



Health Care Transparency 101

White Paper

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Why isn't there full transparency in health care? How does the lack of transparency impact employers and employees? Presenting a healthy case for why this should be on every employer's to-do list.

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Executive Summary

The health care system in the US is changing rapidly. The rollout of the Patient Protection & Affordable Care Act (otherwise known as the ACA) and adoption of promising new reimbursement and delivery models such as accountable care organizations (ACOs) have created many exciting opportunities to improve the quality and more effectively manage the costs of health care.

However, a key element that's missing is transparency. Today, there's just not enough visibility into the varying quality of health care services from one provider to another. And it can be a real challenge for consumers to factor price considerations into their decision-making processes. In addition, there continues to be a significant disaggregation of information — if the data even exists, it's not easily accessed.

Introduction

The current US health care system has remained virtually unchanged since the introduction of Medicare and related health care programs and systems as part of President Lyndon B. Johnson's Great Society, approved by Congress in the mid-1960s. While most would agree that Medicare dramatically improved the health of seniors — many of whom had no health insurance before its passage — it also created extraordinary complexity and has fueled an economic trajectory that is likely to be unsustainable without fundamental changes in the very near future.

Perhaps the biggest problem with the current health care system is that it simply doesn't put the consumers it was meant to serve first. Greater health care transparency addresses this by providing consumers with timely and accurate information needed to better manage medical care and related costs.

What is health care transparency? At its core, it provides employers and consumers the ability to see provider-specific information on the quality and cost of medical services — reflecting true costs that include any group-negotiated discounts as well as the costs of various facilities and diagnostic tests and also accounts for co-pay, co-insurance and deductibles. While many use the term primarily regarding the variability of payments for the same services, it is important to note that health care transparency also should provide visibility into quality indicators such as patient outcomes — including the rate of complications, readmissions, hospital-acquired infections, and other determining factors.

Why has health care transparency become so important? Much of this has to do with how the US health care system has been reformed over the past thirty years. In the early 1980s, the development and implementation of the diagnosis-related group (DRG) system for Medicare reimbursement classified hospital cases into 467 DRGs. This was intended to be used to compensate hospitals for patient care based on their expected use of resources and complexity of care — not on the actual costs of services provided.

Consumers often have no idea of what the cost of care will be until they receive an explanation of benefits weeks or months after the services have been provided.

In 1992, Medicare also adopted the resource-based relative value scale (RBRVS). Under this directive, payments continued to be determined by the expected resources needed to provide care and are divided into three components: physician work, practice expense, and professional liability insurance expenses. Payments were calculated by multiplying the combined costs of a service by a conversion factor determined by Medicare, and could also be adjusted for geographical differences.

For individuals not covered under Medicare, these changes matter because commercial payors often adopt reimbursement mechanisms based on the actions of Medicare as a baseline, then adopt them for their needs. Thus, while each of these new methods has provided some benefit to our health care system, the growing complexity has not led to a system that benefits all of its various constituencies. Thus, for many, health care transparency has moved to the forefront as a key driver of a more sustainable health care system.

Who Benefits from Health Care Transparency?

Health care prices continue to rise at over twice the rate of inflation (Figure 1). Studies reveal that prices for the same procedure in the same market can vary up to seven times, and yet those prices don't correlate to the quality of care received (Figure 2).

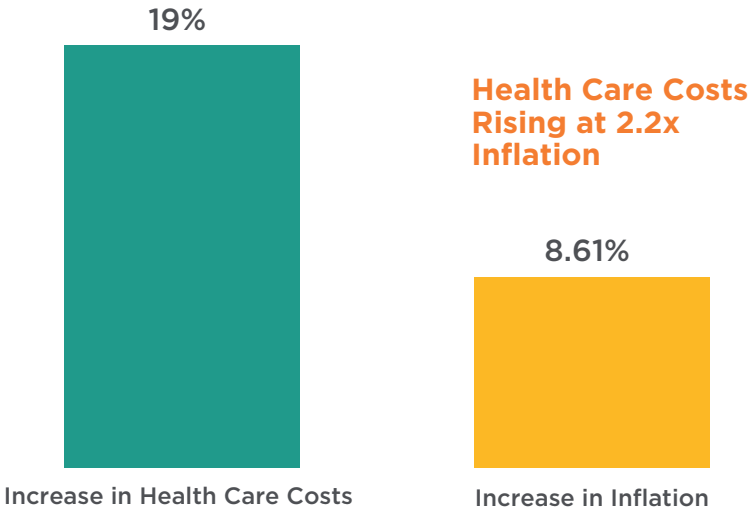


Figure 1: Increase in health care costs, inflation in the US – 2006 - 2010

Without health care transparency, it's virtually impossible for consumers to understand the costs of health care and assess quality and risk tradeoffs among the various providers. Consumers often have no idea of what the cost of care will be until they receive an explanation of benefits weeks or months after the services have been provided.

