TheZetemaProject

Price Setting

Is it necessary to reduce overall system costs?

Discussion Questions

1. Why have market forces in the US failed to control costs? What could be done to enhance the effectiveness of markets?
2. Other OECD countries that use a common fee schedule to pay for care, such as France and Japan, typically have some form of single-payer healthcare. Could an all-payer rate schedule work in the United States' competitive, multi-payer environment?
3. Is increased price negotiation a more feasible option for the United States than price setting? How can it be expanded to be more effective?
4. Medicare Part D has been effective at reducing pharmaceutical costs. Could a market-based negotiation model be effective outside of Medicare?
5. Maryland's all-payer rate system has proven to curb hospital costs dramatically, except among rural, acute-care hospitals. Why might they be outliers?

Price setting versus market forces

Price setting is the process by which a government or third party sets the price for products or services. Government oversight of industries in the United States, including healthcare, has traditionally rejected this approach, relying on markets to determine prices. Yet with healthcare spending high and accelerating rapidly, many argue that the unique dynamics of the healthcare sector require a more regulatory approach – like price setting – to tame the U.S.'s ballooning healthcare spending. Others claim that market-based efforts like increasing value-based pricing and improving price transparency would work to reduce costs and are more in line with American practices and values.

The Debate

Price setting is necessary to contain system costs

- Other Organisation for Economic Co-operation and Development (OECD) countries with universal coverage widely employ price setting, either by government or public-private entities, and pay far less than the United States to doctors, hospitals and drug companies.

Overall per capita healthcare expenditures in other OECD countries are far lower than in the US.
- Price setting has already shown it can help contain costs in Maryland.
- Healthcare is not like other commodities – it cannot rely on the market to set prices.
- Reforms like value-based payment cannot contain systems costs without price setting in place. Several years of experience with value-based care have failed to show that it can have significant impact on healthcare spending.
- The absence of price setting creates the wrong incentives for providers in a revenue-seeking, fee-for-service system.
- Provider consolidation in the United States heightens the need for price setting.

There are other, more effective, ways to control healthcare costs
- Cost containment can be achieved through other mechanisms including narrowing provider networks, improving care management of expensive patients and expanding value-based payment models.
- American healthcare is rife with waste and reducing inefficiency could dramatically control costs.
- Price setting would stifle innovation, especially in the pharmaceutical industry.
- Price setting would be antithetical to the American value of market competition and upend the current American healthcare system.
- Eliminating some regulations would allow markets to more effectively control prices and overall spending.

Side A: Price setting is necessary to contain healthcare costs

US healthcare costs and prices are high relative to all other countries, and reliance on market forces generally has failed to control spending. Major factors include lack of price transparency, provider and supplier power and information asymmetry (where insurers or healthcare providers know more about the system than the patients).

Outside of the United States, high-income countries use some form of price setting and see lower cost growth as a result. In the United States, Maryland's all-payer hospital rate setting has made the state a national leader in hospital price cost containment. Without price setting, healthcare providers and pharmaceutical companies are incented to charge increasingly higher prices, especially in the current era of healthcare system consolidation and increasingly concentrated markets.

Price setting*: A government or third-party sets prices for products or services.*

Price negotiation: *Two entities negotiate the price of a product or service.*

Cost containment: *The act of maintaining costs of products and services at the current level.*

Other countries' success
OECD countries with universal coverage widely employ various kinds of price-setting techniques. These price schedules are typically established by government or public-private entities and allow negotiation with healthcare facilities, insurers and drug companies. In general, these controls have resulted in lower costs paid for treatment and

medications than in the United States[1] (whose annual per capita health spending is the highest in the world).[2]

Other major countries regulate either prices, profits, total spending budgets, or a combination, according to The Commonwealth Fund:

Canada – An independent review board regulates the pricing of new medicines introduced to the market. Pricing is limited to no more than 18% percent of comparable brand-name drugs for its most-used generic medications.

