October Articles & Reports Roundup

Happy Halloween! October's roundup focuses on articles examining hospital pricing as well as the new trend toward reference pricing. We'll also take a peek at a couple of articles on hospital consolidation. Nothing too scary here!

Let's start with hospital pricing. Erin Fuse Brown, Associate Professor at Georgia State University College of Law, published *Irrational Hospital Pricing* in the Houston Journal of Health Law and Policy earlier this month. Fuse Brown demonstrates the deep irrationality found in most hospital's chargemaster charges, and then responds to the numerous claims that hospital chargemaster charges are "meaningless' and "harmless" because no one pays them. She argues that chargemaster charges are quite relevant as a growing number of people in the system will be asked to pay them and they serve as a jumping off point for negotiations with insurance companies and for measuring charitable care. This article provides a nice overview of the problems with transparency efforts that are aimed at chargemaster charges, as well as the danger of permitting hospitals to pretend like these prices are not relevant for policy discussions.

JAMA published three articles on hospital pricing and price transparency in its October 22nd issue. First, Uwe Reinhardt wrote an editorial, *Health Care Price Transparency and Economic Theory*, which highlights the existing irrationality and secrecy in hospital pricing. Reinhardt suggests that employers can and should demand greater price transparency from providers if they are going to ask employees to put more "skin in the game." He importantly notes that greater access to price and quality will do little to enable patients to make better health care choices and drive costs down in situations

where little competition exists.

In arguing that greater price transparency can lower health care costs, Reinhardt references Chris Whaley *et al.*'s important research on Castlight Health's private price transparency platform. Whaley *et al.*'s article, titled *Association Between Availability of Health Services Prices and Payments for These Services*, examines whether employees that had access to an employer sponsored price transparency platform, provided by Castlight Health, would have with lower claims payments. Whaley *et al*. found that employees who used Castlight's price transparency platform to search for providers had lower claims payments. Importantly, the researchers found the effect to be largest for advanced imaging services ($124) and least for physician office visits ($1.18). This finding has been mirrored in other studies and may suggest that patients are willing to shop on price for more impersonal services, like imaging and diagnostic services, but less willing to change practitioners based on price.

Further, Kevin Riggs and Matthew DeCamp wrote a brief viewpoint article titled, *Providing Price Displays for Physicians: Which Price is Right?*, which examines the potential benefits and challenges of providing price information to physicians for reference during treatment. Riggs and DeCamp are in favor of the practice and believe that it can bring costs down, but note that there will be some complexities in determining which prices to reveal and when physicians should use price information in clinical decision-making.

Reference pricing has also started to gain interest in the academic press. Chapin White and Megan Eguchi published a research brief titled *Reference Pricing: A Small Piece of the Health Care Price and Quality Puzzle.* White and Eguchi point out that while reference pricing has the ability to save some money on "shoppable" services, the technique will only solve a

small portion of the larger healthcare cost debacle. This is because only about a third of health care services are "shoppable" such that the patient has the opportunity to comparison shop on price and reference pricing only impacts the upper end of expenditures, but not spending overall. The authors conclude that while reference pricing has a place in the overall cost reduction scheme, it's modest reductions in cost and shift in burden to the patients still leave room for improvement. For a brief look at how providers view reference pricing, see Terry Shih's article in JAMA-Surgery – *Is Reference Pricing The Next Big Thing in Payment Reform?,* which offers considerations for surgeons whose services might be offered on a reference pricing scheme.

Finally, if you are interested in the impact of physician practice consolidation and horizontal integration, check out Lawrence Baker *et al.*'s recent article, *Physician Practice Competition and Prices Paid by Insurers for Office Visits*, in the October 22nd issue of JAMA (our favorite issue ever!). The article examines both the potential for increased efficiencies and quality improvements from physician practice consolidation, and the potential that such consolidation could drive up costs. The study examined office visit prices in 1058 counties that span all 50 states and a range of practice areas and found that greater consolidation in a market resulted in significantly higher office visit charges. This result is not surprising, but it does provide valuable evidence that should inform court decisions and policy making on healthcare integration.

In the same October 22nd issue, JAMA also published James Robinson and Kelly Miller's *Total Expenditures per Patient in Hospital Owned and Physician Owned Physician Organizations in California*, which examined whether total expenditures per patient were higher in physician organizations (practice groups, independent physician associations) that were owned by hospitals and hospital systems versus those that were owned by

the physicians themselves. Not surprisingly, higher expenditures per patient were associated with hospital owned physician organizations, with multihospital system ownership being associated with higher expenditures than local hospital ownership. Physician ownership of the organization was associated with the lowest expenditures. This study is relevant to the growing trend of vertical integration we see as more and more hospital organizations and multihospital systems purchase independent physician groups. While many hospital organizations seeking to acquire physician groups have touted the cost-savings and efficiencies that will develop from the merger, the consolidation also presents an opportunity for increased costs. The 9th Circuit will examine some of these questions in mid-November in *FTC et al. v. St. Lukes Hospital,* a very interesting case out of Idaho.

For those interested in the role and importance of efficiency arguments in antitrust law and merger review, check out Howard Shelanski's Chapter on Efficiency Claims and Antitrust Enforcement in Roger Blair and Daniel Sokol's, The Oxford Handbook of International Antitrust Economics, Volume 1, which came out this month.

That's it for October, we'll check in with you after Thanksgiving. In the meantime, have a great start to you holiday season!