Thus, it's not surprising to learn that consumers will benefit significantly from greater health care transparency. However, you may be surprised to learn that transparency offers substantial advantages for the entire health care ecosystem — including employers, providers, and health plans.

- **Consumers** — Faced with increasing financial responsibilities due to the massive increase in health care costs, consumers can look to health care transparency to help them manage spending. Greater transparency should also enable consumers to obtain higher quality care and enjoy better outcomes while controlling premiums and out-of-pocket costs.
- **Self-insured employers** — Whether your primary concern is the bottom line or providing best-in-class benefits, health care transparency holds the promise of maintaining and potentially improving the care that your employees get, while enabling you to control skyrocketing health care costs.
- **Providers** — With health care transparency, exceptional physicians and facilities will be recognized and rewarded for the quality and value of the care they provide, while those with the poorest outcomes will be more easily identified and avoided by patients.
- **Health plans** — Health plans that offer health care transparency solutions not only benefit from having a more informed, fully insured population, but also gain a competitive edge by providing superior offerings to their self-insured customers.


Country Ratings								
		AUS	CAN	GER	NETH	NZ	UK	US
1.00-2.33	2.34-4.66	4.67-7.00						
Overall Ranking (2010)		3	6	4	1	5	2	7
Quality Care		4	7	5	2	1	3	6
Effective Care		2	7	6	3	5	1	4
Safe Care		6	7	3	1	4	2	7
Coordinated Care		4	5	7	2	1	3	6
Patient-centered Care		2	5	3	6	1	7	4
Access		6.5	5	3	1	4	2	6.5
Cost-related Problem		6	3.5	3.5	2	5	1	7
Timeliness of Care		6	7	2	1	3	4	5
Efficiency		2	6	5	3	4	1	7
Equity		4	5	3	1	6	2	7
Long, Healthy, Productive Lives		1	2	3	4	5	6	7
Health Expenditures/Capita, 2007		\$3,357	\$3,895	\$3,588	\$3,837*	\$2,454	\$2,992	\$7,290

Figure 2: Overall Ranking of Seven Countries on Health System Performance³

A total of 39 states reported that information on service prices was provided in some form, although in many instances the data was only sent to the state — not consumers — or sometimes simply posted to a website.

