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Making health care prices more transparent in Minnesota



STATE POLICYMAKERS SHOULD:

- **Build off federal price transparency rules and enact a higher level of transparency**

Hidden pricing allows higher health care prices

The high and rising cost of health care remains a persistent problem across America, and Minnesota is no exception. Health care costs consistently rise faster than the overall inflation rate, consuming a greater portion of the economy. As a result, national health care spending grew

from 13.3 percent of the economy in 2000 to 17.6 percent in 2019. Similarly, health care spending in Minnesota grew from 10.4 percent of the state economy in 2000 to 14.8 percent in 2019.

Hidden health care pricing is a key contributor to this escalating cost problem.

Upfront pricing information is essential to an efficient and competitive market. In any market for goods and services, consumers need pricing



information to make sound, cost-conscious decisions. It would be truly bizarre to walk into a grocery store, load up your cart, and pay without knowing the price of anything in the cart. If everyone went grocery shopping this way, competition to deliver lower prices for better quality food would disappear. Yet that is exactly what patients do every time they walk into a clinic or hospital.

Prices are hidden from patients because health care is largely financed through third party health plans. They negotiate prices with hospitals and doctors and keep the price secret, claiming it is proprietary and confidential business information. This means patients and often employers who pay their employees' health care do not have the information they need to make fully informed health care decisions. Moreover, providers don't have to compete for *individual* patients on price, which substantially lessens the competitive pressure to keep prices down.

Wide variations in pricing

Hidden pricing leads to wide variations in pricing with little relationship to the cost of care. Prices vary widely both by geography and between providers in the same market for the same service. In the Twin Cities, research by the Kaiser Family

Foundation shows the allowed charges for an office-based lower back MRI covered by a large employer range from \$550 to \$900 between the 25th percentile and 75th percentile of prices (see Figure 1). That means 50 percent of Twin Cities' prices are outside this already wide range. Among the 20 largest metro areas in the country, average prices for this MRI ranged from \$349 in Orlando, Florida to \$853 in Oakland, California. The average price in the Twin Cities was \$710 — the fifth highest among these metros and more than double the price in Orlando.

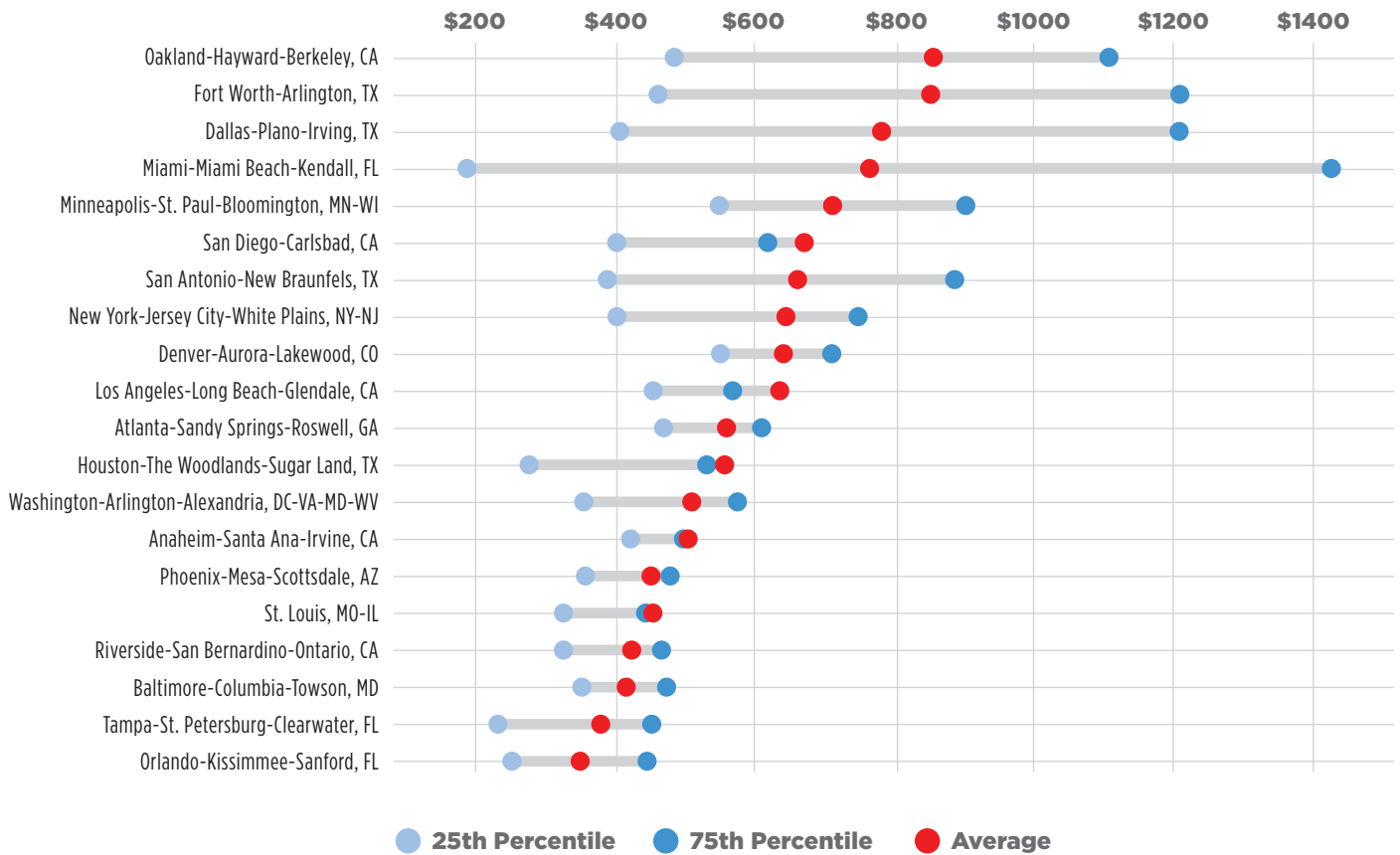
Patients need more pricing information to make the best care decisions with their provider. As health plans increase deductibles and cost sharing requirements, knowing the upfront price is becoming even more critical. Choosing a lower back MRI at the 25th percentile versus the 75th percentile in the Twin Cities would save a patient \$350 out of their own pocket before they reach their deductible.

