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# Rethinking Health Insurance:

## Can price transparency and cash pay help consumers?

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## Executive Summary

Democrats have been taking incremental steps toward universal health insurance coverage for nearly a century. The latest Affordable Care Act (ACA) subsidy expansions have pushed the U.S. closer to universal coverage than ever before. But skyrocketing health care costs — which makes coverage more expensive for individuals, employers, and the government — continue to hamstring the goal of universal coverage.

In 2021, the average premium for a family of four with employer-sponsored coverage was $22,221. In response to exponentially growing increases in premiums, employers have been shifting costs onto their workers, with the result that roughly half of those with employer-sponsored coverage now are enrolled in high-deductible health plans.[1] The average deductible for a family plan in 2021 was $5,969.[2] No wonder that Americans who don't have coverage cite high costs as the reason.[3]

U.S. policymakers would like to bring down these high out-of-pocket costs, but don't have many policy levers to pull. However, in an effort encourage price competition between hospitals, in 2021, the U.S. Center for Medicare and Medicaid Services (CMS) began requiring hospitals post the prices for 300 so-called "shoppable" services, online. They are required disclose "standard charges, including the rates they negotiate with insurance companies and the discounted price a hospital is willing to accept directly from a patient if paid in cash … in a consumer-friendly display" so that patients can view them in advance.[4] The idea is to help patients who haven't hit their deductibles or don't have full insurance coverage to shop around for care.

In reality though, only 14% of hospitals are in compliance with the regulation.[5] The Biden administration has increased the maximum non-compliance penalty to $2 million per hospital. But even with the stiffened penalty, many hospitals have decided that with limited enforcement, the fine is worth the risk of non-compliance.

But if the rule were more effectively enforced, would price transparency alone really give consumers a break on their health care expenses?

This report looks at how the price transparency rule could reduce health care costs through two mechanisms. First, will the price transparency regulation encourage competition between providers and reduce costs? And secondly, does posting the cash price for shoppable services reduce costs for patients?

This report reviews the status of the price transparency regulation and finds that greater enforcement is needed to achieve the full potential of price transparency. After reviewing cash-pay data from 14 of the 300 "shoppable" billing codes we find that on average, hospitals charge 120% of the commercial insurance rates to cash pay patients. However, there is evidence to suggest that hospitals are inflating their publicly reported cash-pay rates from the rates they charge cash-pay patients at the point of service.

Policymakers need to consider more aggressive ways of obtaining health care pricing information. For example, they could consider requiring all-payer claims databases and even adopting price caps if hospitals refuse to comply with price transparency rules.

## BACKGROUND

Despite spending a fifth of its economic output on health care, the U.S. ranks poorly among high-income countries in health outcomes.[6,7] Clearly, we could be — and should be — getting more bang for our health care buck. Why aren't we?

Democrats have long focused their policy and political messaging around health care coverage rather than costs. But the two are interrelated: Soaring health care costs prevent many uninsured Americans from getting coverage and deter some employers from offering it. To help more people get coverage, Democrats passed the ACA which helped millions of people obtain affordable coverage through the health insurance exchanges. As a result, a majority view it favorably but for those who say the ACA hasn't helped them, they cite the high cost of insurance plans.[8]

High health care costs are the reality for most Americans — both insured and uninsured. Employers have shifted more costs onto consumers and with high deductibles, many patients don't see the value of insurance unless disaster strikes. One study found that 94% of Americans believe the cost of health care in the U.S. is "higher than it should be."[9] And 46% of insured adults report difficulty affording out-of-pocket costs not covered by their insurance.[10] Overall, Americans' top health care concern is the prices, according a KFF Health Tracking Poll. Not surprisingly, concerns about household expenses are more pronounced in households making less than $40,000 annually, with at least six in 10 of those saying they are worried about being able to afford an unexpected medical bill.[11]

Fixated on coverage, Democrats have overlooked the potential of improving price transparency. Because many insured Americans don't have coverage for the first $5,000 or more of their care, they need accurate pricing information up-front so that they can make informed health care decisions for their families. Price transparency helps insured patients use their resources wisely, uninsured patients shop for care, and insurers see what others are paying. In theory, with more price transparency in the health care market, consumers and insurers can use competition to reduce overall health care costs.

