up poorly on the value dimension will lose market share and will be motivated to revamp their operations to remain viable. Our market economy offers many examples of competitors responding to loss of market share by making difficult changes and regaining their edge, and examples are starting to appear

[1] An HSC study documented how few consumers seek health information, especially those with low education levels. See Tu, Ha, and J. Lee Hargraves, Issue Brief No. 61, *Seeking Health Care Information: Most Consumers Still on the Sidelines*, Center for Studying Health System Change, Washington, D.C. (2003).

in health care as well. The gains from providers improving their operations will accrue broadly to the health care system.

But we need to be realistic about the magnitudes of potential gains from more effective shopping by consumers. For one thing, a large portion of medical care may be beyond the reach of patient financial incentives. Most patients who are hospitalized will not be subject to the financial incentives of either a consumer-driven health plan or a more traditional plan with extensive patient cost sharing. They will have exceeded their annual deductible and often the maximum on out-of-pocket spending. Recall that in any year, 10 percent of people account for 70 percent of health spending, and most of them will not be subject to financial incentives to economize.

When services are covered by health insurance, the value of price information to consumers depends a great deal on the type of benefit structure. For example, if the consumer has to pay $15 for a physician visit or $100 per day in the hospital, then information on the price for these services is not relevant. If the consumer pays 20 percent of the bill, price information is more relevant, but still the consumer gets only 20 percent of any savings from using lower-priced providers. And the savings to the consumer end once limits on out-of-pocket spending are reached.

In addition to those with the largest expenses not being subject to financial incentives, much care does not lend itself to effective shopping. Many patients' health care needs are too urgent to price shop or compare quality. Some illnesses are so complex that significant diagnostic resources are needed before determining treatment alternatives. By this time, the patient is unlikely to consider shopping for a different provider. We need to build on the fact that even under scenarios in which consumers play a much more active role in their care than is the norm today, that for those who are sickest, who account for the lion's share of health care spending, physicians will be playing a major role in directing their care. So choosing a physician—or a medical practice—may well be the most important consumer choice.

The significant role that physicians play in patients' treatment choices means that advocates of consumerism should focus on the importance of choosing a physician before the onset of major medical problems. Some of these constraints could be addressed by consumers' committing themselves, either formally or informally, to providers. Many consumers have chosen a primary care physician as their initial point of contact for medical problems that may arise. Patients served by a multi-specialty group practice informally commit themselves to this group of specialists—and the hospitals that they practice in—as well. So shopping has been done in advance and can be applied to new medical problems that require urgent care. This is a key concept behind the high-performance networks that are being developed by some large insurers.

When consumers choose treatment strategies, the absence of neutral financial incentives for providers is a serious problem. The most typical situation today is one where the provider gets paid on a fee-for-service basis, so the incentive is to recommend more services, especially those that have higher unit profitability. Increasingly, physicians have an ownership interest in services, such as imaging, beyond their usual professional services, creating an additional conflict between physicians' interests and those of their patients.

Insurer Role

Much of the policy discussion about price transparency has neglected the important role that insurers play as agents for consumers and purchasers of health insurance in obtaining favorable prices from providers. Even though managed care plans have lost clout in negotiating with providers in recent years, they still obtain sharply discounted prices from contracted providers. Indeed, in my own experience as a consumer, I often find that the discounts obtained for the preferred provider organization (PPO) network for routine physician, laboratory and imaging services are worth more to me than the payments by the insurer.

Insurers are in a strong position to further support their enrollees who have significant financial incentives, especially those in consumer-driven products. Insurers have the ability to analyze complex data and present it to consumers in more understandable ways. For example, they can analyze data on costs and quality of care in a specialty and then offer their enrollees a simple incentive to choose providers in the high-performance network. Insurers also have the potential to innovate in benefit design to further support effective shopping by consumers, such as increasing cost sharing for services that are more discretionary and reducing cost sharing for services that research shows are highly effective.

Insurers certainly are motivated to support effective price shopping by their enrollees. Employers who are moving cautiously to offer consumer-driven plans want to choose products that offer useful tools to inform enrollees about provider price and quality. When enrollees become more sensitive to price differences among providers, this increases health plan bargaining power with providers. Negotiating lower rates further improves a health plan's competitive position. One thing that insurers could do that they are not doing today is to assist enrollees in making choices between network providers and those outside of the network by providing data on likely out-of-pocket costs for using non-network providers.