Denmark – Sets budgets for different regions and implements sanctions for those that exceed the allotted funds. Such global budget setting requires providers to self-regulate their combined price and treatment volume levels.

United Kingdom – Costs are based on a National Health Service (NHS) budget created every three years. The country regulates pharmaceutical costs by managing profits the companies can make. Drug manufacturers can set their own prices if their profits remain within NHS profit caps.

Germany – All new drugs have a reference price that sets the maximum level of reimbursement unless manufacturers can prove they are better than ones already on the market. For drugs that do have additional benefit, a committee negotiates rebates on the price for patients.

Israel – Has health spending below 8% of its GDP through a range of tactics including government setting hospital reimbursement rates and negotiating health plan discounts.

These price setting measures, along with other types of cost containment, have proven a viable way of controlling healthcare spending. According to a 2018 report by the Peterson Center for Healthcare, the cost for services like MRIs, cesarean sections, coronary bypass, appendectomy and knee replacements is higher in the United States than in most comparable countries, sometimes by twofold. Thus, the United States spends about $10,348 per capita on healthcare, almost exactly double the average of comparable countries, at $5,198.[3]

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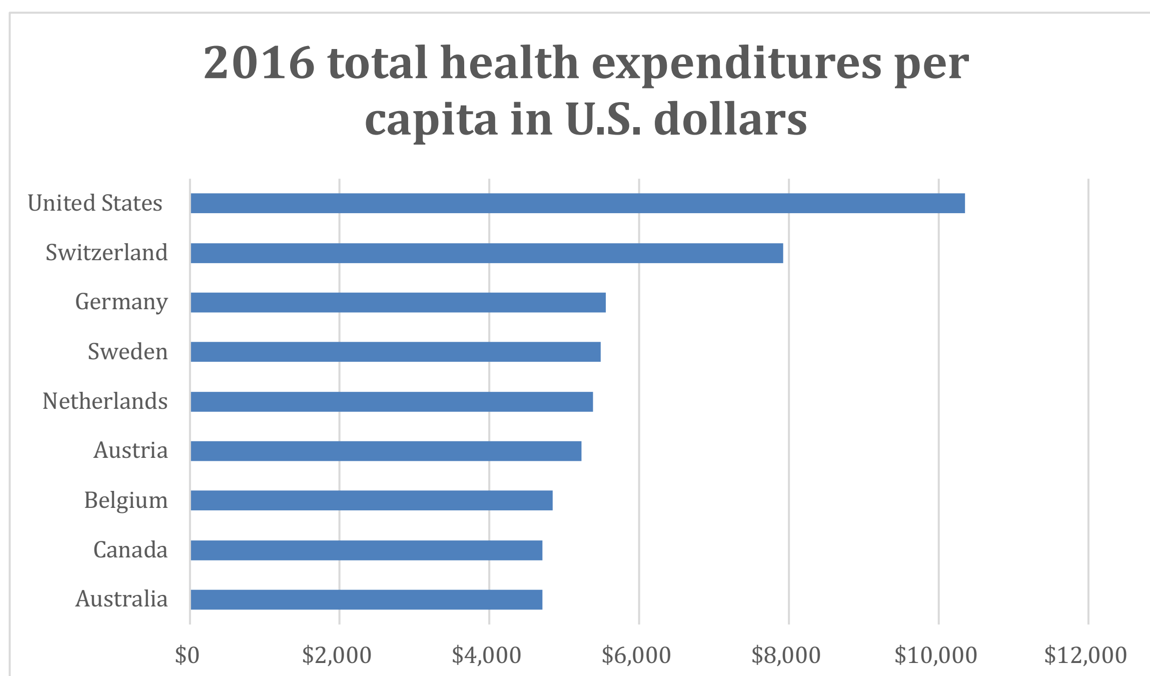
[1] Barber S, Lorenzoni L, and Ong P. World Health Organization and Organisation for Economic Cooperation and Development. Price setting and regulation in health care: Lessons for advancing Universal Health Coverage. 2019. https://www.oecd.org/health/health-systems/OECD-WHO-Price-Setting-Summary-Report.pdf

