

# Transparency of Medical Costs

## **ACTION NEEDED:**

Congress should take action to reduce health care costs by promoting greater consumer access to health care cost and quality information. In addition, Congress should provide incentives for doctors and medical facilities to improve system efficiencies and eliminate errors through pay-for-performance, best-practice guidelines and support for evidence-based medicine.

## **BACKGROUND:**

Health care is the only good or service Americans routinely buy without active price consideration, and most of the time detailed quality information is also absent from the consumer's purchasing process.

The vast majority of American health care expenses are paid by a third party through the administration of health insurance claims, and most provider choices are dictated by health insurance networks. Therefore, most Americans do not know what their health care actually costs, nor do they know much about the providers that offer them care – and they have been conditioned not to ask.

Under the current system, the ability of consumers to compare costs and quality when making decisions as to which providers to use and which health care services to select has been virtually eliminated. Also, consumers utilize health care more frequently because a third party pays for the consumption. The increase in health care consumption has made insurance premiums rise while not noticeably impacting the quality of care.

Greater medical-cost and quality-information transparency for consumers is a critical component of overall cost reduction. The advent of a more consumer-directed approach to health insurance coverage is essential to reducing overall health care costs as it will help curb excessive utilization and claims, and drive down costs by increasing competition among providers.

NAHU strongly encourages health insurance carriers, hospitals, physicians and other health care providers to voluntarily disclose to consumers the prices they pay and charge.

However, because we believe increased transparency for health insurance consumers is so critical to reduce costs and promote consumer-directed care, we also would support federal efforts to incent increased transparency, provided that such governmental efforts are not overly burdensome.

## **Preventing Medical Errors through Pay-for-Performance and the Use of Clinical Best Practices and Evidence-Based Medicine**

Another system inefficiency that leads to increased costs is medical error. Annually, hundreds of thousands of preventable mistakes caused by medical care providers create unnecessary claims and payments – and produce tragic results.

Medical errors also carry a strong financial consequence. The Institute of Medicine estimates that medical errors cost Americans approximately \$37.6 billion each year, and

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about \$17 billion of those costs are attributable to preventable errors. About \$8.5 billion is spent annually for direct payments for preventable errors, and unnecessary medical treatments and prescriptions are also costing the U.S. health care system billions of dollars each year.

Pay-for-performance initiatives could help prevent medical errors, increasing the quality of care and reducing overall costs.

Currently, health care is delivered with widespread discrepancies relating to the quality of care. However, payment systems that reward quality instead of quantity can help resolve these inconsistencies while reducing the duplication of procedures that unnecessarily drives up medical spending.

Most medical experts agree that America's health care system would better serve providers, patients and payers if more of the medicine practiced were grounded in science. As such, NAHU supports federal incentives to encourage provider use of clinical best-practice guidelines and evidence-based medicine, particularly in federal government health programs such as Medicare, Medicaid, FEHBP, SCHIP and the Veterans Health System.

The state of Oregon could serve as a model, as it has developed a language of benefit design that is organized around combinations of conditions and treatments that use medical evidence in determining covered conditions and approved treatments. Health plans currently administering the Oregon Health Plan have been profitable over the course of multiple changes in the plan.