## PROBLEM

In a recent effort to limit health care costs through better market incentives, CMS recently began requiring hospitals in the Medicare program (the vast majority of hospitals), offer clear pricing estimates for at least 300 shoppable medical services. Beginning in July 2022, health insurers will also be required to release the provider specific prices they pay. By revealing prices from both the insurance side and the hospitals, policy-makers hope to make the commercial health care market more transparent.

The potential of price transparency to lower prices is threefold:

1. Allow researchers to review the data to help improve understanding of health care pricing and pressure outliers to bring their prices more in-line with their peers.
2. Encourage lower negotiated rates between hospitals and insurers when they see what others are paying.
3. Give consumers accurate information so they can shop around for care and allow them to use cash pay when it makes sense.

Sunlight can be a powerful disinfectant for predatory pricing practices of some hospitals. After multiple news stories and studies exposed how just 10 hospitals were responsible for 97% of court actions against patients' outstanding bills, some changed their billing and collection practices.[12]

Publishing prices will help bring public pressure to bear on hospitals who charge vastly more than their peers for essentially the same services.

The process of negotiating rates between the health care provider and insurer is very time consuming and expensive. One study found that the estimated costs of billing and insurance-related activities ranged from $20 for a primary care visit to $215 for an inpatient surgical procedure, representing 3% to 25% of provider revenue.[13] If prices were more transparent up front, the contracting between parties could be made more efficient and affordable because they wouldn't need to spend so much time negotiating back and forth to get an agreed upon price.

Consumers have historically not been great at shopping around for care.[14] Patients typically stick with their doctor, go where a trusted provider or friend recommends,[15] and have a hard time comparing pricing across providers because of the welter of varying insurance coverage rules, surprise medical bills, and limited price information. Even under the current price transparency law, many hospitals obscure prices or give patients the runaround when they try to ask for them in advance of a procedure.[16] With more and more patients paying large deductibles before insurance coverage kicks in, it's important to give them the ability to compare costs between providers, even if they don't always use the information.

As a part of the CMS price transparency regulation, hospitals must post their cash pay prices to allow consumers to compare prices. They must also disclose what various insurers pay them which will allow insurers to see the differences between different payers. But additionally, the idea is to see what patients, who are uninsured or haven't yet hit their deductible pay, when using cash. Because dealing with insurance billing departments requires many hours of labor from the hospital, administrative costs are high. With clear cash-pay rates, removing extra bureaucracy may be cheaper and, when used with certain services, could put downward pressure on health care prices. However, all of the benefits of price transparency are contingent on hospitals being compliant with the regulation.

## DATA ANALYSIS

The CMS regulation requiring hospitals to disclose commercial and cash pay rates for 300 shoppable services codes went into effect January 1, 2021. However, there's been little enforcement to date. In addition to the study finding that roughly 14% of hospitals were in compliance, a study with earlier data and a larger sample size found that only 6% of hospitals were in compliance. Not until June did CMS issue its first fines (totaling $1.1 million) to two hospitals in Georgia for failing to comply with the regulation.[17]

Due to low adherence to the regulation and the limited enforcement to date, price data availability is low. However, early studies have found that cash-pay rates are, on average, lower than average commercial rates, though there is substantial variation and the studies don't quantify the difference.[18]

Turquoise Health, a company that collects all available pricing data, gave the Progressive Policy Institute a sample of the hospital pricing data. Using a sample of 14 from the 300 shoppable services hospitals are required to report on, we compared the average commercial price to the listed average cash pay price. We found that hospitals were charging, on average, 122.31% of the commercial rates for cash pay patients.

This doesn't make sense. It costs hospitals much more in labor costs to have employees negotiating with insurance companies, agreeing on a price, billing the company, and then following up about any billing errors. So why would hospitals list cash pay prices as higher than average commercial prices?

There are a few possible reasons:

- **The data from the 14 codes selected are not representative of cash pay rates overall:** We used a sample of 14 billing codes from the 300 shoppable services hospitals are required to provide price information for. These 14 could be outliers and do not represent the data overall.
- **Hospitals charge more to cash-pay patients to increase profit margins:** It's possible that hospitals are charging cash pay patients more because they can set the price unilaterally and patients have no one negotiating on their behalf. If this is the case, this seems highly predatory as cash-pay is cheaper for providers and should be reflected in a price discount, not an increase.
- **Hospitals publicly report charging more to cash-pay patients than they actually do because the prices are fungible depending on patient need:** Revealing large discounts to patients does not help hospitals in their contracting with insurers. As a result, hospitals may want to obscure the cash pay discounts to protect their rates — and the perceived discounts given — to insurers. Additionally, hospitals can write off uncompensated care as so called "bad debt" — essentially charity care which helps garner higher reimbursement rates with other government programs. If they assume a cash pay patient is never going to pay them, they can charge as much as possible and then write off the loss. In short, they have an incentive to create as much "bad debt" as possible for tax liability reasons.