Evolving Transparency Policies

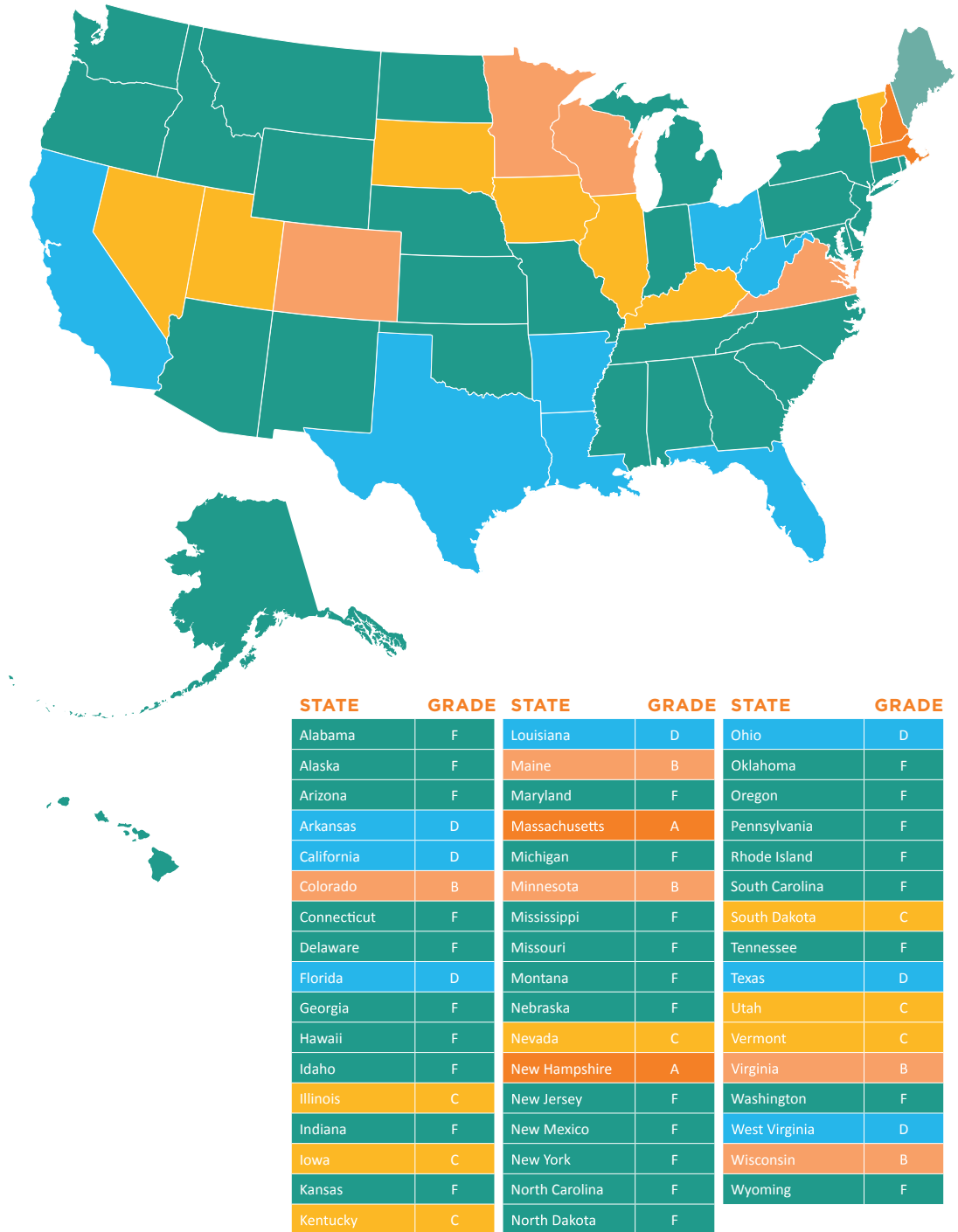
A major thrust for governments and employers alike has been to establish policies that lead to greater price visibility. At the federal level — the level at which most self-insured employers are regulated — the Health Data Initiative (HDI) makes health care information more available to developers, encouraging consumption by individuals, communities, and service providers. Looking at a sampling of states from coast to coast, in California, hospitals must disclose prices for the 25 most common outpatient services or procedures. Illinois has authorized the creation of an online database of Medicaid claims that is fully transparent to most users. And in Massachusetts, health plans are required to disclose out-of-pocket costs for all medical services.

A comprehensive report produced by the Catalyst for Payment Reform (CPR) and Health Care Incentives Improvement Institute (HCI3), provides further insight into how health care price transparency varies widely from state to state. The report assigns scoring criteria to the various types and forms of pricing information available, and specifies who can access it (the state and/or general public), the scope of services affected, and the breadth of providers addressed — from physicians to hospitals and surgical centers.

So how did the 50 states fare on the transparency report card? Despite a generous curve only two states, Massachusetts and New Hampshire, received A's. Five more states earned B's. Seven states each brought home C's or D's. And more than half — 29 states — earned F's for their efforts (Figure 3).

The metric best attained by the majority of states was in the area of providing transparency into charges for various services — though, it's important to note that these charges do not necessarily reflect the out-of-pocket costs for consumers. A total of 39 states reported that information on service prices was provided in some form, although in many instances the data was only sent to the state — not consumers — or sometimes simply posted to a website.

Seven states — Alaska, Alabama, Hawaii, Idaho, Michigan, Missouri, and Mississippi — earned scores of 0% according to the CPR and HCI3 scale. Thus, while health care transparency continues to gain traction nationwide, many states still have a long way to go.



Source: “Report Card on State Price Transparency Laws”, Health Care Incentives Improvement Institute. Inc. and Catalyst for Payment Reform.

Figure 3: Performance by State on Transparency Report Card.

An equally critical component of an improved health care system is the ability to assess the quality of care before the service is provided.

Many Facets of Transparency

While the core of a transparent health care ecosystem is price visibility, health care transparency is multifaceted. An equally critical component of an improved health care system is the ability to assess the quality of care before the service is provided.

Typically, measures of quality involve three criteria:

- **Outcomes** — Outcomes are perhaps the most obvious of quality measures; however, there are many ways that outcomes can be measured, such as rates of complication and mortality rates. Absent actual outcomes, certain factors can be used to predict the likelihood of better outcomes with a specific provider. For example, a practice that has only performed ten of a specific procedure is much less likely to have good outcomes than a practice that performs 700 a year. Government entities such as Centers for Medicare and Medicaid Services (CMS) and independent companies such as The Leapfrog Group track these data.
- **Process** — Has a provider or facility taken the proper steps in performing the diagnostic tests or handling the procedures or other services a patient may be considering? As an example, physicians should follow evidence-based guidelines to ensure that a diabetic patient's blood sugar is well controlled. Examples of independent organizations that track such metrics include The Leapfrog Group and the National Committee for Quality Assurance (NCQA).
- **Human Experience** — Were the patient's expectations of the level of care met or exceeded? Did the physician take the time to listen well and respond to individual needs or concerns? The more comfortable patients are throughout the course of treatment or through a procedure, the more satisfied they will be with the results, and the higher the rating.

