# Price Transparency 101: Understanding the Basics

## Introduction

Price transparency is one of the most discussed topics in modern healthcare. Patients are increasingly asking for information about out-of-pocket costs for healthcare services, yet for providers, coming up with an answer that is understandable is not always easy. Since it can be difficult to determine exactly what treatment a person might need until tests and examinations are complete, it can be a challenge to estimate total cost to the patient. Even when it is possible for a patient to get an estimate, the complexity of the healthcare jargon associated with price can make the answer difficult to decipher. This Q & A was designed to help demystify the most common questions pertaining to hospital pricing and covers topics such as commonly used pricing terminology, the reasons behind price differences and the importance of considering quality. Visit hospitalpricetransparency.com to view the online version.

## Price & Payment

| Q | What is "price transparency" and why is it important? |
|---|---|
| A | Price transparency is the ability for you, the healthcare consumer, to access provider-specific information on the price of healthcare services – including out-of-pocket costs – regardless of the setting in which they are delivered.[i] |

| Q | Why do purchasers and consumers need price transparency? |
|---|---|
| A | For three main reasons:<br><br>1. To help purchasers contain healthcare costs;<br><br>2. To inform consumers' healthcare decisions as they assume greater financial responsibility; and<br><br>3. To reduce unknown price variation in the system.[ii] |

## Q  What are the different types of healthcare costs?

## A  There are three different types of cost depending on who is paying for the service.

### Costs to Patients

This often includes the total amount of premium payments, deductibles and coinsurance paid to healthcare providers and health insurance companies for coverage. The cost to patients also includes healthcare supplies and services received within the coverage period. Healthcare services not covered by insurance can be another type of cost.

### Costs to Providers

While providers are paid by insurers for the services they deliver to patients, they incur a considerable amount of operating costs which often get lost in the equation. These costs can include the amount paid for land, buildings, equipment, supplies, wages and benefits, laundry and housekeeping, electronic medical records, as well as services used when delivering care to patients. Providers also bear the cost of delivering care to patients who are unable to pay for their own care.

### Costs to Payers

Payers in the healthcare system include both private insurance companies and government insurance programs. The cost to healthcare payers is the total amount they distribute in patient claims. The second major cost to payers are operating costs such as wages and benefits, supplies, and administrative costs.

## Q  Is there a difference between price, cost and payment?

## A  Yes.

### Price

Similar to retail price, when used in healthcare, "price" refers to the amount a provider sets for a service. Price is often used interchangeably with "charge" and serves as the starting point from which payment is negotiated. Most patients do not pay the full price for healthcare services.

### Cost

"Cost" refers to the amount spent by the provider delivering services and include all of the expenses involved in keeping their doors open, from supplies to utilities to labor.

### Payment

"Payment" simply refers to the dollar amount which is paid from insurance companies – public or private – to providers. Many times this rate represents a negotiation between two entities, which is why variation in the payment for healthcare services sometimes exists. Payment also includes the amount received from patients directly for the deductible, coinsurance or co-pays as well as charges for services not covered by the insurance policy.

| Q | How is price set? |
|---|---|
| **A** | The price of healthcare services is derived from calculating the total operating expenses of a provider and the cost of delivering a specific treatment to you, the patient. |

| Q | Who sets price? |
|---|---|
| **A** | Hospitals have in place something called a chargemaster, which is a comprehensive list of all items that can be billed to a patient or insurance provider. Chargemasters are extensive, often containing tens of thousands of items, depending on the facility. While in actuality these charges are rarely paid due to the discounts negotiated by private insurers, hospitals use them as a starting point for billing in order to avoid a violation of the Social Security Act, which, in essence, requires hospitals to give the federal government their best price.[iii] |