[2] The Commonwealth Fund. How are costs contained? https://international.commonwealthfund.org/features/cost_containment/

[3] Kamal R, Cox C. Kaiser Family Foundation. How do healthcare prices and use in the U.S. compare to other countries? 8 May 2018. https://www.healthsystemtracker.org/chart-collection/how-do-healthcare-prices-and-use-in-the-u-s-compare-to-other-countries/#item-on-average-other-wealthy-countries-spend-half-as-much-per-person-on-healthcare-than-the-u-s



Setting target rates
One mechanism used by countries including France, Germany, Japan and Switzerland is known as an all-payer rate setting. Within this structure, insurers negotiate with healthcare providers to agree on one rate they will charge for a service. An MRI would cost the same at every hospital and the providers would charge the same regardless of how a person paid. According to Vox, this kind of price setting has been shown to lower costs and maintain them over the long term. The publication reported that between 2000 and 2008, Germany's healthcare spending rose annually by 0.3%; Japan's rose 0.8% and in the United States, healthcare spending increased by 2.7%.

This tool has also been effective in containing costs in the United States with Maryland's all-payer rate system. In 1974, the state launched the program, creating the Health Services Cost Review Commission (HSCRC). Among other things, this independent group was given the power to set hospital rates in the state. According to a report by the HSCRC, the state has the lowest increase of cost per hospital admission of any state and hospital costs dropped from 23.6% above the national average before implementation to 4.6% below.[4]

The case for price setting
Some of these countries implement various cost controls (including collective purchasing of pharmaceuticals, medication prescribing guidelines and reducing payments for low-value treatments), but these can't contain system costs without price setting in place.

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[1] Barber S, Lorenzoni L, and Ong P. World Health Organization and Organisation for Economic Cooperation and Development. Price setting and regulation in health care: Lessons for advancing Universal Health Coverage. 2019. https://www.oecd.org/health/health-systems/OECD-WHO-Price-Setting-Summary-Report.pdf
Kliff, S. Vox. All-payer rate setting: America's back-door to single-payer? 9 February 2015. https://www.vox.com/2015/2/9/8001173/all-payer-rate-setting

Take, for instance, value-based payments. According to an OECD report on price setting, considering new payment mechanisms are important, but so is the price by which it is set. "If the price set is too high or too low, it can easily overshadow the incentives in payment mechanisms," said the report's authors. "Prices should reflect actual costs and take into consideration broader health system goals and health outcomes." [1]

Without price setting, insurers are able to negotiate drastically different payment rates for services.[5] Groups that have greater market influence, like Medicare, tend to pay less for treatment while private payers, patients without insurance, and ones who are underinsured make up for that with higher costs. [6]

In the absence of price setting, America's fee-for-service system creates the wrong incentives for providers as well. With no pricing guidance or caps, providers are incented, and able, to charge arbitrary prices for services. They, too, often charge higher rates for private insurance and uninsured patients to compensate for lower rates paid by Medicare and Medicaid.[7] Billing by out-of-network physicians, often at extremely high prices and without a patient's prior knowledge or approval, has become a potent political issue.

Side B: Market forces are a better way to contain prices

Price setting is not the only way to contain healthcare costs, and it can create market distortion. Many experts and policy makers prefer to use the power of markets. They contend that payers, providers and legislators can require or encourage cost-containment strategies to lower the price of care. Tactics like increasing price transparency, requiring appropriate cost-sharing, group purchasing and implementing value-based care could generate market-based cost reductions.

The potential for payers

Payers have a lot of market sway – particularly Medicare and larger organizations. Using their purchasing bulk and negotiating power wisely can change the system in ways that can reduce the price of treatment and medications. Linking payers to create greater purchasing leverage – as California Governor Gavin Newsom recently proposed for his state's pharmaceutical spend – could harness market power to control costs.