New federal rules require price transparency

This widespread variation in pricing became clearer in recent years as new data sources on pricing from large employers became available,

FIGURE 1

Average allowed charges for office-based lower back MRIs in large employer plans, by MSA, 2018



SOURCE: Nisha Kurani, et al., *Price transparency and variation in U.S. health services* (Kaiser Family Foundation January 13, 2021), available at <https://www.healthsystemtracker.org/brief/price-transparency-and-variation-in-u-s-health-services/>.

including data from the Health Care Cost Institute and IBM MarketScan. But these data never provided patients with pricing specific to their plan. Fortunately, new federal rules require hospitals and private health plans to finally disclose the prices for each health care item and service they negotiate.

The federal hospital price transparency rule requires hospitals to display online pricing for 300 shoppable services in a consumer-friendly format. It also requires hospitals to post a comprehensive machine-readable data file with pricing for all items and services. This includes pricing for

private health plans, as well as Medicare and Medicaid managed care plans. While these files might be challenging for consumers to use, software developers have already developed tools to help patients more easily use this data to shop. The data will also be important for researchers and policy makers. These requirements went into effect on January 1, 2021.

The federal health plan price transparency rule requires most health plans to provide an online consumer tool with real-time estimates of the price and cost-sharing liability to the consumer. Like the hospital rule, health plans must also

post a machine-readable data file with pricing for all items and services. Health plans must begin posting this data on July 1, 2022 and begin providing the consumer tool by January 1, 2023.

Enact a higher level of transparency

These federal rules are historic steps that will upend the status quo and finally ensure access to pricing information patients need before they receive care. However, there are further steps Minnesota can take to enact a higher level of transparency.

Unfortunately, hospitals have been slow to comply with the federal rule. The Patients Rights Advocate organization issued a report in February 2022 which reviewed 1,000 hospitals nationally for compliance with the law. They found only 14.3 percent of hospitals were in full compliance. Of the nine hospitals reviewed in Minnesota, only the Mayo Clinic was in full compliance.

Minnesota should codify the federal hospital price transparency rule in state statute to avoid special interests from watering down the federal rule in the future. More importantly, this would give the state authority to enforce the federal rule. Currently, federal enforcement activity may be limited due to resource constraints. To aid enforcement, Minnesota should also add state penalties for non-compliance.

In addition, Minnesota should build off the federal rule with new requirements to make pricing information more accessible, including:

- » Require hospitals to post the machine-readable data file in a standardized format. Today, hospitals post the data in a wide variety of formats making it difficult for developers and researchers to aggregate. The federal government is considering rulemaking to fix this, but federal rulemaking is generally a lengthy

- process and Minnesota should not wait.
- » Require hospitals to post pricing data from prior years. This allows people with questions about paying and negotiating a bill from a prior year to review the pertinent pricing data. This would also make data more accessible to researchers and ensure full compliance from hospitals that failed to post 2021 prices.
- » Remove the “loophole” for hospitals to use an existing price estimator tool in lieu of the consumer tool requirement.
- » Expand price disclosure requirements beyond hospitals to other major care settings, such as outpatient surgical centers.
- » Clarify that hospitals must post Medicare Advantage and Medicaid managed care negotiated rates.

Conclusions

The state of Minnesota has a long history of enacting policies aimed at reducing the cost of health care. Yet, health care costs continue to rise faster than inflation in part because these policies often depend on government price setting and restrictions on supply, which limit competition.

In contrast, price transparency gives patients the information they need to comparison shop and forces providers to compete for those patients over price. Importantly, more information on pricing will lead to more information on quality as better consumer tools emerge and providers feel stronger pressure to show their quality justifies their costs. Long-term, price transparency holds the best promise to finally gain control over the high and rising cost of health care.

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