| Q | Where can consumers find price information? |
|---|---|
| **A** | While private insurance companies do not typically release price information because it would undermine their ability to compete for business, public payers, such as Medicare and Medicaid, often do. Since Medicaid is a joint program of the federal government and each state, the price information each department releases can vary; however, Medicare has for years released annual payment information for inpatient and outpatient procedures.<br><br>For more information, visit cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Provider-Charge-Data/Inpatient.html. |

| Q | Why are there price differences between hospitals? |
|---|---|
| **A** | There can be variations, sometimes large ones, in the prices hospitals set for the same procedure or service. This is because there are many factors that go into determining the cost of hospital services, and each institution has its own set of factors – or cost structure – to manage. For example, some organizations have higher cost structures due to high-intensity services, such as transplant, trauma, and neonatal intensive care, that are expensive to maintain, or mission-related costs such as teaching, research, or care for low-income populations.[iv] Also a significant factor is that different parts of the country have higher or lower costs of living. This affects wages, which are one of the largest expense categories for hospitals. |

## Q | Where can I find information on pricing?

**A** While private insurance companies do not typically release comprehensive price information because it would undermine their ability to compete for business, there are several ways for consumers to educate themselves.

*The Centers for Medicare and Medicaid Services*

Medicare releases annual payment information for inpatient and outpatient procedures. For more information, visit cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Provider-Charge-Data/Inpatient.html.

*All-Payer Claims Database*

Some states adopt an APCD, which is a large-scale database that collects medical claims, pharmacy claims, dental claims, and eligibility and provider files from private and public payers.

*FAIR Health Medical Cost Look Up*

Though it does not provide price information, this consumer-oriented tool provides information on out-of-pocket costs to consumers. For more information, visit fairhealthconsumer.org/medicalcostlookup.php.

## Q | Is the price I pay for services all I should consider in selecting a provider?

**A** No. Price is only one aspect of choosing a healthcare provider. The ease of seeing a physician, or access to a healthcare provider, is also a consideration. Similarly, the *quality* of healthcare being delivered is an important factor when it comes to choosing a provider.

## Q | Where can I find information on quality measures?

**A** Since patients are placing such a high value on the quality of healthcare they receive, today there are more places than ever to find hospital quality data. One of the most common and comprehensive sources for quality data is Medicare's Hospital Compare website. For more information, visit medicare.gov/hospitalcompare/search.html. Here you can find information on the timeliness of care, number of readmissions and complications, and also surveys of past patients' experiences.

In addition, the Dartmouth Atlas of Health Care has a website dedicated to benchmarking providers against one another to compare quality measures. For more information, visit dartmouthatlas.org.

# Coverage

**Q**  **Does the type of coverage I have (e.g., Private, Medicaid, and Medicare) impact my costs?**

**A**  Yes. It is very common for health insurance entities – both public and private – to charge various amounts for deductibles, co-pay, and co-insurance depending on your insurance plan. All of these variables can have a direct impact on the amount of money you spend on healthcare services. In addition, high-deductible plans – which typically require a large upfront payment from the patient before the insurance company begins paying – are becoming more common in the United States as employers are finding it increasingly difficult to cover the entire cost of healthcare for their employees.

**Q**  **Why do some people on Medicare pay a different amount for the same procedure than others?**

**A**  The simple fact is providers have different – and sometimes higher – operating costs than others. For example, a hospital that serves a disproportionate share of uninsured patients and is also a certified teaching hospital, one that trains residents, will obviously have much higher operating costs than a standard acute care hospital. It is no surprise those higher operating costs are ultimately reflected in the price of care for Medicare-covered procedures. Another explanation for cost variation among Medicare enrollees is based on the type of Medicare health insurance. For instance, Medicare Advantage Plans, offered by private companies such as Health Maintenance Organizations (HMOs) or Preferred Provider Organizations (PPOs), often have different prices when compared to traditional Medicare plans since they are negotiated by private companies.