One tool plans have is creating narrow networks. They do this by restricting the number of providers (e.g. physicians, hospitals, pharmacies) that are covered under a benefit plan. In theory, insurers can reduce networks and cover only providers that offer quality service at lower costs.

Bundled and value-based payment models can also be used by insurance companies to incent providers to contain utilization and costs. This has been shown effective for hospital-based

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[5] Anderson G, Herring B. American Medical Association. The All-Payer Rate Setting Model for Pricing Medical Services and Drugs. August 2015. https://journalofethics.ama-assn.org/article/all-payer-rate-setting-model-pricing-medical-services-and-drugs/2015-08

[6] Ginsburg P and Thorpe K. Health Affairs 11(2). Can All-Payer Rate Setting and the Competitive Strategy Coexist? 1992. https://www.healthaffairs.org/doi/full/10.1377/hlthaff.11.2.73

[7] James B, Poulsen G. Harvard Business Review. The Case for Capitation. 2016. https://hbr.org/2016/07/the-case-for-capitation

services.[8] Researchers out of Wharton found that, when used for hip and knee replacements, there was a savings of about 5% of the overall cost of the procedures.[9]

Legislative opportunities

Sufficient market competition can force healthcare service providers to contain costs. The government can play a role in creating a more competitive marketplace. Legislators can do this by encouraging (and passing laws to increase) price transparency. Providing patients with the information they need better equips people to choose more affordable treatments, tests and medications.[10]

A study in the September 2019 issue of Health Affairs looked at price transparency in Massachusetts. Unlike most states, Massachusetts publishes data on healthcare prices negotiated between payers and providers. Researchers found that, if policymakers and insurers steered patients toward lower-priced care, it could save 9% to 12.8%. However, the study authors did note that price transparency alone hasn't been shown to reduce costs. [11]

Massachusetts' statewide spending growth targets

In 2017, Total Health Care Expenditures in Massachusetts grew 1.6 percent per capita, lower than the cost growth benchmark set by the state's Health Policy Commission. Though its average annual growth rate is typically higher, the state did spend below the national average from 2009 to 2017.

-Massachusetts Health Policy Commission's 2018 Annual Health Care Cost Trends Report

Many insurers have traditionally fought against price transparency, using nondisclosure agreements in provider contracts to protect their negotiations. But this has changed lately, with several national and regional insurers providing price transparency tools. States can create legislation or urge payers to improve transparency and create such resources as an all-payer claims database with comprehensive pricing information.[12]

Antitrust laws can also be addressed to potentially reduce costs.[13] Breaking up monopolies in healthcare and increasing market competition may reduce the price of care, according to a 2014 Stanford University School of Medicine study. Researchers found that healthcare providers in

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[8] LaPoint, J. RevCycleIntelligence. Hospitalization-Based Bundled Payment Models Key to Lowering Costs. 4 June 2018. https://revcycleintelligence.com/news/hospitalization-based-bundled-payment-models-key-to-lowering-costs

[9] Navanthe, A. Knowledge@Wharton. Wharton School at University of Pennsylvania. Can Bundled Payments Help Control Health Care Costs? 21 May 2018. https://knowledge.wharton.upenn.edu/article/bundled-payments-a-model-for-controlling-health-care-costs/

[10] Scott, D. Vox. The best-case and worse-case scenarios for Trump's health care price transparency rule. 18 November 2019. https://www.vox.com/policy-and-politics/2019/11/18/20971047/trump-health-care-transparency-executive-order-prices

[11] LaPointe, J RevCycleIntelligence. How Healthcare Price Transparency Can Cut Costs, Improve Value. 4 September 2019. https://revcycleintelligence.com/news/how-healthcare-price-transparency-can-cuts-costs-improve-value

[12] Robert Wood Johnson Foundation. 1 March 2016. https://www.rwjf.org/en/library/research/2016/03/how-price-transparency-controls-health-care-cost.html

[13] Archer, D. Health Affairs. 6 March 2013. https://www.healthaffairs.org/do/10.1377/hblog20130306.028873/full/

less-competitive markets charged between 3.5% and 5.4% more for office visits. Even small percentages like that could make a difference on the billions spent each year for care.[14]

The American way

Many experts believe that letting the market create better pricing is the only real way to deal with costs in the United States. The culture of market competition is deep-seated in American culture. Price setting would be antithetical to American values and upend the current healthcare system.