According to data from Sidecar Health, a health insurance company that provides patients the ability to pay providers directly in cash at the point of care, cash pay is 30% cheaper on average than average commercial insurance rates.[i]

If price information remains obscured from public inspection, it will be difficult to discern the true price consumers are paying for health care services. But with more public scrutiny and government enforcement of price transparency rules, cash pay may be able to lower health care costs.

## CONCLUSION

Set cash rates from price transparency has the potential to reduce health care costs, if used appropriately. Health care providers can charge lower prices with cash pay patients because cutting out middleman bureaucracy can significantly reduce the provider's overhead. Better yet, health care providers who get cash upfront don't have to worry about a denied claim or missed payment down the road. For patients, cash pay means that they don't have to worry about if a doctor is in- or out-of-network — the price is the price (or should be).

Having clear cash pay rates can help both insured and uninsured individuals. Insured patients incur out-of-pocket costs before deductibles are met and with out-of-network providers and benefit from clearly pricing information. And uninsured patients should be able to navigate the system to access care — and compare costs — regardless of their insurance status.

It makes the most sense for patients to inquire about using cash pay rates:

- When the year is almost over and they're a long way from reaching the deductible
- When going to an out-of-network provider
- When a drug is cheaper in cash than with insurance and a co-pay

[i] According to data shared from Sidecar Health, out of more than 70,000 cash prices, over 50% of the cash prices found in the market were at least 30% cheaper than the average commercially negotiated price.

If price transparency leads to less variation in health care pricing across payers and providers, it could also lead to savings. Studies have estimated that standardizing contracts between insurers and providers — which price transparency could contribute to — would reduce administrative costs by 30% to 60%.[19]

But for price transparency rules to work, they need to be enforced. Senators Mike Braun, R-Ind., and Maggie Hassan, D-N.H., have called on CMS to increase its enforcement of the rules and the recent decision to fine two-noncompliant hospitals indicates that the administration is listening.[20]

When people have a serious accident or medical emergency, they aren't inclined to comparison price shop. But most medical visits are for less than urgent care. When people do have time and inclination to compare prices, they should be able to do so. And allowing researchers and journalists to review pricing data can help expose the predatory billing practices that some providers engage in. Public scrutiny could help the industry move toward ethical, and transparent, billing practices.

## ABOUT THE AUTHOR

Arielle Kane is the director of health care at PPI. Her research focuses on what comes next for health policy in order to expand access, reduce costs and improve quality. Specifically, she focusses on how innovation in health care can help meet the goals of the triple aim.

# Appendix 1: Cash Pay vs. Commercial Rates

| Code | Average Commercial Price | Average List Price | Average Cash Price | Percent difference between Commercial Price and Cash Price |
|---|---|---|---|---|
| 45378 | $2,134.96 | $3,180.84 | $2,117.80 | 99.19623787% |
| 99205 | $322.41 | $510.28 | $306.76 | 95.1459322% |
| 743 | $18,546.00 | $40,201.42 | $23,645.34 | 127.4956325% |
| 99204 | $254.23 | $407.63 | $247.45 | 97.33312355% |
| 29881 | $5,856.35 | $11,685.73 | $7,662.63 | 130.8431019% |
| 99203 | $196.22 | $302.32 | $182.35 | 92.93140353% |
| 99284 | $1,051.85 | $2,629.04 | $1,849.50 | 175.833056% |
| 99285 | $1,648.66 | $3,671.90 | $2,478.50 | 150.3342108% |
| 99283 | $640.99 | $1,353.92 | $911.23 | 142.1597841% |
| 80069 | $88.31 | $182.59 | $110.52 | 125.1500396% |
| 93000 | $101.06 | $166.97 | $139.30 | 137.8389076% |
| 72193 | $1,386.55 | $2,515.09 | $1,538.87 | 110.9855396% |
| 70553 | $2,446.50 | $4,353.81 | $2,710.92 | 110.8080932% |
| 76700 | $557.17 | $1,074.75 | $648.30 | 116.3558698% |

Average percent difference between commercial and cash: **122.3150666%**

*Source: Turquoise Health*

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