Some health plans are now experimenting with ways to communicate to their enrollees the fact that certain hospitals have particularly high or low negotiated fees, without violating their agreements to hospitals and their desire to maintain the confidentiality of their price negotiations.[2] For example, Blue Cross of California, which tends to rely heavily on coinsurance in its benefit structures, has been posting ratings of the costliness of hospitals for PPO enrollees. It follows the approach of Zagat guides to restaurants, where "$" is assigned to the lowest cost hospitals and "$$$$" is assigned to the highest cost hospitals. This approach not only maintains the confidentiality of contracts with hospitals, but it also engages the formidable actuarial resources of the plan to simplify complex and voluminous hospital data for consumers. Humana Inc. has presented hospital price information to some of its Milwaukee enrollees that maintains

[2]In testimony before the U.S. House of Representatives, Committee on Energy and Commerce, Subcommittee on Health, on March 15, 2006, I explain how publication of price agreements between hospitals and insurers is likely to result in higher prices for hospital care. The testimony can be accessed at http://energycommerce.house.gov/108/Hearings/03152006hearing1813/Ginsburg2770.htm

confidentiality by using ranges and combining hospital costs with physician costs. I expect that insurers will come up with more innovative ways to present price information to enrollees.

Self-Pay Markets

Many have pointed to markets for medical services that are not covered by insurance to show the potential of consumer price shopping. Since these services are not medically necessary—the basis for their not being covered by insurance—they should be prime candidates for more effective consumer price shopping. HSC has studied markets for LASIK, in-vitro fertilization (IVF), dental crowns and cosmetic surgery by interviewing providers, consultants and regulators in these fields. Our findings are not as encouraging as one hears from advocates of consumerism.

LASIK has the greatest potential for effective price shopping because it is elective, non-urgent, and consumers can get somewhat useful price information over the telephone. Prices have indeed fallen over time. But consumer protection problems have tarnished this market, with both the Federal Trade Commission and some state attorneys general intervening to curb deceptive advertising and poorly communicated bundling practices. Many of us have seen LASIK advertisements for prices of $299 per eye, but in fact only a tiny proportion of consumers seeking the LASIK procedure meet the clinical qualifications for those prices. Indeed, only 3 percent of LASIK procedures cost less than $1,000 per eye, and the average price is about $2,000

For the other procedures that we studied, we found little evidence of consumer price shopping. For dental crowns and IVF services, many consumers are unwilling to shop because they perceive an urgent need for the procedure, and other consumers are discouraged from shopping by the time and expense of visiting multiple providers to get estimates. In cosmetic surgery, a limited amount of shopping does occur, facilitated by free screening exams offered by some surgeons. However, quality rather than price is the key concern to most consumers in this market; in the absence of reliable quality information, most consumers rely on word-of-mouth recommendation as a proxy for quality, instead of shopping on price.

Role of Government

Governments can support consumers in their efforts to shop more effectively for price and quality in health care by providing information on providers' prices and quality. The greatest opportunities may lie in the areas of information on provider quality and the funding of research on medical effectiveness.

Medicare's voluntary program for hospital quality reporting has succeeded in obtaining participation by almost all hospitals and likely will grow in sophistication over time. HSC's recent community site visits found that quality reporting to Medicare and the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO) have stimulated hospitals to place a much higher priority on quality improvement. Hospital respondents envision a day when consumers and insurers will use publicly reported information to choose hospitals or for payment. An untapped resource is the Medicare Part B claims files. The Business Roundtable

recently called for making this data available to insurers—with protections for patient confidentiality. This would permit greater statistical power for insurer assessments of physician efficiency and quality and would support their role as agents for consumers.

Most accept the federal role in funding research on medical effectiveness as a classic "public good" activity. The Agency for Healthcare Research and Quality has developed an excellent reputation in carrying out this role. But the funding for these activities has been extremely limited, especially in contrast with what the federal government spends on biomedical research overall.

I believe that government provision of price information to consumers has less potential. For those with health insurance, health plans are better positioned to tell people what they really want to know—patients' out-of-pocket costs for different services. Efforts by some states to provide hospital price information have been limited by the complexity of the information—the difficulty of translating it into what it will cost an individual for what they need. And few who are uninsured have the wherewithal to pay for a hospital stay, even if they choose a less expensive hospital.

Conclusion

The need for consumers to compare prices and quality of providers and treatment alternatives is increasing and has the potential to improve the value equation in health care. But we need to be realistic about the magnitude of the potential for improvement from making consumers more effective shoppers for health care. Whatever the gains from increased shopping activity, rising health care costs will, nevertheless, price more consumers out of the market for health insurance and burden governments struggling to pay for health care from a revenue base that is not growing as fast as their financing commitment.