CHAPTER 4

HEALTH CARE COSTS ARE FLAT DESPITE WHAT YOU HAVE HEARD

Jeanne Pinder

"If it wasn't complicated, it wouldn't be allowed to happen. The complexity disguises what is happening. If it's so complicated you can't understand it, then you can't question it." – Michael Lewis

A curious thing has happened in health care pricing in this country. While insurance premiums and prices for common procedures for insured people go up and up and up, cash or negotiated self-pay prices* for many procedures vary little from year to year.

But wait, I can hear you saying, health care prices always go up, don't they? They do if they go through a PPO or major insurance carrier. But for the most part, negotiated cash or self- pay prices don't, at least not consistently. Sometimes, they modestly increase, but more often, they stay the same—or even go down from year to year. Our team of journalists noticed this pattern when we began comparing data sets year over year from the same locations.

** For the purposes of this book, a "cash price" is what a provider charges an individual who is either paying directly, using a check or credit card, or is covered by an employer or union that pays immediately under a direct contract that bypasses the insurance claims processing process.*

We have been surveying care providers about their cash or self-pay prices for five years and have a very good set of data for 13 metro areas. Some did, indeed, raise rates regularly, but they tended to be the higher-priced care providers in the first place. Overall, the flatline pattern is clear.

For example, we recently re-reported our New York City cash prices. The following figures show the trend for MRIs and ultrasounds. Note the wild variation in pricing among care providers, which persists across regions, cities, and even within individual health care systems and hospitals. This reflects yet another health care cost problem: unpredictability and variability of cost for the same procedures. *

** It's worth noting that overall hyperinflation in health care spending is multivariate. It comes partially from the issues discussed here. Another major source is care and procedures that shouldn't happen at all, as a result of overuse, misdiagnosis, unnecessary, or ineffective treatment and procedures. We discuss this separate but related issue in Chapter 12.*

Procedure: Pelvic Ultrasound

Facility	Code	2011	2012	2013	2017
Dynamic Medical Imaging	76856	X	$125	$125	$125
Neighborhood Radiology	76856	X	X	$150	$132
New Millennium Medical	76856	X	$150	$150	$150
Hudson Valley Radiological Associates	76856	$198	$198	$213	$158
Rochester General Hospital	76856	X	X	$229	$212
Greenwich Radiology Group	76856	X	X	$344	$344
Brooklyn Heights Imaging	76856	X	$185	$185	$375
Highway Imaging Associates	76856	X	$175	$175	$375
Diagnostic Imaging of Millford	76856	X	X	$314	$413
East River Medical Imaging	76856	X	$377	$377	$754
Lawrence Hospital	76856	X	X	$654	$792
Crescent Radiology	76856	$150	$150	X	X
Diagnostic Imaging Services Bronxville	76856	$469	$491	X	X
Empire Imaging	76856	$175	$200	X	X
Manhasset Diagnostic	76856	$300	$85	X	X
New York Imagery	76856	$350	$207	X	X
New York Westchester Square Med. Center	76856	$648	$700	X	X
Park Avenue Radiologists	76856	$366	$325	X	X

Procedure: Lower back MRI without contrast

Facility	Code	2011	2012	2013	2017
Advanced Radiology	72148	$1,160	$1,160	$1,093	$0
Queens Radiology/Olympic Open MRI	72148	$400	$450	$450	$0
Neighborhood Radiology	72148	X	$150	$150	$150
Radiology of Westchester	72148	X	X	$450	$450
Middle Village Radiology	72148	$350	$450	$450	$500
New Rochelle Radiology	72148	X	X	$500	$500
Greater Waterbury Imaging Center	72148	X	$185	$185	$375
Housatonic Valley Radiology Assoc.	72148	X	X	$816	$627
East River Medical Imaging	72148	$1,900	$1,900	$1,200	$1,900
Columbus Circle Imaging	72148	X	X	$1,200	$2,600
East Manhattan Diagnostic Imaging	72148	X	X	$1,200	$2,600
Union Square Diagnostic Imaging	72148	$800	$1,800	$1,200	$2,600
Advanced Radiology	72148	$1,064	$556	X	X
Astoria Medical Imaging	72148	$450	$1,200	X	X
Park Avenue Radiologists	72148	$1,000	$0	X	X

Source: ClearHealthCosts. Used with Permission.[63]

Unpredictable Costs

Premiums go up, deductibles go up, out-of-pocket spending goes up, as Figure 5 shows. Inexorably, inevitably. Or so we are told. But if you look deeper, pricing and costs are completely unpredictable.