## Q   What are the financial responsibilities of insured patients?[v]

**A**

*Deductible*

The amount you owe for healthcare services before your health insurance plan begins to pay. For example, if your deductible is $100, your health insurance won't pay anything until you've met your $100 deductible for healthcare services. Your deductible many not apply to all services; for example, some plans offer a yearly mammogram or physical exam free of charge.[vi]

*Co-pay*

The fixed amount of out-of-pocket costs you pay when visiting the doctor's office for a particular healthcare service. One example is a visit to your primary care doctor. If your co-pay is $20, that means you pay $20 per visit regardless of the reason for seeing your doctor, and your insurance company pays the rest.

*Co-insurance*

The amount of covered benefits that the patient is responsible for paying after reaching his or her deductible amount. For example, if your coinsurance is 20 percent of medical costs, and your bill totals $100, you pay $20 and the insurance company is responsible for $80.

## Q   What's the difference between a covered and non-covered service?

**A**   The differences between covered and non-covered services are essentially what they sound like – some are paid for by your insurance, while others are not. For example, Medicare patients may receive annual physical exams as part of a *covered* service; meaning Medicare will submit payment to your provider for that visit. Non-covered services vary based on insurance type, but the services that are not covered are ones you, as the patient, are responsible for paying on your own. For Medicare patients, these often include things like some long-term care stays, dentures and hearing aids.

## Q   If I am uninsured, do I pay the hospital's retail price?[vii]

**A**   That depends. If you are a earning a yearly salary that would support health coverage, then you could pay the full retail price. However, if your annual earnings are below 200 percent of the federal poverty guidelines, you will likely qualify for a sliding-fee or discounted-fee schedule to help pay your healthcare bills.

| Q | **What options do I have if I'm uninsured?** |
|---|---|
| A | Thankfully, under the ACA most people have access to some type of coverage. Should you find yourself uninsured and wondering how you'll pay for care, there are a few questions you should ask yourself before making any decisions. |

*Do you fall under 400 percent of the federal poverty level?*

If you're uninsured and making below 400 percent of the Federal Poverty Level (FPL), you may qualify for Medicaid – a state-run health insurance plan. However, if you do not qualify for Medicaid and have already received care, as a consumer you have the ability to negotiate payments with your provider and to negotiate a payment plan.

*Do you have the ability to pay for healthcare out-of-pocket?*

If you have the ability to pay out-of-pocket for your healthcare expenses, providers will sometimes offer what is called a "prompt payment discount" for certain patients; meaning if you pay your balance quickly and in full, providers will offer a discounted rate for the services you received.

*What if I don't qualify for Medicaid and can't pay for healthcare on my own?*

In a worst-case scenario in which you cannot pay for healthcare and do not qualify for any other options, hospitals will offer care free of charge through what's known in Ohio as the Hospital Care Assurance Program, or HCAP. This program allows hospitals to serve all patients who walk through their doors, regardless of their ability to pay.

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[i] Catalyst for Payment Reform, *Price Transparency: An Essential Building Block for a High-Value, Sustainable Health Care System.* http://www.catalyzepaymentreform.org/images/documents/CPR_Action_Brief_Price_Transparency.pdf.

[ii] IBID.

[iii] 42 U.S. Code Section 1320a-7(b)(6)(A).

[iv] American Hospital Association. *Pricing Transparency Efforts Accelerate: What Hospitals and Other Stakeholders Are Doing to Support Consumers,* July 2014. http://www.aha.org/research/reports/tw/14july-tw-transparency.pdf.

[v] Davis, E. "Copay Vs. Coinsurance – What's the Difference and Which is Riskier?" *About Health,* April 15. http://healthinsurance.about.com/od/faqs/f/Whats-The-Difference-Between-Copay-And-Coinsurance.htm.

[vi] Healthcare.gov. "Deductible." Accessed May 27, 2015. https://www.healthcare.gov/glossary/deductible/.

[vii] U.S. Department of Health and Human Services. "NHSC Sliding Fee Discount Program Information Page." March, 2015. http://nhsc.hrsa.gov/downloads/discountfeeschedule.pdf.