

Population Health NEWS

Informed Consumers Make Right Choices

by Brandon Cady

The consumer has never had so much influence in this country. From Amazon to AppleTV and Roku to Airbnb and Uber, consumers are disrupting longstanding business models in publishing, entertainment, hospitality and transportation and many would argue, getting a much better value for same or higher quality services.

But what about healthcare? Where is the revolution?

It is little wonder that consumers are confused about what goes into the bill for healthcare services when news reports abound with details on wide variation in prices for diagnostic tests, surgical procedures and drugs—even in the same city. According to a recent *New York Times* article¹ on why consumers should know the price of medical tests, the most common argument against providing upfront prices for these services is that patients are less educated consumers of healthcare and tend to assume that high prices mean better quality.

For imaging specifically, the vast majority of consumers haven't known that they had a choice in where they receive their out-patient diagnostic tests—a key issue in driving affordability. In fact, in a survey² asking health plan members how willing they would be to select a set of doctors, hospitals or clinics if they could save 10% to 15%, as many as 65% indicated they would likely make a change specific to an MRI or other high-level scan. While the escalation and variation among imaging costs have been widely reported in journals, industry magazines and even mainstream media in the past few years, the gap persists.

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A report³ estimates MRI use at about 62 MRIs per 1,000 in the commercial insured population, which means that about 6% of commercial members will need an MRI in a given year.

U.S. medical spending has almost doubled in the last decade, reaching \$2.6 trillion in 2010, according to government statistics.⁴ A brain MRI, for example, can range from \$504 to \$2,520.⁵

Huge variations in cost exist even when equalizing provider capabilities. Applying metrics developed by AIM Specialty Health and its external advisors to assess these capabilities (equipment, staff credentials, accreditation and service metrics) still reveals an average disparity of \$850 in the same geographic markets for routine MRIs.

Initially, it was believed that physicians who order these expensive tests were the answer to reducing the unwarranted cost variation. If physicians received communication about the MRI cost differential among providers with similar capabilities, it was assumed they would be motivated to share the information with their patients or even write orders for high-quality, lower cost facilities that might also result in lower out-of-pocket costs for the patient. While it was a first step in the price transparency movement, providing this information directly to referring physician offices didn't create these desired changes in behavior.

In the meantime, employers were exploring creative options—reference-based benefit designs and higher out-of-pocket costs—to ensure that employees had a better understanding of how healthcare costs were increasing and encourage them to be more active consumers.

A number of entrepreneurial companies began catering directly to employers by creating apps that compared pricing of specific services to empower employees to be more cost-conscious in their health spending.

Other employers worked with their insurers to develop benefit designs that also help to maintain quality while decreasing costs. A pilot program for the California Public Employees' Retirement System (CalPERS) and Anthem Blue Cross of California lowered the price of members' hip and knee replacement surgeries by 19 % in one year, while also demonstrating similar-to-better outcomes at lower-cost hospitals.

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As part of the intervention for the reference-based pricing program, members of the CalPERS received a list of designated facilities that charged less than \$30,000 for in-patient costs associated with each knee and hip replacement surgery. Members were able to either choose from 46 facilities on the list that would result paying little-to-no, out-of-pocket costs beyond a deductible or co-insurance or pay the difference if they used another facility that charged more than \$30,000.

The result was that CalPERS health plan costs dropped significantly—by 19%, from \$35,408 to \$28,695, per surgical-related admission. And, many hospitals that originally charged more than \$30,000 and were not on the list called the insurer to renegotiate pricing to encourage CalPERS members to get their procedures done at their facilities.

Clearly, transparency about costs changes consumer behavior and has the potential to create competitiveness. That led AIM Specialty Health to expand its member engagement approach with its Specialty Care Shopper, reaching out to health plan members directly to let them know about other choices at same or similar quality facilities that cost significantly less when there is a meaningful difference in imaging study cost disparity

A study of WellPoint affiliated plans conducted with HealthCore, a clinical outcomes research subsidiary of WellPoint, found that consumers who chose less expensive MRIs after receiving price information helped save \$220 per test in total health system costs. These results were published in the August issue of *Health Affairs*.⁶

The study also showed that this awareness was linked to a shift in consumer behavior, decreasing the use of high-cost hospital-based MRIs and ultimately reducing price variation between hospital and non-hospital facilities for consumers. The \$220 in savings represents a combination of consumer out-of-pocket expenses and health plan or employer medical costs.

There also was a shift in the type of facility used. After the intervention, members in the program were less likely to use typically more costly hospital-based facilities.

And, interestingly enough, the basic principles of economics took hold as providers also approached these plans to renegotiate MRI prices so they could compete on the basis of price and not just their reputations. This also helped to increase the MRI savings.

These savings were efficiently captured even though only 15% of those who received a call acted on it. During the time period covered by the study, the only information consumers received was on overall MRI cost differences. A program enhancement will be able to tell members while they are on the phone what their specific “out-of-pocket” savings will be, based on the provider selected.

Today, more stakeholders within the healthcare ecosystem are working collaboratively to drive more appropriate, safe and affordable healthcare services. It seems that many consumers are ready and willing to embrace the fundamental principles of economics and “shopping” within the role of patient. Price is no longer a secret to the masses until the final bill arrives for services already rendered. Consumers, armed with the proper information at the time of decision-making, will be holding the healthcare industry more accountable for delivering both quality services AND value measured in terms of fair market pricing.

Isn't that the “American way”?

¹ Rosenthal E. “Why We Should Know the Price of Medical Tests.” *New York Times*. Aug. 5, 2014.

² WellPoint Member Survey, 2010.

³ AIM Specialty Health Claims Analysis based on 38 million health plan member lives.

⁴ “National Health Expenditures 2010 Highlights.” Centers for Medicare and Medicaid Services.

<http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/highlights.pdf>

⁵ “What’s Fair?” *Consumer Reports Health*. March 2012.

⁶ Wu S. “Price Transparency for MRIs Increased Use of Less Costly Providers and Triggered Provider Competition.” *Health Affairs*, Aug. 8, 2014;33(8):1391-1398.

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