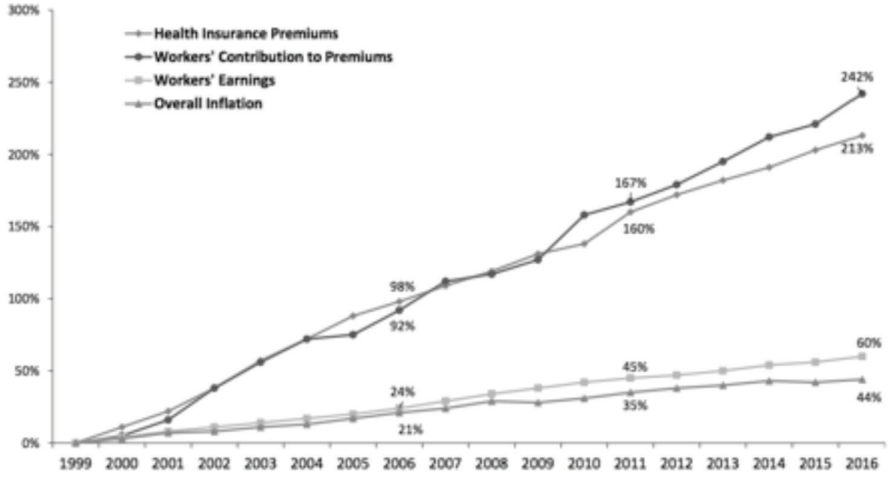

Figure 5. Cumulative Increases in Health Insurance Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2011-2016. Source: Employer Health Benefit Survey 2016, Kaiser Family Foundation and Health Research & Education Trust.[64]

Below is a sample of comparative prices graciously given to us a couple of years ago by a care provider organization. The table below shows charged rates, reimbursement rates, and individual responsibility for a selected group of procedures at the organization. Each row is for a different individual on a different health plan. As you can see, if you have a $10,000 deductible, you might exhaust that deductible before you get to anything else, depending on the "insurance paid" or "negotiated" rate. Or, you might spend only $2,681 toward your deductible.

Example 1: Knee arthroscopy

Charges range from $13,452 to $19,187.
Insurance payments range from $2,681 to $13,607,
a *508% variation in the actual paid amount*

CPTCode	Billed, Cash or Self-Pay Price	Insurance Paid Amt.	Patient Responsibility
29881	$15,233.58	$2,681.36	$350
29881	$19,187.85	$3,795.20	$948.80
29881	$13,452.86	$9,080.77	$1,008.91
29881	$18,142.68	$13,607	$0

Example 2: Repair Initial inguinal hernia (No. 1 and No. 2)

Charges range from $13,950 to $22,184.
Payments range from $2,515 to $12,281,
a *500% variation in the actual paid amount*

Figure #1

CPT Code	Billed, Cash or Self-Pay Price	Insurance Paid Amt.	Patient Responsibility
36561	$13,950.29	$2,514.75	$641.52
36561	$15,680.49	$8,467.46	$940.83
36561	$15,948.16	$11,961.10	$0

Figure #2

CPT Code	Billed, Cash or Self-Pay Price	Insurance Paid Amt.	Patient Responsibility
49505	$22,183.85	$3,008.58	$767.50
49505	$17,011.54	$4,576	$1,144
49505	$18,193.78	$12,280.80	$1,364.53

Example 3: Carpal tunnel surgery

Charges range from $9,694 to $11,721.
Payments range from $1,953 to $7,079,
a *362% variation in the actual paid amount*

CPT Code	Billed, Cash or Self-Pay Price	Insurance Paid Amt.	Patient Responsibility
64721	$9,694.24	$1,953.47	$0
64721	$11,106.59	$3,174.30	$452.70
64721	$11,721.45	$3,501	$0
64721	$10,097.93	$7,079.25	$494.20

Example 4: Cataract surgery with intraocular lens (IOL)

Charges from $10,456 to $12,831.
Insurance payments range from $2,474 to $8,024,
a *324% variation in the actual paid amount*

CPT Code	Billed, Cash or Self-Pay Price	Insurance Paid Amt.	Patient Responsibility
66984	$10,456.39	$2,473.63	$0
66984	$12,831.26	$2,473.63	$0
66984	$10,878.50	$2,473.63	$0
66984	$10,606.54	$4,328	$100
66984	$11,503.16	$8,024.07	$603.30

Source: ClearHealthCosts. Used with permission.[65]

If you're not surprised and shocked yet, get ready. Insured individuals who ask for cash prices pay less than other insured individuals. For example, in San Francisco, Castro Valley Open MRI charges $475 cash for a lower back MRI. An insured individual who asked for a cash price for the same MRI at a different care provider knocked a $1,850 bill down to $580. A different insured individual was initially charged $5,667 for the same MRI at a third

care provider. Their insurer paid $2,367, and the individual was asked to pay $1,114.54, a total of $3,471.54 to the third care provider for the same $475 MRI. It's enough to make your head spin.

