

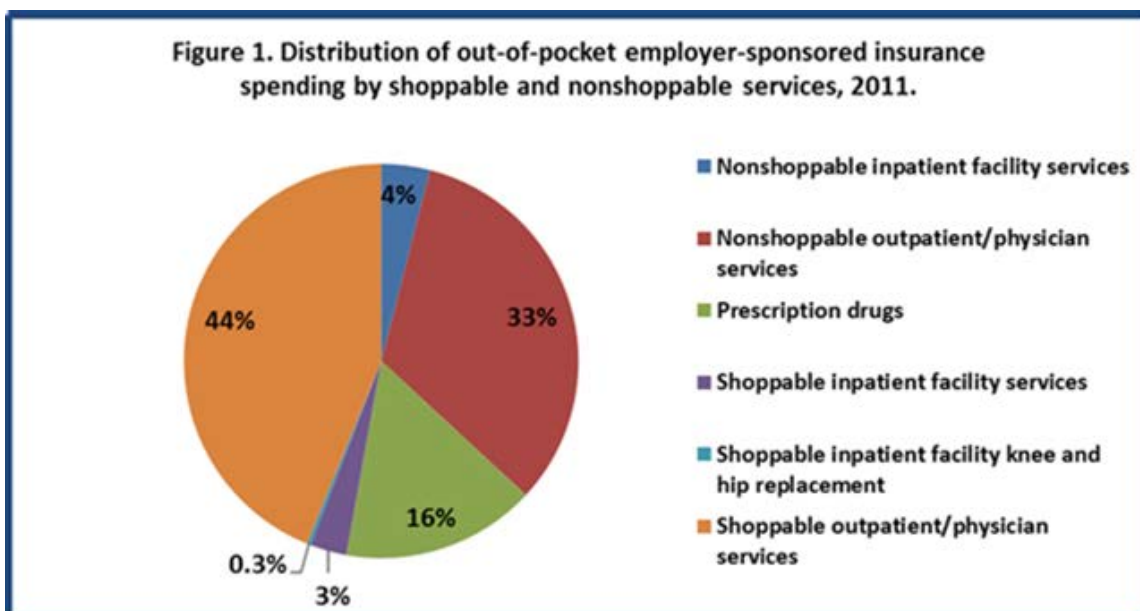


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## Consumer Shopping Opportunities in Healthcare

In the US, the price of healthcare services is often unknown to patients prior to receiving care. Over the last several years a movement to introduce price transparency – information about the price before the service is rendered – has emerged. Known as price transparency, this process is likely to lower spending on healthcare as consumers will be able to know the full cost of services before receiving them and therefore are likely to choose lower-cost services or providers, while holding quality constant. According to a new report from the **Health Care Cost Institute** price transparency efforts could save an estimated \$100 billion dollars to consumers and employer benefit plans over a decade. Of this amount, \$18 billion alone could come from greater consumer access to pricing information. In theory, consumers would use pricing information to “comparison shop” for their healthcare services and providers. For a healthcare service to be ‘shoppable,’ there must be a common healthcare service that can be researched (shopped) in advance; multiple providers of that service must be available in a market (i.e., competition) and sufficient data about the prices and quality of services must be available.

In their analysis, the Health Care Cost Institute suggests that of the \$524.2 billion spent on health care in 2011, about 15% - or \$80.8 billion - was spent out of pocket. Of this amount, about 7%, or \$37.7 billion, was spent out of pocket on what are shoppable healthcare services (Figure 1).



Other interesting finds from the report include:

- Of the out-of-pocket spending, the most dollars were spent on shoppable outpatient/physician services: around 44%. Out-of-pocket spending on inpatient services, both shoppable and nonshoppable, makes up a very small piece of total out-of-pocket spending, as most consumers spend far more money on outpatient/physician services than on inpatient services.
- Out-of-pocket payments can be one of three types: coinsurance, deductibles, or copayments. About 27% of the out-of-pocket spending for shoppable services was for coinsurance payments. These coinsurance dollars represent around 12% of all dollars spent out of pocket.
- The vast majority of the coinsurance payments were on outpatient/physician services.
- One-fourth of the dollars spent out of pocket on shoppable services were for copayments in 2011. Copayments seem to have the largest effect on low-dollar shoppable outpatient/physician services, where 30% of out-of-pocket spending on this category of services was through copayments. In contrast, copayments on shoppable high-dollar outpatient/physician services accounted for only 2% of the out-of-pocket spending.

For consumers to be able to influence their out-of-pocket payments by price shopping, price variation must exist in the market. The report finds that nationally, knee and hip replacement admissions had a coefficient of variation much lower than either inpatient shoppable (excluding knee and hip replacements) or inpatient nonshoppable. In other words, nationally there seems to be less price variation in the categories of shoppable services than nonshoppable services (Figure 2).

**Figure 2. Price variation in inpatient services for states with most and least variation, 2011**

| State    | Inpatient shoppable coefficient of variation | Inpatient hip/knee coefficient of variation | Inpatient Nonshoppable coefficient of variation |
|----------|--|---|---|
| Kentucky | 2.99   | 1.03  | 3.14  |
| Texas    | 2.98   | 0.84  | 3.28  |
| Georgia  | 2.51   | 0.97  | 3.17  |
| Montana  | 0.83   | 0.23  | 1.15  |
| Hawaii   | 0.41   | 0.29  | 0.37  |

Analysis of price variation by state reveals that the three states with the highest variation across all three categories of inpatient services were Kentucky, Texas and Georgia. Two states near the bottom for variation in all three categories were Montana and Hawaii. In general, the more populous states had greater price variation, while the less populous states had the least variation. The report's estimates are based on a sample of approximately 25% of insureds younger than age 65 with employer-sponsored insurance.

While price transparency is not a new technique, it poses significant opportunity to help create better consumer engagement as patients shop for healthcare on the basis of cost and quality like they do for all other goods and services. Conner Strong & Buckelew has helped clients migrate to using such tools and can provide further information to employers and plan sponsors.

Please contact your Conner Strong & Buckelew account representative toll free at 1-877-861-3220 with any questions.



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