In a 2017 white paper on competition in healthcare, researchers from Carnegie Mellon University's Heinz College, said there are a handful of ways to increase competition in the industry. The system can discourage consolidation by changing Medicare policies; reducing regulatory burdens on providers; enabling independent providers to stay in one-sided risk contracts; and increasing quality and price transparency.

"Prices are high and vary in seemingly incoherent ways … and the [healthcare] system lacks the innovation and dynamism that characterizes much of the rest of our economy," wrote the researchers. "The dearth of competition in our healthcare markets is a key reason for this dysfunction." [15]

Another market-based argument against price setting is its potential to stifle innovation, particularly in the pharmaceutical industry.

"The United States has always, by a large margin, led the world as a source of new drugs, and that lead has widened as Japan and Germany have imposed price controls over the past few decades," said Robert Easton, in a STAT opinion column. "All major international pharmaceutical companies, without exception, have instituted R&D and commercial operations in the U.S. to take advantage of its pricing environment." [16]

Medicare Part D: Market-based negotiations

Medicare Part D is often held up as a successful example of the way in which the market can be used to contain costs. Within this system, health plans vie for beneficiaries and negotiate directly with drug manufacturers. By doing this, insurers have been able to offer affordable premiums and low-cost medications. A similar approach could be used with other federal entitlement programs potentially creating additional opportunities for controlling costs and providing more patient satisfaction.

A 2008 Millbank Quarterly article looked at waste in the healthcare system, focusing on administrative, clinical and operational areas. The researchers found that the United States, in comparison to similar OECD countries, spends much more on administration. If the United States transitioned to a single-payer system similar to Canada's, it could save between $89 billion and $280 billion in administrative savings.

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[14] Baker, L. Stanford Medicine. 21 October 2014. https://med.stanford.edu/news/all-news/2014/10/competition-keeps-health-care-costs-low--researchers-find.html

[15] LaPointe, J. RevCycleIntelligence. Boost Healthcare Competition to Drive Down Prices, Up Quality. 18 April 2017. https://revcycleintelligence.com/news/boost-healthcare-competition-to-drive-down-prices-up-quality

[16] Easton, R. Stat News. Price controls would stifle innovation in the pharmaceutical industry. 22 January 2018. https://www.statnews.com/2018/01/22/price-controls-pharmaceutical-industry/

On the operational side, American providers produce waste by repeating unnecessary services or using doctors for treatments that could be performed by less-costly providers. For instance, medical errors, sometimes caused by inefficient processes, can cost as much as $29 billion annually here, compared with $750 million a year in Canada.

Finally, clinical waste can add up to billions in unnecessary costs each year as well. Research has shown that as much as 3.5% of all health spending in this country is potentially wasteful. The major culprits include overuse of some radiological imaging (upwards of $33 billion), overuse of spinal fusion surgery (about $11 billion) and unnecessary hospital admissions from the emergency room related to chest pain ($4 billion).[17]

The burden of healthcare spending in the United States has prompted those in almost every part of the industry to seek ways to curtail the rising cost of care. But because the market doesn't work in a traditional supply-and-demand fashion, there has been little consensus on "the right way" to contain prices. There is an ongoing push and pull between two sides. Those who think market forces can manipulate the industry to lower the cost of treatment and medication. The other believes it will require more tough love – forcing providers and pharmaceutical companies to contain costs.

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[17] Bentley T, Effros R, Keeler E, et al. The Milbank Quarterly 86(4). Waste in the U.S. Health Care System: A Conceptual Framework. December 2008. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2690367/

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