However, there's a trend toward transparency for competitive and regulatory reasons. For example, Surgery Center of Oklahoma founder, Keith Smith, MD, has been publicizing cash prices online for nearly nine years.

"I've only changed them four times," he said. "And in every case, I lowered them. So, I think I could make a compelling case that prices are actually falling."

Smith is still making money too, he said, often paying doctors more for procedures than insurers. "If we realize some efficiency in our practice that we've not seen before, then our inclination is to pass that savings along to the buyer and make ourselves even more competitive in the market."

More and more providers are following his practice of posting cash prices publicly, pushing us closer to the day when anyone can walk into a facility or physician's office with a price and insist they step up and match it.

Third Parties, Intermediaries, and Escalator Clauses

So, what causes insurance premiums and noncash prices to continue going up? For one thing, contracts between providers and carriers can include things like automatic escalator clauses, which stipulate that payment rates automatically increase each year.

Then there's the chargemaster, the list of prices at a hospital or other health care provider. Here's how one hospital executive explained the chargemaster to me: "Bob in accounting made that list in the 1960s, and we just raise prices every year. But don't tell anybody—we like them to think it's because our cost of business keeps going up, and because of uncompensated care, and because of the burden of keeping an ER open 24-7, and because health care is just expensive."

And then there are all the people behind the scenes between you and your doctor, each taking a dime or a dollar or a hundred dollars out of every transaction. For example, a good size hospital probably has multiple vice presidents for strategic planning, armies of business-office workers, pricing consultants, and people to make revenue-cycle management projections—just as the insurance company does.

"There are a lot of people in corporate medicine who make a ton of money off the lack of market-competitive pricing," Smith said. "And these people don't want to give that game up." But Smith says it's a myth that insurance companies care about prices. "They really don't. All they care about are charges because they're in the business of selling discounts. The higher the prices are to start with, the more money they make in discounting those prices. So that's part of the problem; a PPO will say that their discount saved an employer tens of thousands of dollars—in which they naturally share."

Turning Things Around

Joining Smith in his cynicism is Mike Dendy, who predicts the PPO concept will die out over the next few years.

Dendy was the CEO of Advanced Medical Pricing Solutions, a Georgia-based company that does health cost management for self-insured employer health plans. They help employers beat back costs using tools like close scrutiny of bills, the formation of narrower networks, direct contracting between providers and employers, and reference-based pricing services, often based on Medicare reimbursement rates. Dendy said providers commonly charge 300 to 500 percent of Medicare's rate and even the largest employers pay 250 percent on average, including both in and out-of-network claims, although he's seen hospitals creep up to 700 percent.

"The last report I saw showed the average spending by an employer group last year was about $18,300 per employee," he said. "It's getting unsustainable—and every 4 or 5 percent increase now

is a lot bigger than it was 20 years ago. The situation can be remedied, but you need consumerism to make it happen: incentives or disincentives for the consumer. And then you need technology and information immediately available, so people can make the correct decision in non-emergency situations."

Dendy further predicted that the insurance market will move toward defined contribution plans, where an employer's spending would be limited in scope. He compared employer health policies with travel policies. If you're traveling for the company, he said, the company limits your outlay.

"Nobody thinks they're being grossly burdened by not being able to stay at the Four Seasons and eat steak five times a day (unless they're paying for it themselves). But under current health insurance arrangements, via a PPO, an employee is free to choose an expensive MRI or an expensive hospital—and that raises everybody's premiums," he said.

Jeanne Pinder is founder and CEO of ClearHealthCosts, an independent health care research organization; its team of independent journalists is dedicated to finding and publishing costs for medical procedures and items.

Key Take-aways

- Prices are flat in the real market – the direct pay and cash-based market – for the vast majority of health care costs.
- Costs haven't changed for most inputs into health care. Prices aren't correlated with underlying costs.
- Escalator and gag clauses create an opaque market where hospitals and insurance companies have a shared objective for prices to go up irrespective of costs.