More sophisticated elements of a transparent health care market include the broad availability of consumer education, the introduction of more advanced benefit designs (such as centers of excellence or second opinion programs), and extension of pricing transparency beyond medical spend to encompass pharmacy or dental spend.

How Employers Can Act

Approximately 56% of all US workers are covered by health benefits provided by employers.⁴ Of these workers, 60% are enrolled in plans that are either partially or fully self-insured.⁴ In addition, 42% of all employers now offer a high deductible health plan (HDHP), which shifts greater responsibility for managing costs and enhancing the value of health care to employees.⁴ These figures demonstrate the huge stake that you and your employees have in increasing health care transparency.

With the slow but steady rollout of the ACA, many employers have been taking a “wait and see” attitude toward health care — postponing any efforts to address health care transparency until they see how the ACA implementation plays out. However, outside of policy change, you can take steps by bringing health care transparency to your company — benefitting you and your employees alike through lower costs and better, more affordable health care.

So what can you do to start providing health care transparency to your employees?

Seek out enabling technologies

Make it a priority to seek a web- or phone-based solution that provides a health care transparency experience for you and your employees.

Comprehensive solutions include programs or tools that successfully engage your employee population. They should also be configurable enough to work with any benefit design and provide employees real-time, out-of-pocket, and deductible cost information based upon their choice of plans.

The right solution will enable your company to substantially lower the cost of health care and provide to your employees the unbiased pricing and quality information needed to make smarter health care decisions. This leads to more satisfied employees, resulting in greater productivity and less turnover for your business.

Focus on employee education

Educate your employees about the significant in-network quality and price variation across a broad spectrum of services. The key is to help employees understand how important transparency can be in enhancing the quality and reducing the cost of health care, and that when employees have access to all the information they need, it's easier to choose high-quality providers who offer exceptional services at a reasonable price.

Make your voice heard

In the new post-ACA health care era, many policy influencers and constituents will be looking for leadership. Work closely with others in the health care ecosystem and with key policymakers to ensure that transparency into health care pricing and quality is a priority. Employer and purchasing coalitions in your area can also be a powerful way to join in the conversation with your peers.

Conclusion

Health care transparency brings you and your employees together in search of a common objective of reducing costs and improving the quality of medical care. With more organizations offering consumer-directed health plans, employees are becoming much more sensitized to the need for health care transparency and how it can benefit them. In what promises to be a rapidly changing health care ecosystem, the timing to push for greater health care transparency has never been more favorable.

Additional Resources

Employer groups and data initiatives

Catalyst for Payment Reform: www.catalyzepaymentreform.org

National Business Group on Health: www.businessgrouphealth.org

National Business Coalition on Health: www.nbch.org

Health Data Initiative: www.hhs.gov/open/initiatives/hdi

Quality and patient experience data

The Leapfrog Group: www.leapfroggroup.org

Centers for Medicare and Medicaid: www.cms.gov

Bridges to Excellence: www.hci3.org/what_is_bte

Agency for Healthcare Research and Quality: www.ahrq.gov

About Castlight Health

Castlight Health enables employers, their employees, and health plans to take control of health care costs and improve care. Named #1 on The Wall Street Journal's list of "The Top 50 Venture-Backed Companies" for 2011 and one of Dow Jones' 50 Most Investment-Worthy Technology Start-Ups, Castlight Health helps the country's self-insured employers and health plans empower consumers to shop for health care. Castlight Health is

headquartered in San Francisco and backed by prominent investors including Allen & Company, Cleveland Clinic, Maverick Capital, Morgan Stanley Investment Management, Oak Investment Partners, Redmile Group, T. Rowe Price, U.S. Venture Partners, Venrock, Wellcome Trust, and two unnamed mutual funds. For more information, please visit our web site at www.castlighthealth.com or call (415) 829-1400.

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3. The Commonwealth Fund, "U.S. Ranks Last Among Seven Countries on Health System Performance Based on Measures of Quality, Efficiency, Access, Equity, and Healthy Lives," The Commonwealth Fund, <http://www.commonwealthfund.org/News/News-Releases/2010/Jun/US-Ranks-Last-Among-Seven-Countries.aspx> (accessed June 25, 2012).
4. Derived from Kaiser Family Foundation, Employer Health Benefits 2012 Annual Survey.



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